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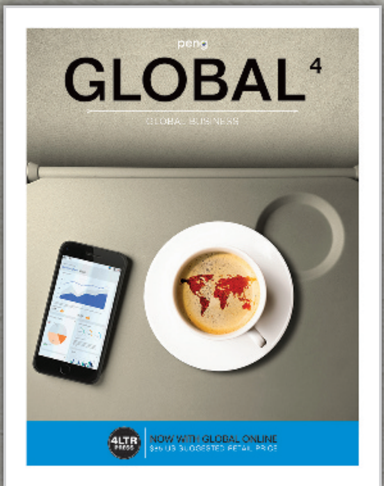

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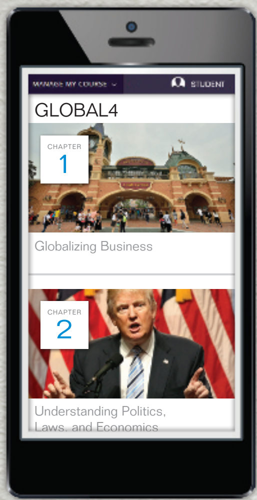

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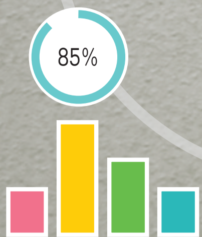

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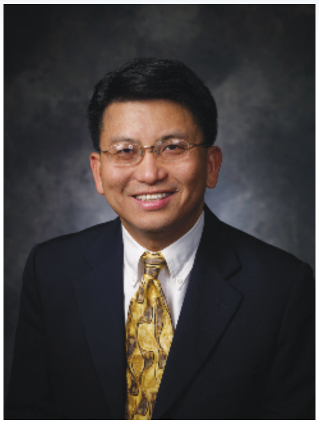

COURTESY OF MIKE PENG

Mike W. Peng is the Jindal Chair of Global Business Strategy at the Jindal School of Management, University of Texas at Dallas. He is also a National Science Foundation (NSF) CAREER Award winner and a Fellow of the Academy of International Business (AIB). At UT Dallas, he has been the number-one contributor to the list of 50 top journals tracked by *Financial Times*, which has consistently ranked UT Dallas as a top 20 school in research worldwide.

Professor Peng holds a bachelor's degree from Winona State University, Minnesota, and a PhD from the University of Washington, Seattle. He had previously served on the faculty at the Ohio State University, University of Hawaii, and Chinese University of Hong Kong. He has taught in five states in the United States (Hawaii, Ohio, Tennessee, Texas, and Washington), as well as in China, Hong Kong, and Vietnam. He has also held visiting or courtesy appointments in Australia, Britain, China, Denmark, Hong Kong, and the United States, and lectured around the world.

Professor Peng is one of the most-prolific and most-influential scholars in international business (IB). Both the United Nations and the World Bank have cited his work. During the decade 1996–2006, he was the top seven contributor to IB's number-one premier outlet: *Journal of International Business Studies*. In 2015, he received the *Journal of International Business Studies* Decade Award. A *Journal of Management* article found him to be among the top 65 most widely cited management scholars, and an *Academy of Management Perspectives* study reported that he is the fourth-most-influential management scholar among professors who have obtained their PhD since 1991. Overall, Professor Peng has published more than 140 articles in leading journals and five books. Since the launch of *GLOBAL*, he has not only published in top IB journals, such as the *Academy of Management Journal, Journal of International Business Studies, Journal of World Business*, and *Strategic Management Journal*, but also in leading outlets in entrepreneurship (*Entrepreneurship Theory and Practice*), ethics (*Journal of Business Ethics*), human resources (*International Journal of Human Resource Management*), and engineering management (*IEEE Transactions on Engineering Management*).

Used in more than 30 countries, Professor Peng's best-selling textbooks, *Global Business, Global Strategy,* and *GLOBAL*, are global market leaders that have been translated into Chinese, Portuguese, and Spanish. A European adaptation (with Klaus Meyer) and an Indian adaptation (with Deepak Srivastava) have been successfully launched.

Truly global in scope, Professor Peng's research has investigated firm strategies in Africa, Asia Pacific, Europe, and North America. He is best known for his development of the institution-based view of strategy and his insights about the rise of emerging economies such as China in global business. With more than 29,000 Google citations and an H-index of 69, he is listed among *The World's Most Influential Scientific Minds* (compiled by Thomson Reuters based on citations covering 21 fields)—in the field of economics and business, he is one of the only 70 world-class scholars listed and the *only* IB textbook author listed.

Professor Peng is active in leadership positions. He has served on the editorial boards of the *AMJ, AMP, AMR, JIBS, JMS, JWB,* and *SMJ;* and guest-edited a special issue for the *JMS*. At AIB, he co-chaired the AIB/*JIBS* Frontiers Conference in San Diego (2006), guest-edited a *JIBS* special issue (2010), chaired the Emerging and Transition Economies track for the Nagoya conference (2011), and chaired the Richard Farmer Best Dissertation Award Committee for the Washington conference (2012). At the Strategic Management Society (SMS), he was elected to be the Global Strategy Interest Group Chair (2008). He also co-chaired the SMS Special Conferences in Shanghai (2007) and in Sydney (2014). He served one term as Editor-in-Chief of the *Asia Pacific Journal of Management*. He managed the successful bid to enter the Social Sciences Citation Index (SSCI), which reported *APJM*'s first citation impact to be 3.4 and rated it as the top 18 among 140 management journals (by citation impact factor) for 2010. In recognition of his significant contributions, *APJM* has named its best paper award the Mike Peng Best Paper Award. Currently, he is a Consulting Editor at *APJM*.

Professor Peng is also an active consultant, trainer, and keynote speaker. He has provided on-the-job training to more than 400 professors. He has consulted and been a keynote speaker for multinational enterprises (such as AstraZeneca, Berlitz, Mass Transit Railway Hong Kong, Nationwide, SAFRAN, and Texas Instruments), nonprofit organizations (such as World Affairs Council of Dallas-Fort Worth), educational and funding organizations (such as Canada Research Chair, Harvard Kennedy School of Government, US National Science Foundation, and Natural Science Foundation of China), and national and international organizations (such as the UK Government Office for Science, US-China Business Council, US Navy, and The World Bank).

Professor Peng has received numerous honors, including an NSF CAREER Grant ($423,000), a US Small Business Administration Best Paper Award, a (lifetime) Distinguished Scholar Award from the Southwestern Academy of Management, a (lifetime) Scholarly Contribution Award from the International Association for Chinese Management Research (IACMR), and a Best Paper Award named after him. He has been quoted by *The Economist, Newsweek, Dallas Morning News, Texas CEO Magazine, Smart Business Dallas, Atlanta Journal-Constitution, The Exporter Magazine, The World Journal, Business Times* (Singapore), CEO-CIO (Beijing), *Sing Tao Daily* (Vancouver), and *Brasil Econômico* (São Paulo), as well as on the Voice of America.

MIKE W. PENG

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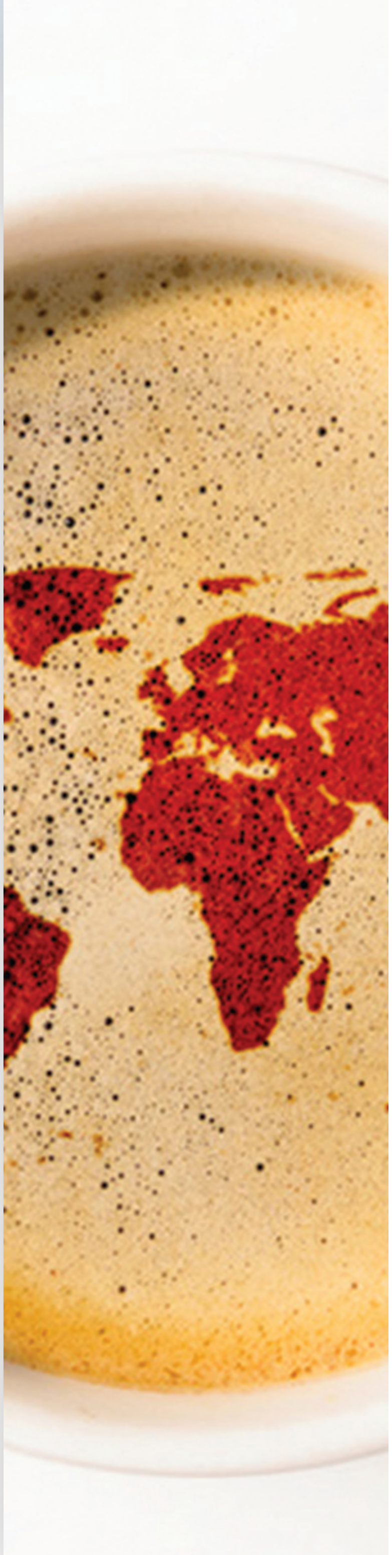
BRIEF CONTENTS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PART 1

1 Globalizing Business

LEARNING OBJECTIVES

After studying this chapter, you will be able to . . .

1-1 Explain the concepts of international business and global business.

1-2 Give three reasons why it is important to study global business.

1-3 Articulate the fundamental question that the study of global business seeks to answer and the two perspectives from which to answer it.

1-4 Identify three ways of understanding what globalization is.

1-5 Appreciate the size of the global economy and the strengths of multinationals.

1-6 Understand the organization of this book.

After you finish this chapter, go to PAGE 18 for STUDY TOOLS

EMERGING MARKETS/ETHICAL DILEMMA

Opening Case: Shanghai Disneyland

On June 16, 2016, the world's biggest Disneyland opened in Shanghai with a great deal of fanfare. It features a supersize castle that is 200-feet tall. In comparison, the height for similar castles in Anaheim, California, and Orlando, Florida, is 77 feet and 180 feet, respectively. Approximately 80% of the Shanghai rides, such as the Tron Lightcycle Roller Coaster, are unique. Chinese elements are extensively found. The flagship restaurant, the Wandering Moon Teahouse, has sections representing different regions of China. Some old staples found in other Disney parks, such as Main Street USA, Jungle Cruise, and Space Mountain, have been banished—in fear of criticisms for cultural imperialism. "Authentically Disney and distinctly Chinese" is an interesting tagline coined by Robert Iger, chairman and CEO of The Walt Disney Company ("Disney" hereafter). More than 330 million people live within a three-hour drive or train ride. Disney is eager to turn them into lifelong customers not only for the $5.5 billion theme park, but also for movies, games, toys, clothes, books, TV programs, cruises, and resorts.

Mickey's journey to the Middle Kingdom has been a tortuous one. The two-decade courtship started in the late 1990s, when Jiang Zemin was president of China and Michael Eisner chairman and CEO of Disney. At that time, Disney was starting to have some success in China, with its cartoon series aired on Sunday evenings by major TV stations. Then Disney launched a movie about the exiled Tibetan spiritual leader the Dalai Lama, *Kundun*, which attracted the wrath of the Chinese government. "All of our business in China stopped overnight," Eisner recalled. Out of desperation, Disney hired as a consultant former Secretary of State Henry Kissinger, who spearheaded American efforts to establish diplomatic ties with China in the 1970s and was regarded as a trustworthy friend by the Chinese. The Chinese government only agreed to reopen China after intense lobbying by Kissinger and humiliating apologies by Eisner, who admitted *Kundun* was "a stupid mistake" in meetings with Chinese officials. Financially, *Kundun* was indeed a stupid mistake. It burned through a $30 million budget to reap only $5 million box office receipts.

Eisner then introduced Iger, Disney's international president at that time, to be in charge of negotiations for a theme park. The negotiations were slow and painful. Looking back, Iger, who succeeded Eisner as CEO in 2005 and as chairman in 2012, recalled in a *New York Times* interview that he had "engaged with three [Chinese] presidents, a few premiers, a number of vice premiers, a number of [Communist] Party secretaries, and five or six mayors of Shanghai."

By 2009, the Chinese government finally gave its blessing, but only after Disney agreed to be a *minority* partner. Disney took a 43% stake in the Shanghai Disney Resort. Shanghai Disney Resort would not only include the flagship Shanghai Disneyland, but also two additional theme parks, two themed hotels, shopping malls, and entertainment facilities—when completed it would be three times the size of Hong Kong Disneyland. Disney's joint venture (JV) partner, the state-owned Shanghai Shendi Group controlled by the Shanghai government, owned a 57% stake. In the management company that actually ran the property, Disney gave up a 30% piece. In comparison, the Hong Kong government gave a 48% share to Disney for the JV that owned Hong Kong Disneyland, and the government itself took 52%. Disney gave up no management control in Hong Kong.

Why was Disney so eager to go to China? Although China's pull in terms of market size and potential is obvious, Disney is also pushed by its lackluster performance in other areas such as cable, movies, and some of its other theme parks. In April 2011, Shanghai Disneyland broke ground, with Iger and Chinese officials scooping up loose dirt, Mickey and Minnie Mouse frolicking in Chinese costumes, and a children's choir singing *When You Wish Upon a Star*—in Mandarin. Despite such hoopla, there was no guarantee that Disney's high-profile entry would be profitable. Exhibit A: Disneyland Paris, which opened in 1992, is still struggling to reach profitability.

For Shanghai Disneyland, the attention to detail was meticulous. In addition to the tremendous efforts to showcase local responsiveness, with 80% of the rides being uniquely tailored to local interests, Iger also pre-tasted the food (such as Donald Duck-shaped waffles) and decided which characters would appear in the parade. When first unveiled in March 2016, Shanghai Disneyland's website registered 5 million hits within 30 minutes. The first two weeks of tickets sold out in hours.

Yet as Shanghai Disneyland celebrated its first Chinese New Year in January 2017, disappointing news came. In its first six months ending on December 31, 2016, 5.6 million guests came. Although impressive, these numbers fell *far* short of rosy initial projections of an estimated 15 million visitors for the first year. If attendance continued at its current pace, then the first full-year result would barely reach over 10 million. In the Disney universe, 10 million visitors in the first year would not be too bad, as Hong Kong only attracted seven million in 2015—its 11th year. In comparison, in 2015, Tokyo reported 17 million; Anaheim 18 million; and Orlando 19 million. Although these sister parks are a lot more established, Shanghai Disneyland clearly has a long way to go. As the Magic Kingdom embarks on its residence in the Middle Kingdom, one thing is clear: this China business is not going to be Mickey Mousy.

Sources: "Disney gets a second chance in China," *Bloomberg Businessweek*, 18 April 2011: 21–22; "Middle Kingdom v Magic Kingdom," *Guardian*, 15 June 2016: www.theguardian.com; "How China won the keys to Disney's Magic Kingdom," *New York Times*, 14 June 2016: www.nytimes.com; M. W. Peng, "Mickey goes to Shanghai," in *Global Business*, 4th ed. (Boston: Cengage, 2017) 339–340; "Shanghai Disneyland welcomes 5.6 million visitors in first six months, is kind of a disappointment," *Shanghaiist*, 17 January 2017: www.shanghaiist.com.

How do firms such as Disney compete around the globe? How can competitors such as Europa Park, Happy Valley, Legoland, Lotte World, Sea World, Six Flags, Tivoli, and Universal Studios fight back? What determines the success and failure of these firms—and numerous others—around the world? This book will address these and other important questions on global business.

Ask yourself: Which country made the shirt you are wearing? Which country made the mobile device you have? Why are Airbus jets, Apple iPhones, Corona beer, Microsoft software, Starbucks coffee, and Toyota cars found in many places that you travel to? Can you join the men and women who are the real movers and shakers driving these successful firms? What are their secrets? Of course, there are numerous other firms around the world that are not so successful. How can you learn the lessons from these unsuccessful firms and avoid the mistakes made by their managers? Tackling these interesting questions, *GLOBAL 4* will be with you as you embark on your global business studies and launch your career. Enjoy the ride!

1-1 WHAT IS GLOBAL BUSINESS?

Traditionally, **international business (IB)** is defined as a business (firm) that engages in international (cross-border) economic activities. It can also refer to the action of doing business abroad. A previous generation of IB textbooks almost always takes the foreign entrant's perspective. Consequently, such books deal with issues such as how to enter foreign markets and how to select alliance partners. The most frequently discussed foreign entrant is the **multinational enterprise (MNE)**, defined as a firm that engages in **foreign direct investment (FDI)** by directly investing in, controlling, and managing value-added activities in other countries.[1] Of course, MNEs and their cross-border activities are important. But they cover only one side of IB—the foreign side. Students educated by these books often come away with the impression that the other side of IB—namely, domestic firms—does not exist. But domestic firms obviously do not just sit around in the face of foreign entrants such as MNEs. They actively compete and/or collaborate with foreign entrants.[2] In other words, focusing on the foreign entrant side captures only one side of the coin at best.

There are *two* key words in IB: international (I) and business (B). However, previous textbooks all focus on the international aspect (the foreign entrant) to the extent that the business part (which also includes domestic business) almost disappears. This is unfortunate because IB is fundamentally about B in addition to being I. To put it differently, the IB course in the undergraduate and MBA curricula at numerous business schools is probably the *only* course with the word "business" in the course title. All other courses you take are labeled management, marketing, finance, and so on, representing one functional area but not the overall picture of business. Does it matter? Of course! It means that your IB course is an *integrative* course that has the potential to provide you with an overall business perspective grounded in a global environment (as opposed to a relatively narrow functional view). Consequently, it makes sense that your textbook should give you both the I and B parts, not just the I part.

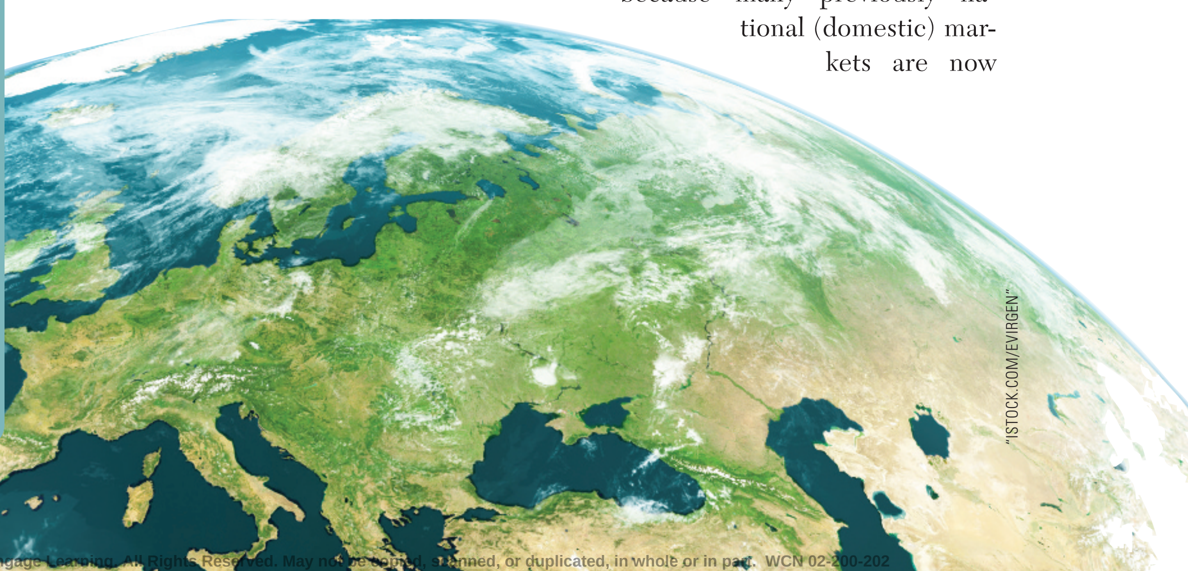
To cover both the I and B parts, **global business** is defined in this book as business around the globe—thus the title of this book: *GLOBAL*. For the B part, the activities include *both* international (cross-border) activities covered by traditional IB books and domestic (non-IB) business activities. Such deliberate blurring of the traditional boundaries separating international and domestic business is increasingly important today, because many previously national (domestic) markets are now

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

multinational enterprise (MNE) A firm that engages in foreign direct investment and operates in multiple countries.

foreign direct investment (FDI) Investment in, controlling, and managing value-added activities in other countries.

global business Business around the globe.



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globalized. For example, not long ago, competition among college business textbook publishers was primarily on a nation-by-nation basis. The Big Three—Cengage Learning (our publisher), Prentice Hall, and McGraw-Hill—primarily competed in the United States. A different set of publishers competed in other countries. As a result, textbooks studied by British students would be authored by British professors and published by British publishers; textbooks studied by Brazilian students would be authored by Brazilian professors and published by Brazilian publishers; and so on. Now Cengage (under British and Canadian ownership), Pearson Prentice Hall (under British ownership), and McGraw-Hill (under US ownership) have significantly globalized their competition, thanks to rising demand for high-quality business textbooks in English. Around the globe, they compete against each other in many markets, publishing in multiple languages. For instance, *GLOBAL* and its sister books—*Global Business*, *Global Strategy*, and *International Business* (a European adaptation)—are published by different subsidiaries in Chinese, Spanish, and Portuguese in addition to English, reaching customers in over 30 countries. Despite such worldwide spread of competition, in each market—down to each school—textbook publishers have to compete locally. In other words, no professor teaches globally, and all students study locally. This means that *GLOBAL* has to win adoption for every class every semester. Overall, it becomes difficult to tell in this competition what is international and what is domestic. Thus, "global" is a better word to capture the essence of this competition.

GLOBAL also differs from other IB books because most focus on competition in developed economies. Here, by contrast, we devote extensive space to competitive battles waged throughout **emerging economies**, a term that has gradually replaced the term "developing countries" since the 1990s. Another commonly used term is **emerging markets** (see PengAtlas Map 1). How important are emerging economies? Collectively, they command 48% of world trade, attract 60% of FDI inflows, and generate 40% FDI outflows. Overall, emerging economies contribute approximately 50% of the global **gross domestic product (GDP)**.[3] In 1990, they accounted for less than a third of a much smaller world GDP.

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Note that this percentage is adjusted for **purchasing power parity (PPP)**, which is an adjustment to reflect the differences in cost of living.

Of many emerging economies, Brazil, Russia, India, and China—commonly referred to as **BRIC**—command more attention. With South Africa, BRIC becomes **BRICS**. As a group, BRICS countries have 40% of the world's population, cover a quarter of the world's land area, and contribute more than 25% of global GDP (on a PPP basis). In addition to BRICS, other interesting terms include BRICM (BRIC + Mexico), BRICET (BRIC + Eastern Europe and Turkey), and Next Eleven (N-11—consisting of Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, and Vietnam).

Overall, the Great Transformation of the global economy is embodied by the tremendous shift in economic weight and engines of growth toward emerging economies in general and BRIC(S) in particular. Led by BRIC(S), emerging economies accomplished "the biggest economic transformation in modern economy," according to the *Economist*.[4] In China, per capita income doubled in about ten years, an achievement that took Britain 150 years and the United States 50 years as they industrialized. Throughout emerging economies, China is not alone. While groupings such as BRIC(S) and N-11 are always arbitrary, they serve a useful purpose—namely, highlighting their economic and demographic scale and trajectory that enable them to challenge developed economies in terms of weight and influence in the global economy.

Of course, the Great Transformation is not a linear story of endless and uniform high-speed growth. Most emerging economies have experienced some significant slow down recently.[5] It is possible that they may not be able to repeat their extraordinary growth sprint

emerging economy (emerging market) A developing country.

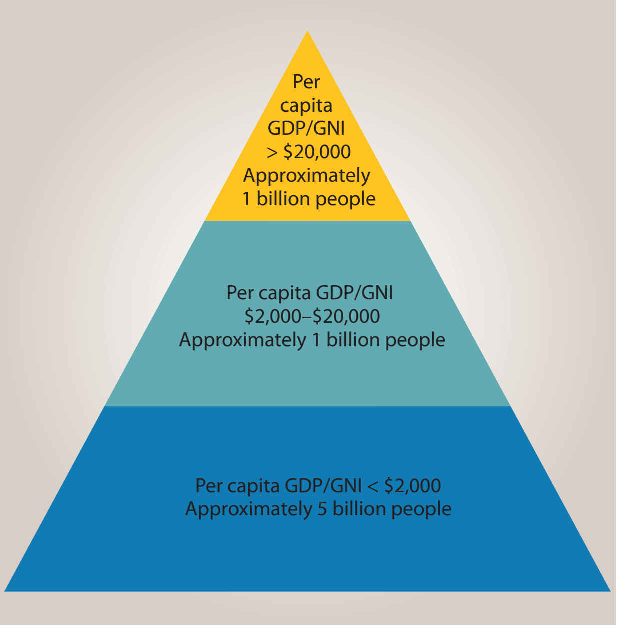
gross domestic product (GDP) The sum of value added by resident firms, households, and governments operating in an economy.

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.

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

BRICS An acronym for the emerging economies of Brazil, Russia, India, China, and South Africa.

EXHIBIT 1.1 THE GLOBAL ECONOMIC PYRAMID



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

during the decade between 1998 (the Asian economic crisis) and 2008 (the global financial crisis). For example, in 2007, Brazil accomplished an annual economic growth of 6%, Russia 8%, India 10%, and China 14%. In 2017, they would be very lucky if they could achieve half of these enviable growth rates. However, it seems that emerging economies *as a group* are destined to grow both their absolute GDP and their percentage of world GDP relative to developed economies. The debate centers on how much and how fast (or how slow) they will grow in the future (see Closing Case).

The global economy can be viewed as a pyramid shown in Exhibit 1.1. The top consists of about one billion people with per capita annual income of $20,000 or higher. These are mostly people who live in the developed economies of the **Triad**, which consists of North America, Western Europe, and Japan. Another billion people making $2,000 to $20,000 a year form the second tier. The vast majority of humanity—about five billion people—make less than $2,000 a year and comprise the **base of the pyramid (BoP)**. Most MNEs (and most traditional IB books) focus on the top and second tiers and end up ignoring the BoP. An increasing number of such low-income countries have shown increasingly more economic opportunities as income levels have risen.[6] Today's students—and tomorrow's business leaders—will ignore these opportunities in BoP markets at their own peril. This book will help ensure that you will not ignore these opportunities.

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

base of the pyramid (BoP) The vast majority of humanity, about five billion people, who make less than $2,000 a year.

expatriate manager (expat) A manager who works outside his or her native country.

1-2 WHY STUDY GLOBAL BUSINESS?

Global business (or IB) is one of the most exciting, challenging, and relevant subjects offered by business schools. There are at least three compelling reasons why you should study it—and study hard (Exhibit 1.2). First, you don't want to be a loser. Mastering global business knowledge helps advance your employability and career in an increasingly competitive global economy. An ignorant individual is unlikely to emerge as a winner in global competition.

Second, expertise in global business is often a prerequisite to join the top ranks of large firms, something many ambitious students aspire to. It is now increasingly difficult, if not impossible, to find top managers at large firms who do not possess significant global competence. Eventually you will need hands-on global experience, not merely knowledge acquired from this course. However, in order to set yourself apart as an ideal candidate to be selected for an executive position, you will need to demonstrate that you are interested in global business and have mastered such knowledge during your education. This is especially true if you are interested in gaining experience as an **expatriate manager** (or "expat" for short)—a manager who works abroad (see Chapter 13 for details).

EXHIBIT 1.2 WHY STUDY GLOBAL BUSINESS?

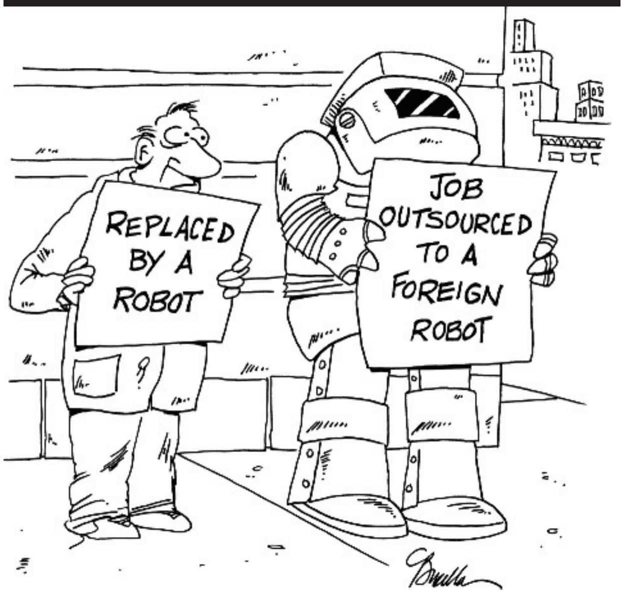
- To advance your employability and your career in the global economy
- To better prepare for possible expatriate assignments abroad
- To build stronger competence in interacting with foreign suppliers, partners, and competitors; and in working for foreign-owned employers in your own country

Thanks to globalization, low-level jobs not only command lower salaries, but are also more vulnerable. On the other hand, top-level jobs, especially those held by expats, are both financially rewarding and relatively secure. Expats often command a significant **international premium** in compensation—a significant pay raise when working overseas. In US firms, their total compensation package can be approximately $300,000 to $400,000 (including benefits; not all is take-home pay).

Even if you do not want to be a sought-after, globe-trotting expat, we assume that you do not want to join the ranks of the unemployed due to the impact of globalization and technology (see Exhibit 1.3).

Lastly, even if you do not aspire to compete for the top job at a large firm or work overseas, and even if you 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, and perhaps even selling and investing overseas. Alternatively, you may find yourself working for a foreign-owned firm, your domestic employer may be acquired by a foreign player, or your unit may be ordered to shut down for global consolidation. Any of these is a very likely scenario, because approximately 80 million people worldwide, including 18 million Chinese, six million Americans, and one million British, are employed by foreign-owned firms. In the private sector, Taiwan-based Foxconn is the largest employer in China, India-based Tata Group is the largest employer in the UK, IBM is the second largest employer in India, and Coca-Cola is the largest employer in Africa. Understanding how global business decisions are made may facilitate your own career in such firms. If there is a strategic rationale to downsize your unit, you would want to be prepared and start polishing your résumé right away. In other words, it is your career that is at stake. Don't be the last to know! To avoid the fate humorously portrayed in Exhibit 1.3, a good place to start is to study hard and do well in your IB course. Of course, don't forget to put *this* course on your résumé as a highlight of your education. (In Focus has additional advice on what language and what fields to study.)

EXHIBIT 1.3 THE IMPACT OF GLOBALIZATION AND TECHNOLOGY



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1-3 A UNIFIED FRAMEWORK

Global business is a vast subject area. It is one of the few courses that will make you appreciate why your university requires you to take a number of diverse courses in general education. We draw on major social sciences such as economics, geography, history, psychology, political science, and sociology. We also draw on a number of business disciplines such as finance, marketing, and strategy. The study of global business is thus very interdisciplinary.[7] It is easy to lose sight of the forest while scrutinizing various trees or even branches. The subject is not difficult, and most students find it to be fun. The number-one student complaint is about the overwhelming amount of information. Truth be told, this is also *my* number-one complaint as your author. You may have to read and learn this material, but I have to bring it all together in a way that makes sense and in a compact book that does not go on and on and on for 900 pages. To make your learning more focused, more manageable, and hopefully more fun, in this book we develop a unified framework consisting of one fundamental question and two core perspectives (shown in Exhibit 1.4).

1-3a One Fundamental Question[8]

What is it that we do in global business? Why is it so important that practically all students in business schools around the world are either required or recommended to take this course? While there are certainly a lot of questions to raise, a relentless interest in what determines the

international premium A significant pay raise commanded by expatriates when working overseas.

IN FOCUS: *Emerging Markets*

What Language and What Fields Should I Study?

On September 3, 2007, Markéta Straková of Tabor, the Czech Republic, wrote to *BusinessWeek* columnists Jack Welch and Suzy Welch:

> *I am thinking of studying Portuguese, but in your opinion, what language should I learn to succeed in the world of business? And what fields of study hold the most potential?*

Jack Welch was the former chairman and CEO of General Electric (GE), and Suzy Welch was the former editor of *Harvard Business Review*. They wrote back in the same issue of *BusinessWeek*:

> *You're on to something with Portuguese, since it will give you a leg up in several markets with good potential, such as Brazil and some emerging African nations. Spanish is also a good choice, as it will allow you to operate with more ease throughout Latin America, and, increasingly, the United States. But for our money—and if you can manage the much higher order of commitment—Chinese is the language to learn. China is already an economic powerhouse. It will only gain strength. Anyone who can do business there with the speed and intimacy that fluency affords will earn a real competitive edge.*

> *As for what to study—and if you want to be where the action is now and for the next couple of decades—consider the industries focused on alternative sources of energy. Or learn everything you can about the confluence of three fields: biotechnology, information technology, and nanotechnology. For the foreseeable future, the therapies, machines, devices, and other products and services that these fields bring to market will revolutionize society—and business.*

> *That said, when it comes to picking an education field and ultimately a career, absolutely nothing beats pursuing the path that truly fascinates your brain, engages your energy, and touches your soul. Whatever you do, do what turns your crank. Otherwise your job will always be just work, and how dreary is that?*

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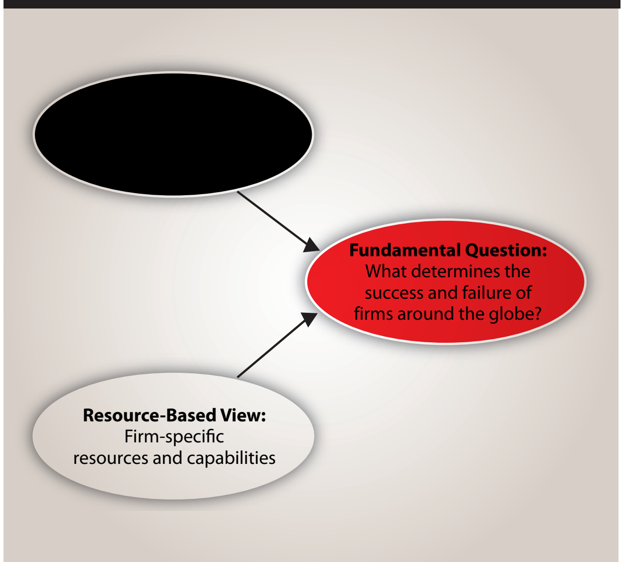
Source: J. Welch and S. Welch, "Ideas: The Welch way," *BusinessWeek*, 3 September 2007: 104.

EXHIBIT 1.4 A UNIFIED FRAMEWORK FOR GLOBAL BUSINESS



success and failure of firms around the globe serves to focus the energy of our field. Global business is fundamentally about not limiting yourself to your home country. It is about treating the global economy as your potential playground (or battlefield). Some firms may be successful domestically but fail miserably overseas. Other firms successfully translate their strengths from their home markets to other countries. If you were expected to lead your firm's efforts to enter a particular foreign market, wouldn't you want to find out what drives the success and failure of other firms in that market?

Overall, the focus on firm performance around the globe defines the field of global business (or IB) more than anything else. Numerous other questions all relate in one way or another to this most fundamental question. Therefore, all chapters in this book are centered on this fundamental question: What determines the success and failure of firms around the globe?

Given its equal treatment of companies no matter where they're from, it is not surprising that Hong Kong attracts businesses from all over the world.

1-3b First Core Perspective: An Institution-Based View[9]

An **institution-based view** suggests that the success and failure of firms are enabled and constrained by institutions. By **institutions**, we mean the rules of the game. Doing business around the globe requires intimate knowledge about both formal rules (such as laws) and informal rules (such as values) that govern competition in various countries as an **institutional framework**. Firms that do not do their homework and thus remain ignorant of the rules of the game in a certain country are not likely to emerge as winners.

Formal institutions include laws, regulations, and rules. For example, Hong Kong's laws are well known for treating all comers, whether from neighboring mainland China (whose firms are still technically regarded as "nondomestic") or far-away Chile, the same as they treat indigenous Hong Kong firms. Such equal treatment enhances the potential odds for foreign firms' success. It is thus not surprising that Hong Kong attracts a lot of outside firms. Other rules of the game discriminate against foreign firms and undermine their chances for success. India's recent attraction as a site for FDI was only possible after its regulations changed from confrontational to accommodating. Prior to 1991, India's rules severely discriminated against foreign firms. For example, in the 1970s, the Indian government demanded that Coca-Cola either hand over the recipe for its secret syrup, which it does not even share with the US government, or get out of India. Painfully, Coca-Cola chose to leave India. Its return to India since the 1990s speaks volumes about how much the rules of the game have changed in India.

Informal institutions include cultures, ethics, and norms. They also play an important part in shaping the success and failure of firms around the globe (see Opening Case). For example, individualistic societies, particularly the English-speaking countries such as Australia, Britain, and the United States, tend to have a relatively higher level of entrepreneurship as reflected in the high number

institution-based view A leading perspective in global business that suggests that firm performance is, at least in part, determined by the institutional frameworks governing firm behavior around the world.

institution Formal and informal rules of the game.

institutional framework Formal and informal institutions that govern individual and firm behavior.