

GLOBALIZATION

1. Over the past two decades, we have witnessed the globalization of markets and production.
2. The globalization of markets implies that national markets are merging into one huge marketplace. However, it is important not to push this view too far.
3. The globalization of production implies that firms are basing individual productive activities at the optimal world locations for the particular activities. As a consequence, it is increasingly irrelevant to talk about American products, Japanese products, or German products, since these are being replaced by "global" products.
4. Two factors seem to underlie the trend toward globalization: declining trade barriers and changes in communication, information, and transportation technologies.
5. Since the end of World War II, there has been a significant lowering of barriers to the free flow of goods, services, and capital. More than anything else, this has facilitated the trend toward the globalization of production and has enabled firms to view the world as a single market.
6. As a consequence of the globalization of production and markets, in the last decade world trade has grown faster than world output, foreign direct investment has surged, imports have penetrated more deeply into the world's industrial nations, and competitive pressures have increased in industry after industry.
7. The development of the microprocessor and related developments in communication and information processing technology have helped firms link their worldwide operations into sophisticated information networks. Jet air travel, by shrinking travel time, has also helped to link the worldwide operations of international businesses. These changes have enabled firms to achieve tight coordination of their worldwide operations and to view the world as a single market.

8. In the 1960s, the U.S. economy was dominant in the world, U.S. firms accounted for most of the foreign direct investment in the world economy, U.S. firms dominated the list of large multinationals, and roughly half the world-the centrally planned economies of the Communist world-was closed to Western businesses.
9. By the mid-1990s, the U.S. share of world output had been cut in half, with major shares now being accounted for by Western European and Southeast Asian economies. The U.S. share of worldwide foreign direct investment had also fallen, by about two-thirds. U.S. multinationals were now facing competition from a large number of Japanese and European multinationals. In addition, the emergence of mini-multinationals was noted.
10. The most dramatic environmental trend has been the collapse of Communist power in Eastern Europe, which has created enormous long-run opportunities for international businesses. In addition, the move toward free market economies in China and Latin America is creating opportunities (and threats) for Western international businesses.
11. The benefits and costs of the emerging global economy are being hotly debated among businesspeople, economists, and politicians. The debate focuses on the impact of globalization on jobs, wages, the environment, working conditions, and national sovereignty.
12. Managing an international business is different from managing a domestic business for at least four reasons: (i) countries are different, (ii) the range of problems confronted by a manager in an international business is wider and the problems themselves more complex than those confronted by a manager in a domestic business, (iii) managers in an international business must find ways to work within the limits imposed by governments' intervention in the international trade and investment system, and (iv) international transactions involve converting money into different currencies.

INTERNATIONAL TRADE THEORY

1. Mercantilists argued that it was in a country's best interests to run a balance-of-trade surplus. They viewed trade as a zero-sum game, in which one country's gains cause losses for other countries.
2. The theory of absolute advantage suggests that countries differ in their ability to produce goods efficiently. The theory suggests that a country should specialize in producing goods in areas where it has an absolute advantage and import goods in areas where other countries have absolute advantages.
3. The theory of comparative advantage suggests that it makes sense for a country to specialize in producing those goods that it can produce most efficiently, while buying goods that it can produce relatively less efficiently from other countries-even if that means buying goods from other countries that it could produce more efficiently itself.
4. The theory of comparative advantage suggests that unrestricted free trade brings about increased world production; that is, that trade is a positive-sum game.
5. The theory of comparative advantage also suggests that opening a country to free trade stimulates economic growth, which creates dynamic gains from trade. The empirical evidence seems to be consistent with this claim.
6. The Heckscher-Ohlin theory argues that the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce.
7. The product life-cycle theory suggests that trade patterns are influenced by where a new product is introduced. In an increasingly integrated global economy, the product life-cycle theory seems to be less predictive than it was between 1945 and 1975.

8. New trade theory states that trade allows a nation to specialize in the production of certain goods, attaining scale economies and lowering the costs of producing those goods, while buying goods that it does not produce from other nations that are similarly specialized. By this mechanism, the variety of goods available to consumers in each nation is increased, while the average costs of those goods should fall.
9. New trade theory also states that in those industries where substantial economies of scale imply that the world market will profitably support only a few firms, countries may predominate in the export of certain products simply because they had a firm that was a first mover in that industry.
10. Some new trade theorists have promoted the idea of strategic trade policy. The argument is that government, by the sophisticated and judicious use of subsidies, might be able to increase the chances of domestic firms becoming first movers in newly emerging industries.
11. Porter's theory of national competitive advantage suggests that the pattern of trade is influenced by four attributes of a nation: (a) factor endowments, (b) domestic demand conditions, (c) relating and supporting industries, and (d) firm strategy, structure, and rivalry.
12. Theories of international trade are important to an individual business firm primarily because they can help the firm decide where to locate its various production activities.
13. Firms involved in international trade can and do exert a strong influence on government policy toward trade. By lobbying government, business firms can promote free trade or trade restrictions.

THE GLOBAL CAPITAL MARKET

1. The function of a capital market is to bring those who want to invest money together with those who want to borrow money.
2. Relative to a domestic capital market, the global capital market has a greater supply of funds available for borrowing, and this makes for a lower cost of capital for borrowers.
3. Relative to a domestic capital market, the global capital market allows investors to diversify portfolios of holdings internationally, thereby reducing risk.
4. The growth of the global capital market during recent decades can be attributed to advances in information technology, the widespread deregulation of financial services, and the relaxation of regulations governing -cross-border capital flows.
5. A eurocurrency is any currency banked outside its country of origin. The lack of government regulations makes the eurocurrency market attractive to both depositors and borrowers. Because of the absence of regulation, the spread between the eurocurrency deposit and lending rates is less than the spread between the domestic deposit and lending rates. This gives eurobanks a competitive advantage.
6. The global bond market has two classifications: the foreign bond market and the eurobond market. Foreign bonds are sold outside the borrower's country and are denominated in the currency of the country in which they are issued. A eurobond issue is normally underwritten by an international syndicate of banks and placed in countries other than the one in whose currency the bond is denominated. Eurobonds account for the lion's share of international bond issues.

7. The eurobond market is an attractive way for companies to raise funds due to the absence of regulatory interference, less stringent disclosure requirements, and eurobonds' favorable tax status.
8. Foreign investors are investing in other countries' equity markets to reduce risk by diversifying their holdings among nations.
9. Many companies are now listing their stock in the equity markets of other nations, primarily as a prelude to issuing stock in those markets to raise additional capital. Other reasons for listing stock in another country's exchange are to facilitate future stock swaps; to enable the company to use its stock and stock options for compensating local management and employees; to satisfy local ownership desires; and to increase the company's visibility among its local employees, customers, suppliers, and bankers.
10. When borrowing funds from the global capital market, companies must weigh the benefits of a lower interest rate against the risks of greater real costs of capital due to adverse exchange rate movements.
11. One major implication of the global capital market for international business is that companies can often borrow funds at a lower cost of capital in the international capital market than they can in the domestic capital market.
12. The global capital market provides greater opportunities for businesses and individuals to build a truly diversified portfolio of international investments in financial assets, which lowers risk.

THE STRATEGY OF INTERNATIONAL BUSINESS

1. A firm's strategy can be defined as the actions that managers take to attain the goals of the firm. For most firms, the preeminent goal is to maximize long-term profitability. Maximizing profitability requires firms to focus on value creation.
2. Due to national differences, it may pay a firm to base each value creation activity it performs at that location where factor conditions are most conducive to the performance of that activity. We refer to this strategy as focusing on the attainment of location economies.
3. By rapidly building sales volume for a standardized product, international expansion can assist a firm in moving down the experience curve.
4. International expansion may enable a firm to earn greater returns by transferring the skills and product offerings derived from its core competencies to markets where indigenous competitors lack those skills and product offerings.
5. A multinational firm can create additional value by identifying valuable skills created within its foreign subsidiaries and leveraging those skills within its global network of operations.
6. The best strategy for a firm to pursue often depends on a consideration of the pressures for cost reductions and for local responsiveness.

7. Pressures for cost reductions are greatest in industries producing commodity-type products where price is the main competitive weapon.
8. Pressures for local responsiveness arise from differences in consumer tastes and preferences, national infrastructure and traditional practices, distribution channels, and from host-government demands.
9. Firms pursuing an international strategy transfer the skills and products derived from distinctive competencies to foreign markets, while undertaking some limited local customization.
10. Firms pursuing a multidomestic strategy customize their product offering, marketing strategy, and business strategy to national conditions.
11. Firms pursuing a global strategy focus on reaping the cost reductions that come from experience curve effects and location economies.
12. Many industries are now so competitive that firms must adopt a transnational strategy. This involves a simultaneous focus on reducing costs, transferring skills and products, and boosting local responsiveness. Implementing such a strategy may not be easy.

THE ORGANIZATION OF INTERNATIONAL BUSINESS

1. Organizational architecture refers to the totality of a firm's organization, including formal organizational structure, control systems and incentives, processes, organizational culture, and people.
2. Superior enterprise profitability requires three conditions to be fulfilled: the different elements of a firm's organizational architecture must be internally consistent, the organizational architecture must fit the strategy of the firm, and the strategy and architecture of the firm must be consistent with competitive conditions prevailing in the firm's markets.
3. Organizational structure means three things: the formal division of the organization into subunits (horizontal differentiation), the location of decision-making responsibilities within that structure (vertical differentiation), and the establishment of integrating mechanisms.
4. Control systems are the metrics used to measure the performance of subunits and make judgments about how well managers are running those subunits.
5. Incentives refer to the devices used to reward appropriate employee behavior. Many employees receive incentives in the form of annual bonus pay. Incentives are usually closely tied to the performance metrics used for output controls.
6. Processes refer to the manner in which decisions are made and work is performed within the organization. Processes can be found at many different levels within an organization. The core competencies or valuable skills of a firm are often embedded in its processes. Efficient and effective processes can help to lower the costs of value creation and to add additional value to a product.

7. Organizational culture refers to a system of values and norms that is shared among employees. Values and norms express themselves as the behavior patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees.
8. There are four main dimensions of organizational structure: vertical differentiation, horizontal differentiation, integration, and control systems.
9. Firms pursuing different strategies must adopt a different architecture to implement those strategies successfully. Firms pursuing multidomestic, global, international, and transnational strategies all must adopt an organizational architecture that matches their strategy.
10. While all organizations suffer from inertia, the complexity and global spread of many multinationals might make it particularly difficult for them to change their strategy and architecture to match new organizational realities. At the same time, the trend toward globalization in many industries has made it more critical than ever that many multinationals do just that.

GLOBAL MARKETING AND R&D

1. Theodore Levitt has argued that due to the advent of modern communications and transport technologies, consumer tastes and preferences are becoming global, which is creating global markets for standardized consumer products. However, this position is regarded as extreme by many commentators, who argue that substantial differences still exist between countries.
2. Market segmentation refers to the process of identifying distinct groups of consumers whose purchasing behavior differs from each other in important ways. Managers in an international business need to be aware of two main issues relating to segmentation: the extent to which there are differences between countries in the structure of market segments, and the existence of segments that transcend national borders.
3. A product can be viewed as a bundle of attributes. Product attributes need to be varied from country to country to satisfy different consumer tastes and preferences.
4. Country differences in consumer tastes and preferences are due to differences in culture and economic development. In addition, differences in product and technical standards may require the firm to customize product attributes from country to country.
5. A distribution strategy decision is an attempt to define the optimal channel for delivering a product to the consumer.
6. Significant country differences exist in distribution systems. In some countries, the retail system is concentrated; in others, it is fragmented. In some countries, channel length is short; in others, it is long. Access to distribution channels is difficult to achieve in some countries.
7. A critical element in the marketing mix is communication strategy, which defines the process the firm will use in communicating the attributes of its product to prospective customers.
8. Barriers to international communication include cultural differences, source effects, and noise levels.

8. A communication strategy is either a push strategy or a pull strategy. A push strategy emphasizes personal selling, and a pull strategy emphasizes mass media advertising. Whether a push strategy or a pull strategy is optimal depends on the type of product, consumer sophistication, channel length, and media availability.
9. A globally standardized advertising campaign, which uses the same marketing message all over the world, has economic advantages, but it fails to account for differences in culture and advertising regulations.
10. Price discrimination exists when consumers in different countries are charged different prices for the same product. Price discrimination can help a firm maximize its profits. For price discrimination to be effective, the national markets must be separate and their price elasticities of demand must differ.
11. Predatory pricing is the use of profit gained in one market to support aggressive pricing in another market to drive competitors out of that market.
12. Multipoint pricing refers to the fact that a firm's pricing strategy in one market may affect rivals' pricing strategies in another market. Aggressive pricing in one market may elicit a competitive response from a rival in another market that is important to the firm.
13. Experience curve pricing is the use of aggressive pricing to build accumulated volume as rapidly as possible to quickly move the firm down the experience curve.
14. New-product development is a high-risk, potentially high return activity. To build a competency in new-product development, an international business must do two things: disperse R&D activities to those countries where new products are being pioneered, and integrate R&D with marketing and manufacturing.
15. Achieving tight integration among R&D, marketing, and manufacturing requires the use of cross-functional teams

ACCOUNTING IN THE INTERNATIONAL BUSINESS

1. Accounting is the language of business: the means by which firms communicate their financial position to the providers of capital and to governments (for tax purposes). It is also the means by which firms evaluate their own performance, control their expenditures, and plan for the future.
2. Accounting is shaped by the environment in which it operates. Each country's accounting system has evolved in response to the local demands for accounting information.
3. Five main factors seem to influence the type of accounting system a country has: (i) the relationship between business and the providers of capital, (ii) political and economic ties with other countries, (iii) the level of inflation, (iv) the level of a country's development, and (v) the prevailing culture in a country.
4. National differences in accounting and auditing standards have resulted in a general lack of comparability in countries' financial reports.
5. This lack of comparability has become a problem as transnational financing and transnational investment have grown rapidly in recent decades (a consequence of the globalization of capital markets). Due to the lack of comparability, a firm may have to explain to investors why its financial position looks very different on financial reports that are based on different accounting practices.
6. The most significant push for harmonization of accounting standards across countries has come from the International Accounting Standards Committee (IASC) and its successor, the International Accounting Standards Board (IASB).
7. Consolidated financial statements provide financial accounting information about a group of companies that recognizes the companies' economic interdependence.
8. Transactions among the members of a corporate family are not included on consolidated financial statements; only assets, liabilities, revenues, and expenses generated with external third parties are shown.

9. Foreign subsidiaries of a multinational firm normally keep their accounting records and prepare their financial statements in the currency of the country in which they are located. When the multinational prepares its consolidated accounts, these financial statements must be translated into the currency of its home country.
10. Under the current rate translation method, the exchange rate at the balance sheet date is used to translate the financial statements of a foreign subsidiary into the home currency. This has the drawback of being incompatible with the historic cost principle.
11. Under the temporal method, assets valued in a foreign currency are translated into the home currency using the exchange rate that existed when the assets were purchased. A problem with this approach is that the multinational's balance sheet may not balance.
12. In most international businesses, the annual budget is the main instrument by which headquarters controls foreign subsidiaries. Throughout the year, headquarters compares a subsidiary's performance against the financial goals incorporated in its budget, intervening selectively in its operations when shortfalls occur.
13. Most international businesses require all budgets and performance data within the firm to be expressed in the corporate currency. This enhances comparability, but it distorts the control process if the relevant exchange rates change between the time a foreign subsidiary's budget is set and the time its performance is evaluated.
14. According to the Lessard-Lorange model, the best way to deal with this problem is to use a projected spot exchange rate to translate both budget figures and performance figures into the corporate currency.
15. Transfer prices also can introduce significant distortions into the control process and thus must be considered when setting budgets and evaluating a subsidiary's performance.
16. Foreign subsidiaries do not operate in uniform environments, and some environments are much tougher than others. Accordingly, it has been suggested that the evaluation of a subsidiary should be kept separate from the evaluation of the subsidiary manager.

FINANCIAL MANAGEMENT IN THE INTERNATIONAL BUSINESS

1. When using capital budgeting techniques to evaluate a potential foreign project, a distinction must be made between cash flows to the project and cash flows to the parent. The two will not be the same thing when a host-country government blocks the repatriation of cash flows from a foreign investment.
2. When using capital budgeting techniques to evaluate a potential foreign project, the firm needs to recognize the specific risks arising from its foreign location. These include political risks and economic risks (including foreign exchange risk).
3. Political and economic risks can be incorporated into the capital budgeting process either by using a higher discount rate to evaluate risky projects or by forecasting lower cash flows for such projects.
4. The cost of capital is typically lower in the global capital market than in domestic markets. Consequently, other things being equal, firms prefer to finance their investments by borrowing from the global capital market.
5. Borrowing from the global capital market may be restricted by host-government regulations or demands. In such cases, the discount rate used in capital budgeting must be revised upward to reflect this.
6. The firm may want to consider local debt financing for investments in countries where the local currency is expected to depreciate.
7. The principal objectives of global money management are to utilize the firm's cash resources in the most efficient manner and to minimize the firm's global tax liabilities.
8. Firms use a number of techniques to transfer funds across borders, including dividend remittances, royalty payments and fees, transfer prices, and fronting loans.
9. Dividend remittances are the most common method used for transferring funds across borders, but royalty payments and fees have certain tax advantages over dividend remittances.

10. The manipulation of transfer prices is sometimes used by firms to move funds out of a country to minimize tax liabilities, hedge against foreign exchange risk, circumvent government restrictions on capital flows, and reduce tariff payments.
11. Manipulating transfer prices in this manner runs counter to government regulations in many countries, it may distort incentive systems within the firm, and it has ethically dubious foundations.
12. Fronting loans involve channeling funds from a parent company to a foreign subsidiary through a third party, normally an international bank. Fronting loans can circumvent host-government restrictions on the remittance of funds and provide certain tax advantages.
13. By holding cash at a centralized depository, the firm may be able to invest its cash reserves more efficiently. It can reduce the total size of the cash pool that it needs to hold in highly liquid accounts, thereby freeing cash for investment in higher-interest-bearing (less liquid) accounts or in tangible assets.
14. Multilateral netting reduces the transaction costs arising when a large number of transactions occur between a firm's subsidiaries in the normal course of business.
15. The three types of exposure to foreign exchange risk are transaction exposure, translation exposure, and economic exposure.
16. Tactics that insure against transaction and translation exposure include buying forward, using currency swaps, leading and lagging payables and receivables, manipulating transfer prices, using local debt financing, accelerating dividend payments, and adjusting capital budgeting to reflect foreign exchange exposure.
17. Reducing a firm's economic exposure requires strategic choices about how the firm's productive assets are distributed around the globe.
18. To manage foreign exchange exposure effectively, the firm must exercise centralized oversight over its foreign exchange hedging activities, recognize the difference between transaction exposure and economic exposure, forecast future exchange rate movements, establish good reporting systems within the firm to monitor exposure positions, and produce regular foreign exchange exposure reports that \ be used as a basis for action.