

# **International Business**

## **The New Realities**

**Fifth Edition**



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### **Dedicated to...**

This book is dedicated to all those who feel passionate about cross-border business, our readers around the world. I trust that this edition will inspire and help you discover the magic of international business. Since any journey is much more rewarding when you are accompanied by others, I also dedicate this edition to my students of four decades whom I had the opportunity to mentor over the years.

#### **S. Tamer Cavusgil** **Atlanta, Georgia**

This book is dedicated to my wife, Mari, for her intellect, patience, and adventurous spirit; to Bill and Audrey, and to Hiroshi and Hisako, for being great parents and role models; and to the many students I have had the good fortune to influence over the years.

#### **Gary Knight** **Salem, Oregon**

This book is dedicated to my parents, Richard and Marie Riesenberger, for their example, many sacrifices, and love. To my wife and best friend, Pat, for her enthusiasm and loving support. To my daughters, Chris and Jen, of whom I am so very proud and thankful. To Byron, Ann-Marie and Terry, who enrich my life. To my amazing grandchildren, Ryan, Paige, Ethan, and Emma—the future of the New Realities.

#### **John R. Riesenberger** **Scottsdale, Arizona**



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# Preface

## New to This Edition

Our aim is to keep the text fully up-to-date and at a reasonable length. Thus, we have dropped some items and added new ones. From Chapter 1, we dropped the Opening Case on Facebook. From Chapter 4, we dropped the Closing Case on Bribery and Corruption at Siemens. From Chapter 5, we dropped the Closing Case on Hyundai and the Global Auto Industry. From Chapter 6, we dropped the Opening Case on Risks in Russia's Political and Legal Systems. From Chapter 9, we dropped the Closing Case on Financial Contagion and the Global Financial Crisis. From Chapter 17, we dropped the Opening Case on International Human Resource Management at Johnson & Johnson.

To replace the above dropped items and maintain currency, we have created new or greatly revised opening and closing cases in the fifth edition of Cavusgil, Knight, and Riesenberger (CKR 5e) as follows:

- Chapter 1: A new Opening Case on *Instagram: A Global Phenomenon*
- Chapter 2: A heavily revised Opening Case on *Spotify and the Rise of Born Global Firms*
- Chapter 4: A new Closing Case on the recent *Scandal at Volkswagen*
- Chapter 5: A new Closing Case on *Unilever's Comparative and Competitive Advantages*
- Chapter 6: A new Opening Case on *Odebrecht and Risks in Brazil's Political and Legal Systems*
- Chapter 7: A heavily revised Closing Case on *Government Intervention at Airbus and Boeing*
- Chapter 8: A heavily revised Closing Case on *Tata Group: India's Top Global Challenger*
- Chapter 9: A new Closing Case on *Tesco, the European Debt Crisis, and Brexit*
- Chapter 15: A heavily revised Closing Case on *Subway and the Challenges of Franchising in China*
- Chapter 16: A heavily revised Opening Case on *Michael Kors: The Global Affordable Luxury Market*
- Chapter 17: A new Opening Case on *International Human Resource Management at Google*

In addition, for our feature *You Can Do It: Recent Grad in IB*, we have added new biographies of young graduates with careers in international business. In Chapter 1, we added *Mary Lyles*, who works in global sourcing for Starbucks; and in Chapter 15, we added *Juanita Velez*, who works in international social media at Delta Air Lines.

In various chapters, we also added several new exhibits and significant new material on such contemporary topics as preparing for international travel, the rise of digital technologies, the trade and GDP growth relationship, the meaning of colors worldwide, workplace harassment, Brexit and the UK, populism, national governance, blockchain and cryptocurrencies, carbon taxes, cross-national project management, the Global Connectedness Index, global sourcing for smartphones, reshoring and nearshoring, the best global companies to work for, and women in international business, among numerous others.

## Solving Teaching and Learning Challenges

Today's students—often called Generation Z, Post Millennials, or the iGen—have grown up in a constantly connected world. To address the unique wants, needs and learning style of Generation Z students, we have designed CKR 5e to emphasize the following features:

- **Visual learning.** CKR 5e emphasizes interactive media and videos as well as exhibits, maps, and other visual learning aids. The MyLab Management provides access to a wide variety of additional visual resources.
- **Relevant knowledge and job-related skills.** CKR 5e includes more relevant examples and activities, concise foundational course content, Intangible Soft Skills, and Tangible Process Skills that prepare Generation Z students for the work world.

- **Contemporary issues that matter to Generation Z.** CKR 5e emphasizes the new international business environment, in-depth coverage of contemporary international business topics such as emerging markets, developing economies, growth of the service sector, risks in international business, digital technologies, women in international business, and other important trends.
- **Meaningful content.** CKR 5e provides substantial content on ethics, corporate social responsibility, and sustainability in international business.
- **Digital platform.** Generation Z learners prefer content that they can read or access digitally at a time and place of their choosing. Digital learning enhances engagement, self-pacing, and the ability to customize content to individual needs. Digital platforms help ensure timely, up-to-date content and the ability to collaborate with peers. In these and other ways, CKR 5e provides such digital options. To improve Generation Z students results, we recommend pairing the text content with MyLab Management, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From Mini Sims to Personal Inventory Assessments, MyLab Management helps you teach your course, your way. Learn more at [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management).

Some of the main features of the textbook and MyLab are as follows:

**HIGHLY ACCESSIBLE WRITING AND EXPLANATIONS THAT ENGAGE STUDENTS.** Opening and closing cases appeal to students, featuring firms and subjects such as Apple, IKEA, Harley-Davidson, H&M, Instagram, born global firms, social media in China, and the global movie industry. The content stimulates student desire to learn more about international business.

**Constantly fluctuating exchange rates require international managers to keep in mind three facts:**

- The prices the firm charges can be quoted in the firm’s currency or in the currency of each foreign customer.
- Because several months can pass between placement and delivery of an order, fluctuations in the exchange rate during that time can cost or earn the firm money.
- The firm and its customers can use the exchange rate as it stands on the date of each transaction, or they can agree to use a specific exchange rate.

**MORE EXERCISES AND ACTIVITIES THAT ENABLE STUDENTS TO ACQUIRE CRITICAL THINKING AND PROBLEM-SOLVING SKILLS.** CKR 5e contains **174 exhibits** (about three times more than leading competitors). Students like exhibits because they help clarify complex material and facilitate reading the chapters.


**TANGIBLE PROCESS TOOLS.** They are designed to simulate real-world decision making that will help increase effectiveness in the workplace.

**GROUP PROJECT ON INTERNATIONAL CORPORATE SOCIAL RESPONSIBILITY.** CKR 5e contains a comprehensive activity in which students debate corporate social responsibility (CSR) in international business. In this extended exercise, located in the *Instructor’s Manual*, students debate the merits and consequences of CSR as executives, consumers, or activists.

**YOU CAN DO IT—RECENT GRAD IN IB BIOGRAPHIES.** CKR 5e offers eleven biographies of actual university graduates who have embarked on fascinating careers in international business. These biographies include comments concerning the specific intangible soft skills that have helped them be successful in work.

**You Can Do It** RECENT GRAD IN IB

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**TERRANCE ROGERS**

**Terrance’s Majors:** Finance and international business

**Objectives:** Exploration, international perspective, self-awareness, career growth, and learning about foreign markets

**Internships during college:** Deutsche Bank

**Jobs held since graduating:**

- Business analyst at Deutsche Bank, New York
- Management associate at Deutsche Bank, New York
- Executive management rotation at Deutsche Bank, New York
- Executive management associate at Deutsche Bank, London and New York

**LEARNING CATALYTICS™.** With this tool, you'll hear from every student when it matters most. You pose a variety of questions that help students recall ideas, apply concepts, and develop critical-thinking skills. Your students respond using their own smartphones, tablets, or laptops.

**Globalization**

**Learning Objectives**  
At the end of this exercise, you should be able to:

- LO 1.2: Explain globalization and how it affects markets and production.
- LO 1.3: Detail the forces that drive globalization.
- LO 1.4: Outline the debate about globalization's impact on jobs and wages.
- LO 1.5: Summarize the debate about income inequality.
- LO 1.6: Outline the debate about culture, sovereignty, and the environment.

**Q2a: Choosing Your Opening Statement**

The moderator introduces you and asks you to make an opening statement, to explain how globalization has been beneficial for people in both developed and developing countries. Your goal is to select a position that you can support and defend.

As the supporter of globalization, which opening statement is best?

- A** Globalization brings the world closer together, improves organizational efficiency, and has lifted millions out of poverty.
- B** Globalization improves the economy of a country through domestic trade deals. A competitive market benefits everyone who don't see that clearly do not understand basic economics.
- C** No one is good at everything. You can't be a farmer and a doctor. So we need trade to take advantage of everyone's strengths.

**Submit**

**Scenario**

You have been asked to debate the question of whether globalization improves the lives of people in developed and developing nations. You will either support this notion as the President of Global Operations for Holden Corporation, a multinational corporation, or oppose the notion as an independent columnist and social critic. You will select points that best support your viewpoint, and choose the best responses to points raised by the opposition.

Click **Next** to begin your challenge. Good luck!

**Q31a: The Critic's Response: Income Inequality**

The critic speaks:

"My primary concern about globalization is regarding the income inequality that it has created. In developing countries, the rich, who are profiting most from globalization, are becoming even richer, while the poor get poorer. In developed countries, it is only the economic elite who are becoming richer, while the common citizen (s)ses out."

Click **Next** to continue.

**CHAPTER WARM-UP.** These questions help you hold your students accountable for learning key concepts in each chapter before coming to class.

**Homework: Chapter 2: Watch It: Born Global (6:39 mins)**

Score: 0 of 1 pt | 1 of 5 (0 complete) | HW Score: 0%, 0 of 5 pts

Video2 3.1 | Born Global (6:39 mins)

Which of the following factors is LEAST important in determining a company's potential success in exporting to a global market?

- A. marketing techniques
- B. executive leadership
- C. core competencies
- D. size

**Submit**

**learning catalytics™**

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Discipline: International Business

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Format: Select a question format

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Show 5 entries

- multiple choice: A company "A" manufactures all of its product lines in a single loca...
- matching: Match the description with the correct trade theory.
- multiple choice: Which of the following gives the right to exchange a specified amount...
- short answer: What makes India an attractive location for multinational firms to ou...
- many choice: A pull strategy is appropriate.

Showing questions 1.5 of 104 | Previous 1 2 3 4 5... 21 Next

ALWAYS LEARNING | PEARSON

**NEW MINI SIMS.** Mini Sims put students in professional roles and give them the opportunity to apply course concepts and develop decision-making skills through real-world business challenges.

The simulations use each student's decisions to create various scenario paths that help them understand the impact their decisions can have on an organization.

These branching Mini Sims strengthen a student's ability to think critically, help students understand the impact of their decisions, engage students in active learning, and provide students with immediate feedback on their decisions.

Each decision point remediates to the Learning Objective in the eText.

**Homework: Chapter 2 Warm-up**

Score: 0 of 1 pt | 1 of 12 (0 complete) | HW Score: 0%, 0 of 12 pts

Warm-up 2.1.1

\_\_\_\_\_ refers to the steady assimilation and increasing interdependence of economies.

- A. Industrialization
- B. Foreign direct investment
- C. Cross-border trade of commodities
- D. Global sourcing
- E. Globalization of markets

Click to select your answer and then click Check Answer.

All parts showing | Clear All | Check Answer

**VIDEOS EXERCISES.** Engaging Videos explore a variety of business topics related to the theory students are learning in class.

Exercise Quizzes assess students' comprehension of the concepts in each video.





## Developing Employability Skills

The Association to Advance Collegiate Schools of Business (AACSB) International increasingly advocates a more skills-oriented, practical approach in business books, which this text provides, rather than a theory-based approach.

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to develop various critical skills. In this book and MyLab Management, we focus on developing these skills.

The CKR 5e Career Preparation Kit™ incorporates CKR Tangible Process Tools™ as well as CKR Intangible Soft Skills™, which constitute guidelines of the Association to Advance Collegiate Schools of Business (AACSB). CKR Intangible Soft Skills focus on the skills employers have identified as needed for employability and success in the marketplace today. The CKR Tangible Process Tools will help students increase their effectiveness in the workplace.

The Employability Skills Table below provides students with a guide to features that support the development of skills employers are looking for in today’s business graduates, helping students to see from the start of class the relevance of the course to their career goals. This table identifies which features and end-of-chapter materials will help students to develop these skills.

Employability Skills Table			
Skills	Sections in the text and MyLab covering these skills		
<b>Written and oral communication</b>	Global Edge Internet Exercises - End of chapter box element	Test Your Comprehension - Chapter End exercises	EOC Writing Assignment - MyLab Management
<b>Critical thinking and problem solving</b>	Chapter Opening and Chapter Closing Cases	Apply Your Understanding - short, essay-style questions at the end of the chapter	New Mini Sims - MyLab Management
<b>Teamwork and collaboration</b>	Chapter Opening and Chapter Closing Cases	Apply Your Understanding - short, essay-style questions at the end of the chapter	
<b>Leadership</b>	Chapter 11, “Strategy and Organization in the International Firm”		
<b>Creativity</b>	Apply Your Understanding	Chapter Opening and Chapter Closing Cases	
<b>Ethics</b>	Chapter 4, “Ethics, Corporate Social Responsibility, Sustainability, and Governance in International Business”	Chapter 4 Watch It Video Exercises - MyLab Management	
<b>Information technology skills</b>	Global Edge Internet Exercises - End of chapter box element		

**OPENING CASE.** Each chapter begins with a brief case study that illustrates chapter topics and asks key questions about real-world companies and situations covered in the case.

**CLOSING CASE.** Every chapter closes with an extensive case study that addresses the learning objectives highlighted in the chapter. The cases help students build managerial skills by applying chapter material to a situation faced by real-world managers. Questions accompany the case for assignment as homework. Class discussion helps students sharpen their analytical and decision-making skills.

### CLOSING CASE Internationalization at Harley-Davidson

Considered an American icon by many, Harley-Davidson (Harley) is a U.S. motorcycle manufacturer founded in 1903 and offers 32 models through a network of about 1,500 dealers. Its global motorcycle revenue was about \$6 billion in 2017, continuing a three-year downward trend. Total sales have been relatively flat since 2012, with U.S. sales declining and international sales rising. Harley earns about two-thirds of its total sales in the United States, where it also manufactures almost all its bikes to support its brand image and quality control. The firm is embarked on a course to build the next generation of Harley riders globally; international markets are crucial to the firm's survival and growth. The CEO recently announced a bold goal to grow international sales to 50 percent of annual volume by 2027.

Harley is the only U.S.-based global motorcycle manufacturer and makes four distinctive groups of models:

- **Standard:** Practical bikes used for low-cost commuting
- **Performance:** Sleek, sport-style racing bikes built for speed and easy handling
- **Custom:** Stylized bikes customized to customer tastes
- **Touring:** Long-distance, large-capacity, comfort bikes that typically include cruise control, stereos, and luggage racks

quality management and empowered its production workers. Management increased marketing efforts, improved the dealer network, and undertook various cross-branding ventures. By the mid-1990s, management had repositioned Harley more strongly in the performance motorcycle market. The enhancements paid off in sharp improvements in company image and sales. However, the volume of Harley motorcycle shipments peaked in 2006. Shipments flattened or declined during the global financial crisis and ensuing recession and still had not recovered by 2018.

#### International Expansion

Harley management resolved that future success would come from expansion into foreign markets. The firm had established a distribution network and local subsidiary in Japan, and by 2016, it was selling more than 16,000 motorcycles annually. It continued to sell heavyweight motorcycles in Japan at a price of more than \$20,000, substantially more than Honda's standard lightweight model. Harley's foreign sales saw a sustained growth.

Harley also made inroads in Europe, a vast marketplace and home to dozens of countries with diverse needs and tastes. In Europe, performance bikes are the top seller by far, accounting for more than one-third of Harley sales, followed by touring, standard

**TEST YOUR COMPREHENSION.** A list of 6 to 12 short questions assesses student learning of chapter learning objectives and other chapter concepts.

**APPLY YOUR UNDERSTANDING.** An additional collection of three short, essay-style questions aims to have students apply chapter material to real-world international business practice.



globalEDGE

INTERNET EXERCISES

Access globalEDGE™ at [www.globalEDGE.msu.edu](http://www.globalEDGE.msu.edu)

**AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Information Technology, Application of Knowledge, Diverse and Multicultural Work Environments, Written and Oral Communication, Analytical Thinking and Reflective Thinking**

#### Knowledge Portal

globalEDGE™ is a leading knowledge portal for professionals in international business. It is a gateway to specialized knowledge on countries, international business transactions, culture, and firm practice. globalEDGE™ was developed at Michigan State University under the direction of Professor S. Tamer Cavusgil. Consult the globalEDGE™ portal to complete the Internet exercises at the end of each chapter.

1-20. You can gain valuable insights into international business by examining how countries compare to each other. Various research groups and international agencies systematically examine economic, political, and other features of nations. Visit globalEDGE™ Tools and Data, scroll down, and click Interactive Rankings. Select Countries. You will find dozens of criteria ranking countries based on GDP per capita; Education—literacy rate; People—population total; People—population density; Health—mortality rate; Energy—electricity production; Infrastructure—mobile cellular subscriptions; Infrastructure—roads, total network; Trade and Investment—foreign direct investment net inflows; and many other factors. Choose the ranking criteria that interest you most, and then examine the following three countries: Germany, India, and South Africa. Based on your analysis, explain why they rank where they do. Do

their relative positions make sense to you? Does each country seem like a good place to do business? Why or why not? **Hint:** Evaluate countries on a per-capita basis by dividing each criterion by the country's population.

1-21. In this chapter, we reviewed the four major risks that firms face in international business: cross-cultural risk, country risk, currency risk, and commercial risk. Identify one or more countries that interest you, and then visit globalEDGE™ and research the countries to uncover examples of each of the four types of risks. For example, China is characterized by various cultural differences and a national government that tends to intervene in business. Research by entering the country name in the search engine. Visit Global Insights and Market Potential Index. Illustrate each risk with examples.

1-22. You have recently been hired by a smaller firm that is beginning to expand internationally. When first starting out, most firms choose exporting as their main foreign market entry strategy. However, no one in your firm knows how to conduct exporting. Therefore, your boss has given you an assignment: Prepare a presentation for your coworkers on how to engage in exporting. Using globalEDGE™, find and review Guide to Exporting, which you can use to create your presentation.

**GLOBALEDGE INTERNET EXERCISES.** GlobalEDGE™ (<https://gloaledge.msu.edu>) was developed by CKR author S. Tamer Cavusgil and is the leading knowledge portal for professionals in international business. It provides a gateway to specialized knowledge on countries, cross-border ventures, culture, and company practice. Each chapter provides several globalEDGE exercises as the basis for student assignments and projects.

**CKR TANGIBLE PROCESS TOOLS™.** These practical exercises familiarize students with key managerial challenges and decision making that professionals typically encounter in international business. By completing CKR Tangible Process Tools™ exercises, students can acquire real-world skills that will help them perform better in their careers.

### CKR Tangible Process Tools™

#### What is a CKR Tangible Process Tool Exercise?

CKR Tangible Process Tools consist of practical exercises and work processes designed to familiarize you with key managerial challenges and decisions that professionals typically encounter in international business. Completing CKR Tangible Process Tool exercises in this text enables you to acquire practical, real-world work processes that will improve employability and success in the workplace. Each exercise presents a managerial challenge in a real-world scenario, the skills you will acquire in solving the exercise, and a methodology and the resources to use in solving it. The second half of the exercise is provided at the Pearson MyLab Management website ([www.pearson.com/mylab/management](http://www.pearson.com/mylab/management)).

**AACSB TAGGING.** This book and MyLab Management support AACSB international accreditation. In every chapter, after each section of questions, specific AACSB tagging is provided to help instructors identify which AACSB Intangible Soft Skills that activity supports. AACSB tagging is also part of all questions in the Test Item File that accompanies the book.



## Instructor Teaching Resources

At the Instructor Resource Center, [www.pearsonhighered.com](http://www.pearsonhighered.com), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <https://support.pearson.com/getsupport> for answers to frequently asked questions and toll-free user support phone numbers.

Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a>	Features of the Supplement
<b>Instructor’s Resource Manual</b> authored by Marta Szabo White, S. Tamer Cavusgil, Gary Knight, and John Riesenberger	<ul style="list-style-type: none"> <li>• Chapter-by-chapter summaries</li> <li>• Examples and activities not in the main book</li> <li>• Teaching outlines</li> <li>• Teaching tips, including openers to help launch lectures</li> <li>• Solutions to all questions and problems in the book</li> </ul>
<b>Test Bank</b> authored by John Capela	1,600 multiple-choice, true/false, short-answer, and essay questions with the following annotations: <ul style="list-style-type: none"> <li>• Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>• Type (multiple-choice, true/false, short-answer, essay)</li> <li>• Learning objective</li> <li>• AACSB learning standard (Written and Oral Communication, Ethical Understanding and Reasoning, Analytical Thinking, Information Technology, Interpersonal Relations and Teamwork, Diverse and Multicultural Work Environments, Reflective Thinking, and/or Application of Knowledge)</li> </ul>
<b>TestGen® Computerized Test Bank</b>	TestGen allows instructors to: <ul style="list-style-type: none"> <li>• Customize, save, and generate classroom tests</li> <li>• Edit, add, or delete questions from the Test Item Files</li> <li>• Analyze test results</li> <li>• Organize a database of tests and student results</li> </ul>
<b>PowerPoints Presentations</b> authored by S. Tamer Cavusgil, Gary Knight, and John Riesenberger	<ul style="list-style-type: none"> <li>• Cover all concepts, explanations, and major examples in each chapter</li> <li>• Include all exhibits in the textbook</li> <li>• Meet accessibility standards for students with disabilities. Features include, but not limited to:                             <ul style="list-style-type: none"> <li><input type="checkbox"/> Keyboard and Screen Reader access</li> <li><input type="checkbox"/> Alternative text for images</li> <li><input type="checkbox"/> High color contrast between background and foreground colors</li> </ul> </li> </ul>
<b>Image Library</b>	<ul style="list-style-type: none"> <li>• A collection of photos and other images for use in enhancing PowerPoints and other teaching materials related to CKR 5e</li> </ul>

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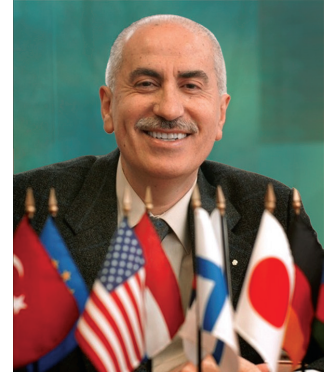
Tamer is an elected fellow of the Academy of International Business (AIB), a distinction earned by a select group of intellectual leaders in international business. He also served as vice president of the AIB and on the Board of Directors of the American Marketing Association.

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Gary has been an invited speaker at institutions worldwide and developed study abroad programs in Asia, Europe, and Latin America. He has won several awards, including the Jerry Hudson Award for Excellence in Teaching, Willamette University, and Best Teacher in the MBA Program, Florida State University.

Gary has coauthored six books and more than 100 refereed articles in academic journals and conference proceedings. His research emphasizes international business strategy, international services, emerging markets, and internationalization of small and medium-sized firms.

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Gary is ranked in the top 5 percent of scholars who have published in the *Journal of International Business Studies* since 1995, based on number of articles published. He is ranked among the top five scholars in the United States and top 15 worldwide in international business research impact based on Google Scholar citation data. He is on the editorial review boards of several international journals. He has provided expert testimony on global commerce and small business to the U.S. House of Representatives.

Gary is chair of the Academy of International Business, Western United States Chapter. Prior to joining academia, he was export manager of a medium-sized enterprise, directing the firm’s operations in Canada, Europe, Japan, and Mexico and supervising some 50 distributors. He enjoyed a brief career in banking and as a teacher in Japan.

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