



Designing a New Course: The Global Environment of Business

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Abstract. Businesses confront significant differences among countries in regard to industry structures as well as economic, political, societal, and technological forces. These differences create new challenges and opportunities for a business as it extends its activities internationally. Consequently, Business Schools must deal with the question of how best to develop skills in examining these differences in the business environment and in analyzing their implications for corporate strategies. This article presents a case-based course designed to achieve this objective. Cross-country comparisons add complexity to the subject matter, enrich analytical theories, and heighten the interest of students. The article discusses each section of the course, indicating issues that may be covered and summarizing cases that may be used. It also suggests literature references, websites and assignments. Ongoing changes in environmental forces create a need to update various teaching materials frequently. Lectures can supplement or replace cases. Students in different countries may appreciate course modifications that place greater emphasis on issues of importance to their particular region. The GEOB course design can readily accommodate such revisions and modifications.

Keywords: global environment of business, environmental forces, corporate strategies, international business issues, industry structure, macroeconomic variables, political variables.

1. Introduction

This article describes a course entitled The Global Environment of Business (GEOB). This course demonstrates the relationships among the major environmental forces, examines the ways in which they differ among nations and over time, and analyzes how they may impact corporate strategies. The introduction presents the conceptual framework, indicates how this framework facilitates the analysis of international business issues, and suggests where this course fits within a curriculum of international business education. The following six sections recommend themes and case studies that may form the structure for each component of the course. The final section suggests assignments that enable students to apply their acquired skills and insights to issues they find of particular relevance for their career, and it points to ongoing modification of course content to incorporate current developments. The Richard Ivey School of Business designed GEOB replaces two previous courses, economics and the political economy of business, and to add societal and technological issues - all within an international context. GEOB addresses the following five sets of environmental forces:

- Industry Structure: Responses to strategies of customers, suppliers and competitors, dependence of profitability on unique value-added attributes, and the shift of certain activities to low-wage countries;
- Macroeconomic variables: Income levels and growth rates, foreign exchange rates, inflation rates, interest rates, and unemployment rates;
- Political variables: Regulations, financial incentives, taxation, foreign investment restrictions, and international trade and investment agreements;
- Societal variables: Labour and environmental practices, ethics, corporate social responsibility, Boards of Directors, and demographics;
- Technological variables: Technological infrastructure and the pace and direction of technological changes, including in particular the Internet and e-business.

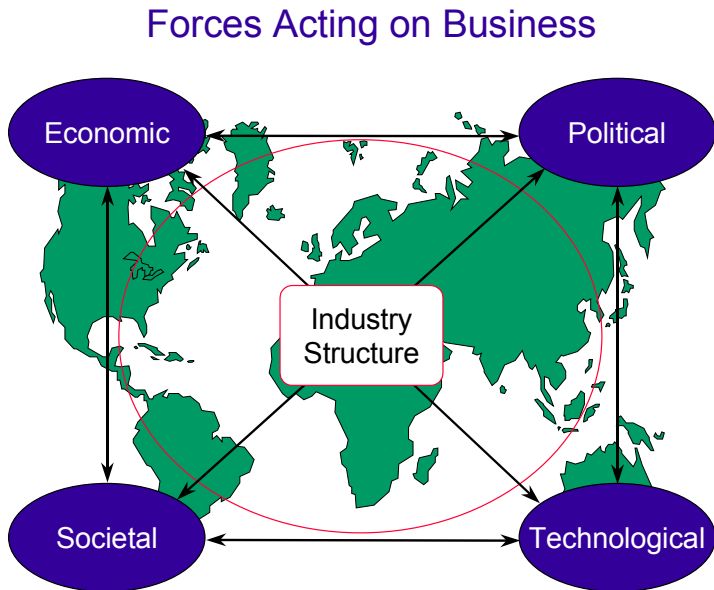
Diagram 1 opposite is a useful framework for an introductory discussion of these five sets of forces.

The process of internationalizing the subjects dealt with in GEOB changes their content. Broadening the scope of environmental forces to a global rather than a domestic context leads to cross-country comparisons that add complexity to the subject matter, enrich analytical theories, and heighten the interest of students. Students gain an appreciation for the many ways in which environmental forces interact, creating a set of risks and opportunities that are unique in each country and that must be evaluated in formulating trade and investment decisions.

Today, many students enter Business Schools after having acquired some international business experience, and many participants in Executive MBA programs work for international firms where they are exposed regularly to issues covered in the course. Consequently, case discussions involve insights based upon the students' actual experiences in other countries. For some Business Schools, a growing percentage of students now come from mainland China and Eastern European countries where experience in free enterprise markets is limited, as is knowledge of how government can conduct macro and micro economic policies. This shift in student composition adds to the importance of the GEOB course as a way of introducing students to these important market and political concepts. The influx of foreign students has exacerbated an existing difficulty, namely that some students have majored in economics while others have taken only an introductory undergraduate course.

The GEOB solution is to simplify economic analysis, minimizing the use of mathematics, and relying on literary frameworks for the analysis of industry structure. Course modifications can be developed to deal most effectively with the particular student composition of each class, and the needs of each program.

DIAGRAM 1



A difficult question in designing the course is where to draw the line - in regard to subject matter and perspectives - that separates it from other courses. "Strategy" and "General Management" pose a particular challenge in this regard, since GEOB analyzes the impact of external forces on corporate strategy. "Marketing" courses include game theory and "elasticity of demand" issues; "Information Systems" and "Operations" courses include e-business and "elasticity of supply" issues; and "Organizational Behaviour" or "Human Resource" courses deal with cross-cultural issues. A general answer to the question of subject matter boundaries is to draw the line at the factory gates or the corporate doorstep, with GEOB looking outward at external forces. However, the analysis of environmental impacts on the industry and firm require skill sets and analytical frameworks that are the focus of other courses, and so overlap cannot be eliminated. This feature means that GEOB plays the role of an integrative course, and is most successful when placed part way through a program.

2. The Dependence of Profitability on Industry Structure

This section presents several of the analytical frameworks and concepts that are used throughout the course, and it introduces a wide variety of issues that are analyzed more fully as the course proceeds. Cases illustrate the ways that microeconomic forces and industry structure constrain management decisions. Decision-making concerning prices to be charged and quantities to be produced requires that management understand customer, supplier, and competitor strategies, and these market realities vary among countries. Meanwhile, increases in wage levels in the more-developed nations may lead to a shift of activities to low-wage countries.

Conceptual frameworks used in analyzing industry structure include Michael Porter's "five forces model," through which each industry can be analyzed from the perspective of the rivalry among existing competitors, the threat of new entrants, the bargaining power of buyers, the threat of substitutes, and the bargaining power of suppliers.¹ A sixth force, the impacts of complementors, can be added to this model. Elements of microeconomic theory and game theory are analytical tools that help in the examination, of how a change in price will affect sales volumes and hence revenue, costs, and profits. Industry structures may differ significantly from one country to another, and these differences may provide a rationale for international investment. International investment can enable a firm to increase its profitability by shifting from a market where it has no significant competitive advantage to a market where its activities are unique. Strong competitors can limit expansion opportunities in a firm's home country, while the firm may benefit from a monopoly position if it invests in a foreign market. Important differences in industry structures among countries can result from any of the environmental forces: for example, levels of economic development, types of political regulations, preferences of consumers, or elements of technologies. As Douglas North has discussed, many of a country's institutions can shape an industry's international competitiveness.²

Some industry structures can lead to a "game" among participants in the sense that the actions of one participant will impact on the profitability of other participants. Decisions must be undertaken based upon an evaluation of a series of possible outcomes, where each outcome depends upon the reaction of others in the industry. From this perspective, Brandenburger and Nalebuff have suggested a useful framework for the analysis of industry (Diagram 2).³

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 2. North, D. *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, 1990.
 3. Brandenburger, A. M. and Nalebuff, B. J. "The Right Game: Use Game Theory to Shape Strategy," *Harvard Business Review* (July/August 1995): 57-71.