



THE GLOBALIZATION OF BUSINESS ENTERPRISE (GLOBE)

Course Overview

**Prof. Pankaj Ghemawat
Prof. Sebastian Reiche
Prof. Michael Rosenberg**

**1st Year MBA
Winter 2011**

GLOBE COURSE OVERVIEW

Globalization of Business Enterprise (GLOBE) is a 12-session first-year course that is meant to focus on—and facilitate further discussion of—the implications of globalization for businesses and those who lead them. This course overview discusses the motivations for offering such a course now, describes some of the basic design considerations, provides a module-by-module outline of the course, and concludes with information about how the course will actually be delivered at IESE in Winter 2011.

MOTIVATIONS

There are three broad types of motivations for offering this course, related to globalization in three different areas:

- *Globalization of Markets.* The intensity (and extent) of market globalization, measured in terms of cross-border flows of products, capital, other inputs, information, labor services, etc. increased significantly and quite steadily for decades, especially in the last two to three, until the global economic crisis. And despite crisis-driven declines in many such flows, responding to the crisis demands more, not less, attention to globalization. What do offshoring and outsourcing mean for unemployment and trade gaps? How real is the risk of protectionism, and what can be done to remedy it? Such questions and the broader one of what is to be done to advance globalization at a time when it seems stalled if not going in reverse have all become more rather than less urgent.
- *Globalization of Firms.* Firms are in many ways more internationalized than markets, and even very small firms often buy or sell overseas, especially in West Europe. (And remember that globalization also touches many firms that lack direct involvement overseas.) But the larger firms—the ones that MBAs tend to work for or serve as consultants, bankers etc.—are by far the most internationalized. Thus, for the 100 largest “transnational” firms identified by the UN, 60% of sales, assets and employees were “foreign” in 2007, up 10 to 20 percentage points from 1990 levels. At the same time, this is an age of uncertainty: even these giant companies seem to be rethinking globalization if their letters to their shareholders are any indication. Uncertainty about the way forward for business globalization is another, conjunctural reason for a course such as GLOBE.
- *Globalization of Business Schools.* Over the last 25 years, top business schools have tried to become more global, with some success. The international diversity of students has surged, with nonnationals now accounting for 40% of the MBAs at the top 10 U.S. schools and 80% at the top 10 European schools. And partnerships, mostly student exchanges, are now the rule rather than the exception: of several hundred business schools, 83% report being involved in at least one, and 94% express interest in forming additional such ties. But there has been an unfortunate tendency to treat diversity and mobility as substitutes for the globalization of educational content when they would seem to be complements. Simply getting different people together or moving them around is unlikely to be enough: more rather than less classroom work on globalization is also needed.

DESIGN

The previous section described GLOBE's focus on the content of what globalization means for business. The translation of that focus into the course outline has been informed by several other design considerations as well.

Most crucially, GLOBE focuses on elucidating cross-country differences and some of their business implications. This focus on differences may seem odd given the common conception of globalization as a leveling force that increases similarities but is strongly recommended by a sample of academic thought leaders surveyed on the topic, for several reasons. The differences that arise at national borders are still very large in their effects. Yet there is a tendency—even among people with significant international experience—to overestimate similarities and underestimate differences. This induces some predictable biases that must be recognized to be countered—on the basis of a concentrated effort since it usually isn't sufficient just to point out that different countries are different. An overarching emphasis on differences is what is helpful in this regard, even though both differences and similarities are important, of course.

Those are all empirical arguments for focusing on differences. There is also the conceptual point that fundamental differences across countries are essential for global thinking to have content qualitatively different from single-country thinking. Otherwise, the world could simply be thought of as one giant country! And it is worth adding that to focus on differences isn't purely negative: cross-country differences can be powerful sources of value creation (through arbitrage strategies) rather than just constraints to be adapted to or overcome.

In fact, GLOBE focuses not just on the differences between countries, but on “differences in differences.” In other words, it sees countries as embedded in space at varying distances from each other instead of simply lumping them into home versus abroad. And while the framework for thinking about distance that is developed in GLOBE is general, it is designed to be keyed not just to particular countries but to particular country pairs (and, for most applications, to particular industries), i.e., to be customized.

Finally, it is worth concluding this discussion of GLOBE's design with a reminder that it is, in a fundamental sense, open-ended. This reflects in part the hope that GLOBE will interlock with courses later in the curriculum as a useful platform for discussing globalization-related issues more effectively. But to an even greater extent, it mirrors the educational philosophy underlying GLOBE which is, in W. B. Yeats' phrase, to light a fire rather than fill a bucket. The intent behind GLOBE is not to cover globalization in a comprehensive way in 12 sessions but to force us to reexamine a phenomenon about which many unexamined beliefs tend to be held. Accordingly, while there *are* formal course requirements, as described below, a variety of resources for further self-study are also suggested. How much you get out of GLOBE will depend on how much you invest beyond the minimal requirements for course completion.

OUTLINE

GLOBE is organized into three modules that are designed, successively, to

1. Review the basic facts about globalization, as in cross-border integration along various dimensions

2. Discuss the differences between countries that underlie observed levels of cross-border integration—and provide a simple framework for thinking systematically about them
3. Spark thinking about management in the presence of such differences and broader reflections about the future agenda for global leaders.

The three modules move from the macro to the managerial, and in terms of the emphasis in the discussions, from data to analysis to judgment. They are described in more detail in the rest of this section.

I. Introduction: Globalization

The first module of GLOBE discusses the opportunities and challenges associated with the globalization of business enterprise.

GLOBE begins with the case of Grolsch, a Dutch beer company. In addition to highlighting virtually all the key questions that arise in the course of globalization, the case offers numerous insights into better practices, starting with recognition of the deep differences that (still) arise at national borders.

Day 2 looks at Cemex, a Mexican cement company. The Cemex case provides opportunities for detailed analysis of the ways in which cross-border activities can add economic value and discussion of how to manage cross-border expansion. Updating the case to reflect Cemex’s struggles through the crisis further enriches the lessons from it.

Day 3 of this short module uses the Grolsch and Cemex cases to discuss how to analyze opportunities to add value through cross-border activities. It also introduces the framework for thinking about cross-country differences that constitutes the core of the second module of GLOBE.

II. The CAGE Distance Framework

The second and longest module in GLOBE flows directly from the focus on cross-country differences explained in the previous section. The discussion is organized in terms of the CAGE distance framework, where “CAGE” is an acronym for **C**ultural, **A**dministrative (institutional and political), **G**eographic and **E**conomic distances among countries. See **Table 1** for a summary (and the readings assigned for Module II for additional discussion).

Table 1. The CAGE Framework for Country-Level Analysis

	Cultural Differences	Administrative Differences	Geographic Differences	Economic Differences
Bilateral Measures	<ul style="list-style-type: none"> -Different languages -Different ethnicities/lack of connective ethnic or social networks -Different religions -Differences in national work systems 	<ul style="list-style-type: none"> -Lack of colonial ties -Lack of shared regional trading bloc -Lack of common currency -Different legal system -Political hostility 	<ul style="list-style-type: none"> -Physical distance -Lack of land border -Differences in climates (and disease environments) 	<ul style="list-style-type: none"> -Differences in consumer incomes -Differences in availability of: <ul style="list-style-type: none"> .Natural resources .Financial resources .Human resources .Intermediate inputs

	-Different values, norms and dispositions			.Infrastructure .Information or Knowledge
Unilateral Measures	-Traditionalism -Insularity -Spiritualism -Inscrutability	-Nonmarket/closed economy (home bias versus foreign bias) -Nonmembership in international orgs. -Weak legal institutions/ corruption -Lack of govt. checks and balances -Societal conflict - Political/ expropriation risk	-Landlockedness -Geographic size -Geographic remoteness	-Economic size -Low per capita income -Low level of monetization -Limited infrastructure, other specialized factors

More important than the precise categories or subcategories listed in the table is the idea of looking broadly at the differences across countries, in ways that go beyond the handful of economic (and less frequently, geographic) variables that are customarily the center of attention. Bilateral (country-pair) attributes are to be looked at, not just the unilateral ones that are the focus of most country-analytic frameworks because bilateral attributes are necessary to capture ideas such as “France is closer to Spain than is Japan.” And finally, the CAGE framework derives much of its power from being customized to the particular industry being studied. Thus, cultural distance matters more in the beer industry than in the cement industry, where geographic distance is the category that stands out.

The individual sessions in this module work through the cultural, administrative, geographic and economic components of the CAGE framework, in that order. In terms of mode of globalization, the focus of the cases and minicases shifts from the globalization of markets to the globalization of production or, more precisely, from output to input markets.

Day 1 of the differences module is built around the case of Star TV, which was launched as a free-to-air satellite TV network that would beam existing programming in English to all of Asia from a single platform. Star’s early difficulties reflect a range of non-geographic dimensions of difference, and its subsequent success in India illustrates one strategic response to differences.

Day 2 focuses on the cultural elements of the CAGE distance framework. A new reading on differences in national culture will underpin discussion of how such differences affect multinational business, with a particular focus on multinational marketing.

Day 3 focuses on Endesa de Chile, a large electrical utility that was part of Chile’s pioneering privatization efforts, deciding whether to pursue a foreign investment opportunity in a Peruvian utility that is being privatized. Despite their geographic proximity and broad range of similarities, cross-country differences between Chile and Peru, particularly administrative differences, complicate the decision.

Day 4 takes a broader look at administrative differences—the “A” in the CAGE distance framework—based on a new reading that focuses attention on how international differences

in capital and labor systems affect the ways in which business enterprises are structured and governed around the world. The in-class discussion focuses on the function-by-function implications of such cross-country differences.

Day 5 is built around a note on Indian software services which exemplifies the increased offshorability of services. The profitability and growth of the industry in India illustrate the potential power of arbitrage strategies that treat (selected dimensions of) differences—in this case, economic—as sources of value creation rather than as constraints, and also shed light on the sustainability of such strategies.

Day 6 looks at offshoring of manufacturing rather than services with a case on Haier, a Chinese appliance manufacturer, targeting the U.S. market for refrigerators. Variations in the offshorability of different refrigerators call attention to the interplay of geographic and economic differences (the “G” and the “E” in the CAGE distance framework), and Haier’s expansion strategy brings other categories of differences into the picture as well.

Finally, day 7 of the CAGE module looks at Mittal Steel’s remarkable rise to the top of its industry through a wave of cross-border consolidation aimed at changing the industry’s competitive and geographic structure. This case provides another opportunity to analyze how cross-border operations can add value; in addition, it supports a discussion of how Lakshmi Mittal was able to come up with a strategy with novel elements in a generally mature sector.

III. Maximizing Global Potential

This last, short module of GLOBE takes a somewhat broader-than-business view of the opportunities and challenges of globalization.

Day 1 starts with the recognition that the population in rich countries is generally much more negative about globalization than business school students tend to be. This social context places a premium on better understanding the net gains from additional globalization—the benefits but also the costs—and how to communicate them more effectively. This session will be structured as a student debate.

The final day of the final module of GLOBE talks further about the personal agenda of globalizing oneself, discusses examples of where that might lead and concludes with a course summary.

COURSE ADMINISTRATION

Given a number of special features of GLOBE, how it will be run is described in more detail below and **should be read carefully!**

1. The week-by-week outline in Exhibit 1 is tentative. The Global Campus course platform will be the definitive guide to what is coming up next. **Synopses of the individual class/sessions and all assignment questions will be provided on the course platform** no later than 5:00 p.m. on Thursday the week before particular sessions actually take place. **The course platform is also the delivery vehicle for electronic polls and most other supplemental resources as well as the means for posting poll responses and other exercises—to your particular section.** If you

have compatibility issues (e.g., because you're using a Mac computer), please sort them out with the MBA Program office: we cannot support multiple platforms or substitute for an essential technological interface.

2. Two-thirds of the class sessions will be anchored in case discussions and there will typically just be one full-length case to read for such sessions. **However, there will also be an average of one or two conceptual readings per week that are critical to successful completion of the course.** A variety of resources for further self-study will also be suggested.
3. **A number of sessions will involve exercises that have to be turned in before the beginning of class:** a one-page written assignment, preparation of 1-2 powerpoint slides or responses to a poll. And within-class case discussions will be supplemented with more generalized discussions, lectures, debates, presentations and (possibly) quizzes.
4. **In addition to the 12 sessions listed in this syllabus, there will be an introductory session—required, not optional—in plenary (i.e., for all four sections), in the Auditorium in the North Campus from 3:30 to 4:45 pm on Thursday, January 13. .** The remaining sessions will be held in your regular sections.
5. **Queries about GLOBE should be addressed to the instructor for your section:**

Section A: Prof. Pankaj Ghemawat / assistant Marta Domenech
(Mdomenech@iese.edu).

Section B: Prof. Sebastian Reiche (SReiche@iese.edu) / assistant Ana Amat
(AAmat@iese.edu).

Section C: Prof. Pankaj Ghemawat / assistant Marta Domenech
(Mdomenech@iese.edu).

Section D: Prof. Mike Rosenberg (MRosenberg@iese.edu) / assistant Jordina Cuxart (JCuxart@iese.edu).

In case of any queries that cannot be handled by them, please contact Professor Ghemawat's assistants, Marta Domenech, at MDomenech@iese.edu or 93.253.6484 and Susana Minguell at SMinguell@iese.edu or 93.253.6412.

6. It is also important to try to let your instructor know ahead of time, if at all possible, if you have to miss class—and to give him a brief idea why. **Unexcused and, in particular, unannounced absences will impede satisfactory fulfillment of course requirements.** GLOBE will abide **strictly** by the MBA program's rules in this regard.
7. 50% of your grade for GLOBE will be based on participation in in-class discussions and 50% on polls, pre-class write-ups and exercises, presentations and quizzes. Timely submission of assignments via the Global Campus platform is an integral part of GLOBE, as is **timely arrival in class a few minutes ahead of its scheduled start.** Your instructors find late arrivals very distracting and so, we think, do a large number of your fellow class participants.

Exhibit 1

GLOBE Outline

I. Introduction: Globalization	
Session 0. Post session readings: “Why the Worlds isn’t Flat”(HBR, 2007) “The Globalization of Markets”	
1	01/14 - Grolsch: Growing Globally. Key questions in globalizing: why, what, where, when, how, who...The importance of evaluating globalization moves. Industry and competitive analysis in a cross-border context.
2	01/17- The Globalization of Cemex. Why globalize? Geography and other cross-border barriers. Strategies for targeting similarities versus strategies for targeting differences. Where to compete.
3	01/20 - Section B 01/21 - Globalization of Business Enterprises. ADDING value through cross-border operation. Impediments to cross-border operation. The CAGE distance framework. Strategies for dealing with differences. Postclass reading: “Distance Still Matters” (HBR, 2001)
II. The CAGE (Cultural-Administrative-Geographic-Economic) Distance Framework	
4	01/24 - Star TV. Cultural differences between countries and their business implications. The hypothesis of cultural convergence. Overlay of administrative/institutional and economic differences. Post-class reading: National Cultural Differences and Multinational Business
5	01/25 - Cultural Differences. National cultures. Hofstede’s cultural dimensions and other frameworks. Implications for multinational business, with a focus on marketing. Discussion of Grolsch, other ads. Preclass reading: National Cultural Differences and Multinational Business
6	01/31 - Endesa de Chile Investing in Peru. Regional strategies. Administrative similarities and differences. Politically-sensitive industries. Management of political and other risks.
7	02/1 - Administrative Differences. International variation in ownership, external finance and labor rights. Underlying determinants. Varieties of capitalism and their implications for business functions. Preclass reading: Differences in Business Ownership and Governance around the world.
8	02/7 - The Indian IT Services Industry. Globalization in the service sector. Labor cost differences. Arbitrage strategies and their sustainability. Post-class reading: “The Forgotten Strategy (HBR, 2003)
9	02/8 - Haier in the US in 2008. Globalization of supply chains. Economic differences versus geographic distance. Entry strategies. FDI location.
10	02/9 - Mittal Steel in 2006. Application of the ADDING value scorecard. Effective cross-border M&A. Vertical integration. New game strategies in a mature sector.
III. Maximizing Global Potential	
11	02/15 - The Policy Agenda. ADDING economic value through merchandise trade; through trade in tasks and capital, labor and knowledge flows. Noneconomic gains. Fighting protectionism.
12	02/16 - The Personal Agenda. Internal globalization: a self-diagnostic. The case of Worldreader.org. Course summary/links to other required courses.

