

# STUDY GUIDE

## 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.

#### Chapter Outline: Key Concepts and Terms

##### 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** is part of the view of the global economy as a pyramid. The vast majority of humanity, about four billion people, lives at the base of this pyramid making less than \$2,000 a year.

**BRIC** stands for Brazil, Russia, India, and China.

**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, control, and management of 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) activities covered by traditional IB books and (2) domestic business activities.

**Gross domestic product (GDP)** A nation's total output of goods and services.

**Gross national product (GNP)** GDP plus income from nonresident sources abroad.

**Gross National Income** 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**—an innovation that is adopted first in emerging economies and then diffused around the world.

**Triad** refers to the developed economies in the three regions that consist of 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):** A manager who works abroad, or “expat” in short.

**Group of 20 (G-20):** 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:** Managers who work abroad (expats) often command 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 structures that define the rules of the game.

**Institutional framework** is the formal and informal institutions that govern individual and firm behavior in a country.

**Liability of foreignness** is the *inherent* disadvantage that foreign firms experience in host countries because of their nonnative status.

### 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*

**BRIC** is a newly coined acronym for Brazil, Russia, India, and China.

**Globalization** can be viewed as a new force sweeping through the world in recent times, a long-run historical evolution since the dawn of human history, and a pendulum that swings from one extreme to another from time to time. The last (pendulum) view suggests that globalization is the “closer integration of the countries and peoples of the world which has

been brought about by the enormous reduction of the costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders.”

**Risk management:** The identification and assessment of risk and the preparation to minimize the impact of high-risk unfortunate events.

**Scenario planning:** Planning for multiple high or low risk scenarios.

**Semiglobalization** avoids total isolation and total globalization and calls for more than one-way for doing business around the globe.

## V. GLOBAL BUSINESS AND GLOBALIZATION AT A CROSSROADS

### 1. *Key Concept*

MNEs, especially large ones from developed economies, are sizable economic entities. Current and future business leaders need to be aware of their own hidden proglobalization bias.

### 2. *Key Term*

**Nongovernment organization (NGO)** is a term that includes environmentalists, human rights activists, and consumer groups.