



Global Business 3e

Chapter I

Globalizing Business

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

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

WHAT IS GLOBAL BUSINESS?

international business

business (firm) that engages in international (cross-border) economic activities or the action of doing business abroad

global business

business around the globe including both international (cross-border) activities and domestic business activities

FIRMS IN GLOBAL BUSINESS

multinational enterprise (MNE)

firm that engages in foreign direct investments

foreign direct investment (FDI)

investments in, controlling, and managing value-added activities in other countries

Note that global business also addresses domestic firms competing and/or collaborating with foreign entrants

THE IMPORTANCE OF EMERGING ECONOMIES IN GLOBAL BUSINESS

Global business is not limited to firms competing in developed economies

emerging economies (emerging markets)

a term that has gradually replaced the term “developing countries” since the 1990s

? Can you name three or four emerging economies?

IMPORTANT ECONOMIC TERMS

gross national product (GNP) - measured as the sum of value added by *resident* firms, households, and government operating in an economy

gross domestic product (GDP) - total market value of all final goods and services produced within a country in a given period of time usually a calendar year

gross national income (GNI) - GDP plus income from nonresident sources abroad – the term used by the World Bank and other international organizations to supersede the GNP term

purchasing power parity (ppp) - adjustment made to the GDP to reflect differences in the cost of living

EMERGING ECONOMIES KEY TERMS

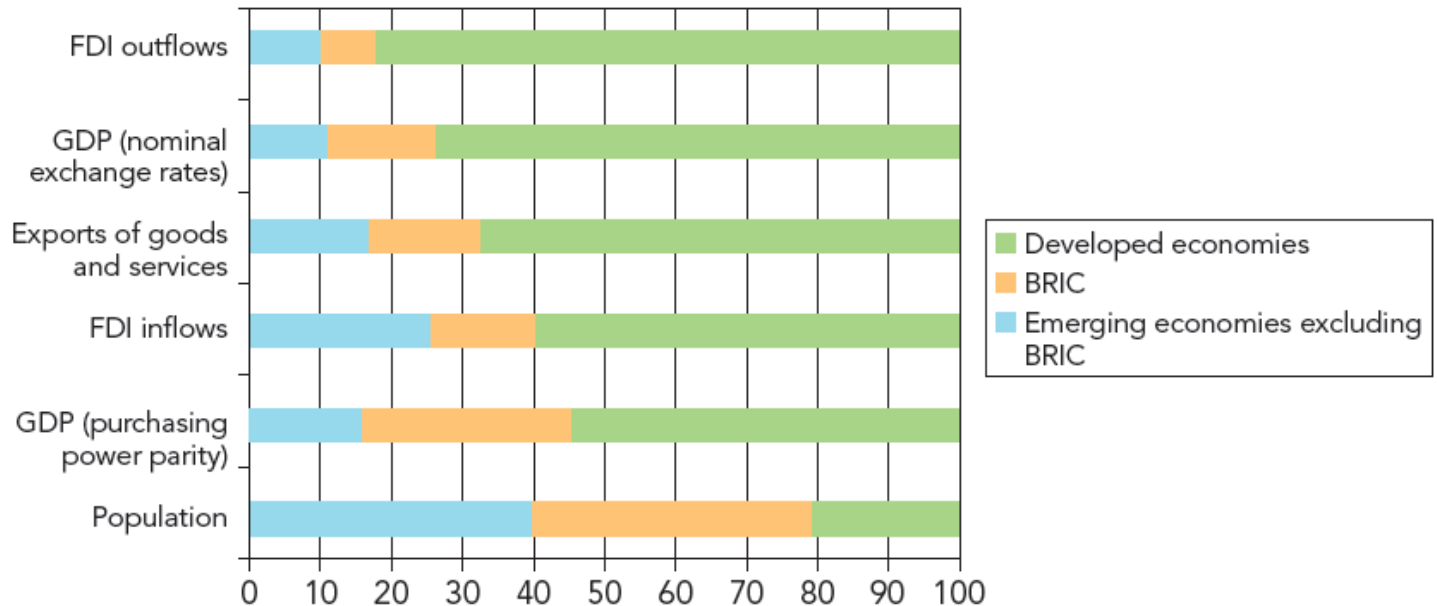
Triad – North America, Western Europe and Japan

BRIC – acronym for the emerging economies of Brazil, Russia, India, and China

Group of 20 – leaders of 19 major countries + EU who meet on biannual basis to discuss global economic issues

Figure 1.1

The Contributions of Emerging Economies Relative to Developed Economies (World %)



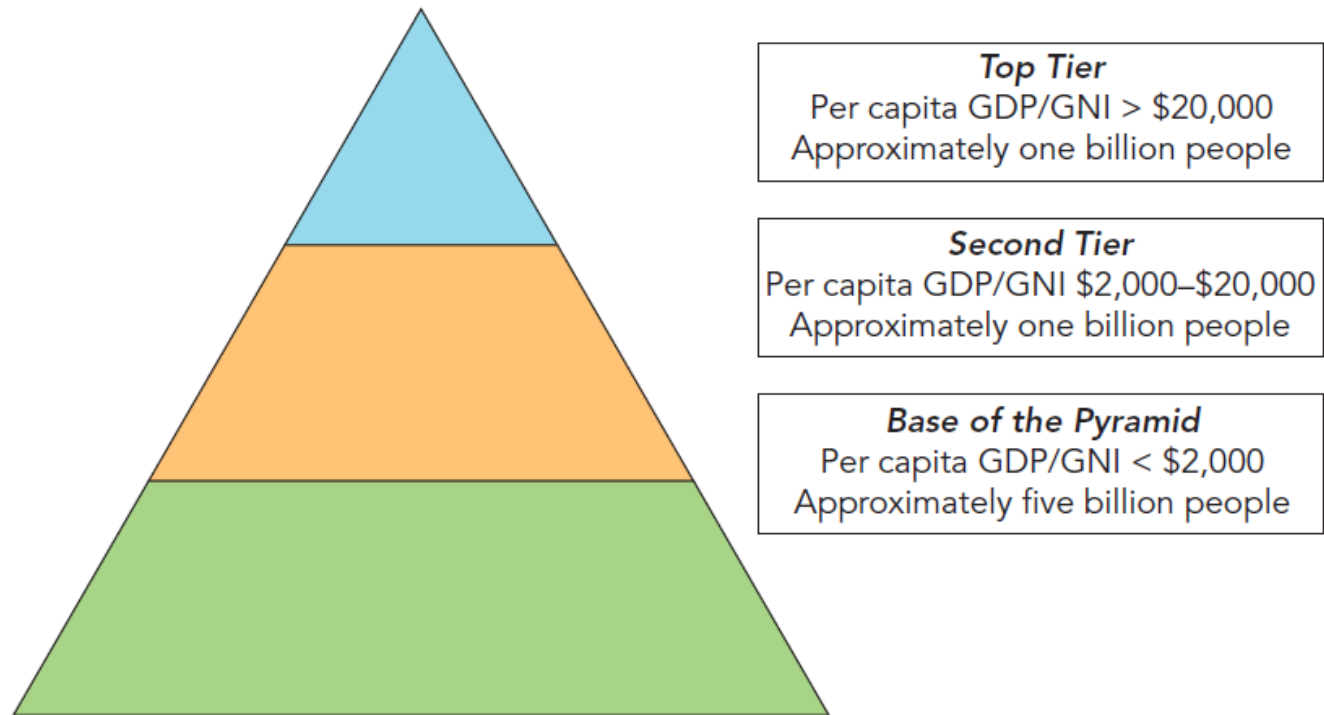
Sources: Data extracted from (1) United Nations, 2011, *World Investment Report 2011*, New York and Geneva: UN; (2) World Bank, 2012, *World Development Indicators database*, Washington: World Bank. All data refer to 2011.

VIEWING THE GLOBAL ECONOMY

base of the pyramid - vast majority of humanity, about four billion people, live at the base of the pyramid and make less than \$2,000 a year

The “Bottom Billion” – concentrated in Africa and Central Asia – 58 small countries, stuck at the bottom in terms of growth, incomes, and human development

Figure 1.3 The Global Economic Pyramid



Sources: Adapted from (1) C. K. Prahalad & S. Hart, 2002, The fortune at the bottom of the pyramid, *Strategy+Business*, 26: 54-67; (2) S. Hart, 2005, *Capitalism at the Crossroads* (p. 111), Philadelphia: Wharton School Publishing.

Table 1.1 Classifying Developed Economies versus Emerging Economies

33 developed economies as classified by the International Monetary Fund (IMF)		
Australia	Hong Kong	Portugal
Austria	Iceland	Singapore
Belgium	Ireland	Slovak Republic
Canada	Israel	Slovenia
Cyprus	Italy	South Korea
Czech Republic	Japan	Spain
Denmark	Luxembourg	Sweden
Finland	Malta	Switzerland
France	Netherlands	Taiwan
Germany	New Zealand	United Kingdom
Greece	Norway	United States
All the other 149 economies are classified by the IMF as emerging economies		

Source: IMF, www.imf.org. The IMF recognizes 182 countries and economies. It labels developed economies "advanced economies" and labels emerging economies "emerging and developing economies."

Table 1.2 Why Study Global Business?

- Enhance your employability and advance your career in the global economy
 - Better preparation for possible expatriate assignments abroad
 - Stronger competence in interacting with foreign suppliers, partners, and competitors and in working for foreign-owned employers in your own country
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? What do you hope to gain from taking this course and studying global business?

WORKING IN A GLOBAL FIRM

expatriate manager

a manager who works abroad, or “expat”

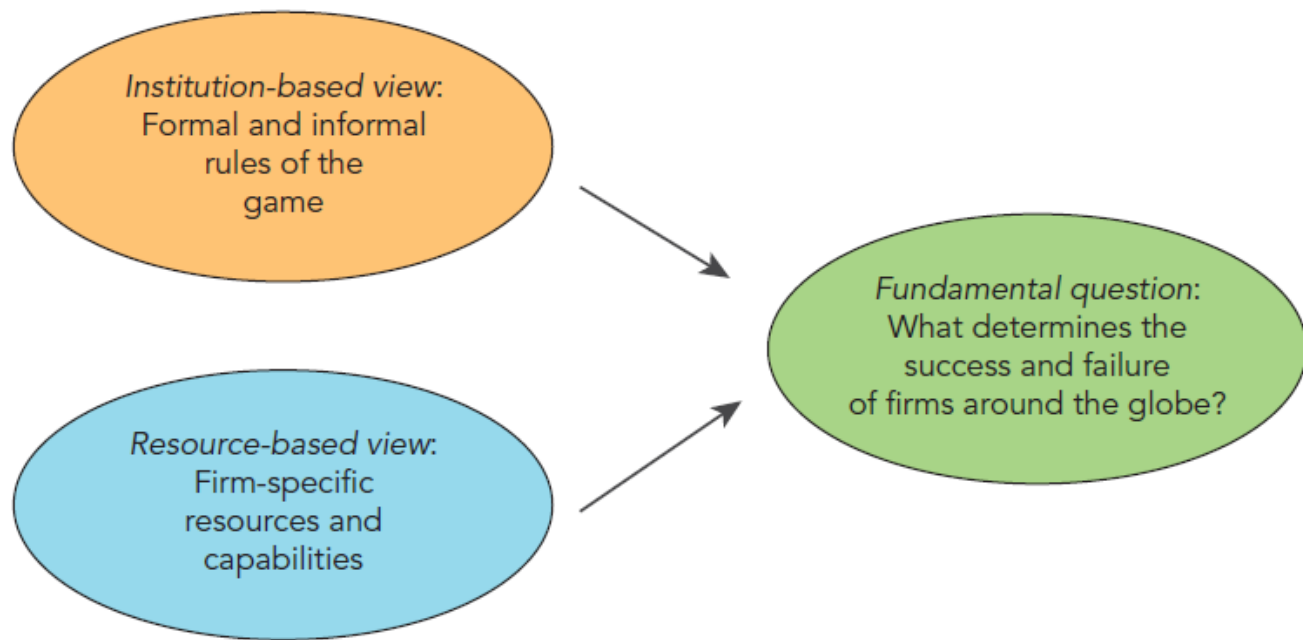
international premium

significant compensation “package” when working overseas

? What are some of the benefits you might enjoy as an expatriate manager?

Figure 1.6

A Unified Framework for Global Business



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This unified framework will carry through the entire book as you study global business.

FIRST CORE PERSPECTIVE: AN INSTITUTION-BASED VIEW

An institution-based view suggests that the success and failure of firms are constrained by institutions

formal rules - requirements that treat domestic and foreign firms as equals enhance the potential odds for foreign firms' success or those that discriminate against foreign firms, would undermine the chances for foreign entrants

informal rules - cultures, ethics, and norms play an important part in shaping the success and failure of firms around the globe

SECOND CORE PERSPECTIVE: A RESOURCE-BASED VIEW

A resource-based view suggests that the success and failure of firms are determined by their environments

liability of foreignness - inherent disadvantage that foreign firms experience in host countries because of their nonnative status

WHAT IS GLOBALIZATION?

globalization

close economic integration of countries and peoples of the worlds

semiglobalization

strategy that suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other

THREE VIEWS OF GLOBALIZATION

- A new force in recent times
- A long-running historical evolution
- A pendulum swinging between extremes

LESSONS FROM A RECESSION

risk management

the identification and assessment of risks and the preparation to minimize the impact of high-risk, unfortunate events

scenario planning

a technique to prepare and plan for multiple scenarios (either high or low risk).

Table 1.5 Views on Globalization: General Public versus Business Students

Percentage answering “good” for the question: Overall, do you think globalization is <i>good</i> or <i>bad</i> for	General public ¹ (N = 1,024)	Business students ² (N = 494)
US consumers like you	68%	96%
US companies	63%	77%
The US economy	64%	88%
Strengthening poor countries’ economies	75%	82%

Sources: Based on (1) A. Bernstein, 2000, Backlash against globalization, *BusinessWeek*, April 24: 43; (2) M. W. Peng & H. Shin, 2008, How do future business leaders view globalization? (p. 179), *Thunderbird International Business Review*, 50 (3): 175-182. All differences are statistically significant.

NONGOVERNMENT ORGANIZATIONS (NGOs)

nongovernment organizations (NGOs)

heterogeneous organizations with numerous classifications:

advocacy - environmentalists, human rights activists, consumers, etc. that raise awareness, acceptance and knowledge by lobbying, press work and activist events

operational - design and implementation of development-related projects that may stress service delivery or participation; whether religious or secular; whether more public or private-oriented - can be community-based, national or international