

## **Instructor Manual**

# **Chapter 1: Globalizing Business**

## **Introduction to the Topic**

### ***Learning Objectives***

1. Explain the concepts of international business (IB)
2. Articulate what you hope to learn by reading this book and taking this course
3. Identify one fundamental question and two core perspectives that provide a framework for this field
4. Summarise some basic trends in the global economy,
5. Participate in the debate on globalisation with a reasonably balance and realistic view
6. Draw implications for action by integrating global and local knowledge

### ***General Teaching Suggestions***

This chapter is essentially about motivating students engage with the complex topic of international business, to point to the complexities and challenges – as well as to the opportunities that arise for those who can engage in business beyond their national borders. It initiates many of the core themes that run through the book: one core question – two theoretical perspectives (resource- and institution-based); the importance of emerging economies – and of Europe; and the debates around globalization.

The most suitable starting point to engage in this topic depends on the nature and experience of the students in your class. I usually start with asking students to introduce themselves, and their international experience in particular. In larger classes, I ask questions that students reply to by show of hands. For example, in my most recent MBA class, I asked, “how many of you have work experience in a country other than where you grew up”, and 1/3 raised their hands. The more you know your students, the better you can draw on their experience – in business, or in living in different countries – to make various topics and cases throughout the book become alive.

### ***Opening Case Discussion Guide***

The opening case about **adidas**’s supply chain is about coming to terms with the complexity of international business. Focusing on one company that many students will be familiar with, the case illustrates the global nature of a) their customer base, b) their supplier network, c)

their operations, and, as a consequence, d) the stakeholders taking an interest in their activities, and thus creating pressures for ‘socially responsible’ business. These themes will take taken up at various places throughout this course.

To get a discussion going, you may ask your students how many would choose adidas as a brand for their shoes or clothing, and why? What capabilities does adidas need to build this global network? This discussion will lead into a discussion on what adidas takes to succeed in international business (including sales rep, production and value chain) – and hence what your students would want to get out of this class.

## **Chapter Outline, Section by Section**

### ***Section 1: European and Global Business***

#### *Key Ideas*

This short section tries to summarize what this book is about, and how it is different from other textbooks – notably its focus on a) Europe and b) emerging economies. The importance of intra-European trade, and of emerging economies within the global economy, are illustrated by data in Figure 1.1 and 1.2.

#### *Key Concepts*

Note that the concepts GDP, PPP, GNP, GNI are explained in ‘In Focus 1.1’. Students who have taken a solid macroeconomic class before should be familiar with them, but usually it is worthwhile reviewing them.

#### **international business (IB)**

(1) A business (firm) that engages in international (cross-border) economic activities and/or (2) the action of doing business abroad.

#### **multinational enterprise (MNE)**

A firm that engages in foreign direct investments and operates in multiple countries.

#### **foreign direct investment (FDI)**

Investments in, controlling, and managing value-added activities in other countries.

#### **emerging economies (emerging markets)**

Economies that only recently established institutional frameworks that facilitate international trade and investment, typically with low or middle level income and above average economic growth

**gross domestic product (GDP)**

The sum of value added by resident firms, households, and governments operating in an economy.

**purchasing power parity (PPP)**

A conversion that determines the equivalent amount of goods and services different currencies can purchase. This conversion is usually used to capture the differences in cost of living in different countries.

**gross national product (GNP)**

Gross domestic product plus income from non-resident sources abroad.

**gross national income (GNI)**

GDP plus income from non-resident sources abroad. GNI is the term used by the World Bank and other international organizations to supersede the term GNP.

***Section 2: Why study International Business?******Key Ideas***

This section emphasizes the career opportunities that open up to students capable of engaging in international business. As an anecdote, this is a place where I changed the message from the American text – rather than great opportunities in distant countries, in Europe you can't get away from international business if you want to engage in any business of a decent size.

***Key Concepts*****expatriate assignment**

A temporary job abroad with a multinational company

***Section 3: A Unified Framework******Key Ideas***

The unified framework introduced in this section – see Figure 1.3 – provides a simple structure that ties the various chapters together. While it may be very simple, I suggest you spend a few minutes on explaining it because it helps students seeing the common themes running through the book: One question 'what determined the success of failure of firms around the globe; Two core perspectives: an institution-based view (formal and informal rules of the game) and a resource-based view (firm-specific resources and capabilities)

### *Key Concepts*

Most concepts relating to the two views are formally introduced in chapters 2, 3, and 4. Here we introduce only one concept which may instructors also will find new. You may be more familiar ‘liability of foreignness’ from Johansen and Vahlne (1977). Yet, we have decided to move forward and adopt the new broader concept from their 2009 paper (also see Fig 1.4):

#### **liability of outsidership**

the *inherent* disadvantage that outsiders experience in a new environment because of their lack of familiarity

### ***Section 4: Understanding Globalization***

#### *Key Ideas*

This section introduces the notion of **globalization** and what different people associate with the word. On this basis, you may then discuss how best to define the word ‘globalization’ – for which we propose a definition by Mauro Guillen.

Another important discussion in this section concerns the **historical context**. A common fallacy of globalization debates is to suggest that everything is new. Some things are new, other aren’t. Students tend to find it difficult to see their own life experience in a historical context – the benefit of being young. So, instructors talking from experience help setting things into perspective. In the classroom, I often find it helpful to confront students with historical maps obtained from the internet that illustrate a very different structure of the global economy. In line with In Focus 1.2, this map may depict the world economy of the year 1900.

Alternatively, I also find it very instructive to present a map of Zheng He’s journeys in the early 1400 – well before Christopher Columbus ‘discovered’ America some 70 years later using a much smaller ship, the Santa Maria.

The other relatively new theme in globalization is the rise of emerging economies, which raises issues from the ‘bottom of the pyramid’ (Figure 1.5) to ‘new patterns of global innovation’ (In Focus 1.3). You can extend the discussion on GE and its innovations in India by playing a video interview of Prof Vijai Govindarayan with the The Economist in which he mentions GE as leading example:

<http://www.facebook.com/video/video.php?v=453101145816&ref=mf>. The interview also discusses barriers to innovation in large firms, which relates to chapter 15. This video provides a good starting point to discuss the case in class!

### *Key Concepts*

**globalization**

A process leading to greater interdependence and mutual awareness among economic, political and social units in the world, and among actors in general

**liberalization**

The removal of regulatory restrictions on business

**waves of globalization**

The pattern of globalization arising from a combination of long-term trends and pendulum swings

**Triad**

Three regions of developed economies (North America, Western Europe, and Japan).

**BRIC**

Brazil, Russia, India and China.

**base of the pyramid**

The vast majority of humanity, about four billion people, who make less than \$2,000 a year.

***Section 5: A Glance at the Global Economy******Key Ideas***

The main purpose of this section is to introduce a few ‘big names’ in terms of both countries and companies. These are the big players in the global economy, and what they do or say matters. Instructors could quiz students on various items in these tables to challenge their curiosity.

Moreover, you should set your (the students’) own country into perspective of other countries. One instructive exercise is to compare the size of your own country (by population or by GDP) to Chinese provinces or Indian states. I am writing these notes in Shanghai, a city of 23 to 27 million inhabitants – that is more than Romania or Australia.

Data to make such a comparison for classroom use can be found on Wikipedia:

- [https://en.wikipedia.org/wiki/Provinces\\_of\\_China](https://en.wikipedia.org/wiki/Provinces_of_China)
- [https://en.wikipedia.org/wiki/States\\_and\\_union\\_territories\\_of\\_India](https://en.wikipedia.org/wiki/States_and_union_territories_of_India)
- [https://en.wikipedia.org/wiki/List\\_of\\_countries\\_and\\_dependencies\\_by\\_population](https://en.wikipedia.org/wiki/List_of_countries_and_dependencies_by_population)

Here is a trivia question to get students to consult their maps: How many Chinese Provinces / Indian States / EU member states have more than 90 million inhabitants? Answer: three (Guandong, Shandong and Henan)/ four (Uttar Pradesh, Maharashtra, Bihar & West Bengal) / none (Germany only has 81 million people, Russia has 146 million but is not in the EU).

### *Key Concepts*

None.

## ***Section 6: Implications for Practice***

### *Key Ideas*

This is the first ‘implications for practice’ section that you will find at the end of each chapter. These challenge students to think beyond the material presented in the chapter, and consider its applications to their personal experience and their careers.

Key themes in this section are the challenges created by globalization, and the biases that students are likely to have – or how their own views may not be representation of society more generally.

### *Key Concepts*

#### **Ethnocentric perspective**

A view of the world through the lens of one’s own culture.

#### **Not-invented-here syndrome**

The tendency to distrust new ideas coming from outside of one’s own organisation of community.

#### **Cosmopolitans**

The people embracing cultural diversity and the opportunities of globalization

## **Review Questions**

Review questions are provided to students on the website accompanying the book. They directly ask to summarize the material provided in the text. Instructors may also use the questions to structure their lectures or review sessions.

Normally, there are 15 questions. However, for chapter 1 – given its breadth, I have provided a few more.

<b>Review Questions (as provided to students on the website)</b>	<b>Material in the Book</b>
1. What do we call a firm that is engaged in foreign direct investment?	Page 5
2. What is international business?	Page 5
3. Explain why businesses in Europe need to engage with both European integration and with the global economy outside Europe!	Page 5-6
4. Explain the difference between GDP and GNP!	In Focus 1.1
5. Why do some organizations report GDP data by 'Purchasing Power Parity' (PPP) rather than market exchange rates?	In Focus 1.1
6. What are the attractions of an expatriate assignment?	Page 7-8
7. How can international business become highly relevant for employees working in purely domestic firms?	Page 7-8
8. What is the overarching question in the field of international business?	Page 9-10
9. What is the main focus of the institution-based view of international business?	Page 10
10. What is the main focus of the resource-based view of international business?	Page 10-11
11. Explain the concept of liability of outsidership!	Page 11 and Fig 1.4
12. Name four simplifying views on globalizations!	Page 14-15
13. How do we define globalization in this book?	Page 13
14. Why was 19 <sup>th</sup> century liberalization important for the acceleration of globalization?	Page 14 and 15 (In Focus 1.2)
15. Why did British Historian Geoff Jones describe the 19 <sup>th</sup> and 20 <sup>th</sup> century as two waves of globalization?	Page 14
16. How was the global economy in 1900 different from the global economy in 2010? How about the global economy in 1950?	Page 13-15
17. Why did globalization gather speed in the 1990s?	In Focus 1.2
18. Why is understanding emerging economies important for European businesses?	Page 16-17
19. Explain the concept of 'base of the pyramid'?	Page 17, esp. Figure 1.5
20. Does the financial crisis of 2008/09 mark the end of globalization?	Page 18
21. Name the largest country by GDP, by population, and by stock of outward FDI!	Table 1.2, Page 19
22. Name some of the largest companies in the world!	Table 1.3, Page 20
23. Which country has experienced the largest increase in companies listed in the "Fortune 500"?	Table 1.4, Page 22
24. Why do cosmopolitans tend to have different views about globalization than people who spend all their life in the same town?	Page 24
25. Explain why universalists and exceptionalists are likely to fail in global business	Page 22-24

### **Critical Discussion Questions**

At the end the chapter, we provide discussion questions that aim to stimulate students thinking beyond memorizing the material learned in the chapter. They are designed to be

used at a basis for in-class discussions, group work, or individual assignments. Below, I provide some indicative answers of issues that may be raised in response to these questions.

Discussion Questions (as provided in the book)	Indicative Responses
<ol style="list-style-type: none"> <li>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 she should care about it?</li> <li>2. A classmate says: “The world economy has changed so much; all those textbooks and historical cases don’t really help me in the 21<sup>st</sup> century”. How do you convince him that he should care about lessons from the past?</li> <li>3. 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 drawbacks (such as job losses in developed economies)?</li> <li>4. Some argue that aggressively investing in emerging economies is not only economically beneficial but also highly ethical because it may potentially lift many people out of poverty (see Closing Case). However, others caution that in the absence of reasonable hopes of decent profits, rushing to emerging economies is reckless. How would you participate in this</li> </ol>	<ol style="list-style-type: none"> <li>1. A powerful way to address this question is to explore the day-to-day work of any individual working company above the very basic level. What is it you direct boss is doing day in, day out? Quickly they will find out how many international interaction are involved.</li> <li>2. The most obvious (but not the only) way to address this question is to point to the economic crisis of 2008. Many of its root causes were similar to those of 1929 – yet the lessons from that time had been lost. A general – mistaken – belief that the world economy is essentially stable contributed to the crisis. History is important to avoid making the same mistakes again (or at least reducing the costs).</li> <li>3. The darker sides include increased concentration of power, both economically and politically, beyond the national level, and increased inequality within developed economies. Businesses can engage in socially responsible actions (see Chapter 9) to soften the impact, and to work with stakeholders to ensure ‘fair’ distribution of the gains of globalization – for instance by offering training.</li> <li>4. Many views may be taken on this question. Personally, I think the second argument is nonsense because returns in emerging economies are often high – even though (or because) they are associated with high risks. Moreover, ignoring emerging economies risks that new</li> </ol>



debate?	competitors emerge that the companies fails to anticipate.
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### Closing Case

The closing case provides further opportunities to apply ideas and concepts learned in this chapter in a real world setting. The Closing Case for this Chapter is “**Coca-Cola Dives into Africa**” and focuses on product development in view of markets in emerging economies. Below are some indicative responses to the case discussion questions.

Case Discussion Questions (as provided in the book)	Indicative Responses
<ol style="list-style-type: none"> <li>1. Do you believe Africa countries are attractive markets for western consumer goods such as Coca-Cola?</li> <li>2. What are the challenges that Coca-Cola is likely to face to grow its business in Africa?</li> <li>3. 3. what ethical questions is Coca-Cola likely to face when pushing in to Africa</li> </ol>	<ol style="list-style-type: none"> <li>1. Western consumer goods manufactures are attracted by emerging markets with large markets (i.e. consumers in the relevant income brackets), and high market growth, but always also considering the investment risks.</li> <li>2. Students may give a long list of challenges: war, poverty, poor infrastructure, unstable political situation... all these challenges inhibit distribution and marketing in Africa, particularly remote regions.</li> <li>3. Coca-Cola’s market strategy has been under criticism from depleting fresh water, encouraging expensive, environmentally harmful refrigeration and hurting local competitors. Some may argue that Coca Cola is helping Africa by creating value for consumers and stable local jobs, and is used as scapegoat for the side effects of economic advancement. Others may identify ways to achieve rising living standards and stable employment with Coca Cola.</li> </ol>

### Further Learning Activities

In addition to the cases and discussion questions provided in the book, instructors may want to use any of the following activities to further engage students with the material.

1. The Integrative Case “**Xiaomi Challenges Global Leaders**” has been written specially to discuss the fast-paced development of firms in emerging economies (which likely will surprise many students in Europe), and thus the rapidly evolving role of emerging economies in the global economy (Chapter 1). The case also leads into a discussion of the early stages of internationalization (Chapter 11).
2. The integrative case “**Fan Milk in West Africa**” has been designed primarily to discuss different stages of entrepreneurial growth (Chapters 11, 12, 14): from an entrepreneurial start-up by a Danish entrepreneur to a regional multinational expanding to Nigeria and other West African countries, and eventually to a subsidiary of French MNEs Danone who acquired Fan Milk. It can also be used in conjunction with the Closing Case ‘Coca Cola Dives into Africa’ to discuss the evolution of business opportunities in Africa (Chapter 1).
3. A very useful assignment to raise the awareness of the complexity of the global economy, and its interdependence, is to discuss **the performance of your national economy** (where you are teaching) **relative to others in Europe/worldwide at this time in history**.  
A useful starting point for this may be any of a series of articles in publications such as *The Economist* or the *Financial Times*. In introducing the topic, however, it will be important to note that at different times over the past decades, different countries have been leading economically. Newspaper reports tend to take short-term snapshots that miss the historical dimension. For example, in the 1990s, Germany was seen as Europe’s laggard.
4. **The two papers by the two authors** of the book that are provided in the further readings provide two different views about the essence of international business. Both views have influenced the writing of this book. Assigning these two papers as a pair with assignment questions such as ‘*how do the authors define the scope of the subject?*’ What do you suggest should be the scope of the subject? provides ample opportunity to discuss the contents of this class.
5. An 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. Be sure to discuss the sample surveyed to provide the appropriate frame of reference for discussion.  
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, click on the Download the PDF link (found in the middle). Then, scroll to page 11 of the report where Figure 9 provides an overview of the most important challenges to the sustainability of the global economic order over the next 20 years. The three most important challenges

are: 1) global competition for scarce energy reserves; 2) climate change; and 3) global competition for scarce nature resources (excluding energy). The respondents surveyed included senior executives of the world's leading corporations. Responses from C-level executives as well as regional and business heads were included in the report.

**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

### Further Readings

At the end the chapter, suggested further readings are provided. The primary aim is to provide students a starting point for further work, for example when preparing a class assignment or dissertation. These references also are recommended for instructors not familiar with the topic and wishing to 'get ahead of the students' before lecturing on a topic.

**J.N. Bhagwati, 2004, In Defence of Globalization, Oxford: Oxford University Press** – An esteemed

economist outlines the benefits of globalization, and how they can be made even better.

**P. Dicken, 2007, Global Shift: Mapping the Changing Contours of the World Economy, 5th ed., London:**

**Sage** – a thorough analysis of the economic trends of globalization in a variety of industries.

**K.E. Meyer, 2004, Perspectives on multinational enterprises in emerging economies, *JIBS* 34: 259-277** –

outlines an agenda for IB scholars looking beyond the firm to its wider impact on society.

**K.E. Meyer, 2011, *What is and to what purpose do we study international business? AIB Insights***

13(1): 10-13 - an essay reflecting while IB is an important field for study and research.

**M.W. Peng, 2004, Identifying the big question in international business research, *JIBS*, 35: 99-108** –

outlines an agenda for IB scholars focused on the performance of firms in the global economy.

**T. Piketty, 2014, *Capital in the Twenty-First Century*, Cambridge, MA: Harvard University Press**

– a much discussed book offering a lot of data to support the argument that globalization causes increased inequality within countries.