

# PREFACE

It is now almost 15 years since I began work on the first edition of *International Business: Competing in the Global Marketplace*. By the third edition, the book was the most widely used international business text in the world. Since then its market share has only increased. I attribute the success of the book to a number of goals I set out for myself when I embarked on the first edition of the book. Specifically, I wanted to write a book that (1) was comprehensive and up-to-date, (2) went beyond an uncritical presentation and shallow explanation of the body of knowledge, (3) maintained a tight, integrated flow between chapters, (4) focused on managerial implications, and (5) made important theories accessible and interesting to students.

Over the years, and through six editions, I have worked hard to adhere to these goals. It has not always been easy. An enormous amount has happened over the last 15 years, both in the real world of economics, politics, and business, and in the academic world of theory and empirical research. Often I have had to significantly rewrite chapters, scrap old examples, bring in new ones, incorporate new theory and evidence into the book, and phase out older theories that are increasingly less relevant to the modern and dynamic world of international business. That process continues in the current edition. As noted later, there have been significant changes in this edition, and that will no doubt continue to be the case in the future. In deciding what changes to make, I have been guided not only by my own reading, teaching, and research, but also by the invaluable feedback I receive from professors and students around the world who use the book, from reviewers, and from the editorial staff at McGraw-Hill. My thanks go out to all of them.

## COMPREHENSIVE AND UP-TO-DATE

To be comprehensive, an international business textbook must:

- Explain how and why the world's countries differ.
- Present a thorough review of the economics and politics of international trade and investment.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

I have always endeavored to do all of these things in *International Business*. In my view, many other texts paid

insufficient attention to the strategies and structures of international businesses and to the implications of international business for firms' various functions. This omission has been a serious deficiency. Many of the students in these international business courses will soon be working in international businesses, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions. This book pays close attention to these issues.

Comprehensiveness and relevance also require coverage of the major theories. It has always been my goal to incorporate into the text the insights gleaned from recent academic work. Consistent with this goal, over the last six editions I have added insights from the following research:

- The new trade theory and strategic trade policy.
- The work of Nobel Prize-winning economist Amartya Sen on economic development.
- The work of Hernando de Soto on the link between property rights and economic development.
- Samuel Huntington's influential thesis on the "clash of civilizations."
- The new growth theory of economic development championed by Paul Romer and Gene Grossman.
- Empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.
- The work of Nobel Prize winner Douglass North and others on national institutional structures and the protection of property rights.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.
- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.
- Insights for international business strategy that can be derived from the resource-based view of the firm.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment, every effort is being made to ensure that the book is as up-to-date as possible when it goes to press. A significant amount has happened in the world since the first edition of this book was published in 1993. The Uruguay Round of GATT negotiations was successfully concluded and the World Trade Organization was established. In 2001 the WTO embarked upon another major round of talks aimed to reduce barriers to trade, the Doha Round. The European Union moved forward with its post-1992 agenda to achieve a closer economic and monetary union, including the establishment of a common currency in January 1999. The North American Free Trade Agreement passed into law, and Chile indicated its desire to become the next member of the free trade area. The Asian-Pacific Economic Cooperation forum (APEC) emerged as the kernel of a possible future Asia Pacific free trade area. The former Communist states of Eastern Europe and Asia continued on the road to economic and political reform. As they did, the euphoric mood that followed the collapse of communism in 1989 was slowly replaced with a growing sense of realism about the hard path ahead for many of these countries. The global money market continued its meteoric growth. By 2005, more than \$1.5 trillion per day was flowing across national borders. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy. The World Wide Web emerged from nowhere to become the backbone of an emerging global network for electronic commerce. The world continued to become more global. Several Asian Pacific economies, including most notably China, continued to grow their economies at a rapid rate. Outsourcing of service functions to places such as China and India emerged as a major issue in developed Western nations. New multinationals continued to emerge from developing nations in addition to the world's established industrial powers. Increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small. And unfortunately, in the wake of the terrorist attacks on the United States on September 11, 2001, global terrorism and the attendant geopolitical risks emerged as a threat to global economic integration and activity.

Reflecting this rapid pace change, in this edition of the book I have tried to ensure that all material and statistics are as up-to-date as possible as of 2005. However, being absolutely up-to-date is impossible since change is always

with us. What is current today may be outdated tomorrow. Accordingly, I have a home page for this book on the World Wide Web at [www.mhhe.com/hill](http://www.mhhe.com/hill).

## **BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION**

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this to students, I have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Related to this, I have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. I believe that these theories and phenomena are explained in more depth in this book than they are in competing textbooks, the rationale being that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

## **INTEGRATED PROGRESSION OF TOPICS**

A weakness of many texts is that they lack a tight, integrated flow of topics from chapter to chapter. In this book students are told in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

### **Part 1**

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book.

### **Part 2**

Chapters 2 and 3 focus on national differences in political economy and culture, and Chapter 4 on ethical issues in international business. Most international business textbooks place this material at a later point, but I believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business operations arise out of national

differences in political economy and culture. To fully understand these issues, students must first appreciate the differences in countries and cultures. Ethical issues are dealt with at this juncture primarily because many ethical dilemmas flow out of national differences in political systems, economic systems, and culture.

### Part 3

Chapters 5 through 9 investigate the political economy of international trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

### Part 4

Chapters 10 and 11 describe and explain the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

### Part 5

In Chapters 12 through 14 attention shifts from the environment to the firm. Here the book examines the strategies and structures that firms adopt to compete effectively in the international business environment.

### Part 6

In Chapters 15 through 20 the focus narrows further to investigate business operations. These chapters explain how firms can perform their key functions—manufacturing, marketing, R&D, human resource management, accounting, and finance—in order to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole.

## IMPLICATIONS FOR MANAGERS

I have always believed that it is important to show students how the material covered in the text is relevant to the actual practice of international business. This is explicit in the later chapters of the book, which focus on the practice of international business, but it is not always obvious in the first half of the book, which considered many macroeconomic and political issues, from international trade theory and foreign direct investment flows to the IMF and the influence of inflation rates on foreign exchange quotations. Accordingly, at the end of each chapter in Parts 2, 3, and 4—where the focus is on the environment of international business, as opposed to particular firms—is a section titled “Implications for Managers.” In this section, the managerial implications

of the material discussed in the chapter are clearly explained. For example, Chapter 5, International Trade Theory, ends with a detailed discussion of the various trade theories’ implications for international business management.

In addition, each chapter begins with a case that illustrates the relevance of chapter material for the practice of international business. Chapter 2, National Differences in Political Economy, for example, opens with a case that describes how endemic corruption in Indonesia has raised the costs of doing business in that country.

I have also added a closing case to each chapter. These cases are also designed to illustrate the relevance of chapter material for the practice of international business. The closing case to Chapter 2, for example, looks at the reasons for the persistency of poverty in sub-Saharan Africa and links this to the low level of foreign direct investment by international businesses in the region. The case is also designed to help students think through how the region might pull itself out of the poverty trap, and the opportunities that this might create for international business.

Another tool that I have used to focus on managerial implications is *Management Focus* boxes. There is at least one Management Focus in each chapter. Like the opening case, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international business. The Management Focus in Chapter 2, for example, looks at the battle against piracy in the global market for video games. This feature illustrates the important role that national differences in the protection of intellectual property rights can play in international business.

Appearing once again in this edition are the GlobalEdge Research Tasks at the end of each chapter. Created by the CIBER group at Michigan State University headed by Tomas Hult and Tunga Kiyak, these application exercises challenge students to research, collect, and analyze data as they act as managers working for international firms. From exploring differences in business etiquette to using data sources such as the *World Investment Dictionary* to identifying tariff restrictions in different countries, these exercises expose students to the types of sources and tools international managers use to make informed business decisions.

## ACCESSIBLE AND INTERESTING

The international business arena is fascinating and exciting, and I have tried to communicate my enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique I have used to achieve this is weaving interesting anecdotes into the narrative of the text—stories that illustrate the-



ory. The opening cases and focus boxes are also used to make the theory being discussed in the text both accessible and interesting.

Each chapter has two kinds of focus boxes—a Management Focus box (described above) and a Country Focus box. Country Focus features provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. In Chapter 2, for example, one Country Focus box discusses the steps that India has taken over the last decade to build a dynamic, market-based economic system.

## WHAT'S NEW IN THE 6TH EDITION

The success of the first five editions of *International Business* was based in part upon the incorporation of leading-edge research into the text, the use of up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, my goals for the sixth edition have been threefold:

1. Incorporate new insights from recent scholarly research wherever appropriate.
2. Make sure the content of the text covers all appropriate issues.
3. Make sure the text is as up-to-date as possible with regard to current events, statistics, and examples.

As part of the revision process, a new chapter has been added on ethics in international business (Chapter 4). Although there has always been significant discussion of ethics in the book, in the wake of the numerous ethical scandals that swept through the business world over the last few years, I felt it was appropriate to place greater emphasis on this vitally important topic.

At the same time, I did not want to add to the overall length of the book, so I made a hard choice to eliminate one chapter. This was a chapter that looked at the rise of the global capital market. Some of the content in this chapter has been relocated to Chapters 10 and 11, and some has been eliminated. I made this decision after reading through feedback from reviewers, which suggested that this was the least used chapter in the book.

As part of the overall revision process, *changes have been made to every chapter in the book*. All statistics have been updated to incorporate the most recently available data. New examples, cases, and boxes have been added and older examples updated to reflect new developments. New material has been inserted wherever appropriate to reflect recent academic work or important current events. For example, Chapter 5 has been updated to discuss progress on the current round of talks sponsored by the

WTO aimed at reducing barriers to trade, particularly in agriculture (the Doha Round). Chapter 6 now discusses the slump in foreign direct investment flows that took place in 2001–2004. The section on the European Union in Chapter 8 has been revised to reflect the fact that 10 more member states were admitted on May 1, 2004. At several places in the book, there is extended discussion of the outsourcing of service activities, from software testing and diagnosis of MRI scans to telephone call centers and billing functions, to developing nations such as India, and the implications of this development for international business are explored. And so on.

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