

CHAPTER 1

GLOBALIZING BUSINESS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. explain the concepts of international business and global business, with a focus on emerging economies.
2. give three reasons why it is important to study global business.
3. articulate one fundamental question and two core perspectives in the study of global business.
4. identify three ways of understanding what globalization is.
5. state the size of the global economy and its broad trends and understand your likely bias in the globalization debate.

GENERAL TEACHING SUGGESTIONS

Begin with motivation: help students see how the course relates to them regardless of whether they are convinced that they will never be involved in international business. (That concept should be challenged by pointing out that even if they work for a company that does business only in the local area, the company could be acquired by a foreign-owned firm. If they work for a local government, they might eventually need to work with foreign-controlled contractors and firms that serve that government entity.) Help them to see applications to the goods and services they buy and the nation's economy. Suggestion: break the class up into groups that are given the task of showing the relevance of the course in a variety of situations.

OPENING CASE DISCUSSION GUIDE

Emerging Markets: The Rebirth of the East India Company can be used to help students understand how global businesses have changed over time. The original East India Company was a colonial trading company that introduced products from a far-away, exotic location to Great Britain. The company was relaunched in 2005 as a business that was “born global” and intended to expand to even more markets.

CHAPTER OUTLINE: KEY CONCEPTS AND TERMS
Sections I through VI of Chapter 1

I. WHAT IS GLOBAL BUSINESS?

1. Key Concept

International business is typically defined as (1) a business (firm) that engages in international (cross-border) economic activities and (2) the action of doing business abroad. Global business is defined in this book as business around the globe. This book goes beyond competition in developed economies. It devotes extensive space to competitive battles waged in emerging economies and the base of the global economic pyramid.

2. Key Terms

- **Base of the pyramid (BoP)** is economies where people make less than US\$2,000 per capita per year.
- **BRIC** stands for Brazil, Russia, India, and China.
- **BRICS** stands for Brazil, Russia, India, China, and South Africa.
- **Emerging economies (emerging markets)** are countries that are starting to emerge as new players in the world economy.
- **Foreign direct investment (FDI)** is direct investment in, controlling, and managing value-added activities in other countries.
- **Global business** is defined in this book as business around the globe. The activities include both (1) international (cross-border) business activities covered by traditional IB books and (2) domestic business activities.
- **Great Transformation** is the transformation of the global economy that is embodied by the tremendous shift in economic weight and engines of growth toward emerging economies in general and BRIC(S) in particular.
- **Gross domestic product (GDP)** is the sum of value added by resident firms, households, and governments operating in an economy.
- **Gross national product (GNP)** is GDP plus income from nonresident sources abroad.
- **Gross national income (GNI)** is GDP plus income from nonresident sources abroad.
- **International business (IB)** is defined as (1) a business firm that engages in international (cross border) economic activities and/or (2) the action of doing business abroad.
- **Multinational enterprise (MNE)** is defined as a firm that engages in **foreign direct investment** by directly investing in, controlling, and managing value-added activities in other countries.
- **Purchasing power parity (PPP)** is an adjustment to reflect the differences in cost of living in various countries.
- **Reverse innovation** is an innovation that is adopted first in emerging economies and is then diffused around the world.
- **Triad** refers to North America, Western Europe, and Japan.

II. WHY STUDY GLOBAL BUSINESS?

1. *Key Concept*

Reasons for reading this book and taking this course: to better compete in the corporate world that will require global expertise and to enhance your understanding of what is going on in the global economy.

2. *Key Terms*

- **Expatriate Manager (expat)** is a manager who works abroad.
- **Group of 20 (G-20)** is the group of 19 major countries plus the European Union (EU) whose leaders meet on a biannual basis to solve global economic problems.
- **International premium** is a significant pay raise when working overseas.

III. A UNIFIED FRAMEWORK

1. *Key Concept*

Our most fundamental question is: What determines the success and failure of firms around the globe? The two core perspectives are (1) the institution-based view and (2) the resource-based view. We develop a unified framework by organizing materials in *every* chapter according to the two perspectives guided by the fundamental question.

2. *Key Terms*

- **Institution based view** suggests that the success and failure are enabled and constrained by institutions.
- **Institutions** are the rules of the game. Formal institutions include laws, regulations, and rules. Informal institutions include cultures, ethics, and norms.
- **Liability of foreignness** is the *inherent* disadvantage that foreign firms experience in host countries because of their nonnative status.
- **Resource-based view** focuses on a firm's internal resources and capabilities.

IV. WHAT IS GLOBALIZATION?

1. *Key Concept*

Some view globalization as a recent phenomenon, and others believe that it is a one-directional evolution since the dawn of human history. We suggest that globalization is best viewed as a process similar to the swing of a pendulum.

2. *Key Terms*

- **Globalization** is the close integration of countries and peoples of the world.
- **Risk management** is the identification and assessment of risk and the preparation to minimize the impact of high-risk, unfortunate events.
- **Scenario planning** is a technique to prepare and plan for multiple scenarios (either high- or low-risk scenarios).
- **Semiglobalization** is a perspective that suggests that barriers to market integration at borders are high, but not high enough to insulate countries from each other completely.

V. GLOBAL BUSINESS AND GLOBALIZATION AT A CROSSROADS

1. **Key Concept**

A basic understanding of the global economy is necessary. It is important to critically examine your own personal views and biases regarding globalization.

2. **Key Term**

- **Nongovernmental organization (NGO)** is an organization that is not affiliated with governments.

VI. ORGANIZATION OF THE CONTENT

1. **Key Concepts**

- Part I is *foundations*. This part contains an overview of international business and the two leading perspectives—institution- and resource-based views.
- Part II covers *tools*. This involves trade, foreign investment, foreign exchange, and global and regional integration.
- Part III covers *strategy*. This includes internationalization of small, entrepreneurial firms, ways to enter foreign markets, management of competitive dynamics, alliances and acquisitions, and strategizing, structuring, and learning.
- Part IV builds *excellence in different functional areas*. The areas include marketing and supply chain, human resource management, finance and corporate governance, and corporate social responsibility.

END-OF-CHAPTER GUIDE

- *Review Questions and Answers
 - *Critical Discussion Questions and Answers
 - *Global Action
 - *Closing Case
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REVIEW QUESTIONS AND ANSWERS

1. What is the traditional definition of IB? How is global business defined in this book?
International business (IB) is defined as (1) a business firm that engages in international (cross border) economic activities and/or (2) the action of doing business abroad. Global business is defined in this book as business around the globe. The activities include both (1) international (cross-border) business activities covered by traditional IB books and (2) domestic business activities.
2. Compare PengAtlas Maps 2.1 (Top Merchandise Importers and Exporters), 2.2 (Top Service Importers and Exporters), and 2.3 (FDI Inflows and Outflows) and note that the United States is number one in all categories except one. What is it? Many people feel that is a big problem—do you? In your opinion, what—if anything—should be done about that?
The U.S. is not the top merchandise exporter. One can argue that while it would be good to improve exports, the total wealth created for the U.S. does not consist only of exports of merchandise but also exports of services – in which the U.S. leads. (This is to be expected as the U.S. economy has been shifting from a manufacturing to a services economy.) Furthermore, when foreign firms invest in U.S. production facilities, wealth is created in this country. The important thing is the overall picture and the overall trend of all forms of wealth creation, not just one form.
3. Compare PengAtlas Maps 2.1 (Top Merchandise Importers and Exporters), 2.2 (Top Service Importers and Exporters), and 2.3 (FDI Inflows and Outflows) once again and note the BRIC countries that are referenced in this chapter. Which of the BRIC countries is most often among the categories in those maps? Do you think that the long-term trend will be for that country to continue to become more important and perhaps surpass the United States, or do you think that it may decline, and one of the other BRIC countries will become more important? Why?
China stands out among the BRIC countries. If the future is anything like the past, no country is dominant forever so it is possible that China's GDP could eventually pass that of the U.S. However, even if China's GDP eventually became 100% greater than that of the U.S., it would still be smaller than U.S. GDP on a per capita basis—and China too might be eventually overtaken by some other nation.

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4. **ON CULTURE:** Not all people in your country support globalization, and some feel that globalization is an economic threat. However, to what extent could it be they may also feel that it is a threat to their culture?

The purpose of this question is not so much to resolve whether globalization is or is not a threat to any given country as it is to help students clarify their position in their own mind and then examine whether it can be justified. Answers may vary depending on the national and cultural background of the student.

5. Discuss the importance of emerging economies in the global economy. Use current news. *Emerging economies already command a significant part of global GDP. However, the improving economies of some countries are not keeping pace with their expanding populations. Current news examples will vary.*

6. What is your interest in studying global business? How do you think it may help you succeed in the future?

Students should mention that it will help to prepare them to work in a global business, perhaps even as an expat.

7. If you were to work as an expatriate manager, where would you like to go? Why?

An expatriate manager (expat) is a manager who works abroad. The important thing is not so much the answer as the demonstration of thought.

8. How would you describe an institution-based view of global business?

Institutions are the “rules of the game.” Doing business around the globe requires intimate knowledge about the formal and informal rules governing competition in various countries.

9. How would you describe a resource-based view of global business?

The resource-based view focuses on a firm’s internal resources and capabilities.

10. After comparing the three views of globalization, which seems the most sensible to you and why?

The three views are as follows:

- *A new force sweeping through the world in recent times.*
- *A long-run historical evolution since the dawn of human history.*
- *A pendulum that swings from one extreme to another from time to time.*

The important thing is not so much the answer as the extent to which the student demonstrates thought in providing the answer to “why.”

11. What is semiglobalization? What factors contribute to it?

Semiglobalization is a perspective that suggests that barriers to market integration at borders are high, but not high enough to insulate countries from each other completely. Trade, FDI, and barriers to market integration are all factors.

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12. Do those who protest against globalization make any valid point(s) that all people, whether for or against globalization, should consider?
They do raise a valid point when they insist that firms, especially MNEs, should have a broader concern for the various stakeholders affected by the actions of MNEs around the world. At present, this view is increasingly moving from the periphery to the mainstream.
13. You may view yourself as objective and neutral regarding globalization, but do you sense any bias that you may have, one way or the other? What bias most likely exists on the part of other students taking this course?
The important thing is not so much the answer as the extent to which the student demonstrates thought in providing the answer. Opponents of globalization might mention anything from job loss in their home country to taking advantage of workers in developing economies. Proponents of globalization will probably frame their answers in terms of benefits, such as increased trade worldwide and job opportunities for workers in developing economies.
14. Given the size of the global economy and the size of some of the large corporations, do you think it is possible to carve out a niche that you can exploit as a small businessperson? Or do you feel that the most practical way to participate in the global economy is to do so as an employee or manager in a global corporation?
The student does not have to look far to find that small business people have indeed been successful by carving out a niche—an excellent strategy for entrepreneurs. Also, many people today are finding opportunities in the U.S. and overseas with multinational corporations that need their capabilities.

CRITICAL DISCUSSION QUESTIONS AND ANSWERS

1. A classmate says: “Global business is relevant for top executives such as CEOs in large companies. I am just a lowly student who will struggle to gain an entry-level job, probably in a small domestic company. Why should I care about it?” How do you convince her that global business is something to care about?
Even if you do not aspire to compete for the top job at a large company and instead work at a small firm or are self-employed, you may find yourself dealing with foreign-owned suppliers and buyers, competing with foreign-invested firms in your home market, or perhaps even selling and investing overseas. Alternatively, you may find yourself working for a foreign-owned firm, your domestic employer acquired by a foreign player, or your unit ordered to shut down for global consolidation. Understanding how global business decisions are made may facilitate your own career in such firms.
2. **ON CULTURE:** Thomas Friedman in his book *The World Is Flat* (2005) suggests that the world is flattening—meaning it is increasingly interconnected by new technology, such as the Internet. On the other hand, this presents significant challenges for developed economies, whose employees may feel threatened by competition from low-cost countries. How does this flattening world affect you?
This would be a good assignment for a group to discuss and report their answer.

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3. **ON ETHICS:** What are some of the darker sides (in other words, costs) associated with globalization? How can business leaders make sure that the benefits of their various actions outweigh their costs?
There should be a variety of answers, including some that are not practical. This is a question in which the answer is not as important as the thought process and the ability to clearly articulate.
4. **ON ETHICS:** Some argue that aggressively investing in emerging economies is not only economically beneficial but also highly ethical because it could lift many people out of poverty. However, others caution that in the absence of decent profits, rushing to emerging economies is reckless. What do you think?
The response to this question may depend on how the student perceives the purpose and capabilities of business. Is lifting people out of poverty the purpose of firms and to what extent do firms have the capability of doing so? Challenge people to explain their answers.

GLOBAL ACTION

1. Chemical companies are among the largest firms worldwide. Two approaches to evaluating their operations are by capital spending and by research and development (R&D) spending. Access a resource that provides this information about top global chemical producers. Then compare the top five capital-spending and R&D-spending chemical companies. Are any companies found on both lists? What insights does this information provide?

Exercise 1 Answers

One resource that can be used is “*Chemical and Engineering News: Global Top 50 Chemical Producers*”. This website can be found by entering the search term “chemical and engineering” or “chemical producers” at the globalEDGE™ Resource Desk search box located at <http://globaledge.msu.edu/resourceDesk/>. Once at the Chemical and Engineering News website, search for “Global Top 50 Spending.” After accessing the data available, compare capital spending and R&D spending. Answers regarding insights will vary, but students may indicate that capital spending may be a proxy for global presence while R&D-spending could be a proxy for innovative development. Regardless, some discussion may revolve around the two companies that are on both globally for the foreseeable future.

Search Term: “chemical and engineering” or “chemical producers”

Resource Name: *Chemical and Engineering News: Global Top 50 Chemical Producers*

Website: <http://pubs.acs.org/subscribe/journals/cen/87/i31/html/8731cover.html>

globalEDGE™ Tags: Chemicals, Industries, Industry Specific

2. One important aspect of globalization is the fundamental stability of the global economic order currently in place. Thus, FDI intentions can be influenced by its perceived sustainability to some degree. Identify the three most important issues related to global economic stability over the next 20 years.

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Exercise 2 Answers

One resource which can be used is “A.T. Kearney: FDI Confidence Index”. This website can be found by entering the search term “foreign direct investment intentions” at the globalEDGE™ Resource Desk search box located at

<http://globaledge.msu.edu/resourceDesk/>. Once at the website, download the PDF. The three most important challenges may vary based on the date of the report but could include 1) global competition for scarce energy reserves; 2) climate change; 3) global competition for scarce nature resources (excluding energy); 4) macroeconomic uncertainty; and 5) lower risk tolerance.

Search Term: “foreign direct investment intentions”

Resource Name: A.T. Kearney: FDI Confidence Index

Website: <http://www.atkearney.com/index.php/Publications/foreign-direct-investment-confidence-index.html>

globalEDGE™ Tag: Rankings

CLOSING CASE DISCUSSION GUIDE AND ANSWERS

Emerging Markets: Two Scenarios of the Global Economy in 2050 can be used to help students evaluate the role of globalization in the future. The first scenario is an optimistic view of the future in which globalization continues to spread. The second scenario can be labeled de-globalization. Poor or negative economic growth and civil unrest result. In both scenarios, an increase in global competition is predicted.

1. Which of the two scenarios is more plausible for the global economy in 2050? Why? How does that affect *you* as a consumer, as a professional, and as a citizen of your country?

If you like to assign questions to individuals or groups for class discussion, you might have groups select and support one of the scenarios with current events and trends.

2. From a resource-based view, what should firms do to better prepare for the two scenarios?

Answers will vary but students should quickly realize that a firm with more resources or reliable sources of resources will fare better in a resource-based view.

3. **ON ETHICS:** From an institution-based view, what should firms do to better prepare for the two scenarios? (HINT: For example, if they believe in “continued globalization,” they may be more interested in lobbying for reduced trade barriers. But if they believe in “de-globalization,” they may lobby for higher trade barriers.)

Students should consider the factors they can change in the business environment. Laws, regulations, rules, cultures, ethics, and norms make up the formal and informal institutions. Students’ suggestions should affect one or more institutions in the business environment.