GLOBAL BUSINESS

An Economic, Social, and Environmental Perspective

Nader H. Asgary
Dina Frutos-Bencze
Massood V. Samii
Hossein Varamini

Global Business

This page intentionally left blank.

Global Business

An Economic, Social, and Environmental Perspective

Nader H. Asgary
Bentley University

Dina Frutos-Bencze
Saint Anselm College

Massood V. Samii
Southern New Hampshire University

Hossein Varamini
Elizabethtown College

IAP
INFORMATION AGE PUBLISHING, INC.
Charlotte, NC • www.infoagepub.com

Library of Congress Cataloging-in-Publication Data

A CIP record for this book is available from the Library of Congress
http://www.loc.gov

ISBN: 978-1-64113-803-1 (Paperback)
978-1-64113-804-8 (Hardcover)
978-1-64113-805-5 (ebook)

Printed in the United States of America

Contents

SECTION III

FIRM-LEVEL MANAGEMENT

SECTION IV

CURRENT ISSUES IN GLOBAL BUSINESS

Introduction

In the past four decades, significant economic, political, and cultural changes have made international business more exciting, complex, and challenging. The revolution in technology and communications has reduced the barriers among countries, firms, and citizens of the world. These changes have created opportunities for great expansions in international business and flattened the playing field for small and medium size companies by allowing them easier access to global markets. The continuous emergence of new economies and commercial markets, especially the development of the economies of China, Eastern Europe, India, Russia, Brazil, and many others have created opportunities for international business activities, but have also created potentially formidable challenges. While the globalization trend has created a much larger middle class world-wide, it has also contributed to a few populist movements and nationalist tendencies in some countries. Non-Governmental Organizations (NGOs) and global institutions have progressed in highlighting and addressing issues such as poverty, the environment, human rights, migration and corruption. Three main critical issues, environmental changes, poverty and human dignity, and ethics and corporate social responsibility are at the forefront of the challenges that need serious attention.

G*lobal Business: An Economic, Social, and Environmental Perspective* is the second edition of the book titled *Foundations of International Business* published by Information Age in 2015. We have approached the second edition from a forward looking perspective by incorporating economic, social, and environmental issues, which have strong links to stakeholders and are

Global Business, pages vii–xiii

guided by the triple bottom-line (TBL) concept. A TBL approach emphasizes the importance of Profit, People, and Planet, or PPP.

The Triple Bottom Line concept is highlighted throughout each chapter. Successful Multinational Enterprises (MNEs) are increasingly linking the company's profit maximization goal (the economic or **P**rofit maximization components) to the social well-being of the community and corporate social responsibility initiatives of the firm (the social or **P**eople components), as well as the environmental consideration of scarce resources, climate change and sustainability (the environmental or **P**lanet component). This approach enables readers to assess global business opportunities and risks in a comprehensive and integral manner. We also have made important modifications in terms of content organization of this book, as described below.

Target Audience

The second edition of *Global Business: An Economic, Social, and Environmental Perspective* is a valuable stand-alone international business textbook for undergraduate and MBA courses such as international business, global strategy, and strategic management because it is more applied and less technical than some other textbooks.

In addition, the book is beneficial to anyone seeking to understand the basics of the international business environment. More than ever before, business strategists, managers and entrepreneurs need to incorporate all internal and external factors in the global business and consider the social and environmental consequences of their decisions. Therefore, we believe this book will be especially welcomed by faculty and students because of its succinctness, the updated reading lists, cases, and project recommendations. The topics presented in this new condensed way allow practitioners, scholars, and students of international business to have a broad understanding of the most relevant issues in a changing global environment.

Organization

This book is organized into four main sections: I. Global and Economic Environments; II. Political, Cultural, and Ethical Environments; III. Firm-Level Management; and IV. Current Issues in Global Business. Figure I.1 summarizes the four sections of the book and the central theme, the Triple Bottom Line concept.

Each chapter provides a theoretical background, real-world examples, applications, and implications of the concepts discussed. The structure of each chapter includes learning objectives, an opening case with questions,

Figure I.1 Organization of the book.

debate issues, spotlight cases, a closing case with questions, chapter's key terms, additional questions and activities, and suggestions for further reading. While discussing essential theoretical and applied aspects of global business in a forward looking perspective, our aim has been to keep the book relatively short and user friendly to provide flexibility for faculty to add their own supplementary material.

Supplemental Materials for Instructors

The authors also provide PowerPoint slides and a test bank of short-answer questions for every chapter.

Section I—Global and Economic Environments

This section is includes four chapters that describe the concepts of globalization, trade theories, and the economic and financial environments.

Chapter 1: Globalization

This chapter discusses the determinants, consequences and trends of globalization. Globalization is one of the most widely used words in recent years, however, it is not a new concept. In addition, the key issues related to globalization are discussed, and arguments in favor and against the growth of interdependencies among the nations in recent decades are provided.

Chapter 2: The Global Economic Environment

This chapter discusses the key macroeconomic indicators and market characteristic of various regions of the world. It is crucial for managers or anyone doing business abroad to understand the implications of different economic systems and key macroeconomic indicators to determine which countries are attractive for business.

Chapter 3: Trade Theories and the Role of Governments in Trade

This chapter describes the benefits of trade through the exploration of the main theories of why nations trade. It also covers how governments restrict or promote trade. International trade impacts a country's economic growth, employment, and inflations rates.

Chapter 4: The Global Financial System and Risk

This chapter discusses the structure of the global financial system. The major institutions and workings of the international financial market are described. In addition, the functioning of currency markets as well as the factors that impact exchange rates are discussed. Finally, the challenges that the global financial system faces are analyzed.

Section II—Political, Cultural, and Ethical Environments

This section is composed of three chapters that deal with the institutional context in which global businesses is conducted.

Chapter 5: Political and Legal Environments

This chapter describes various political and legal systems and their impact on trade and business. These systems not only set regulatory standards, award subsidies and grants, impose taxes, quotas, and tariffs, they also create free trade agreements, common markets, and other political and economic unions. These activities impact capital flows and, by extension, the business world.

Chapter 6: Cultural and Social Environments

This chapter discusses socio-cultural aspects relevant to global businesses. The key characteristic of global business is the need to interact with people across national boundaries. A businessperson must understand foreign cultures to adjust to the local environment, avoid embarrassing mistakes, and improve the likelihood of success.

Chapter 7: Business Ethics and Corporate Social Responsibility

This chapter defines the concepts of business ethics, and the present history and applications of corporate social responsibility (CSR). The demand for businesses to conduct their business ethically and to be socially responsible has increased due to evolving communications, technological advancement as well as the expectations of the market participants. Besides bringing economic value to shareholders, modern companies are expected to support and advance the interests of their stakeholders.

Section III—Firm-Level Management

This section is composed of four chapters that present fundamental issues related to a firm's strategy, modes of entering into foreign markets, the internationalization process to create value for the multinational enterprise, and cross-cultural management.

Chapter 8: International Business Strategy

This chapter explains the process of strategic planning. Applications of the tripod model are also discussed. Strategy formulation is a complex process that requires building a vision for the future of the organization, evaluating the firm's core competence, determining its strength and weaknesses, as well as identifying the external environment in terms of opportunities and threats.

Chapter 9: Entry Modes into Foreign Markets

This chapter explains important factors in selecting entry modes and key aspects in their management. It details the circumstances in which each entry mode into a foreign market is most appropriate and the advantages and disadvantages that each provides. The choice of which entry mode to use in entering international markets should match a company's international strategy.

Chapter 10: The Internationalization Process of the Firm

This chapter describes the internationalization process as well as how value creation has been enhanced by internationalization. Companies internationalize their operations for different reasons. Such efforts provide a great potential for creating more value for the company. The continuous development of emerging markets has created not only great opportunities for international business activities, but also created stronger competitors from other countries.

Chapter 11: Cross-Cultural Management

This chapter discusses the effects of cultural and social environments on global business and present fundamental issues for successfully managing cross-culturally with a global mindset. In addition, the important determinants of cultures are discussed, and alternative strategies to effectively manage cultural differences are highlighted.

Section IV—Current Issues in Global Business

This section is composed of three chapters that present current issues in international business such as environmental change, technological aspects of global business, and sustainability and social enterprise.

Chapter 12: Environmental Changes and Global Business

This chapter focuses on various issues related to environmental changes, environmental degradation, and climate change. The primary key issues that could affect today's MNEs are global warming, depletion of natural resources, and high population levels. Given the growing importance of these challenges, global business has to incorporate their impact on operations and take proactive, and appropriate action.

Chapter 13: Disruptive Innovation and Global Business

This chapter discusses the concept of disruptive innovation and information and communication technologies (ICT). The emergence of ICT has increased transparency, decreased the cost of information flow across boundaries, and increased the volume and speed of information flow. Their impact on businesses is examined.

Chapter 14: Sustainability, Social Enterprise, and Impact Investment

This chapter discusses sustainable development, the concept of social enterprise, and impact investing. The Global Reporting Initiative (GRI) framework, and Social Return on Investment (SROI) concepts and their impact on businesses are also discussed. Finally, the role of technology in reducing waste and improving the efficiency of resources allocation is covered.

This page intentionally left blank.

Acknowledgments

Dedicated to our families.

We would like to express our gratitude to Victoria Edwards, Anastassiya Sayenko, Shari Kain, and Wendy Sheaffer from Elizabethtown College for their significant contributions to the design and editing of the second edition of this book. The contributions of Brennan Delory, Devon Curtis, and Emily Malsch of Bentley University are also greatly appreciated. Dr. Pard Teekasap and Aida Garcia contributed to the first edition of this book, and we want to acknowledge them. We would also like to thank our administrative staff for their support during this process. Above all, we would like to acknowledge the contributions of our students who have made many constructive comments and suggestions to the various chapter drafts.

Finally, we would also like to thank our families for supporting us during the writing and editing process of the book. Dr. Asgary is grateful to his family and especially his wife, Jila, for their unconditional support and encouragement. Dr. Samii would like to thank his wife Farideh Namazi Samii for support and encouragement throughout the process. She was instrumental and a motivational force for him in this project in particular and generally for his career. Dr. Varamini thanks his family and especially his wife, Maryam, for their support and encouragement.

This page intentionally left blank.

1

GLOBAL AND ECONOMIC ENVIRONMENTS

1. Globalization
2. Global Economic Environment
3. Trade Theories and the Role of Governments in Trade
4. Global Financial System and Risk

2

POLITICAL, CULTURAL, AND ETHICAL ENVIRONMENTS

5. Political and Legal Environments
6. Cultural and Social Environments
7. Business Ethics and Corporate Social Responsibility

3

FIRM-LEVEL MANAGEMENT

8. International Business Strategy
9. Entry Modes Into Foreign Markets
10. The Internationalization Process of the Firm
11. Cross-Cultural Management

4

CURRENT ISSUES IN GLOBAL BUSINESS

12. Environmental Changes and Global Business
13. Disruptive Innovation and Global Business
14. Sustainability, Social Enterprise, and Impact Investment

This page intentionally left blank.

CHAPTER 1

Globalization

LEARNING OBJECTIVES

- Explain the concept of **globalization**, its driving factors, and implications.
- Understand the advantages and disadvantages of globalization for host and home countries.
- Become acquainted with the global political and economic structures and organizations involved in globalization.
- Evaluate the link between globalization and **Base of the Pyramid** challenges and opportunities.

Opening Case

Globalized Production and the Boeing 787 Dreamliner

Oct. 26, 2011—Aviation enthusiasts paid as much as $34,000 to board the Boeing 787 Dreamliner's first commercial flight, between Tokyo-Narita and Hong Kong. The aircraft, pictured in Figure 1.1, shows imported materials from

Global Business, pages 3–21

countries such as South Korea, Sweden, and Italy to the United States for final assembly in Seattle, Washington. The Dreamliner demonstrates the level of integrated production feasible in our increasingly globalized world. However, it also offers a warning about the inherent risks and complexities. For example,

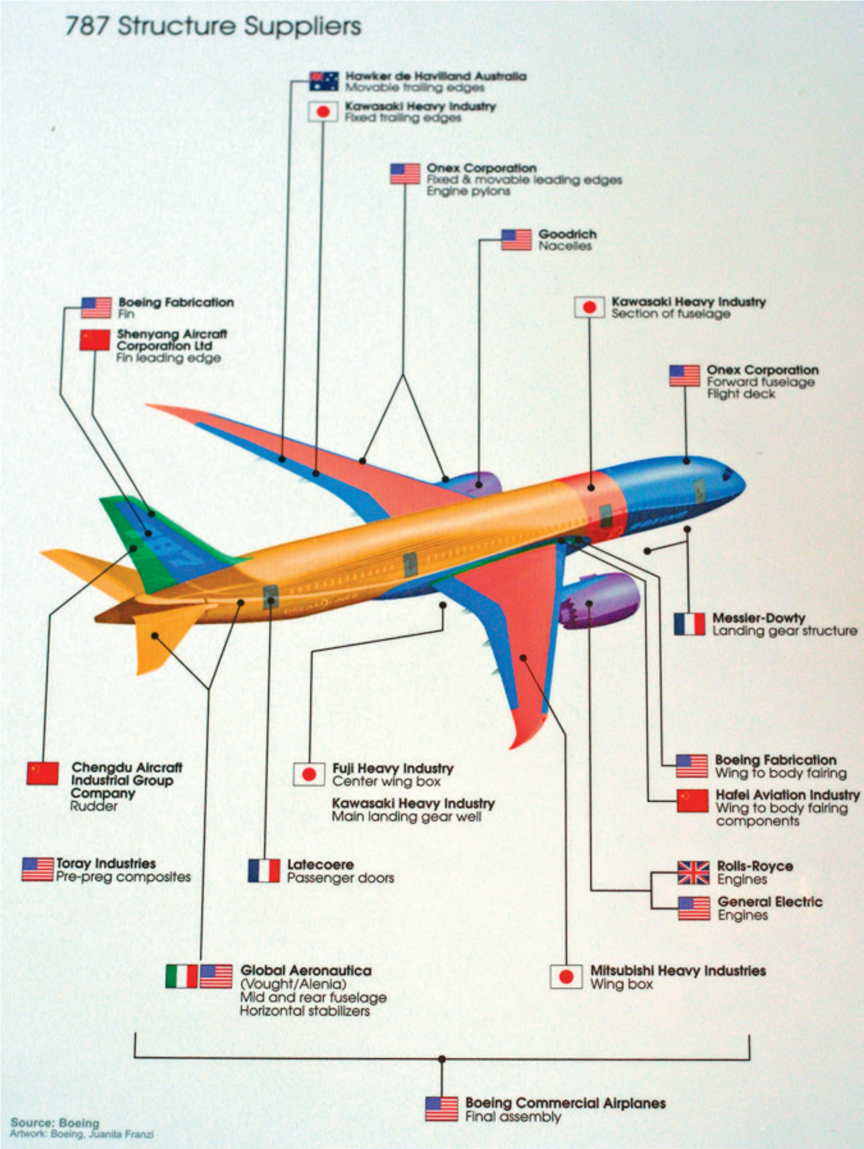


Figure 1.1 Overview of the Boeing 787's Components and Sourcing. *Source:* https://www.flickr.com/photos/niallkennedy/111073286

international and domestic supply changes delayed Boeing's first deliveries by six months. Despite additional delays to address various software problems and safety concerns, the model was continually plagued by hydraulic failures, engine problems, and cracking wings after its commercial launch. Industry insiders cited worldwide sourcing as the foundation of these issues. However, globalization made the creation of the Boeing 787 Dreamliner possible.

1. *Apart from the Boeing 787 Dreamliner, there are countless other globally-sourced products demonstrating international businesses' impact on our everyday lives. What are some examples? What countries are involved in the production and consumption of these goods?*

1.0 Introduction

Globalization is one of the most widely used words in recent years, but it is not a new concept. This chapter, explores globalization historically and conceptually, identifies its driving factors, and discusses its implications.

Most people view the increase in trade in recent decades as a sign of globalization, but trade among nations is nothing new. One can consider the agreement between Alexander the Great and Chandragupta Maurya in C.325 BCE at as the first step in establishing trade among the Mediterranean, Persia, India and Central Asia. Some scholars, such as Thomas Friedman, focus on early signs of globalization in 1492, when Columbus travelled west and the age of European seaborne empires began.[1]

The history of globalization can also be traced to Adam Smith, Karl Marx and Friedrich Engels. Their writings recognize science, technology and capitalism as the forces of globalization. A more recent work by Manuel Castells (2010), *The Rise of the Network Society*, defines the global economy as one "with the capacity to work as a unit in real time on a planetary scale".

Friedman divides the history of globalization into three separate eras in his book *The World is Flat.* Military forces drove global integration during the first era, or Globalization 1.0, from 1492 to 1800. Globalization 2.0 continued from 1800 to 2000, when multinationals drove globalization. According to Friedman, the first two eras were driven primarily by Europeans and Americans, whereas non-western individuals have primarily led Globalization 3.0, which goes from 2000 to the present day.

So, what is globalization? The renowned economist and Noble Prize winner Joseph Stiglitz defined globalization as follows:[2]

> *Globalization* is the closer integration of the countries and peoples of the world . . . brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders.

> Globalization encompasses many things: the international flow of ideas and knowledge, the sharing of cultures, global civil society, and global environmental movement. (Stiglitz, 2007)

Dani Rodrik, also a renowned political economist, stated that the natural benchmark of globalization is to consider a world in which the markets for goods, services, and factors of production are perfectly integrated. Given the uneven distribution of economic opportunities and conditions within and across countries, he concludes that we are far from being fully integrated (Rodrik, 2008).

The **KOF Index** issued by the KOF Swiss Economic Institute (from the German name Konjunkturforschungsstelle) seeks to measure globalization economically, socially, and politically (see Figure 1.2). Countries with a high KOF index score, such as Canada, exhibit higher level of globalization than those with low scores, such as Sudan.

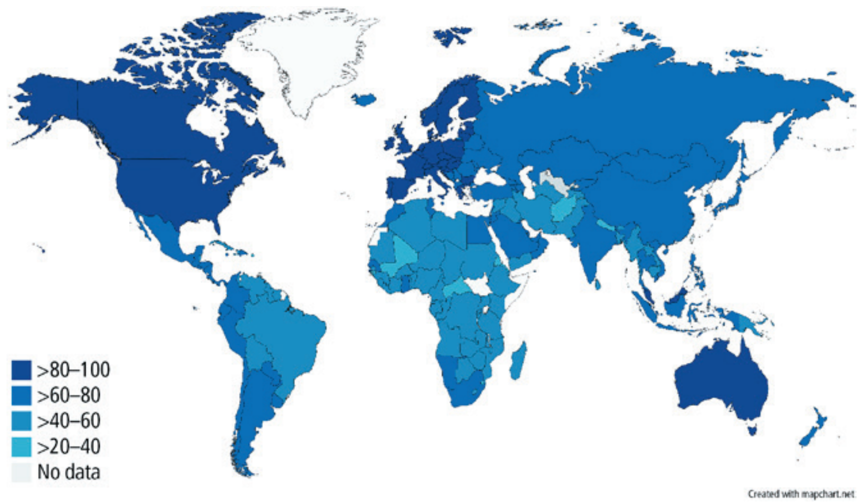


Figure 1.2 KOF Index of Globalization in 2016.[3]

1.1 Driving Factors Behind Globalization

In addition to understanding globalization conceptually and historically, it is important to understand the phenomenon's catalysts and implications. This section discusses in detail the following driving factors:

1. Communications and Transportation Technology
2. Trade Liberalizations

Several macro driving factors have helped the globalization process. Developments in **communications** and **transportation technology** have helped to reduce overall costs and improve communications. The Internet, teleconferencing, e-mail systems, and texting are examples of technological innovations in communications. These innovations enable us to know about products or services created in other regions and facilitate the exploration of new markets much faster than a few decades ago. The widespread use of uniform metal containers to ship goods, rather than loading a ship's hull with individual wooden crates, illustrates the advances made in transportation technology. Containerization reduced the per-ton loading cost of shipments, increased the number of items shipped simultaneously, and decreased theft, which, in turn, reduced insurance costs.

Another driving factor of globalization is **trade liberalization**. Many countries have reduced their barriers to trade and investment in order to access foreign markets and benefit from globalization. Many perceive economic liberalization as beneficial in the long run because it enables the introduction of new products and services to the market at lower prices, thereby increasing domestic competition. To attract private investment, a large number of developing countries have also made policy changes and other serious attempts toward **privatization**. Their efforts have helped expand global investment and the flow of funds across borders. **Foreign Direct Investment** (FDI) has increased in the form of **greenfield investment**, **mergers**, and **acquisitions**. These concepts are described in later chapters.

1.2 Major Implications of Globalization

1. Integrated performance standards for multinational enterprises
2. Cultural, social, and political changes
3. Economic opportunities and challenges
4. Reduction and elimination of barriers to movement of resources

The liberalization of the global financial system has led to further integration and convergence of financial performance standards for **multinational enterprises** (MNEs). For instance, many multinationals raise part of their capital by selling stocks or bonds in other countries. Another outcome of global financial integration has been the need to rethink corporate governance across borders.

The rapid and dynamic transformation of the economic landscape across the globe has had a significant impact on cultural, social, and political matters within and among countries. Globalization, which started with the concept of efficient allocation of economic resources by reducing and eliminating barriers to trade and investment, has led to various economic opportunities and created some challenges for business, governments, and people.

The reduction and elimination of **barriers to movement** of capital, goods, services, and, in some instances, labor (e.g., in the European Union) have provided opportunities for businesses to establish themselves throughout the world. **Regional Trade Agreements** (RTAs) are a means of reducing or eliminating barriers to movement. The number of trade agreements in force has increased significantly from 1950 to 2010, as evinced in Figure 1.3. These agreements enable MNEs to take advantage of lower input costs and expand their consumer markets.

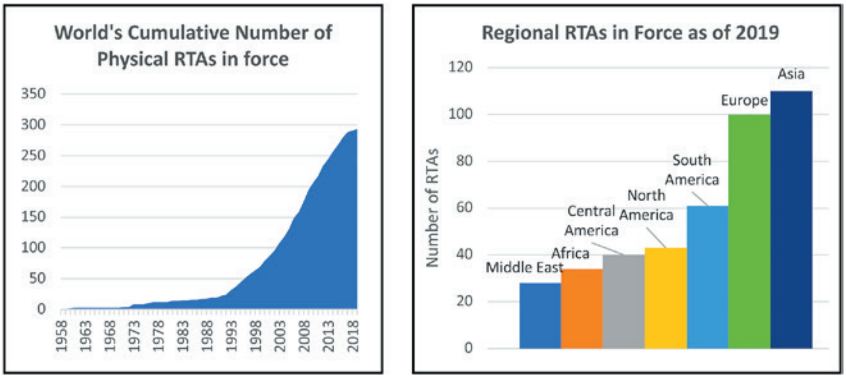


Figure 1.3 Cumulative RTAs (1958-2019) and Regional RTAs in force. *Source:* Adapted from data at http://rtais.wto.org/ui/PublicMaintainRTAHome.aspx

1.3 Major Components of Globalization

1.3.1 Globalization of Production

Corporations aim to maximize shareholder value through increased profits and efficiency. To this end, they search for locations where they can minimize the **cost of production** (labor, raw materials, capital, land, etc.) while maintaining an acceptable level of quality. Since a corporation is unlikely to find a single location that minimizes the costs of all of inputs, different phases of production commonly occur in different countries.

For example, although a product is designed in one country, its raw materials and intermediary goods may be purchased from several countries, assembled elsewhere, and sold in yet other nations. Corporations such as Boeing, General Motors (GM), and General Electric (GE) are good examples of companies that take advantage of national differences in the cost and quality of inputs by dispersing their production facilities in a number of different countries. An additional example is the McDonald's

SPOTLIGHT

Francis Fukuyama and Samuel P. Huntington on Westernization

In 1989, Francis Fukuyama published "The End of History?" as the Cold War drew to a close. He wrote, "we may be witnessing not just the end of the Cold War, or the passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government" and "the triumph of the West, of the Western idea, is evident first of all in the total exhaustion of viable systematic alternatives to Western liberalism" (Fukuyama, 1989).

By contrast, Samuel P. Huntington's article, "The Clash of Civilizations," rejects the notion that the world would become increasingly connected and homogenous. Instead, he reasoned the world's broadest cultural groups, or "civilizations," would seek to distinguish themselves more sharply and, as a result, come into conflict with one another.

Huntington identifies eight major "civilizations"—Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and African—and claims conflict will occur between these civilizations on the basis of cultural differences. He predicts that the most intense conflict will occur in "fault lines" and "torn states." These regions do not have a single dominant culture but identify as two or more of the eight civilizations. Huntington cites Turkey as an example (Huntington, 1993).

Though more than twenty years have passed since their original publication, the articles written by Fukuyama and Huntington continue to influence contemporary debate.

Corporation, which routinely purchases different ingredients for its sandwiches (bread, sesame seeds, cheese, beef patties, etc.) from different countries for its restaurants in over one hundred countries.

Major Advantages of Globalized Production

- Lower Cost Labor for Production and Services
  - Examples
    - Low labor costs in China or Bangladesh;
    - Indian call centers
- Technical Expertise
  - Examples.
    - Indian physicians reading U.S. x-rays;
    - Global consulting firms (i.e., Deloitte)

1.3.2 Globalization of Markets

Rather than customizing their products and services to a small group of buyers, many global companies have used **economies of scale** to produce standardized products for global customers. This strategy allows them to charge a lower price and deliver more reliable products.

The resulting emergence of global markets for standardized consumer products, such as steel, chemicals, computers, semiconductors, pharmaceuticals, and telecommunications has had a significant impact on the growth of globalization.

Debate—Globalization

Economic growth and overall global prosperity have been noticeable in the last two decades. Notwithstanding the debate, the process has been moving forward and, by all indications, will continue in the foreseeable future.

However, the impact of globalization on the economies of host countries and home countries is one of the most debated and controversial issues regarding international economics and international business.

Pro	Con
International trade and investment have been instrumental in the economic growth of host countries where investment is flowing from home countries.	There have been considerable drawbacks both economically and socio-culturally for the host countries.

The list below summarizes the pros and cons of globalization based on the host and home country relationship.

Pros

- *Economic Growth.* Incentivizes economic growth of developing economies (host countries). Therefore, it will improve purchasing power of developing economies.
- *Higher Employment.* Creates employment through export and foreign direct investment in both developing and developed economies (host and home countries).
- *Cheaper Products.* Provides lower cost products for developed economies (home countries).
- *Innovation.* Globalization is also believed to stimulate innovation.

- *Global Marketplace*. Globalization leads MNEs to consider distant countries as places for producing or for looking for suppliers. The process is leading to the creation of one global marketplace.

Cons

- *Employment Loss*. The movement of jobs overseas may result in loss of employment in developed countries, and consequently prevent wage and salary increases. On the other hand, employment losses can also occur in developing countries when MNEs seek particular skills and increase domestic competition.
- *Competitive Pressure*. In developing countries the concern is that large multinationals may lead to increase competitive pressure on the local companies that are smaller and do not have enough resources to compete. For instance, in developing countries it would be difficult for smaller national retail stores to compete with Wal-Mart.
- *Loss of Sovereignty*. The existence of international trade agreements diminishes a country's sovereignty and freedom from external control by curtailing the ability to act in their own best interest. Small countries are particularly concerned that their dependence on a larger country for supplies and sales will make them vulnerable to the demands of a country they might oppose.
- *MNE Political Interference*. Large international companies may be so powerful that they can dictate the terms of their operations by getting involved in local politics.
- *Convergence*. Globalization brings convergence of work methods, social structures and even language, which might threaten local socio-cultural characteristics and traditions.
- *Environmental Risk*. Many developing countries do not have strict environmental laws and enforcement mechanisms. Therefore, the concern is that multinationals would move the polluting industries into the countries that either don't have environmental regulations or that are not enforcing those laws.
- *Growing Income Inequality*. While developing countries benefit from economic growth, the benefits are not distributed evenly. The global trend is that rich people are becoming richer and poor people are becoming poorer. In other words, the gap between rich and poor is widening

1.4 States and Sovereignty

The role that governments and institutions of civil societies play is essential for the development of a country.

States remain the primary actors for handling social and political externalities created by globalization. Powerful states use a range of foreign policy substitutes to advance their preferences into their desired outcomes. Non-state actors can still influence outcomes on the margins, but their interactions with the states are more nuanced than the globalization literature suggests. Globalization undercuts **state sovereignty**, weakening governments' ability to effectively regulate their domestic affairs (Drezner, 2001).

The political dimension of globalization is an important issue that can be viewed from two different perspectives:

1. The impact and the role of multinationals on the political process of host and home countries
2. The issue of the influence of the political structure of the country on the global business structure

In this context, **corruption** in international business activities has received considerable attention in recent years. The political system and environment of a country affect all the companies and their ways of doing business. The **political impact** is higher for international companies, since their presence in several countries means they are subjected to different political systems. It has been demonstrated that only international companies that accept and try to adapt to different political systems are the ones that succeed. On the other hand, many multinationals have an income that far exceeds the **gross national income** (GNI) of some of the developing countries in which they operate (see Figure 1.4). These concepts are expanded upon in later chapters, but it is important to note that an MNE could influence the internal political-economic process of the countries in which they operate.

For example, the Nigerian police provided Royal Dutch Shell with security in exchange for monetary and logistical support in the 1990s. However, their authority was often used to suppress groups protesting Shell's presence in the region (Center for Constitutional Rights, 2009).[4] Thus, developing nations may be wary of MNE interference in their domestic political affairs.

1.5 The Role of Global Institutions

Globalization has transformed the role of governments in two ways.

1. The traditional role of all players has been strained.
2. The capacity of governments and their non-governmental partners to deliver high quality public services has been challenged (Kettl, 2000).

	Country/Corporation	Revenue (US$, bns)
1	United States	3,251
2	China	2,426
3	Germany	1,515
4	Japan	1,439
5	France	1,253
6	United Kingdom	1,101
7	Italy	876
8	Brazil	631
9	Canada	585
10	Walmart	482
11	Spain	474
12	Australia	426
13	Netherlands	337
14	State Grid	330
15	China National Petroleum	299
16	Sinopec Group	294
17	Korea, South	291
18	Royal Dutch Shell	272
19	Mexico	260
20	Sweden	251
21	Exxon Mobil	246
22	Volkswagen	237
23	Toyota Motor	237
24	India	236
25	Apple	234
26	Belgium	227
27	BP	226
28	Switzerland	222
29	Norway	220

Figure 1.4 Comparison of country and MNE revenue.

To accommodate for governments' inability to provide public services, global institutions and non-governmental organizations have become increasingly important.

Lin and Nugent defined an **institution** as a set of humanly devised behavioral rules that govern and shape the interaction of human beings by partially helping them to form expectations of what other people will do (Lin & Nugent, 1995). An institution provides several elements: formal and informal rules of behavior, means of enforcing rules, conflict resolution and supporting market transactions. Rodrik states that institutions can create or destroy incentives for individuals to engage in trade, invest in human and physical capital, and encourage innovation. Thus, institutions have always played an essential role in governmental regulation and business operations; however, their role has become more relevant since the advent of globalization. Technological developments have allowed for faster and easier transportation, communication, and trade between nations, and also led to the development of relevant institutions (WTO, 2004).

However, when local services are not provided, citizens tend to reject the idea of globalization. In developed nations, resistance to globalization often targets supranational organizations. For example, when Britain was determining whether or not to leave the European Union in 2016, "TAKE Control" was the main slogan of the "Vote Leave," a campaign asserting that participation in the European Union interfered with Britain's autonomy[5] (Economist, 2016). Scholars such as Dani Rodrik and Joseph Stiglitz argue that in order to be more internationalized, voters and citizens need to start thinking globally rather than locally (Rodrik, 2008).

1.6 Non-State Actors

Globalization has also led to the empowerment of **non-state actors**, such as:

- Multinational enterprises (MNEs)
- Non-governmental organizations (NGOs)
- Transnational activist networks

Increasing pressure and the desire of citizens of developing countries to attain the quality and living standards of developed nations, supported by globalization forces, have caused a major transformation in most developing governments. There are cases in which institutions and other non-state actors have filled the governance void. In **developed countries**, institutions and private organizations are integrated into society, while in **developing countries** they are still evolving.

The role of nationally representative and globally responsive governments is crucial in addressing today's discourse in the global arena. Also modifying the current management of international organizations such as the **International Monetary Fund** (IMF) and the **World Bank** are essential for sustainable development in a globalized world. The type of globalization that should be embraced is the one that can economically empower

SPOTLIGHT
NGOs

To explore NGOs by country and activity, visit the World Association of Non-Governmental Organizations (WANGO) online directory:
http://www.wango.org/resources.aspx?section=ngodir

the greatest number of people and is also socially and environmentally responsible.

As a result, many governments have to consider the influence and power of non-state actors in decision-making. Globalization has caused national governments to think and act globally. However, there are those who argue that this process has undermined the ability of some governments to continue to act as they used to.

The impact of non-state actors can be seen across the developing and developed world. **The National Intelligence Council** (NIC-Eurasia) Group categorizes the political structure of nations as weak, modernizing, and developed/post-industrial (NIC, 2014). Nations can be categorized according to the impact of non-state actors in three general categories:

- Developing
- Transitional
- Developed

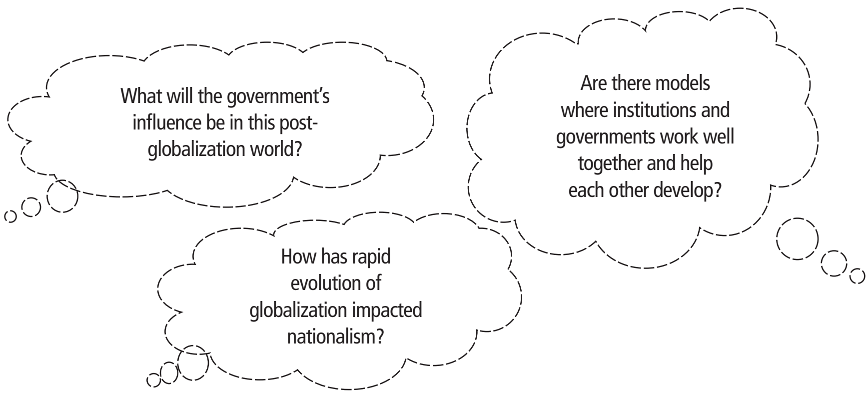
In general, non-state actors have had more freedom in developing and in developed nations than in transitional ones. Many developing nations tend to be former colonies where governments struggle to provide order (i.e., Afghanistan, Somalia, Lebanon, Congo, and others). In this group, different non-state actors may seriously challenge the central government and may be a substitute for governments in providing services. For example, in some African countries, the **World Health Organization** (WHO) has played an important role in alleviating HIV and Ebola pandemics, with different levels of success in different countries.

Transitional states are sovereign nations that are in transition from a **centrally planned economy** to a **market economy**. In countries where the national government was strongly involved in managing the affairs of the nation such involvement has now been diminished. These countries view foreign non-state actors as a nuisance to national sovereignty and may attempt to influence and regulate their operation. For example, a number of countries have attempted to oppose pressure from human rights organizations. Another example is the pressure to provide **intellectual property rights** protections.

In developed countries where institutional structures are well developed, the non-state actors tend to focus on challenging violations of ethical standards by governments and multinational corporations. For example, the recent movement **Occupy Wall Street** is against abuses of unregulated financial markets.

1.7 Challenges of Our Generation

These are some of the timely questions that need to be addressed.



The current state of the world shows significant **economic disparity** among citizens worldwide. Additionally, the degree of **citizen participation** in formulating political systems varies dramatically among countries. There are many democratic systems of government in the world and the number of democratic governments since World War I has increased. There are many non-democratic governments with limited citizen participation and therefore, viable economic, political, and social institutions have not developed. Sustainable globalization requires addressing existing economic and political disparities. Jeffrey Sachs's main message is to improve human well-being in a socially and environmentally conducive manner (Sachs, 2006). He states:

> "... to be able to advance the Enlightenment vision of Jefferson, Smith, Kant, and Condorcet, our generation's work can be defined in the Enlightenment terms:
>
> - To help foster **political systems** that promote human well-being based on the consent of the governed
> - To help foster **economic systems** that spread the benefits of science, technology to everyone in the world.
> - To help foster **international cooperation** in order to secure a perpetual peace.
> - To help promote science and technology in human rationality to improve the human condition." (Sachs, 2006)

1.8 The Base of the Pyramid Concept

The **Base of the Pyramid** (BoP) concept was introduced by C. K. Prahalad (see Figure 1.5). The main argument is that the BoP consists of approximately 5 billion people with an income of less than $2 per day, which constitutes a market that cannot and should not be overlooked (Prahalad, 2009).