

Globalizing Business

Chapter 1



Why study International Business?

You Vote!!!

Expertise in global business is often a prerequisite for top rank jobs

Better preparation for possible expatriate assignments abroad

- Expatriate managers – managers who work abroad, are paid an “**international premium**”
- 10-15% premium
- 5-10% more for hardship
- Cost of living adjustment
- Housing...

Fortune 500 CEOs with Int'l Exp.

INTERNATIONAL WORK EXPERIENCE

**This information is based on biographical information that states that CEOs worked overseas or managed overseas activity.*

'08 1-100	'08 1-200	'08 1-300	'08 1-400	'08 1-500
44/100 (44%)	81/200 (41%)	110/300 (37%)	143/400 (36%)	168/500 (34%)

'08 1-100	'08 101-200	'08 201-300	'08 301-400	'08 401-500
44/100 (44%)	37/100 (37%)	29/100 (29%)	33/100 (33%)	25/100 (25%)

- > Information available in published CEO biographies indicates that S&P 100 CEOs are more likely to have international experience than the rest of their S&P 500 counterparts. This has held true for the past 10 years (since data was trackable).
- > International experience among S&P 500 CEOs has increased in the past five years from 26% to 34%.

The bigger the company the more important international experience becomes!

Small businesses need help!

38 percent of small business owners cite “a lack of knowledge” as their top reason for keeping business within U.S. borders.

Who Exports?

Over a 250,000 companies exporting

Most exporting manufacturers (96%) are small and medium sized businesses

- 59% sold to only one market

Yet most of the *value* of exports (71%) is accounted for by multinational enterprises (MNEs)

Takeaway: lots of firms doing a little exporting, a few doing *A LOT*

Global Business



International Business and 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.

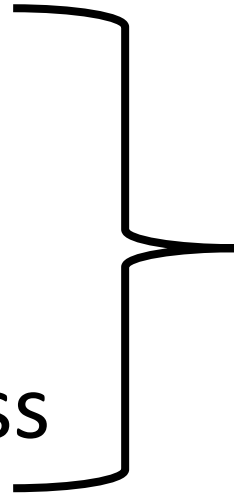
Business Definitions

**International
Business**

(cross boarder)

Domestic Business

(business in single country)



**Global
Business**

(includes international
business as well as
domestic business)

Terminology

Foreign Direct Investment (FDI) – Investment in, controlling, and managing, value-added activities in other countries

Multinational Enterprise (MNE) – A firm that engages in foreign direct investment and operates in multiple countries

Note that you can be involved in international business without being a MNE i.e. exporting, importing...

A Quick Look At the Numbers

And why emerging
markets matter



The Obvious...

Large companies and countries have economic and political influence

US influential because of size

If countries:

- Walmart – 22nd largest
- Exxon Mobil – 23rd largest

Royal Dutch Shell sales larger than GDP of Norway, Denmark, Greece and Ireland

The Less Obvious

Smaller economies collectively have strength

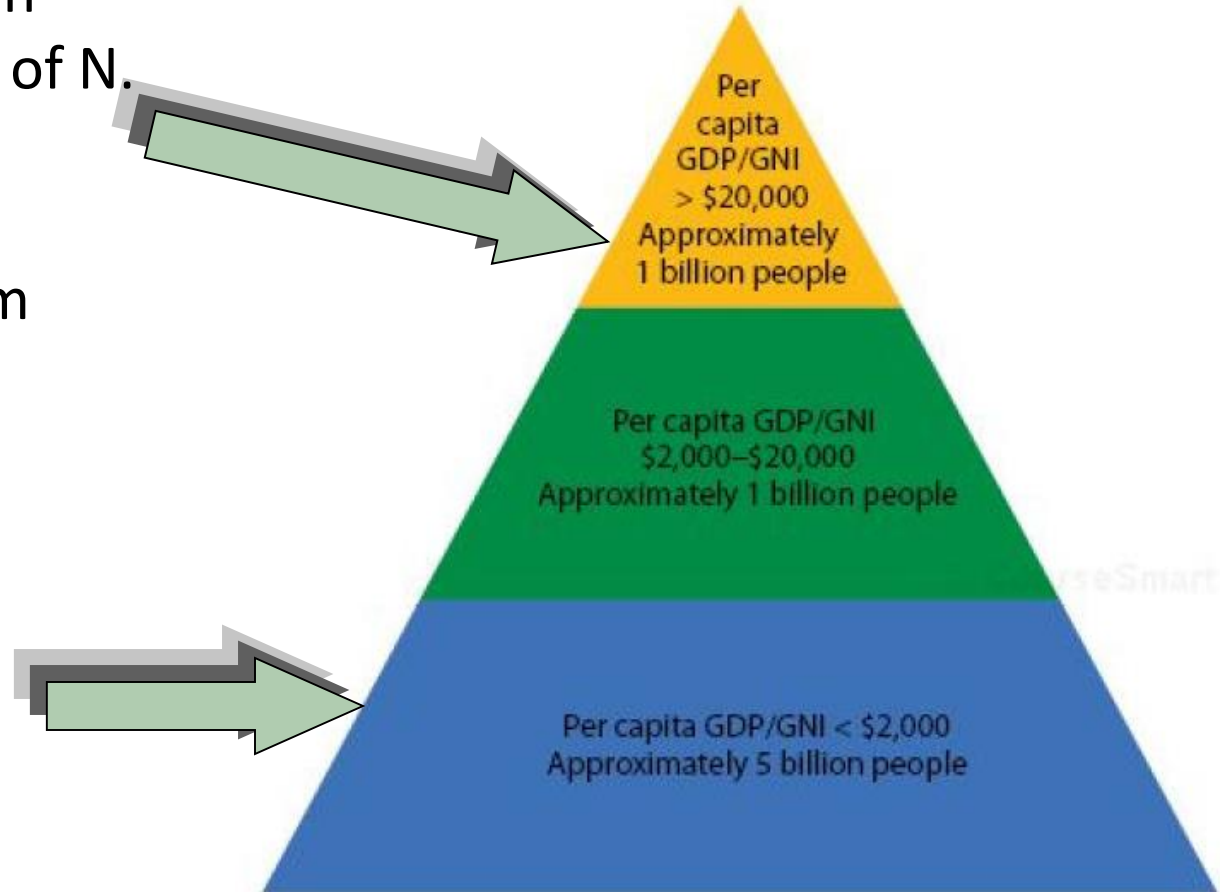
- Trade Associations and Economic Collaboration for small economies
- European Union, etc.
- Similar to Chamber of Commerce for small businesses

Developing countries “can” grow quickly

- China coming on strong, home to 41 Fortune Global 500 companies
- New York State is home to 22

EMERGING ECONOMIES IN THE GLOBAL MARKET

Most of these billion people live in **Triad** of N. America, Western Europe, and Japan. 80% MNE's are from Triad.



Base of pyramid:
Vast majority of world population.
Most MNEs focus on top

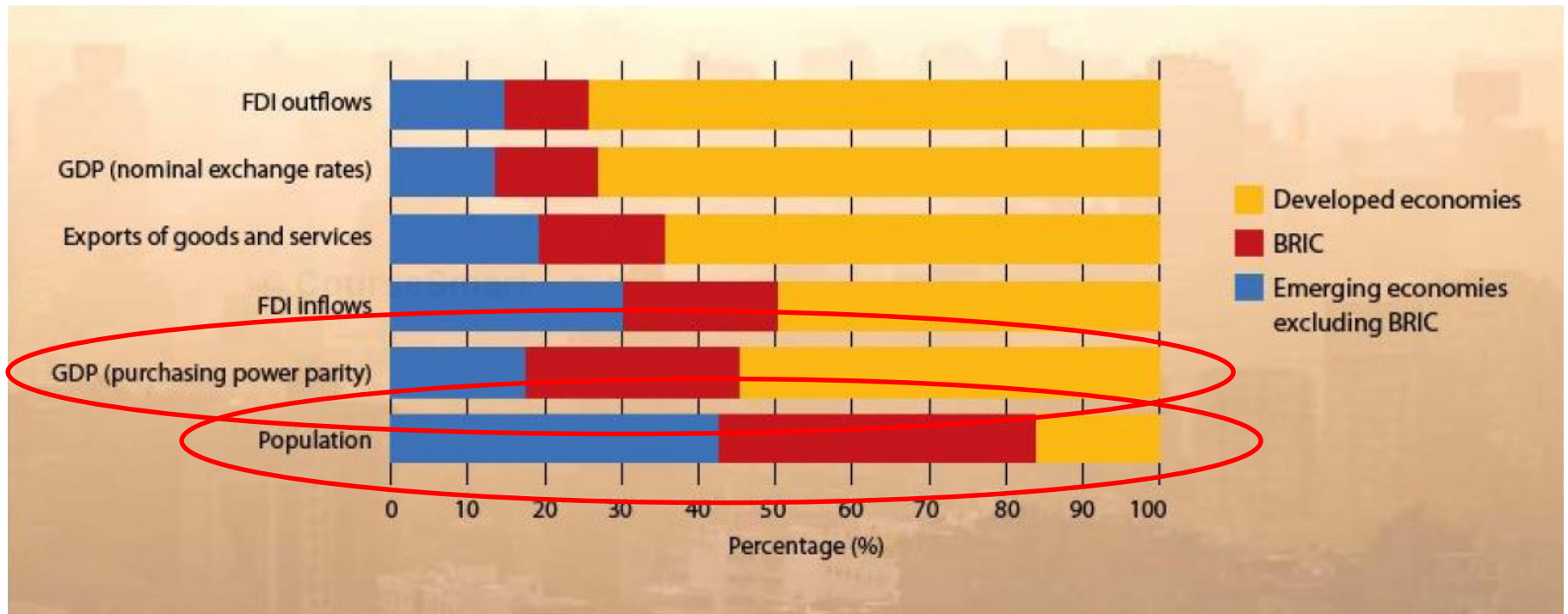
Source: C. K. Prahalad and S. Hart, "The fortune at the bottom of the pyramid," *Strategy+Business* 26 (2002): 54–67 and S. Hart, *Capitalism at the Crossroads* (Philadelphia: Wharton School Publishing, 2005) 111.

Gross Domestic Product

Gross Domestic Product (GDP) the sum of value added by resident firms, households, and governments operating in an economy

- Think of piling up all the goods and services produced in a country in a year
- Very similar to gross national income (GNI)

Contribution of Emerging Economies



Sources: Data extracted from International Monetary Fund, *World Economic Outlook: Sustaining the Recovery* (Washington: IMF) 162; United Nations, *World Investment Report 2010* (New York and Geneva: UN) xiii; World Bank, World Development Indicators database (Washington: World Bank). All data refer to 2010.

Purchasing Power Parity

Previous slide's data based on Purchasing Power Parity, a conversion that determines the equivalent amount of goods and services different currencies can purchase.

- Captures differences in cost of living
- i.e. take the number of dollars required to buy a t-shirt, jeans, socks, and flip flops,
- convert to Mexican Pesos and you should be able to buy a t-shirt, jeans, socks, and flip flops in Mexico

Purchasing Power Parity



Purchasing Power Parity



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BRICs

BRIC (“Big Four”)

- Brazil, Russia, India, China
- Goldman Sachs paper coined term
- Used to suggest shift toward “emerging markets”
- GDP Growth (2010, 2011, 2012, 2013)
 - Brazil – 7.49%, 2.7%, 0.9%, 2.6%
 - Russia – 4.3%, 4.3%, 3.4%, 4.7%
 - India – 10.5%, 6.3%, 4.7%, 4.8%
 - China – 10.4%, 9.3, 7.8%, 7.5%
 - (US – 3.0%, 1.7%, 2.8%, 2.2%)

G7 → G20

Group of 20 (G-20) – the group of major countries plus the EU whose leaders meet on a regular basis, focus is on economic problems



G-20

MAP 2 The Group of 20 (G-20)



Source: U.S. Census Bureau, International Database, *The World Factbook 2009* (Washington, DC: Central Intelligence Agency, 2009). See PengAtlas Map 9 for a map of EU member countries.

Drivers of Globalization



Drivers of Globalization

Political forces:

- reduce government barriers to trade and foreign investment (NAFTA, E.U., E.Z.)
- induce privatization of industries of former communist nations

Technological forces:

- lead to advances in computers and communications technology
- Transport costs falling
 - Physical goods – larger ships, more efficient planes, trains
 - Ideas – internet and network computing

Drivers of Globalization

Market forces

- Suppliers globalize with customers
- Home market saturation leads to expansion abroad

Cost forces

- Demand economies of scale
- Seeking lower costs in other countries

Competitive forces

- Intense due to explosive growth internationally of small and new businesses

Direction of Globalization



THREE VIEWS ON GLOBALIZATION

Globalization – the close integration of countries around the world

A long-run historical evolution since the dawn of human history

A new force sweeping through the world in recent times

A pendulum that swings from one extreme to another from time to time

Pendulum View

Fits historic patterns

- Considerable integration prior to WWI
 - Retreat into nationalism

Current era starts after WWII

- Western nations commit to global trade
 - Communist countries sought self sufficiency (China and Soviet Union)
- Many developing countries focused on protecting domestic industries and were left behind
 - Developing countries started to join the world economy, late 80s.

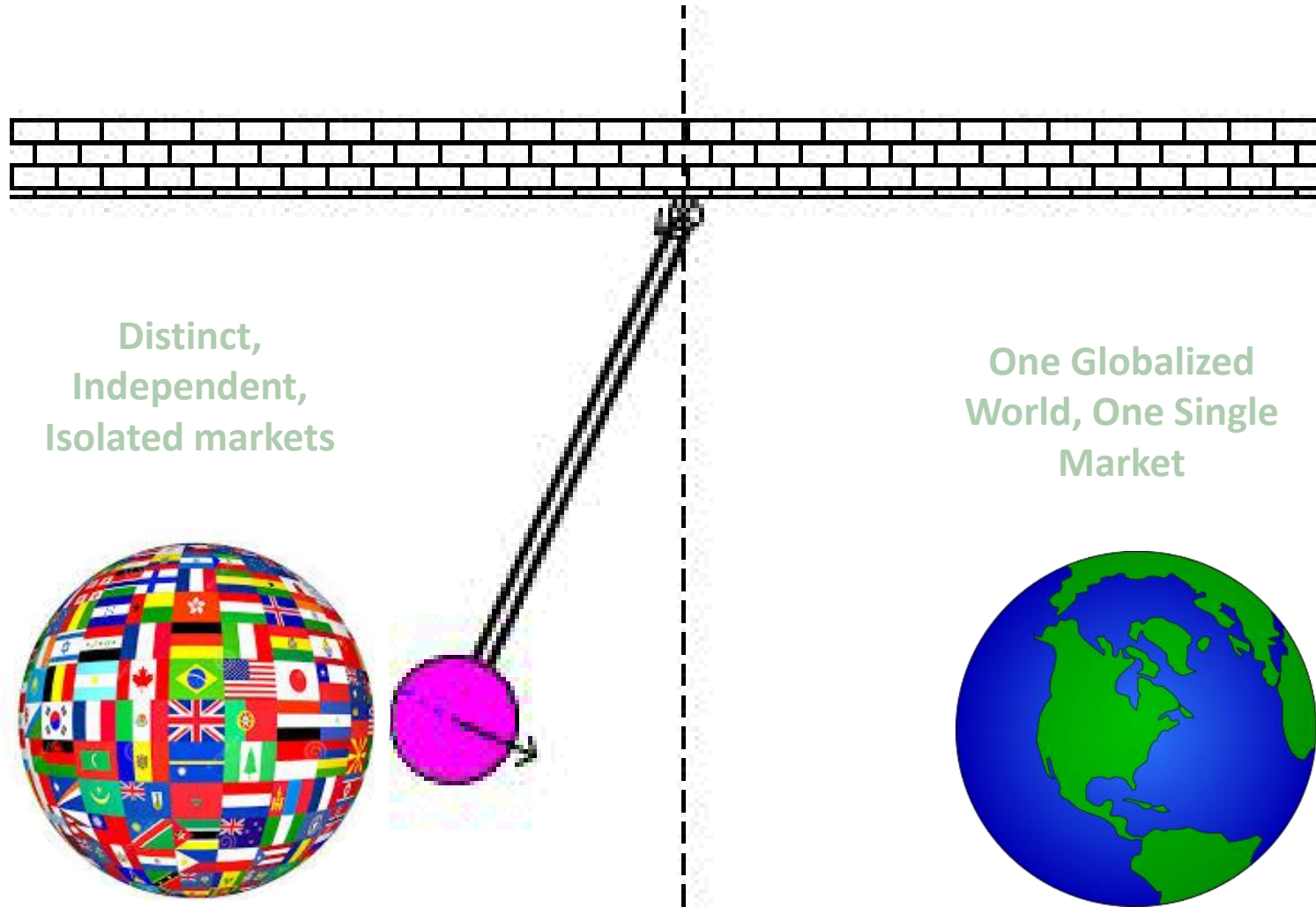
Pendulum View

View suggests globalization may be unable to sustain momentum

- Backlash to globalization in 90's
 - Rapid growth
 - View that globalization was new
 - Fear in industrialized countries of losing jobs
 - Emerging economies concerned about MNEs destroying local culture and local companies

- **Nongovernmental Organizations (NGOs):** organizations not affiliated with governments, i.e. environmental groups, human rights groups, consumer activists
 - Pushed back against globalization

Pendulum View



Source: dreamstime.com, wpclipart.com, netanimations.net

Pendulum View

Pendulum swinging back toward growth again

- Mid 2000s more than half of GDP growth came from emerging economies – developing countries
 - Per capita GDP growth was 4.6%
 - Only 2% for industrialized
 - BRIC – Brazil, Russia, India, and China

Recent recession opened debate on value of interdependence

- Concerns about financial spillovers
- Regulations to insulate financial sectors

Pendulum View



Current State of Globalization



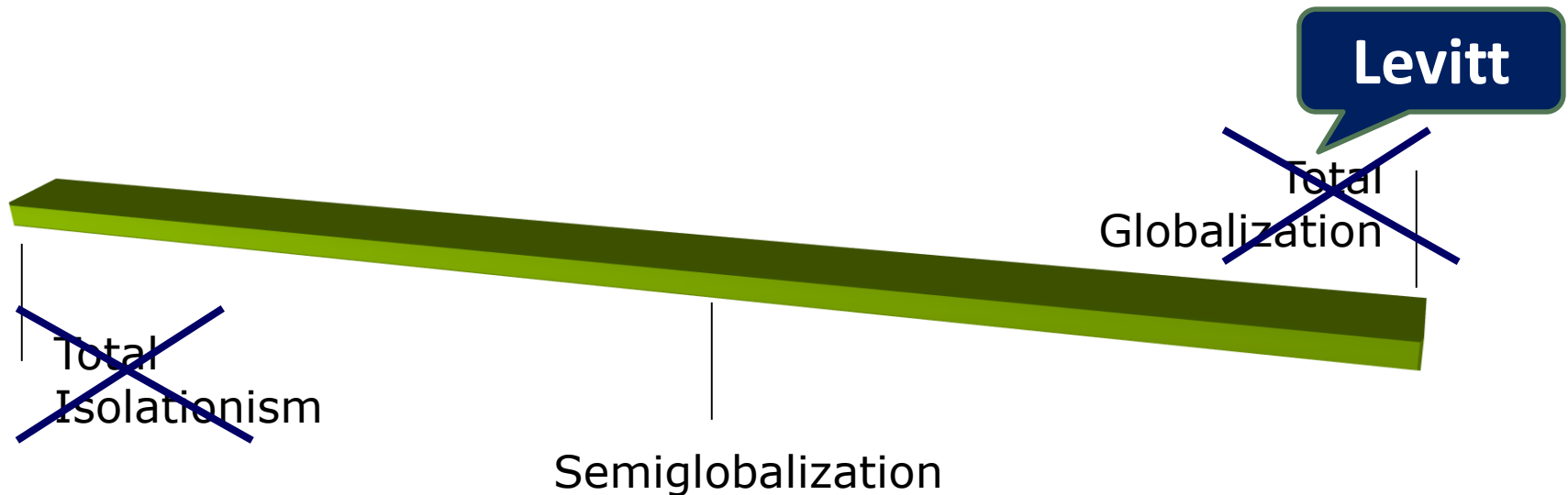
Total Globalization

Theodore Levitt, 1983 HBR

- “A powerful force is merging the world into a converging common marketplace. The result is a new commercial marketplace for standardized products and customized differences in demand.”

SEMIGLOBALIZATION

- **Semiglobalization** - Suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other



Crossroads

Pendulum instead of one way march

- Tension between globalization and localization

Backlash and skepticism

- Highlights Liability of foreignness
- Terrorism now leading concern
- Curtailed immigration
- Financial regulation and isolation

Challenge for you: managing complex issues surrounding benefits and costs of globalization.

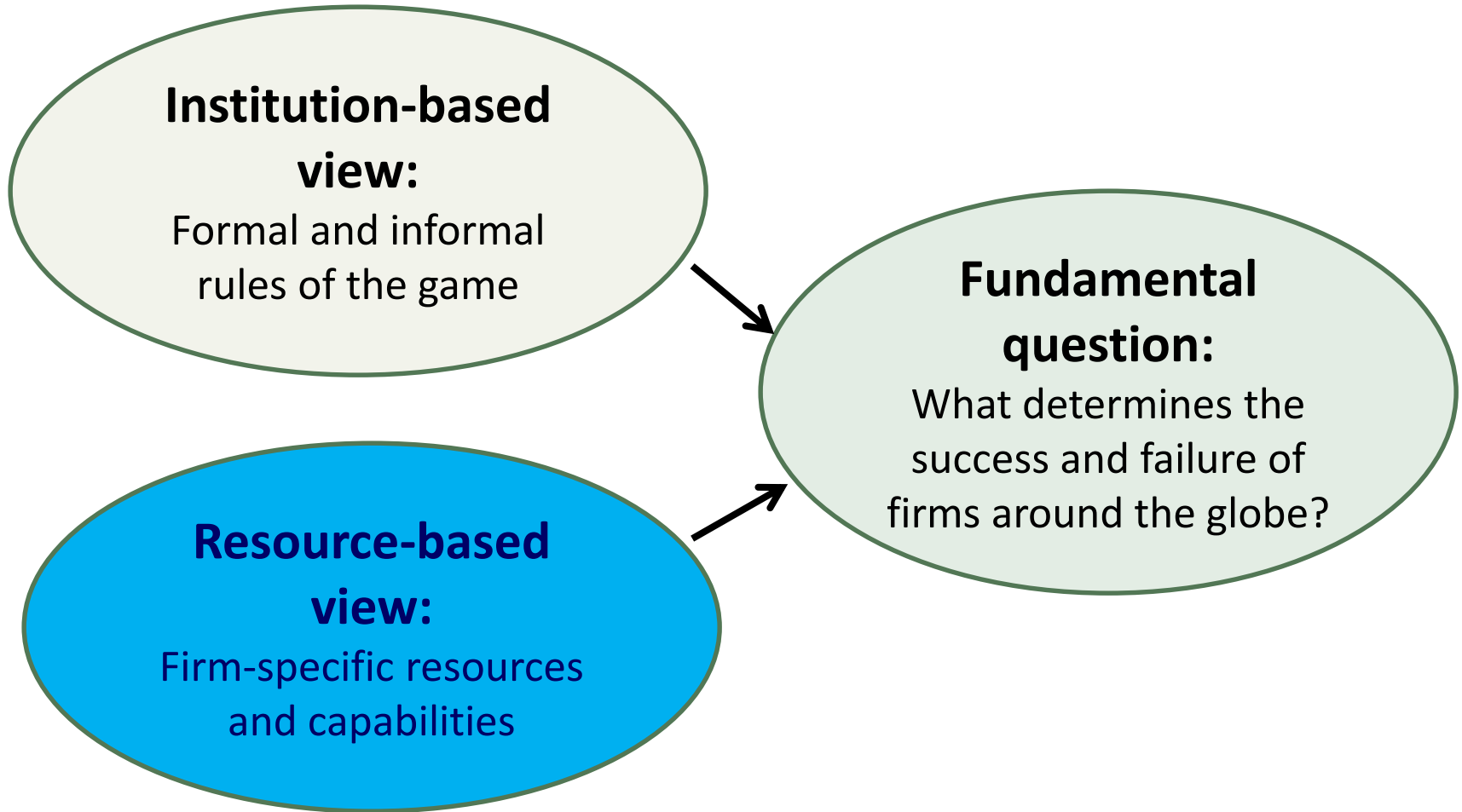
Fundamental Question

Fundamental question, what determines the success and failure of firms around the globe?

Two Perspectives:

- Institution-based view
- Resource-based view

THE FUNDAMENTAL QUESTION



Institution-Based View

Success of firms is enabled (or constrained) by formal and informal institutions (or rules).

Institutions - structures that define the rules of competition in various countries

- **Formal institutions** include laws and regulations. i.e. laws regarding foreign investment
- **Informal institutions** include cultures, ethics and norms, and are informal rules of the game, not established by laws i.e. attitudes toward work or entrepreneurship

Resource-Based View

Competitive advantage must be greater than **liability of foreignness** – the inherent disadvantage that foreign firms experience in host countries because of their non-native status.

- i.e. differences in cultures, regulations, and norms

Firms possess certain unique, firm-specific resources and capabilities that are not shared by its competitors in the same environments.