

ACROSS MARKETS AND BORDERS

Enterprise, Trade and Leadership with Purpose and Integrity

PART I | FOUNDATIONS OF TRUTHFUL BUSINESS INQUIRY

CHAPTER 1

GLOBAL BUSINESS FOUNDATIONS

Markets, Institutions, Firms and the Logic of Cross-Border Enterprise

Sixbert SANGWA

Department of International Business and Trade
African Leadership University, Kigali, Rwanda

Open Christian Press

2026

CHAPTER 1 | GLOBAL BUSINESS FOUNDATIONS

Markets, Institutions, Firms and the Logic of Cross-Border Enterprise

Copyright © 2026 Sixbert SANGWA

First edition, 2026

Chapter DOI: <https://doi.org/10.65655/ocp.m23.c60>

Book DOI: <https://doi.org/10.65655/ocp.m23>

Author: Sixbert SANGWA

Affiliation: Department of International Business and Trade, African Leadership University, Kigali, Rwanda

Corresponding author: ssangwa@alueducation.com

Publisher: Open Christian Press, a publishing imprint of Open Christian University and Center for Faith and Work.

Publisher website: press.openchristian.education

Publisher correspondence: editor@openchristian.education

Scripture notice. Unless otherwise indicated, Scripture references are to the Christian Standard Bible (CSB). Scripture quotations, where used, are from the Christian Standard Bible, Copyright 2017 by Holman Bible Publishers. Used by permission. Christian Standard Bible and CSB are federally registered trademarks of Holman Bible Publishers.

Suggested citation. Sangwa, S. (2026). Global business foundations: Markets, institutions, firms and the logic of cross-border enterprise. In *Across Markets and Borders: Enterprise, Trade and Leadership with Purpose and Integrity*. Open Christian Press. <https://doi.org/10.65655/ocp.m23.c60>

Abstract. This chapter establishes the economic, institutional, organizational and moral map for the entire textbook. It explains business as organized human cooperation that creates, delivers and captures value under conditions of scarcity, uncertainty and institutional constraint. Readers learn how opportunity cost, incentives, demand, supply, elasticity, production, cost and marginal reasoning illuminate managerial choices without reducing enterprise to equations. The chapter then examines why firms exist, how boundaries between markets and organizations are chosen, how business models connect value creation with value capture, and how core business functions operate as an interdependent system. It extends the analysis to political, economic, social, technological, legal, environmental and institutional environments; globalization, regionalization and geoeconomic fragmentation; international and African institutions; multinational enterprise, global value chains and cross-border risk. African evidence and cases are analytically central. A Christian moral framework treats enterprise as stewardship and service, distinguishing efficient exchange from moral legitimacy and profitable opportunity from responsible action.

Keywords: global business; business economics; markets; institutions; theory of the firm; transaction costs; business models; African enterprise; globalization; cross-border enterprise

Learning Outcomes

By the end of this chapter, the reader should be able to:

- 1 Define business and enterprise in terms of value creation, exchange, organization, value capture, stakeholder relationships, vocation and stewardship, while distinguishing profitability from moral purpose.
- 2 Apply scarcity, opportunity cost, incentives and marginal reasoning to practical business choices and explain the limits of purely economic optimization.
- 3 Analyze demand and supply, solve simple market-equilibrium problems, and calculate and interpret key elasticities for managerial decisions.
- 4 Explain production, cost, break-even and market-structure foundations without confusing accounting cost, economic cost, price and value.
- 5 Compare major theories of the firm, including transaction-cost, property-rights, agency, capability and institutional/stakeholder perspectives, and explain how they illuminate organizational boundaries.
- 6 Distinguish a business model from strategy and describe how customer value, resources, activities, partners, revenues, costs, cash and governance fit together.
- 7 Map the interdependence of finance, marketing, operations, people, technology, evidence, strategy and governance across an enterprise.
- 8 Conduct a disciplined PESTLE-I scan and explain how formal rules, informal norms, enforcement and administrative capacity shape business behavior.
- 9 Distinguish globalization, regionalization, digital globalization and fragmentation, using current evidence rather than slogans about either a borderless world or universal deglobalization.
- 10 Describe the introductory roles of major international and African institutions shaping commerce and explain why institutional scale does not remove the need for critical evaluation.
- 11 Identify the basic logic of multinational enterprise, global value chains and cross-border risk without pre-empting the advanced theories developed in Chapters 14–19.
- 12 Apply Christian moral reasoning and serious alternative ethical perspectives to questions of market limits, legitimate profit, stewardship, human dignity, justice, sovereignty and the common good.

Concept Map and Chapter Roadmap

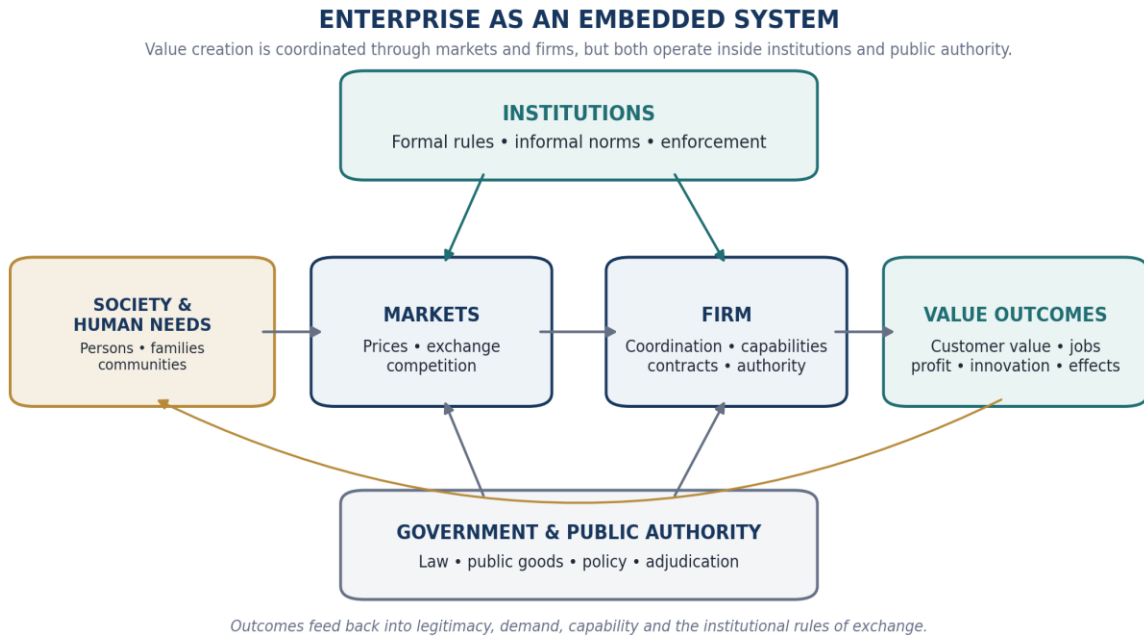


Figure 1.1. Enterprise as an embedded system of human cooperation, market exchange and institutions.

Source: Author's synthesis, drawing on Coase (1937), North (1991), Williamson (2000), and stakeholder/institutional perspectives.

The chapter proceeds from the inside out. It begins with the purpose and economic logic of enterprise, then explains how markets coordinate decentralized activity and why organizations nevertheless arise. It next shows how the firm combines functions through a business model, how external institutions shape what is feasible and legitimate, and how these relationships become more complex when the enterprise crosses borders. The final sections apply the framework to African business environments, globalization and institutional power, and then integrate economic analysis with moral reasoning. This sequencing is deliberate: later chapters deepen one part of the map rather than rebuilding the map itself.

Opening Case: MTN Group and the Reality of Cross-Border Enterprise

At the end of 2025, MTN Group reported operations across 16 markets, 307.2 million customers, 172.6 million active data users and 69.5 million monthly active Mobile Money users. Its fintech platforms processed 23.3 billion transactions with a reported transaction value of US\$500.3 billion, while the Group invested R38.5 billion in capital expenditure excluding leases (MTN Group, 2026a, 2026b). These numbers describe scale, but they do not by themselves explain the business. The deeper question is how one enterprise can coordinate networks, agents, data systems, capital, human capabilities, regulators, local currencies and customer relationships across multiple institutional environments.

MTN illustrates why introductory business education cannot begin with a single function. A telecom network is simultaneously an economic system, an organization, an infrastructure operator, a technology platform, an employer, a regulated license-holder and, increasingly, a financial-services intermediary. A pricing decision can affect demand, network congestion, affordability and regulatory relations. A network-investment

decision depends on expected traffic, capital cost, energy reliability, foreign-exchange exposure and long-lived asset commitments. A Mobile Money expansion may reduce transaction frictions and widen access, yet it also creates obligations concerning consumer protection, fraud, privacy, liquidity, cybersecurity and compliance. An outage can be an operational failure, a contractual problem, a reputational shock and, where connectivity is socially critical, a matter of public consequence.

The cross-border dimension multiplies these interactions. The firm does not meet “Africa” as one homogeneous market. It encounters different licensing systems, currencies, infrastructure constraints, purchasing-power distributions, competitive structures, political risks, linguistic communities and informal institutions. A managerial practice that is efficient in one setting may be illegal, socially unacceptable or operationally impossible in another. Conversely, local adaptation without common standards can fragment systems, raise cost and weaken control. The management problem is therefore not simply whether to be “global” or “local.” It is how to preserve a coherent economic and moral logic while operating through diverse institutional contexts.

The case also exposes a central distinction that will recur throughout this book: scale and profitability are evidence of organizational capability, not proof of moral legitimacy. MTN reports that its 2025 activities expanded broadband coverage and financial services, and it frames these outcomes as shared value (MTN Group, 2026a). Such company-reported claims are relevant but should not be treated as independent social-impact evaluation. The responsible analyst asks further questions. Were customers able to understand the terms they accepted? Were vulnerable customers protected from exploitative practices? Were workers and contractors treated justly? Did pricing and investment decisions balance commercial sustainability with the responsibilities attached to essential infrastructure? Did the company resist corruption and misuse of customer data? The fact that a transaction is voluntary or legal does not answer every moral question.

Table 1.1. MTN Group as an enterprise-in-context: selected 2025 operating signals

Signal	Reported 2025 value	What Chapter 1 asks the reader to notice
Operating footprint	16 markets	The “same firm” operates inside different legal, currency, infrastructure and political systems.
Customers	307.2 million total; 172.6 million active data users	Scale creates opportunities but also raises capacity, affordability, inclusion and responsibility questions.
Mobile Money	69.5 million monthly active users; 23.3 billion transactions; US\$500.3 billion transaction value	A telecom firm can become a payments platform, changing its business model and institutional exposure.
Network investment	R38.5 billion capex excluding leases	Value delivery depends on capital-intensive physical infrastructure, regulation, energy and supplier ecosystems.
Cross-border remittances	US\$6.2 billion enabled through MoMo	Digital services connect national markets while remaining subject to financial, data and compliance institutions.

Source/Note: MTN Group (2026a, 2026b). Figures are company-reported and should be interpreted with normal reporting caveats.

MANAGERIAL INSIGHT | What the MTN case teaches before any specialized course

The first task of a manager is not to reach immediately for a fashionable framework. It is to identify the system being managed. What value is being created? Which scarce resources and capabilities make that value possible? Which prices and incentives coordinate exchange? Which activities are inside the firm and which are contracted? Which institutions define rights and constraints? Which cross-border exposures can change the economics? Which persons and communities bear the consequences? Chapter 1 builds that map; later chapters provide specialized instruments for each part of it.

The opening case therefore gives the chapter its central problem: **How should we understand enterprise when markets, organizations, governments, technologies, cultures and moral responsibilities interact across borders?** The answer requires economics, but not economics alone. It requires an account of institutions, firms, business models, power, risk and human purposes.

1.1 Why Global Business Foundations Matter

A student can learn accounting ratios, advertising tactics, logistics formulas or valuation techniques and still lack a coherent understanding of what a business is. Specialized knowledge becomes dangerous when its assumptions remain invisible. A marketer may maximize conversion while damaging trust. A finance manager may lower reported cost while shifting hidden risk into a supply chain. A strategist may pursue market power without asking whether the resulting conduct is just. A policymaker may celebrate trade growth without examining adjustment costs or local productive capacity. Chapter 1 therefore provides a common language for asking what economic activity is doing, how it is coordinated, who has power, what institutions make exchange possible, and where technical efficiency reaches its moral and analytical limits.

The approved scope is intentionally foundational. This chapter owns the introductory economic and institutional logic required for the rest of the book. It introduces market coordination, production and cost, the firm, business models, the external environment, globalization, African institutional diversity and cross-border exposure. It does **not** teach the detailed theory of comparative advantage and open-economy macroeconomics reserved for Chapter 14; the full theory of internationalization and multinational configuration reserved for Chapter 15; the strategic-management frameworks owned by Chapter 12; or the doctrinal trade-law, international-finance and investment tools developed in Chapters 17–19. Where these subjects appear here, they are signposts rather than substitutes.

This first chapter also has no preceding chapter from which to inherit assumptions. It therefore establishes several disciplines that every later chapter will preserve. First, positive analysis asks what is happening and through what causal mechanism; normative analysis asks what ought to be done. Second, price, profit and growth are important economic signals but not complete measures of human value. Third, evidence has scope conditions. A national indicator does not describe every firm, a company annual report does not independently verify social benefit, and a model projection is not an observed fact. Fourth, institutions should be examined neither with automatic deference nor automatic suspicion. Their rules, incentives, powers, accountability, distributional consequences and implementation capacity must be assessed.



Figure 1.2. How Chapter 1 connects the seven parts of Across Markets and Borders.

Source: Book architecture.

1.2 What Is Business? Value Creation, Exchange and Organized Cooperation

1.2.1 From transaction to enterprise

At its simplest, a business participates in repeated economic exchange by offering goods, services, experiences, access, information or rights that another party values enough to give up something in return. Exchange alone, however, does not define an enterprise. A durable enterprise must coordinate resources and relationships over time. It must decide what to produce, for whom, through which activities, with which assets and people, under which rules, and how sufficient value will be captured to sustain or renew the activity.

A useful working definition is therefore: **business is the organized process of creating, delivering and capturing economic value through exchange, within a network of contractual, institutional and social relationships.** “Economic value” in this definition does not mean that money is the only form of value. It means that the enterprise must make choices under scarcity and must maintain an economic logic sufficient for survival. A hospital, cooperative, social enterprise and investor-owned corporation may differ in ownership and mission, but each still allocates scarce resources, incurs opportunity costs and faces constraints. A non-profit organization may not distribute profit, yet it must remain solvent. A family enterprise may pursue continuity and community reputation alongside financial return. A publicly owned enterprise may carry policy objectives but must still confront costs and capacity.

Value creation and value capture should be kept analytically distinct. **Value creation** concerns the benefit produced for customers or users relative to alternatives. **Value delivery** concerns the processes and relationships by which that benefit becomes accessible and reliable. **Value capture** concerns the portion of

created value retained by the enterprise and its financial claimants through revenue, margin, fees, rent, royalties or other mechanisms. An enterprise that captures value without creating corresponding legitimate benefit is vulnerable to exploitation, regulatory response or loss of trust. An enterprise that creates substantial value but cannot capture enough to cover its costs may be socially useful yet economically unsustainable. The challenge is to connect real usefulness with viable economics.

1.2.2 Profit: necessary signal, incomplete purpose

Profit performs several important roles in a market economy. It can signal that customers value an offering more than the resources consumed in producing it, reward risk-bearing and innovation, finance reinvestment, attract capital and discipline persistent waste. Losses can signal that resources could be used better elsewhere. These functions are real, but they operate under conditions. Profit can also arise from monopoly power, regulatory privilege, information asymmetry, extraction from captive customers, externalization of costs or corruption. Economic analysis therefore asks **how** profit is generated, not merely whether it exists.

Accounting profit and economic profit are also different. Accounting profit deducts recognized accounting expenses from revenue. Economic profit additionally considers the opportunity cost of resources supplied by owners and other implicit costs. A founder who leaves a secure salary to run a venture, for example, incurs an opportunity cost even if no wage payment appears in the accounts. This distinction matters because a venture may report positive accounting profit while failing to compensate capital and effort for their best alternative use.

Economic profit = Total revenue - Explicit costs - Implicit opportunity costs

Economic profit is an analytical concept. Financial reporting follows accounting standards and should not be replaced by informal economic-profit calculations.

The deeper issue is purpose. Shareholder-value approaches emphasize a clear objective for managerial accountability and warn that vague multi-objective mandates can shelter managerial self-interest (Jensen, 2001). Stakeholder theory distinguishes descriptive, instrumental and normative claims and argues that the corporation has relationships with multiple groups whose interests cannot be treated as mere constraints around shareholder wealth (Donaldson & Preston, 1995). These perspectives should not be caricatured. A disciplined manager needs a clear performance logic, yet clarity does not make any profitable act legitimate. Later chapters examine strategy and governance in depth; here the foundational point is that **economic viability is indispensable, but profitability alone does not answer what the enterprise is for or what it may rightly do.**

CRITICAL DEBATE | Can “shareholder value” and “stakeholder responsibility” be reconciled?

A strong answer must separate several questions. What metric disciplines managerial choice? Who bears residual risk? Which stakeholder interests are contractual rights, legal duties, prudential constraints or independent moral claims? How are trade-offs resolved when interests conflict? Long-run firm value may require responsible treatment of employees, customers, suppliers and communities, but this instrumental argument is not identical to the moral claim that persons possess dignity regardless of their contribution to shareholder wealth. Chapter 13 returns to this distinction through corporate governance and moral reasoning.

1.2.3 Enterprise as vocation and stewardship

Within a Christian moral anthropology, economic activity begins with persons rather than abstractions. Human beings are created with dignity and agency, called to cultivate, order and care for the created world rather than merely consume it ([Genesis 1:26-28](#); [Genesis 2:15](#)). Work can therefore be understood as a sphere of service, creativity, provision and stewardship. This does not imply that every enterprise has a religious

product or that commercial competence can be replaced by piety. It means that business decisions concern entrusted resources, relationships and power for which persons remain accountable.

Stewardship changes the question from “How much can I extract?” to “What has been entrusted to me, for what legitimate purpose, and with what responsibilities?” It affirms productive profit when profit results from honest value creation and prudent stewardship. It also places moral constraints on means. Dishonest weights are condemned precisely in the context of exchange ([Proverbs 11:1](#)). The economic intelligence of a transaction does not excuse deception. Scripture also treats faithfulness in entrusted responsibility as a moral requirement ([1 Corinthians 4:2](#)). These claims are theological and normative; they should not be misrepresented as empirical propositions about which governance structure maximizes return. Christian moral reasoning and business economics address different but interacting questions.

1.3 Scarcity, Choice and Opportunity Cost

1.3.1 Scarcity is the starting condition

Economics begins from scarcity: human wants and possible uses of resources exceed the resources available at a given time. Scarcity does not mean that every resource is physically rare. It means that using time, money, land, labor, attention, computing capacity or managerial effort for one purpose normally limits its availability for another. Business is therefore saturated with trade-offs. A firm cannot allocate the same dollar simultaneously to network expansion, employee development and dividends. A manager cannot spend the same hour both negotiating a supplier contract and coaching a team. A government cannot devote the same fiscal capacity to every desirable public project.

Scarcity is analytically neutral about morality. It tells us that choices must be made; it does not tell us which choice is right. Ethical reasoning enters when we ask what purposes deserve priority, which claims are legitimate, who bears the cost of a decision, and whether some options are morally prohibited even when economically attractive.

1.3.2 Opportunity cost

The **opportunity cost** of a choice is the value of the best feasible alternative forgone. This is more demanding than “money spent.” Suppose a warehouse owned by a firm could be rented to another business for US\$60,000 per year. If the firm uses it internally, the warehouse may have no rental payment in its accounting expense, but using it still sacrifices the US\$60,000 rental opportunity. Similarly, using retained earnings for an expansion imposes an opportunity cost equal to the return those funds could have earned in the best alternative of comparable risk.

Opportunity cost improves decision quality because it exposes false claims that an internally owned resource is “free.” It also prevents sunk costs from dominating future decisions. A **sunk cost** has already been incurred and cannot be recovered by the current choice. Rational forward-looking analysis compares incremental future benefits and costs, not the desire to justify past spending. That principle is conceptually simple and psychologically difficult. Chapter 5 examines cognitive biases that make such errors persistent.

WORKED EXAMPLE | Opportunity cost of an owner-managed enterprise

A founder earns an accounting profit of US\$45,000 after all recorded expenses. The founder could earn US\$30,000 in comparable employment, and the US\$100,000 invested in the business could earn 8% in an investment of comparable risk. Ignoring other implicit costs, economic profit is $\text{US\$45,000} - \text{US\$30,000} - \text{US\$8,000} = \text{US\$7,000}$. The business is profitable in both accounting and economic terms, but the economic surplus above the founder’s next-best alternatives is much smaller than the accounting figure suggests.

1.3.3 Incentives and unintended consequences

An **incentive** changes the expected benefit or cost of an action. Prices, wages, bonuses, taxes, penalties, reputation, promotion opportunities and social norms all affect incentives. Incentive analysis is powerful because policies and organizational systems often change behavior in ways their designers did not intend. A sales bonus based only on revenue may encourage excessive discounting or unsuitable selling. A procurement rule designed to minimize invoice cost may incentivize suppliers to reduce hidden quality. A regulatory fee may discourage entry or, if well designed, fund a public service that makes entry safer and more predictable.

Incentive analysis should not be confused with the claim that people respond only to money. Identity, conscience, fairness, habit, professional norms and intrinsic motivation also influence behavior. Treating every relationship as a price mechanism can crowd out trust or vocation. The responsible analyst asks what behavior a system rewards, what behavior it ignores, and whether the metric can be gamed.

1.3.4 Marginal reasoning

A **marginal** quantity is the change associated with one additional unit or a small change in activity. Marginal reasoning asks whether the incremental benefit of an action exceeds its incremental cost. The general economic decision rule is to expand an activity while expected marginal benefit exceeds expected marginal cost and to stop at the point where the two are equal, subject to constraints and uncertainty.

Choose the next unit if Expected marginal benefit > Expected marginal cost

The rule is an economic decision aid, not a moral permission slip. Some actions remain prohibited even when expected private benefit exceeds private cost.

Consider an airline deciding whether to sell a remaining seat shortly before departure. Many flight costs are already fixed. The marginal cost of one additional passenger may be much lower than average cost, so accepting a price below average cost can still increase contribution to profit if the fare exceeds the passenger's incremental cost and does not undermine other constraints. Conversely, a factory considering a permanent capacity expansion must consider long-run marginal costs, capital commitments and demand uncertainty, not merely short-run variable cost.

1.4 How Markets Coordinate Economic Activity

Markets are institutions of exchange in which decentralized parties interact through prices, contracts, expectations and rules. They can coordinate vast amounts of dispersed information without a single planner knowing every local condition. Hayek (1945) emphasized that knowledge about preferences, resources and circumstances is distributed across persons; prices can communicate condensed signals about relative scarcity. Yet markets do not operate outside institutions. Property rights, contract enforcement, currency systems, standards, trust and dispute resolution shape whether price signals can be acted upon at all (North, 1991).

Table 1.2. Economic coordination: markets, firms, hybrids and public institutions

Mechanism	Primary coordinating signal	Strength	Characteristic limitation
Market	Prices and contracts	Decentralized discovery; choice; adaptation when information is dispersed	Externalities, market power, information asymmetry, missing markets and unequal bargaining power can distort outcomes.

Mechanism	Primary coordinating signal	Strength	Characteristic limitation
Firm / hierarchy	Managerial authority, routines and internal transfer prices	Coordinates interdependent tasks and specific assets; protects proprietary knowledge	Bureaucratic cost, weak internal price signals, agency problems and organizational inertia.
Hybrid / network	Contracts plus relational governance	Combines specialization with collaboration; useful under repeated exchange	Complex accountability, hold-up risk, partner dependence and ambiguous control.
Public institution	Law, regulation, taxation, public provision and adjudication	Defines rights, provides public goods, corrects some market failures and stabilizes expectations	State failure, corruption, capture, information problems, coercive overreach and implementation gaps.

Source/Note: Author's synthesis based on Coase (1937), North (1991), Williamson (2000), Akerlof (1970) and public-economics foundations.

1.4.1 Demand

Demand describes the quantities of a good or service buyers are willing and able to purchase at alternative prices over a specified period, holding other relevant factors constant. The law of demand states that, other things equal, quantity demanded generally falls as price rises. The phrase “other things equal” is essential. A movement **along** a demand curve results from a change in the product’s own price. A **shift** in demand results from changes in income, preferences, expectations, population, the prices of substitutes or complements, financing conditions or other determinants.

For business decisions, demand is not merely “interest.” A person may desire a product but lack purchasing power or access. Nor should historical sales be equated with demand. Sales reflect demand under a particular price, supply capacity, channel availability and competitive environment. A stockout can make observed sales lower than underlying demand; heavy discounting can make sales higher than would persist at normal prices.

A simple linear demand function can be written as:

$$Q_d = a - bP$$

Q_d is quantity demanded, P is price, a captures the intercept under specified conditions, and $b > 0$ measures the slope. Real demand is often nonlinear and affected by many variables.

1.4.2 Supply

Supply describes the quantities sellers are willing and able to offer at alternative prices over a specified period, holding other factors constant. Quantity supplied typically rises with price because higher prices can cover higher marginal costs and attract capacity. Supply shifts when input prices, technology, taxes, regulation, weather, infrastructure, expectations, the number of sellers or production capacity change.

In cross-border business, what appears to be a demand problem may actually be a supply or access problem. A product can have strong customer preference but remain scarce because customs delays, port congestion, foreign-exchange shortages, energy interruption or certification requirements restrict effective supply. Conversely, a productivity improvement may expand supply and reduce equilibrium price even when customer preferences do not change.

1.4.3 Market equilibrium and disequilibrium

In the simplest competitive model, equilibrium occurs where quantity demanded equals quantity supplied. The equilibrium price is not morally “correct”; it is the price at which the modeled plans of buyers and sellers are mutually compatible under the assumed conditions. When price is above equilibrium, excess supply creates downward pressure; when below equilibrium, excess demand creates upward pressure, although real-world adjustment can be slow because of contracts, regulation, search cost or market power.

WORKED EXAMPLE | Solving a market equilibrium and interpreting a supply shock

Suppose monthly demand is $Q_d = 10,000 - 200P$ and supply is $Q_s = 1,000 + 100P$. Setting $Q_d = Q_s$ gives $10,000 - 200P = 1,000 + 100P$, so $9,000 = 300P$ and the equilibrium price is $P = 30$. Substituting $P = 30$ gives $Q = 4,000$ units. Now suppose a logistics shock shifts supply to $Q_s = 400 + 100P$. The new equilibrium satisfies $10,000 - 200P = 400 + 100P$, giving $P = 32$ and $Q = 3,600$. The model predicts a higher price and lower quantity. Whether a particular real market adjusts this way depends on contract structures, inventories, competition, regulation and the duration of the shock.

The distinction between movement and shift is one of the most common sources of analytical error. A price increase caused by a supply disruption does not mean “demand increased.” Likewise, an increase in income that shifts demand outward is not itself a movement along the same curve. Business analysts should identify the causal variable before attributing market change.

1.4.4 Elasticity: measuring responsiveness

Elasticity converts a change into a proportional response, making comparisons possible across products and units. The **price elasticity of demand** is the percentage change in quantity demanded divided by the percentage change in price. For most ordinary goods it is negative, but managers commonly discuss its absolute magnitude. If $|\text{epsilon}_p| > 1$, demand is price elastic; if $|\text{epsilon}_p| < 1$, it is inelastic; if equal to one, it is unit elastic.

$$\text{Price elasticity of demand} = (\% \text{ change in quantity demanded}) / (\% \text{ change in price})$$

Use the midpoint method for changes between two observed points when the direction of movement should not alter the estimate.

Suppose price rises from US\$20 to US\$22 while quantity demanded falls from 1,000 to 900 units. Using the midpoint method, the percentage quantity change is $-100/950 = -10.53\%$, while the percentage price change is $2/21 = 9.52\%$. Elasticity is approximately -1.11 . Demand is slightly elastic over this range. Revenue moves from US\$20,000 to US\$19,800, consistent with the general rule that a price increase tends to reduce total revenue when demand is elastic, all else equal.

Elasticity is not a permanent property of a product. It varies by customer segment, geographic market, time horizon, competitive alternatives, product definition, share of customer income and urgency. Insulin for a specific patient and “health products” are not the same market definition. A commuter may have few substitutes today but more after relocation or new transit investment. Managers should therefore resist quoting an elasticity estimate without its context and confidence range.

Table 1.3. Elasticity measures and their managerial interpretation

Measure	Formula / sign	What it asks	Typical managerial use
Price elasticity of demand	$\% \Delta Q_d / \% \Delta P$; usually negative	How responsive is quantity demanded to the product's own price?	Pricing sensitivity, revenue effects, demand forecasting.

Measure	Formula / sign	What it asks	Typical managerial use
Income elasticity of demand	$\% \Delta Q_d / \% \Delta \text{Income}$	How does demand change as customer income changes?	Market selection and exposure to business cycles.
Cross-price elasticity	$\% \Delta Q_x / \% \Delta P_y$	How does demand for X respond to the price of another good Y?	Identifying substitutes and complements.
Price elasticity of supply	$\% \Delta Q_s / \% \Delta P$; usually positive	How quickly can suppliers expand or contract output as price changes?	Capacity planning, sourcing and shortage risk.

Source/Note: Elasticities are local estimates, not permanent product labels. They vary by time horizon, segment, geography, available substitutes and market conditions.

MANAGERIAL INSIGHT | Elasticity is a decision variable only when the estimate is credible

A spreadsheet that multiplies a guessed elasticity by a planned price change can create false precision. Before acting, ask how the estimate was obtained, whether the relevant segment and time period match the decision, whether competitors may respond, whether capacity is constrained, and whether the price change alters perceived quality or trust. Chapter 4 develops statistical estimation; Chapter 10 develops pricing and customer behavior; Chapter 16 considers cross-border pricing.

1.5 Production, Cost and the Economic Logic of the Firm

The approved chapter architecture centers on scarcity, markets and the firm. The Business Economics curriculum also requires a minimal production-and-cost foundation because firm boundaries, pricing and scale cannot be understood without it. This section therefore introduces reusable concepts while leaving accounting treatment to Chapter 9, operational process design to Chapter 11 and competitive strategy to Chapter 12.

1.5.1 Production functions and productivity

A **production function** describes the maximum output obtainable from combinations of inputs under a given technology and organizational arrangement. In abstract form:

$$Q = f(L, K, M, T, O)$$

Q is output; L labor; K capital; M materials/other inputs; T technology; O organizational capability. The exact variables and functional form depend on the production setting.

In the **short run**, at least one relevant input is fixed; in the **long run**, all inputs can in principle be varied. These are analytical definitions, not calendar periods. A cloud-software firm may change server capacity rapidly while a utility requires years to build physical infrastructure.

The law of diminishing marginal returns states that, holding other inputs fixed, adding successive units of a variable input will eventually yield smaller increments to output. If a small workshop adds workers without expanding machines or floor space, congestion may reduce the additional output of each worker. This does not mean technology cannot raise productivity. It means that an input's productivity depends on complementary inputs and organization.

Productivity measures output relative to input. Labor productivity, for example, may be output per worker or per hour. High productivity can reflect technology, skills, management quality, capital intensity, scale, infrastructure and market conditions. It should not be interpreted as a moral measure of worker worth. Human dignity is not a productivity score.

1.5.2 Cost concepts for managerial reasoning

Fixed costs do not vary with output over the relevant range and period; **variable costs** do. **Total cost** is their sum. **Average cost** divides total cost by output, while **marginal cost** is the additional cost of producing one more unit. These distinctions matter because average cost can fall as fixed cost is spread across more output, while marginal cost may eventually rise when capacity becomes constrained.

$$TC = FC + VC; \quad AC = TC / Q; \quad MC = \Delta TC / \Delta Q$$

Cost classifications depend on the time horizon and decision. A cost that is fixed this month may be variable over three years.

Economies of scale occur when long-run average cost falls as output increases, often because fixed costs are spread, specialization improves, purchasing power rises or technology is used more intensively. **Diseconomies of scale** can arise when complexity, bureaucracy, coordination failures or distance raise average cost. **Economies of scope** arise when producing multiple products together is less costly than producing them separately because they share assets, data, distribution, brand or capabilities.

Scale is therefore not automatically efficient. A larger enterprise may obtain purchasing and financing advantages while simultaneously becoming harder to coordinate and less responsive to local information. This trade-off is especially important for multinational firms, where common platforms can generate scale but institutional diversity raises adaptation and control costs.

1.5.3 Break-even analysis

Break-even analysis asks how much must be sold for contribution margin to cover fixed cost. If price and variable cost per unit are constant:

$$\text{Break-even quantity} = \text{Fixed cost} / (\text{Price per unit} - \text{Variable cost per unit})$$

The denominator is the contribution margin per unit. The formula is a planning approximation and becomes unreliable when price, variable cost, product mix or capacity changes materially with volume.

If a service costs US\$100,000 per year in fixed infrastructure, sells for US\$25 per subscription and incurs US\$10 of variable cost per subscription, contribution is US\$15. Break-even volume is $100,000/15 = 6,667$ subscriptions, rounded up. The result does not establish that the project is attractive: the manager must still consider opportunity cost of capital, uncertainty, customer acquisition, taxes, timing of cash flows, strategic effects and moral/legal constraints.

1.6 Market Structure, Power and the Limits of the Competitive Benchmark

Introductory supply-and-demand diagrams often assume many buyers and sellers, good information and limited power over price. Real markets vary. **Perfect competition** is a theoretical benchmark in which firms are price takers. **Monopolistic competition** combines many sellers with differentiated offerings. **Oligopoly** contains a small number of strategically interdependent sellers. **Monopoly** places a market under one seller, although the practical degree of monopoly depends on market definition and entry barriers. Buyer power can also be concentrated, producing **monopsony** or **oligopsony** conditions.

Market structure changes managerial discretion and social risk. A firm with market power may price above marginal cost, shape standards, control access to data or distribution, and influence suppliers. Some market power is a reward for genuine innovation and differentiation; some is sustained by network effects, switching costs, scarce licenses, regulation, intellectual property, exclusionary conduct or control of infrastructure. The relevant question is not “big firm equals bad firm” or “market success equals legitimacy.” It is what creates the power, how contestable the market is, how the power is used, and what legal and moral responsibilities follow.

The market-structure overview here is intentionally limited. Industry analysis, rivalry, strategic groups and competitive positioning belong to Chapter 12. Digital platform economics and network effects are developed in Chapter 20. Chapter 13 examines governance and abuses of power. The foundational lesson is simply that **price signals operate inside structures of bargaining power and institutional rules**.

1.7 Market Failure, Government Failure and Institutional Humility

Markets coordinate many activities effectively, but certain conditions can prevent private exchange from producing socially desirable outcomes. **Externalities** arise when actions impose benefits or costs on parties not fully reflected in the transaction price. Pollution is the familiar negative example; knowledge spillovers can be positive. **Public goods** are non-rival and difficult to exclude non-payers from, creating under-provision incentives. **Information asymmetry** can cause adverse selection or moral hazard; Akerlof’s (1970) “lemons” analysis showed how quality uncertainty can degrade exchange. **Market power** can distort prices and restrict output. Incomplete contracts and coordination failures can also prevent mutually beneficial outcomes.

These conditions provide rationales for institutions, regulation, taxes, standards, disclosure, public provision or collective action. They do not imply that any government intervention is automatically superior. Public authorities also face information constraints, political incentives, corruption, regulatory capture, bureaucratic delay and enforcement limits. A rule designed in theory may perform poorly in practice if administrative capacity is weak or if compliance cost excludes smaller firms. The serious analyst compares **institutional alternatives**, not an idealized government with a flawed market or an idealized market with a flawed state.

Coase’s broader institutional insight is useful here: the relevant world contains positive transaction costs. Rights, bargaining, enforcement and organizational form matter. North (1991) similarly defines institutions as the formal rules and informal constraints that structure interaction. The quality of institutions affects uncertainty and the cost of exchange, but “institutional quality” is multidimensional and contested. A country can have fast business registration yet costly border procedures; strong formal rules yet uneven enforcement; extensive regulation yet weak public services.

POLICY LENS | Efficiency, justice and legitimacy are separate tests

A policy can improve measured efficiency while distributing costs unjustly. A policy can pursue a just aim with ineffective instruments. A policy can be legal yet violate legitimate conscience or subsidiarity. Good policy analysis therefore asks at least four questions: Does the intervention address a real problem? Is there evidence that the chosen instrument works? Who gains and who bears the cost? Is the exercise of authority legitimate, proportionate and accountable? Later chapters apply these tests to trade, governance, technology and sustainability.

1.8 Why Firms Exist: From Market Transactions to Organizations

If markets can coordinate activity through prices, why do firms exist at all? This question transformed the theory of the firm. In a purely frictionless model, an entrepreneur could contract separately for every task. In reality, discovering prices, finding trustworthy partners, negotiating and enforcing contracts, adapting to

unforeseen events, protecting specific investments and coordinating interdependent work all consume resources. Coase (1937) argued that the firm emerges partly because using the price mechanism is costly. Activities may be organized internally when managerial coordination is less costly than repeated external contracting at the relevant margin.

The resulting insight is not “firms are cheaper than markets.” Sometimes the market is clearly superior. Specialized suppliers may have economies of scale, innovation capability and competitive discipline that an internal unit lacks. The boundary problem is comparative: **which governance arrangement best coordinates this particular activity under these particular hazards and capabilities?**

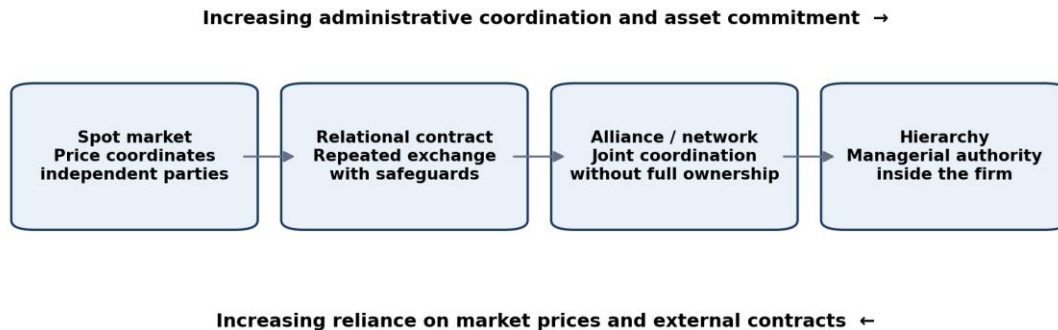


Figure 1.3. A simplified continuum of economic coordination.

Source: Author's synthesis based principally on Coase (1937) and Williamson (2000). The continuum is heuristic; real governance forms often combine mechanisms.

The modern theory-of-the-firm problem also arose in an economy increasingly characterized by large managerial hierarchies. Chandler (1977) documented how administrative coordination became economically consequential as enterprises expanded in scale and scope. At the same time, decision makers cannot know or contract for every future state of the world. Simon's (1955) bounded-rationality perspective helps explain why organizations rely on rules, routines and authority rather than continuously calculating a perfectly informed optimum. These historical and behavioral foundations complement, rather than replace, the comparative-governance logic developed below.

1.8.1 Transaction-cost economics

Williamson (2000) developed transaction-cost economics by focusing on the attributes of transactions and governance structures. Three ideas are particularly useful at introductory level. First, **asset specificity** exists when an investment is worth substantially more in a particular relationship than in its next-best use. A supplier that builds a component factory beside one buyer's plant may become vulnerable after making the investment. Second, **uncertainty** makes it difficult to write complete contracts. Third, **frequency** can justify governance arrangements that would be too expensive for occasional transactions.

When asset specificity and uncertainty are high, simple spot-market contracting may expose parties to hold-up, renegotiation or underinvestment. Long-term contracts, relational governance, joint arrangements or internalization can reduce these hazards, although they add administrative cost. The decision is therefore about safeguarding adaptation and cooperation, not just comparing quoted prices.

WORKED EXAMPLE | A simplified make-or-buy threshold

A manufacturer can internalize packaging at an annual fixed cost of US\$120,000 plus US\$8 per unit. An external supplier charges US\$13 per unit, while expected annual contracting, inspection and dispute-management costs are US\$30,000. Internal cost is therefore $120,000 + 8Q$; external economic cost is $30,000 + 13Q$. Setting them equal gives $90,000 = 5Q$, or $Q = 18,000$ units. Above 18,000 units, the simplified calculation favors internal production. But the decision is not complete: the firm must also compare quality, innovation, flexibility, capital constraints, asset specificity, supplier competition and the consequences of demand uncertainty.

The example shows why transaction costs are often hidden. A supplier's invoice is visible; procurement staff time, repeated quality failures, contract enforcement, delay and exposure to opportunism may be dispersed across departments. Conversely, internal bureaucracy, idle capacity and weak accountability can be equally hidden. Economic analysis should uncover both.

1.8.2 Property rights and incomplete contracts

Grossman and Hart (1986) and Hart and Moore (1990) shifted attention from transaction costs generally to ownership when contracts are incomplete. Because no contract can specify every future contingency, owners retain **residual control rights** over assets in unforeseen circumstances. Ownership can therefore affect incentives to make relationship-specific investments. If one party's investment is especially important and difficult to protect contractually, allocating control to that party may improve incentives, although integration can weaken the other party's incentives.

This perspective helps explain why ownership is not just a legal label. The right to decide how an asset is used when the contract is silent has economic value. In cross-border business, this becomes important when firms choose between ownership, licensing, partnerships and other arrangements. Detailed entry-mode theory belongs to Chapter 15; Chapter 1 establishes only the principle that control rights affect incentives and risk.

1.8.3 Resources, capabilities and knowledge

Transaction-cost theory explains why activities may be governed differently, but it does not fully explain why some firms perform persistently better. Resource- and capability-based perspectives emphasize heterogeneity. Penrose (1959) treated the firm as a collection of productive resources whose services depend on managerial knowledge and use. Barney (1991) formalized the idea that valuable, scarce and difficult-to-imitate resources can support sustained advantage. Teece, Pisano, and Shuen (1997) later emphasized **dynamic capabilities**, the capacity to integrate, build and reconfigure competences as environments change.

At this introductory stage, the central idea is modest: a firm is not merely a legal container or production function. It can accumulate routines, relationships, reputation, data, technology, tacit knowledge, culture and coordination skills that cannot be purchased instantly in an open market. This helps explain both diversification opportunities and organizational rigidity. Capabilities can create value, but yesterday's capability can become tomorrow's constraint. The full strategic implications, including VRIO and dynamic-capability analysis, belong to Chapter 12.

Knowledge also affects firm boundaries. Some knowledge is explicit and codifiable; other knowledge is tacit, embedded in practice and relationships. When transfer is difficult, firms may internalize activities to preserve learning or coordinate complex tasks. Yet internalization can also trap knowledge inside silos. Chapter 7 develops organizational knowledge and talent systems.

1.8.4 Agency theory and delegated authority

Agency theory focuses on delegation under divergent interests and asymmetric information. When owners or other principals delegate decision authority to managers or agents, monitoring, incentive design and residual losses can create agency costs (Jensen & Meckling, 1976). The lens is especially useful where ownership and control are separated, but it can become too narrow if every organizational relationship is reduced to opportunism. Detailed board, ownership and governance mechanisms are reserved for Chapter 13.

1.8.5 Institutional and stakeholder perspectives

Firms operate within institutional environments that define legitimate forms of ownership, contracting, employment, disclosure and competition. North (1991) distinguishes formal constraints, such as constitutions, laws and contracts, from informal constraints, including norms, conventions and codes of conduct. The same formal contract can perform differently where trust, enforcement, professional norms or state capacity differ.

Stakeholder theory adds another dimension. Freeman (1984) framed the firm through its relationships with stakeholders, and later scholarship clarified distinct descriptive, instrumental and normative claims: firms are constituted through relationships with investors, workers, customers, suppliers, communities and public authorities. Donaldson and Preston (1995) further distinguish these claims. A firm may manage stakeholders because doing so improves performance, but the claim that a stakeholder deserves fair treatment is normative and cannot be reduced to profitability. This distinction is essential for intellectually honest faith integration. Christian teaching about human dignity is not validated merely because dignified treatment sometimes raises productivity. The moral claim stands even when fair treatment is costly.

Table 1.4. Competing perspectives on why firms exist and how their boundaries are understood

Perspective	Core claim	Analytical strength	Important limitation / question
Neoclassical production view	The firm transforms inputs into outputs under technology and cost constraints.	Clear production, cost and marginal analysis.	Often treats the organization itself as a “black box.”
Transaction-cost economics	Activities move inside the firm when internal coordination is less costly than market contracting under relevant hazards.	Explains make-or-buy and governance choice under uncertainty and asset specificity.	Difficult to measure transaction costs precisely; learning and identity can matter beyond economizing.
Property-rights / incomplete contracts	Ownership matters because contracts cannot specify every future contingency; residual control rights shape investment incentives.	Clarifies control, ownership and bargaining under incomplete contracts.	Abstracts from many social, cultural and institutional dimensions.
Resource and capability view	Firms differ because they accumulate heterogeneous resources, routines, knowledge and capabilities.	Explains persistent performance differences and learning.	Can become tautological if valuable capabilities are inferred only from success.
Agency theory	Delegation creates potential conflicts when principals and agents have different interests or information; monitoring and incentives create agency costs.	Explains ownership-control separation, monitoring, incentives and governance problems.	Can over-emphasize opportunism and understate identity, trust, vocation and broader stakeholder duties.
Institutional / stakeholder view	Firms are embedded in legal, social and moral relationships with multiple legitimate claimants.	Highlights legitimacy, norms, accountability and non-market constraints.	Requires explicit criteria for resolving competing stakeholder claims.

Source/Note: Author’s synthesis from Coase (1937), Grossman and Hart (1986), Hart and Moore (1990), Barney (1991), Jensen and Meckling (1976), Teece et al. (1997), North (1991), Donaldson and Preston (1995), and Jensen (2001). Detailed strategy theory is reserved for Chapter 12.

1.8.6 No single theory owns the firm

The perspectives in Table 1.4 are complementary in some contexts and competing in others. A production function is useful for analyzing output and cost but says little about authority. Transaction-cost economics explains governance hazards but can understate identity, mission and social embeddedness. Property-rights theory clarifies control but uses simplifying assumptions. Capability theory explains heterogeneity but can become difficult to falsify if “capability” is defined after observing success. Stakeholder and institutional approaches widen the analysis but must specify how competing claims are prioritized.

A mature analyst therefore does not ask, “Which theory is true?” in the abstract. The better question is, “Which mechanism is most relevant to the decision, what assumptions does the theory make, and what does it leave unexplained?” The book will repeatedly use this plural-but-disciplined method.

1.9 Business Models: The Architecture of Value Creation and Capture

A business model explains the architecture through which an organization creates, delivers and captures value. Teece (2010, 2018) emphasizes how business models articulate the value proposition, the structure of revenues and costs, and the mechanisms connecting technology or capabilities to customer value and profit. A business model is not identical to strategy. A business model describes how the system works; strategy addresses how the firm will make choices and sustain advantage relative to competitors under uncertainty. Strategy is developed in Chapter 12.

A robust business-model description should answer at least six connected questions. **Who** is the customer, user or beneficiary? **What** problem is solved and what value proposition is offered? **How** is the value created and delivered through resources, activities, partners and channels? **How is exchange governed**, including ownership, contracts, data rights and standards? **How is value captured**, through prices, subscriptions, commissions, advertising, licensing or other mechanisms? **What must remain economically and morally true for the model to be sustainable?**

The last question prevents a common mistake. Some business models are profitable only because a critical cost is hidden or shifted. An app may appear free because users pay with data and attention. A low-cost product may depend on labor conditions customers cannot see. A lender may report high returns because customers do not understand compounding fees. A natural-resource project may be privately profitable because environmental or community costs are externalized. Business-model analysis should therefore include the location of costs and risks, not merely revenue architecture.

PRACTICE TOOL | The business-model integrity check

Before admiring the growth rate of a business model, test five propositions. First, the promised value is real rather than fabricated through deception. Second, customers or funders can understand the material terms of exchange. Third, revenues exceed the full economic cost over a credible horizon. Fourth, critical partners and workers are not carrying hidden costs that make the model appear cheaper than it is. Fifth, the model can survive lawful scrutiny and morally defensible treatment of persons. Failure on any one dimension is a warning that apparent growth may be economically or ethically fragile.

Digital platforms illustrate why this matters. A platform can reduce search and transaction costs by connecting multiple participant groups. Network effects may make the service more valuable as participation grows. The same mechanism can also create switching costs, data concentration and gatekeeping power. Chapter 20 develops digital platforms and technology strategy; Chapter 1 merely observes that the technological form of a business model can alter market structure and institutional exposure.

1.10 The Enterprise as an Integrated System of Business Functions

Business education often separates functions for teaching convenience. Firms do not experience them separately. A new product launch is simultaneously a demand hypothesis, an operational capacity question, a financing decision, a staffing challenge, a data problem and a strategic commitment. Functional excellence without system coherence can destroy value.

Table 1.5. An integrated map of the book's business functions

Question the enterprise must answer	Primary discipline / later chapter	Why it cannot be managed in isolation
What value is being created, for whom, and on what economic logic?	Chapter 1; Chapter 8	Without a real problem, willingness to exchange and viable economics, the organization has no sustainable basis.
How will truth, evidence and recommendations be communicated?	Chapter 2	Weak communication can destroy otherwise sound analysis and trust.
How will reliable evidence be generated and interpreted?	Chapters 3–5	Strategy and operations degrade when decisions rest on poor data or false certainty.
How will people be led, developed and coordinated?	Chapters 6–7	Capabilities are embodied in persons, teams, knowledge and culture.
How will performance be measured and resources accounted for?	Chapter 9	Cash, profitability and accountability are not interchangeable but all matter.
How will customers be understood, reached and served?	Chapters 10 and 16	Demand is not created by internal efficiency alone.
How will goods and services be produced and delivered reliably?	Chapter 11	Promises to customers require processes, suppliers, capacity and resilience.
How will trade-offs and competitive choices be made?	Chapters 12 and 15	Resources are scarce; coherent choices matter domestically and internationally.
How will power, rights, responsibilities and moral limits be governed?	Chapter 13	Legal permission and profitability do not settle ethical legitimacy.
How will cross-border economics, finance, investment and rules be managed?	Chapters 14 and 17–19	Currencies, policy, law, capital and statecraft change the economics of exchange.
How will technology and environmental stewardship reshape the enterprise?	Chapters 20–21	Innovation and efficiency create both opportunities and new responsibilities.
How will knowledge become professional practice and vocation?	Chapter 22	The textbook culminates in competent, truthful and responsible action.

Source/Note: Book architecture. Each major concept is taught fully once and later applied by cross-reference.

1.10.1 Finance and accounting

Finance asks how resources are funded and allocated across time and risk; accounting records and communicates financial position and performance under reporting rules. Chapter 9 develops financial accounting, while Chapters 17 and 18 address international finance and investment. At foundation level, remember three distinctions. Profit is not the same as cash. Revenue is not the same as value created. Financing capacity is not the same as economic attractiveness. A fast-growing business can fail because cash is trapped in receivables or inventory; a profitable project can be rejected because capital is scarce; a cash-rich business can destroy value by investing in poor opportunities.

1.10.2 Marketing and customer value

Marketing investigates customer needs, market structure, segmentation, positioning, pricing and exchange relationships. Chapter 10 owns general marketing and Chapter 16 owns international marketing. Economically, marketing helps the firm understand demand and willingness to pay. But demand is not a moral blank cheque. A market can exist for harmful, deceptive or addictive offerings. The existence of willingness to pay is evidence of preference under conditions; it is not proof of legitimate value.

1.10.3 Operations and supply

Operations convert inputs into reliable outputs through processes, capacity, quality and coordination. Chapter 11 extends this logic through global supply chains and logistics. Operations determines whether a promise made in the market can actually be delivered. It also reveals the physical consequences hidden behind financial abstractions: energy use, worker safety, inventory, waste, supplier relationships and infrastructure dependence.

1.10.4 People, organization and knowledge

Organizations coordinate persons who possess knowledge, motivations, rights and responsibilities. Chapters 6 and 7 develop leadership, organizational behavior, culture, talent and knowledge management. From an economic perspective, labor is an input; from a human perspective, workers are not merely input units. This distinction matters because models that correctly estimate labor cost can still support morally wrong treatment if the analyst forgets the person represented by the variable.

1.10.5 Technology, data and evidence

Technology changes production possibilities, transaction costs, market access and information structures. Data can improve forecasting and coordination, while poor data can amplify error at scale. Chapters 3–5 develop research, statistics and business analytics; Chapter 20 develops digital transformation and technology innovation. Chapter 1 establishes the principle that information is an economic resource and an institutional object: who can collect, infer, share and control data affects power as well as efficiency.

1.10.6 Strategy, governance and moral accountability

Strategy integrates choices under scarcity and competition; Chapter 12 teaches its full frameworks. Governance allocates authority, oversight and accountability; Chapter 13 owns its detailed theory. These functions prevent the organization from becoming a collection of locally optimized departments. The strategy question is “Which coherent choices will we make?” The governance question is “Who is authorized to make, monitor and challenge those choices?” The moral question is “Which choices should remain off-limits even if technically feasible and profitable?”

1.11 The External Business Environment: PESTLE-I and Institutional Analysis

No business model operates in a vacuum. The external environment changes demand, cost, access, risk and legitimacy. PESTLE is a common scanning device covering political, economic, social, technological, legal and environmental factors. This book adds a separate **institutional** dimension, PESTLE-I, because business behavior is shaped not only by statutes but also by enforcement, professional standards, informal norms, trust, networks and administrative capacity.

Table 1.6. PESTLE-I: a disciplined scan of the external business environment

Dimension	Illustrative questions for evidence gathering
Political	How stable and predictable are public decisions? What are the relevant geopolitical, security, industrial-policy and sovereignty considerations?
Economic	What do growth, inflation, interest rates, employment, credit conditions, commodity prices and purchasing power imply for demand and cost?
Social / cultural	What demographic, linguistic, religious, household, trust, status and consumption patterns shape exchange and legitimacy?
Technological	Which technologies alter transaction cost, customer access, production, data dependence, cybersecurity exposure and capability requirements?
Legal / regulatory	Which rules govern entry, competition, contracts, labor, tax, consumer protection, data, environment and cross-border activity?
Environmental / physical	Which climate, water, land, energy, pollution, biodiversity and physical-infrastructure conditions materially affect the enterprise?
Institutional	How strong are property rights, contract enforcement, informal norms, professional standards, associations, dispute mechanisms and administrative capacity?

Source/Note: The “I” is separated from the conventional PESTLE categories to prevent institutions from being reduced to statutes alone. Use the framework as a question generator, not as a scoring ritual.

The value of PESTLE-I lies in disciplined questioning, not in producing a decorative list. A good scan identifies causal links and evidence. “Inflation” is not analysis. The analyst should ask which prices are rising, how quickly, whether the firm can pass the increase to customers, which contracts reset automatically, whether wages lag, how interest rates respond, and which customer segments lose purchasing power. “Political risk” is likewise too vague. Is the risk a change in licensing, election-related uncertainty, conflict, sanctions, industrial policy, expropriation, procurement favoritism, state-capacity failure or an abrupt restriction on data flows? Different mechanisms require different responses.

1.11.1 Political environment

Political institutions allocate public authority and influence policy continuity, security, taxation, regulation and public investment. Firms need neither partisan activism nor political naivety. They require a principled understanding of legitimate public authority, non-market risk and the dangers of corruption, capture and dependency. In some sectors, especially infrastructure, finance, natural resources, health and communications, the political environment is inseparable from operating conditions.

1.11.2 Economic environment

Growth, inflation, interest rates, employment, credit availability, commodity prices and household income shape demand and cost. These indicators should be treated as contextual signals rather than deterministic forecasts. A country can grow rapidly while a particular sector contracts; national inflation can conceal very different movements in food, energy, rent or imported inputs. Chapters 14 and 17 provide the deeper open-economy and financial mechanisms.

As of mid-2026, major institutions illustrate why forecast literacy matters. The African Development Bank’s May 2026 *African Economic Outlook* estimated Africa-wide growth at 4.4% in 2025 and projected 4.2% for 2026, while the World Bank’s June 2026 *Global Economic Prospects* projected 4.0% for Sub-Saharan Africa in 2026 (African Development Bank, 2026; World Bank, 2026). The figures are not necessarily

contradictory because geographic coverage, country weights, forecast dates and assumptions differ. A manager should investigate the underlying country and sector rather than average forecasts into a false “consensus.”

EVIDENCE CHECK | Different forecasts can both be methodologically defensible

When two authoritative institutions publish different regional growth numbers, do not ask only which one is “correct.” Check the geographic aggregate, country coverage, weights, data revisions, publication date, commodity and conflict assumptions, and definition of the variable. Forecast dispersion is information about uncertainty. Chapters 3 and 4 develop this evidence discipline formally.

1.11.3 Social and cultural environment

Business is embedded in households, communities, languages, beliefs, identities and norms of trust. Culture affects communication, authority, time orientation, negotiation, customer meaning and the legitimacy of products. Yet national culture should not be treated as a stereotype that mechanically predicts individuals. Chapter 7 critically evaluates cross-cultural frameworks. At foundation level, the practical rule is to investigate lived institutions and subgroups instead of assuming that a country label provides a complete behavioral model.

Demography also matters. Population size by itself is not “market size.” Age structure, urbanization, income distribution, labor-force participation, household composition, migration and access to infrastructure shape economic opportunity. For Africa, demographic expansion can enlarge both the workforce and consumer base, but opportunity depends on productivity, enterprise growth, education, infrastructure and job creation. The World Bank’s 2025 Africa’s Pulse emphasized that only about 24% of employment in Sub-Saharan Africa was wage-paying and about 73% was concentrated in own-account and family-run enterprises, highlighting the challenge of expanding productive firms and better jobs (World Bank, 2025b). These aggregates describe a structural challenge, not the potential of any individual worker or entrepreneur.

1.11.4 Technological environment

Technology alters feasible products, cost structures, customer reach and organizational boundaries. Mobile money can substitute for physical branches; cloud services can reduce fixed computing investment; AI can lower some information-processing costs while increasing dependency on data, models and compute. Technology can also create systemic vulnerabilities through cyberattack, surveillance, vendor lock-in or skill displacement. Chapter 20 owns the strategic and ethical analysis of these technologies. Here the manager asks only: **Which transaction costs, capabilities, dependencies and rights are being changed?**

1.11.5 Legal and regulatory environment

Law defines corporate forms, contracts, property rights, labor obligations, taxes, competition rules, consumer protections, environmental duties, data rights and cross-border requirements. Legal rules can reduce uncertainty and protect vulnerable parties, but rules can also be badly designed, unevenly enforced or captured. Legal compliance is a minimum constraint, not a complete moral standard. Chapter 19 develops trade law; Chapter 13 develops governance, compliance and ethical responsibility.

1.11.6 Environmental and physical environment

Energy, water, land, climate hazards, pollution, transport infrastructure and physical geography affect production and distribution. An enterprise that ignores these conditions may misprice risk or externalize costs. Chapter 21 examines sustainability and stewardship in depth, including contested frameworks such as ESG.

Chapter 1 treats environmental conditions as part of the real economic environment rather than a public-relations category.

1.11.7 Institutions beyond rules on paper

Institutional analysis asks how rules actually work. North (1991) emphasizes that institutions structure incentives and uncertainty. Acemoglu, Johnson, and Robinson (2001) and Rodrik, Subramanian, and Trebbi (2004) provide influential evidence linking institutional arrangements to long-run economic performance, although causal identification, historical interpretation and the measurement of “institution quality” remain debated. These studies should not be misused to claim that a single governance score mechanically determines national prosperity.

For managers, institutions include at least property and contract systems, courts and alternative dispute mechanisms, central and local administration, professional standards, trade associations, customs practice, payment systems, licensing authorities, informal networks and social norms. The distinction between **de jure** and **de facto** conditions is critical. A law may guarantee a right that is costly to enforce; an informal norm may enable trustworthy exchange despite weak formal enforcement; a digital registration portal may simplify entry while other bottlenecks constrain scaling.

1.12 African Business Environments: Diversity, Informality and Institutional Adaptation

Africa belongs at the analytical center of global business, not as an “emerging market” afterthought. The continent contains large and small economies, resource exporters and diversified service hubs, island economies and landlocked corridors, multiple legal traditions, hundreds of languages, different monetary arrangements, deep informal systems and rapidly changing digital ecosystems. Continental analysis is useful for common opportunities and integration initiatives, but firm decisions must move from continental narrative to country, sector, corridor and locality.

1.12.1 Informality is an institutional reality, not a synonym for disorder

The informal economy is often described as a problem to be eliminated. That framing is too simple. Informality includes own-account enterprises, household production, unregistered firms, informal employment inside formal firms and hybrid arrangements. Some activities evade legitimate rules; others persist because formalization is costly, institutions are inaccessible, transactions are small, trust is relational or survival needs are immediate. The International Labour Organization’s harmonized 2018 benchmark estimated that informal employment accounted for 85.8% of employment in Africa, or 71.9% excluding agriculture, with particularly high shares in Sub-Saharan Africa (ILO, 2018). The age of the benchmark should be stated openly, but it remains useful because it applies comparable criteria across countries.

Informality can provide flexibility, income and low-barrier entrepreneurship. It can also limit access to finance, enforceable contracts, social protection, technology, larger customers and public procurement. Workers may face unstable income and weak protection; governments may lose revenue; compliant firms may face uneven competition. The policy problem is therefore not “force everyone to register.” It is to understand why firms remain informal and whether formal institutions offer enough value relative to compliance cost. Simplified registration without reliable electricity, credit, dispute resolution or market access may change legal status without changing productivity. Research also cautions against assuming that informal firms are simply formal firms waiting to register; persistent differences in scale, productivity, capability and markets can make informality a structural development question as well as a legal-status question (La Porta & Shleifer, 2014).

AFRICAN CONTEXT | The firm-size challenge and the dignity of enterprise

World Bank evidence in 2025 emphasized that much employment in Sub-Saharan Africa is concentrated in own-account and family enterprises rather than wage-paying firms (World Bank, 2025b). This should not be interpreted as a deficit in African entrepreneurship. It points to an organizational challenge: how can capable microenterprises gain infrastructure, finance, technology, market access and institutional support that allow productive scaling when scaling is genuinely valuable? Policy should avoid both romanticizing informality and treating small entrepreneurs as administrative problems.

1.12.2 Rwanda: strong entry systems do not eliminate cross-border friction

Rwanda provides a useful illustration of why “business environment” must be decomposed. In the World Bank’s B-READY 2025 economy profile, Rwanda scored 73/100 on Regulatory Framework, 60 on Public Services and 71 on Operational Efficiency. The Business Entry topic scored 87, while International Trade scored 47 (World Bank, 2025a). These numbers should not be read as a league table of national virtue. B-READY 2025 covered 101 economies during a staged rollout and assesses specific regulatory, public-service and operational dimensions.

Table 1.7. Rwanda institutional snapshot from B-READY 2025

Dimension	Score / 100	Interpretive use	What not to infer
Regulatory Framework	73	A structured signal about the quality of selected business regulations.	Not a complete measure of governance, freedom, prosperity or firm profitability.
Public Services	60	Indicates the availability/quality of selected services supporting firms.	Does not mean every firm experiences services identically.
Operational Efficiency	71	Captures aspects of how rules and services work in practice.	Cannot replace sector-specific operational due diligence.
Business Entry topic	87	Signals comparatively streamlined entry conditions in the measured framework.	Easy registration does not guarantee easy scaling.
International Trade topic	47	Flags important cross-border frictions within the indicator methodology.	Does not prove that Rwanda is an unattractive market or that every trader faces the same costs.

Source/Note: World Bank (2025a). B-READY 2025 covered 101 economies and remained in a staged rollout; scores must be read with its methodology and scope.

The contrast is analytically valuable. Registering an enterprise and moving goods across borders are different institutional problems. Entry can be digitized and streamlined while trade remains affected by geography, logistics, partner-country arrangements, border infrastructure, documentary requirements and regional implementation. A manager who uses one headline “ease of doing business” narrative may miss the bottleneck that actually determines the business model.

1.12.3 Entrepreneurship, trust and local institutions

African enterprise frequently depends on networks that perform functions formal institutions perform elsewhere: informal credit, reputation-based enforcement, community information, rotating savings systems and family labor. Such networks can lower transaction cost where formal systems are weak or inaccessible. They can also exclude outsiders, reinforce unequal power or limit scale because trust is difficult to extend beyond the network.

The analytical objective is not to declare formal institutions modern and informal institutions backward. It is to identify which coordination problem each institution solves, who has access, what protections exist, how scalable the arrangement is, and whether it respects dignity and justice. Formalization is beneficial when it improves rights, capability and opportunity rather than simply increasing administrative surveillance or cost.

1.12.4 Continental integration as opportunity and institutional project

The African Continental Free Trade Area (AfCFTA) was adopted in 2018, entered into force in 2019, and trading under the agreement was launched in 2021 (African Union, 2018; African Union, 2021). Its long-run ambition is to reduce barriers and create a more integrated African market. That ambition can enlarge effective market size, support regional value chains and strengthen bargaining capacity, but economic benefits are not automatic. Rules of origin, tariff schedules, customs administration, transport corridors, standards, finance, firm capability and domestic adjustment all shape outcomes.

This book therefore does not treat African integration as an unquestioned moral good or dismiss it as a threat to sovereignty. Chapter 14 will evaluate trade creation, trade diversion, structural transformation, distribution and policy autonomy. Chapter 19 will examine legal architecture and commercial diplomacy. Chapter 1 establishes only the institutional insight: **an agreement creates a framework; firms and public institutions must still translate that framework into reliable transactions.**

1.13 Globalization, Regionalization and Fragmentation

“Globalization” is often used as if it were one indivisible process and one political program. Analytically, it is better understood as the intensification of cross-border flows and interdependence in goods, services, capital, technology, data, knowledge, people and organizational relationships. These flows do not always move together. Merchandise trade can slow while digitally delivered services expand. Foreign direct investment can shift location while portfolio capital remains globally mobile. Firms can shorten physical supply chains while distributing software worldwide.

1.13.1 A brief historical trajectory

The modern world economy has experienced repeated periods of integration and disruption. Nineteenth-century advances in steam transport, telegraphy and finance reduced distance and supported a major expansion of international commerce before the First World War. The interwar period brought war, depression, protectionism and monetary instability. After 1945, the Bretton Woods institutions and the General Agreement on Tariffs and Trade helped construct a more rules-based international economic order. Late twentieth-century containerization, telecommunications, liberalization and the integration of large labor and production markets enabled global value chains to expand sharply.

The period after the global financial crisis of 2008–2009 was more complex. Trade growth slowed relative to the preceding era; geopolitical tensions rose; the COVID-19 pandemic exposed concentration and logistics vulnerabilities; industrial policy and strategic-sector controls returned to prominence; and firms became more attentive to resilience, regional capacity and national-security rules. Yet this evolution does not amount to a simple reversal of globalization.

1.13.2 Current evidence: reconfiguration, not one-directional deglobalization

The World Trade Organization’s March 2026 baseline projected world merchandise trade volume growth of 1.9% in 2026 after 4.6% in 2025, while services trade volume was projected to grow 4.8% in 2026 (WTO, 2026). The same report warned that sustained high oil prices associated with Middle East conflict could reduce

merchandise-trade growth further. The evidence therefore points to slower and shock-sensitive goods trade, not the disappearance of global exchange.

Investment patterns are similarly nuanced. UNCTAD’s *World Investment Report 2026* reported that global FDI increased 6% in 2025 to approximately US\$1.6 trillion, but the recovery was uneven and concentrated, with strategic and digital infrastructure projects playing a large role (UNCTAD, 2026). Gopinath, Gourinchas, Presbitero, and Topalova (2025), using granular bilateral data, find that trade and investment linkages have increasingly reflected geopolitical distance since the escalation of major geopolitical tensions. Tan (2024), however, finds that FDI fragmentation is not universal; it is concentrated particularly in strategically sensitive industries and in specific bilateral relationships. The careful conclusion is therefore **selective fragmentation and reorientation within continued interdependence**.

Table 1.8. Globalization, regionalization and fragmentation: what the concepts do and do not mean

Pattern	Empirical signal	Managerial implication	Common overstatement to avoid
Globalization	Rising cross-border flows of goods, services, capital, data, knowledge and business relationships.	Larger opportunity set but greater exposure to foreign institutions, currencies, geopolitics and network dependencies.	“Borders no longer matter.”
Regionalization	Flows and production networks become denser within geographic or political regions.	Regional scale, shorter networks and institutional familiarity may become more valuable.	“Regional integration automatically benefits every firm and community.”
Fragmentation	Flows become more sensitive to geopolitical alignment, controls, sanctions or strategic-sector policy.	Supplier, market, technology and finance concentration must be stress-tested.	“The world is simply deglobalizing everywhere.”
Digital globalization	Cross-border services, platforms, data and software expand even when some goods flows slow.	Data rules, cybersecurity, cloud dependence and platform power become part of market access.	“Digital trade is frictionless.”

Source/Note: Current evidence is mixed: WTO (2026) still projects positive world trade growth, while Gopinath et al. (2025) find geopolitical reorientation in several flows and Tan (2024) finds FDI fragmentation concentrated in strategic industries rather than universal.

CRITICAL DEBATE | Is “friend-shoring” resilience or political concentration?

Relocating supply chains toward politically aligned countries can reduce some sanctions or national-security exposures, but it can also concentrate firms inside blocs, raise cost, exclude efficient suppliers and make commerce more dependent on political classification. The correct assessment is empirical and sector-specific. For Sub-Saharan Africa, Bolhuis et al. (2024) model severe fragmentation scenarios that can create substantial long-run welfare losses, while milder strategic decoupling can generate limited gains for some economies through trade diversion. Model results are conditional scenarios, not forecasts.

1.13.3 Regionalization and the renewed importance of geography

Regionalization occurs when firms organize trade, production, distribution or data around geographic regions. It can reflect transport economics, common regulations, cultural proximity, regional agreements, resilience strategies or political alignment. Regionalization can support local supplier development and reduce some long-distance dependencies. It can also create regional concentration risk and exclude efficient extra-regional partners.

For African firms, regionalization can be especially important because many domestic markets are individually small relative to the scale required by manufacturing or digital platforms. Regional integration can enlarge the addressable market, but geography remains physical: road conditions, ports, border posts, energy

systems and corridor security continue to matter. Digital commerce reduces some distance costs but does not eliminate payment, data, consumer-protection or tax institutions.

1.13.4 Globalization and sovereignty

Economic integration can expand choice, investment and knowledge transfer, but it also redistributes power. Governments may bind themselves through treaties; multinational firms may obtain bargaining leverage over smaller states; global platforms can influence speech, commerce and data; financial systems can transmit external sanctions or liquidity shocks. Sovereignty should not be romanticized as complete national self-sufficiency, but neither should it be dismissed as an obstacle to efficiency.

A useful principle is **subsidiarity**: decisions should be made at the lowest level capable of addressing the problem effectively, unless scale, spillovers or coordination clearly justify higher-level authority. Subsidiarity is not a simple rule against international institutions. Cross-border problems can require international cooperation. It is a test of proportionality and accountability: what genuinely requires centralization, what can remain national or local, and how can affected communities retain meaningful agency?

1.14 Institutions Shaping Cross-Border Commerce

Global commerce depends on institutions that lower uncertainty, define standards, provide finance, coordinate rules or settle disputes. Their existence can reduce transaction cost, but their authority should not be confused with infallibility. Institutions are created by persons and states, operate under mandates, reflect power relationships and face incentive and information problems.

Table 1.9. Selected institutions that shape cross-border commerce

Institution / system	Primary relevance to firms	Analytical caution
World Trade Organization (WTO)	Multilateral trade rules, transparency, negotiations and dispute architecture.	Its rules constrain some policy choices but do not erase national sovereignty or domestic law. Detailed doctrine belongs to Chapter 19.
International Monetary Fund (IMF)	Macroeconomic surveillance, balance-of-payments support, financial and exchange-rate analysis.	IMF advice and conditionality should be assessed in context; it is not a global trade regulator.
World Bank Group	Development finance, private-sector support, research and business-environment evidence.	Indicators simplify reality and should be triangulated with firm-level and local evidence.
UN Trade and Development (UNCTAD)	Trade, investment and development research; FDI statistics; technical cooperation.	Scenario projections and policy recommendations are evidence inputs, not automatic prescriptions.
World Customs Organization (WCO)	Customs standards, classification, valuation and facilitation cooperation.	Implementation capacity differs substantially across borders.
African Union / AfCFTA institutions	Continental framework for progressively reducing trade barriers and deepening African market integration.	Legal commitments, tariff schedules, rules of origin, customs capacity and business uptake evolve unevenly; Chapter 14 and Chapter 19 develop the economics and law.
Regional economic communities (e.g., EAC, ECOWAS, COMESA, SADC)	Regional trade, customs, mobility, infrastructure and policy coordination.	Overlapping memberships and implementation differences create both opportunities and compliance complexity.
Private ordering institutions (e.g., ICC rules, industry standards, arbitration)	Contract standards, documentary practice, dispute settlement and commercial norms.	Private standards can lower uncertainty but may also concentrate gatekeeping power or impose compliance costs.

Source/Note: Author's synthesis from official institutional mandates. The table describes roles; it does not confer moral or policy authority on any institution.

1.14.1 Multilateral institutions as rule and information systems

The WTO provides a framework for multilateral trade rules and transparency, but firms remain subject to domestic law, customs administration and regional arrangements. The IMF is principally concerned with international monetary cooperation, macroeconomic surveillance and balance-of-payments support rather than product-level trade regulation. The World Bank Group finances development and produces analytical tools; its indicators can help compare institutional dimensions but should be triangulated with local evidence. UNCTAD provides research and technical assistance on trade, investment and development and is a major source of FDI evidence. The World Customs Organization develops customs standards and cooperation instruments whose practical effect depends on domestic implementation.

The critical reader should ask what problem each institution is designed to solve, what legal authority it has, how it is governed, which data and assumptions support its recommendations, and how costs and benefits are distributed. A recommendation from a respected institution deserves serious consideration, not automatic obedience. Equally, rejecting evidence because an institution is international is intellectually weak. The test is evidence, authority, incentives, proportionality and consequences.

1.14.2 African regional institutions

The African Union and regional economic communities provide political and economic coordination across the continent. The AfCFTA framework seeks progressively deeper continental trade integration, while communities such as the East African Community (EAC), Economic Community of West African States (ECOWAS), Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC) operate their own arrangements and integration projects. Overlapping memberships can create bridges and complexity at the same time.

From the firm's perspective, institutions matter through concrete mechanisms: tariff treatment, rules of origin, customs procedures, standards recognition, payment systems, mobility rights, investment rules, dispute settlement and infrastructure coordination. From the citizen's perspective, institutional scale raises further questions about democratic accountability, national policy autonomy, local productive capacity and distribution. Those normative questions are not objections to integration; they are part of responsible integration analysis.

1.15 Introduction to Multinational Enterprises and Internationalization

A **multinational enterprise (MNE)** owns or controls value-creating activities in more than one country. This definition distinguishes a multinational from a firm that merely exports through independent buyers. MNEs exist in manufacturing, services, finance, technology, retail, mining, logistics, agriculture and many other sectors. Their economic significance arises from the coordination of assets, knowledge and activities across jurisdictions.

Chapter 15 develops the major theories of internationalization, including internalization, the eclectic paradigm, Uppsala learning, network theory and born-global firms. Chapter 1 should not pre-empt that material. The foundational questions are simpler: **What is the firm trying to coordinate across borders? Why can it not accomplish the same goal through arm's-length domestic exchange? Which institutional differences change cost, control and risk?**

Cross-border expansion can seek customers, resources, efficiency, strategic assets, knowledge, diversification or network position. These motives can overlap. A digital service may enter another country to reach users; a manufacturer may source an input; a financial institution may follow corporate clients; a technology firm may acquire talent. Each motive creates different exposure. There is no single “global strategy” appropriate to all firms.

1.15.1 The liability of foreignness

Foreign firms may face disadvantages arising from unfamiliarity, cultural distance, regulatory complexity, weaker networks or political suspicion. These disadvantages are commonly described as the liability of foreignness (Zaheer, 1995). Yet foreignness can also confer advantages, such as reputation, technology, capital or access to global networks. Managers should therefore avoid both assumptions that foreign firms are inherently superior and assumptions that local firms are automatically more legitimate. Competitive advantage and social legitimacy are empirical and normative questions, not nationality labels.

1.15.2 Cross-border risk as interacting exposure

Risk is often reduced to a country rating. That is inadequate. A firm is exposed through contracts, assets, revenues, suppliers, financing, data, people, licenses and reputation. Political events affect firms differently depending on these exposures. A currency depreciation matters more to a company with local-currency revenue and foreign-currency debt than to one with matched currency cash flows. A border closure matters more to a just-in-time importer than to a digital service with local servers. A data-localization rule matters more to a cloud-dependent platform than to a domestic manufacturer with minimal personal data.

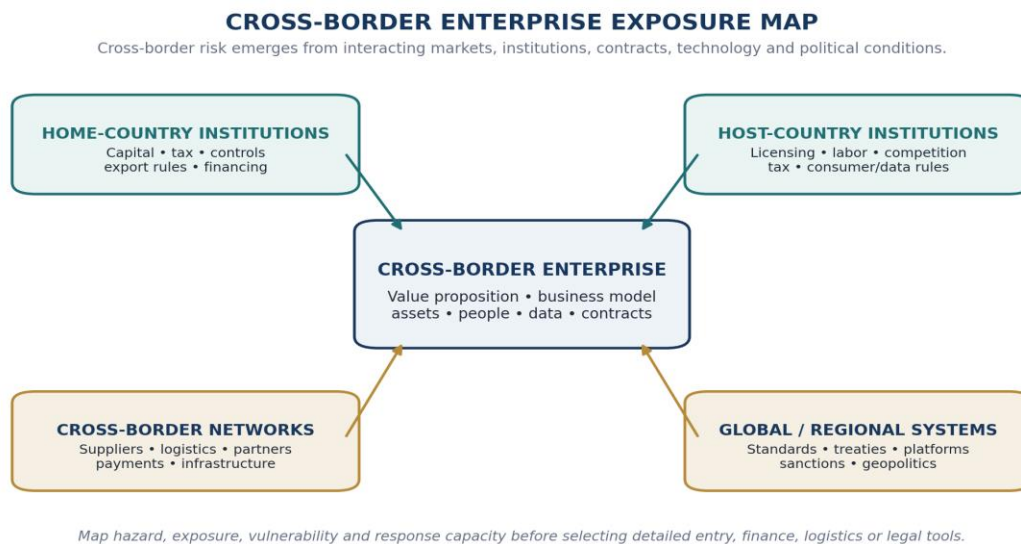


Figure 1.4. The cross-border enterprise exposure map.

Source: Author's synthesis. Detailed country-risk, entry-mode, finance, logistics and trade-law tools are developed in later chapters.

Risk should therefore be mapped as **hazard x exposure x vulnerability x response capacity**. This is not a formal probability equation; it is a diagnostic reminder. Hazard is the potential event. Exposure is what the firm has at stake. Vulnerability is how severely the exposed system would be affected. Response capacity is the ability to absorb, adapt or recover. Chapters 5, 11, 15, 17 and 19 develop risk in their own disciplines.

1.16 Global Value Chains: A Foundation, Not Yet a Full Theory

A **global value chain (GVC)** distributes value-creating activities across firms and locations. Design may occur in one country, components in several others, assembly elsewhere, logistics through global networks, and sales worldwide. The lead firm may own only a fraction of the physical assets involved. This architecture reveals why the modern firm cannot always be understood by drawing a boundary around a legal corporation.

Gereffi (2014) situates global value chains within broader changes in international production and development, while Gereffi, Humphrey, and Sturgeon (2005) show that value-chain governance varies with transaction complexity, codifiability and supplier capability. Their typology distinguishes several forms of governance, but detailed GVC analysis belongs in Chapter 15. The foundational lesson is that control can be exercised without ownership. A buyer can influence product specifications, audit requirements, data interfaces, quality standards and investment decisions across legally independent suppliers.

This raises both economic and moral consequences. Lead firms can diffuse technology and create market access, but they can also shift risk onto weaker suppliers. A procurement price that looks efficient for the buyer may be unsustainable for the supplier if compliance requirements or volatile orders are uncompensated. The morally responsible enterprise must consider foreseeable harms in relationships it substantially shapes, even where legal ownership is absent. Chapter 11 develops supplier ethics and Chapter 21 develops responsible sourcing.

1.17 Substantial African Case: MTN Group, Institutional Diversity and Platform Expansion

The opening case can now be revisited with the chapter's full analytical map. MTN's 2025 results show a firm that is no longer economically describable as a voice-telephony operator. Its customer base, data services, fintech ecosystem, remittance corridors and infrastructure investments form a networked business model across multiple African jurisdictions (MTN Group, 2026a, 2026b).

1.17.1 Market economics

Telecommunications demand is shaped by price, income, device affordability, coverage, quality, competing networks and the growing value of digital participation. Demand for data can become more elastic or less elastic depending on substitutes and necessity. Capacity is costly and partly fixed; once a network exists, marginal traffic cost can be low until congestion requires new investment. This creates classic scale economies but also large sunk and specific assets.

The economic logic is therefore dynamic. Lower data prices can expand usage, but if traffic growth outruns capacity, service quality deteriorates. Higher prices can improve financial sustainability but reduce affordability and adoption. A manager must estimate elasticities and capacity thresholds rather than treating "lower price" or "higher margin" as universally superior.

1.17.2 Firm boundaries and business model

MTN internalizes core network and platform capabilities while depending on equipment vendors, tower companies, agents, banks, merchants, regulators and other partners. Its Mobile Money ecosystem demonstrates hybrid governance: the firm controls platform rules and brand, but value delivery depends on thousands of external actors. Transaction-cost logic helps explain why some activities remain partnered rather than owned, while capability theory explains why platform knowledge, customer data, distribution and trust can become firm-specific assets.

In 2025, MTN reported 69.5 million monthly active MoMo users and US\$6.2 billion in cross-border remittances enabled through the platform (MTN Group, 2026b). These services reduce some transaction frictions, but they also pull the firm into financial regulation, consumer protection, anti-money-laundering controls and cross-border settlement systems. A business-model extension changes institutional exposure.

1.17.3 Institutional diversity and risk

A network operator's performance depends on spectrum allocation, licensing, infrastructure permissions, energy reliability, security and currency conditions. MTN's 2025 reporting discussed macroeconomic and operating challenges in several markets, including currency and infrastructure pressures. Such variation shows why continental scale cannot be managed as institutional uniformity.

Rwanda provides a narrower illustration. MTN Rwanda's 2025 results reported 8.2 million subscribers, 2.8 million active data subscribers and 6.2 million active MoMo users, alongside local-currency revenue and exposure to Rwandan macroeconomic conditions (MTN Rwanda, 2026). The subsidiary participates in a national institutional system even while connected to group technology, capital and governance. The firm therefore operates simultaneously at local, national, regional and group levels.

1.17.4 Moral analysis

Connectivity and payments can expand opportunity, but scale increases responsibility. Four moral questions are especially important. First, **truth and informed exchange**: are prices, fees and data uses communicated honestly? Second, **human dignity and inclusion**: does the firm exploit customers whose alternatives are limited, or use scale to make essential services more accessible? Third, **stewardship and resilience**: does investment adequately protect service continuity and cybersecurity given the social reliance on the network? Fourth, **power and accountability**: how does the firm respond when public authorities request actions that may be lawful yet implicate privacy, conscience or basic rights?

None of these questions has a one-variable answer. A low price can be unsustainable; a profitable price can still be exploitative. Compliance with a regulator can be appropriate; blind compliance with an unjust order can be morally problematic. Responsible leadership requires technical competence and moral courage together.

1.18 Comparative Global Case: Apple and the Reconfiguration of a Global Production Network

Apple provides a useful comparison because its business model differs sharply from MTN's while exposing similar foundational mechanisms. Apple designs integrated devices, software and services but relies on a vast network of suppliers and manufacturing facilities. The company states that its supply chain spans thousands of supplier facilities across more than 60 countries (Apple, n.d.). This network shows a firm boundary that is legally narrow relative to the production system it influences.

1.18.1 Global efficiency and strategic dependence

For decades, global electronics production benefited from specialized supplier clusters, scale, logistics and accumulated capabilities. Yet geopolitical tension, semiconductor policy, pandemic disruptions and national industrial incentives have raised the strategic value of geographic diversification. In August 2025, Apple announced that its planned U.S. investment commitment would rise to US\$600 billion over four years and introduced an American Manufacturing Program involving expanded partnerships in semiconductors, glass and other components (Apple, 2025a). In 2026 it announced additional supplier partnerships under the program (Apple, 2026).

These announcements should not be interpreted as the “return” of an entirely domestic supply chain. Apple simultaneously remains a global production network. The more precise interpretation is selective localization and diversification inside an international system. This mirrors the wider evidence on fragmentation: firms are rebalancing efficiency, resilience, political risk and access rather than universally abandoning cross-border production.

1.18.2 The theory-of-the-firm question

Why does Apple design and control some activities while contracting manufacturing and component production? Transaction-cost, capability and property-rights perspectives provide different insights. Proprietary design, software integration and brand may depend on capabilities the firm treats as core. Specialized suppliers may possess manufacturing know-how and economies of scale that would be costly to recreate internally. Contracts, standards and supplier oversight permit control over outputs without owning every plant.

This arrangement also generates governance challenges. A lead firm can impose demanding standards across independent suppliers, but the distance between legal ownership and operational influence complicates responsibility. Supplier labor practices, environmental performance, cybersecurity and resilience cannot be dismissed as “someone else’s problem” when the lead firm’s purchasing, specifications and volumes materially shape incentives.

Table 1.10. MTN and Apple: two forms of cross-border enterprise under institutional pressure

Dimension	MTN Group	Apple	Transferable lesson
Core value logic	Connectivity, data and financial services across African markets.	Integrated devices, software and services supported by a globally distributed supplier network.	Business models determine which cross-border dependencies are strategically material.
Institutional exposure	Telecom licensing, spectrum, payments rules, currencies, energy reliability and political/security conditions.	Trade controls, industrial policy, supplier geography, IP, advanced-manufacturing incentives and data governance.	Institutions alter cost, access, control and resilience.
Network structure	Operating companies plus infrastructure, agents, fintech partners and remittance corridors.	Thousands of suppliers/facilities across more than 60 countries, alongside deliberate U.S. manufacturing expansion.	Modern firms are often networks rather than self-contained factories.
Ethical stakes	Affordability, financial inclusion, privacy, outage resilience and responsibilities during crisis.	Labor conditions, supplier oversight, environmental impacts, privacy and market power.	Scale increases both productive capacity and foreseeable responsibility.

Source/Note: MTN Group (2026a, 2026b) and Apple Inc. (n.d., 2025a, 2026). Company sources are used for case facts, not as independent evaluation of social performance.

EVIDENCE CHECK | Company case sources are evidence, but not neutral evaluation

Annual reports and corporate press releases are primary sources for what a company says it did, invested, sold or committed to do. They are not independent verification that every social claim is accurate or that every effect is beneficial. A rigorous case separates auditable financial/operational facts, forward-looking commitments and corporate interpretation, and then triangulates contested social or environmental outcomes where the question requires it.

1.19 Faith, Ethics and Moral Reasoning: What Markets and Firms Are For

Business economics explains scarcity, incentives, exchange, organization and value capture. It cannot by itself determine the moral ends to which those capacities should be directed. The central ethical problem of enterprise is therefore not whether economic reasoning should be used, but how it should be ordered. Christian moral reasoning affirms productive work and exchange while denying that market price, legal permission or organizational power is the final measure of what is good.

1.19.1 Human dignity precedes market valuation

Christian moral reasoning begins with the claim that human beings possess dignity because they are made in the image of God ([Genesis 1:26-27](#)). This is a theological claim, not an econometric finding. Its business consequence is profound: a person's moral worth is not determined by productivity, purchasing power, income, nationality or usefulness to the firm.

Markets necessarily assign prices to labor services, products and assets. A wage is a price for a contractual service; it is not a price for the worker's personhood. A customer with low purchasing power may create less commercial demand, but does not possess less dignity. A supplier with weak bargaining power may accept harsh terms voluntarily because the alternative is worse; voluntariness under constrained options does not eliminate the moral need to ask whether the powerful party is acting justly.

Serious alternative traditions reach related conclusions through different routes. Kantian ethics emphasizes persons as ends rather than mere means. Rights-based approaches protect interests that should not be traded away merely because aggregate welfare rises. Capability approaches ask whether institutions expand substantive human freedoms. Consequentialist traditions focus on aggregate welfare and outcomes. Virtue ethics asks what kind of character practices cultivate. The Christian framework can learn analytically from these traditions while grounding dignity, stewardship and accountability in Scripture. Chapter 13 develops these traditions systematically; here they function only as comparative lenses for testing the moral assumptions embedded in business decisions.

1.19.2 Truthfulness as an economic and moral infrastructure

Exchange depends on information. If sellers systematically misrepresent quality, buyers withdraw or discount offers; Akerlof's (1970) model demonstrates an economic mechanism through which information asymmetry can degrade markets. Scripture treats truthful dealing as a moral obligation, not merely an efficiency device. The command against dishonest measures ([Leviticus 19:35-36](#)) applies directly to commercial integrity.

Truthfulness therefore has both instrumental and intrinsic value. It lowers transaction cost and supports trust, but even where deception could remain profitable, it is wrong. This distinction protects ethics from becoming a subset of reputation management. "Do not lie because customers may find out" is prudential advice; "do not lie because truthfulness is morally required" is a normative claim.

1.19.3 Stewardship, ownership and accountability

Private ownership can support responsibility, investment and decentralized initiative. Christian stewardship adds that ownership is not absolute moral sovereignty. Resources, talents and authority are entrusted and accountable. The steward is expected to be faithful ([1 Corinthians 4:2](#)), and work is to be undertaken conscientiously ([Colossians 3:23-24](#)).

For enterprise, stewardship involves prudence rather than waste, maintenance rather than reckless extraction, responsible risk-taking rather than gambling with others' livelihoods, and willingness to account for consequences. It also resists the opposite error of treating profit as morally suspect. A firm that creates genuine value, pays obligations honestly, treats workers and partners justly, and earns a sustainable return can exemplify productive stewardship. The moral question concerns the sources, means and use of wealth, not wealth in abstraction.

1.19.4 Neighbor-love and the moral limits of exchange

Jesus summarizes moral duty in love of God and neighbor ([Matthew 22:37-40](#)). Neighbor-love does not abolish contracts, prices or boundaries. It disciplines how power is used within them. The seller should not exploit ignorance that could reasonably be corrected. The employer should not treat desperation as permission for abuse. The lender should not design products around predictable misunderstanding. The platform should not manipulate attention simply because behavioral data makes manipulation effective.

Market logic has moral limits because not everything that can be exchanged should be commodified, and not every profitable preference should be cultivated. Human beings, justice, truth and conscience are not merely variables in an optimization problem. This does not give managers a ready-made price for every moral trade-off. It gives them **red lines and duties** that constrain otherwise feasible choices.

1.19.5 Justice, distribution and efficiency

Economic efficiency asks whether resources can be rearranged to create more value or whether gains exceed losses under specified criteria. Justice asks whether rights, burdens, opportunities and treatment are fair. The two can align, but neither logically implies the other. A policy can increase aggregate income while imposing severe costs on a vulnerable region. A wage can clear a labor market while remaining unjust under exploitative conditions. A trade reform can create net national gains while leaving displaced workers without realistic pathways to adjustment.

Christian moral reasoning therefore refuses two shortcuts. The first is to call any unequal outcome unjust without examining contribution, scarcity, responsibility and voluntary exchange. The second is to call any market outcome just because it emerged from exchange. Justice requires attention to honest process, legitimate rights, power, vulnerability and consequences. Scripture repeatedly condemns exploitation of those with less power and the withholding of due wages ([James 5:4](#)).

1.19.6 Government, sovereignty and subsidiarity

[Romans 13:1-7](#) and other biblical texts recognize the reality and responsibility of public authority, while Scripture simultaneously records prophetic resistance to unjust rulers. Christian political reasoning therefore cannot equate state action with moral legitimacy. Government can protect rights, punish fraud, provide public goods and preserve order; it can also abuse power, confiscate unjustly, suppress conscience or serve corrupt interests.

In international business, similar caution applies to transnational authority. Cooperation can solve genuine cross-border problems, but centralization can weaken local accountability. Subsidiarity asks whether decisions are being made at an appropriate level. Sovereignty matters because political communities have responsibilities toward their citizens, culture and institutions; sovereignty is not permission for injustice or isolation. The moral task is to balance legitimate national agency with duties of peaceful cooperation, fair dealing and responsibility for cross-border harms.

1.19.7 Moral judgment under pluralism

Professionals work with colleagues and stakeholders who do not share Christian premises. Intellectual integrity requires presenting moral reasons in forms others can understand without hiding one's convictions. A Christian manager can explain a refusal to deceive through both a biblical commitment to truth and generally accessible arguments about consent, dignity and trust. Respectful pluralism does not require moral relativism.

A strong moral decision therefore distinguishes four layers. **Empirical claims** describe what consequences are expected. **Legal claims** describe what the law permits or requires. **Economic claims** describe incentives, costs and value. **Moral claims** judge what ought to be done. Confusing these layers produces bad reasoning. A law can be immoral; a moral goal can be pursued with economically destructive means; an efficient practice can violate dignity; a well-intentioned claim can be empirically false.

FAITH AND VOCATION | A seven-question moral examination for enterprise

Before a consequential business decision, ask: Is the proposed action truthful? Does it respect the God-given dignity and conscience of affected persons? Is the profit or advantage earned through genuine value creation rather than deception, coercion or hidden externalization? Are contracts and bargaining processes fair, especially where power is unequal? Are entrusted resources being stewarded prudently for present and future responsibilities? What foreseeable harms could reasonably be prevented? Could the decision be defended with integrity before God, those affected and a competent public audience? These questions do not replace financial, legal or strategic analysis; they expose dimensions those analyses cannot settle.

1.20 Professional Toolkit: The Enterprise Foundations Diagnostic

A manager facing a new market, product, partnership or investment often receives fragmented advice. Finance models return; marketing estimates demand; lawyers identify compliance; operations estimates capacity. The **Enterprise Foundations Diagnostic** integrates these perspectives before specialized analysis begins.

Table 1.11. Enterprise Foundations Diagnostic: seven questions before a major business decision

Diagnostic question	Minimum evidence	Red flags
1. Purpose and value: What genuine problem is solved and for whom?	Customer need, willingness to exchange, value proposition, affected stakeholders.	Problem invented by the seller; dependence on deception, coercion or avoidable harm.
2. Market economics: What determines demand, supply and margins?	Elasticities, substitutes, capacity, marginal cost/revenue, break-even, market structure.	Single-point forecasts; ignoring opportunity or transaction costs.
3. Firm boundary: What should be owned, contracted or partnered?	Asset specificity, uncertainty, capability, contractibility, scale and learning effects.	Choosing ownership by habit; ignoring hold-up or coordination cost.
4. Institutions: Which formal and informal rules shape feasibility?	Law, administrative practice, norms, enforcement, dispute resolution and legitimacy.	Assuming written law equals actual practice; ignoring informal power.
5. Functional coherence: Can the whole operating system deliver?	Finance, people, operations, marketing, data/technology and governance constraints.	Optimizing one function while making another impossible.
6. Cross-border exposure: What changes at the border?	Currency, trade costs, licensing, partner risk, logistics, sanctions/geopolitics, data rules.	Treating a foreign market as a larger version of the home market.

Diagnostic question	Minimum evidence	Red flags
7. Moral and stewardship test: Is the choice lawful, truthful, justifiable and responsible for foreseeable effects?	Legal review, stakeholder effects, alternatives, moral principles, escalation/accountability.	“It is legal” or “it is profitable” used as the entire ethical argument.

Source/Note: Author’s professional decision framework. Detailed tools are developed in the relevant later chapters.

The diagnostic should be used iteratively. An institutional finding can alter market economics. A licensing constraint can cap supply; a data rule can change technology architecture; a new tariff can alter business-model margins. A moral red line can eliminate an otherwise attractive option, requiring innovation rather than rationalization. The tool is deliberately compact because its purpose is to identify which specialist chapter must be opened next.

1.20.1 A disciplined sequence for real decisions

Begin with purpose and customer value. If the supposed problem is not real, no amount of operational optimization will rescue the enterprise. Next test market economics using evidence rather than intuition. Then examine organizational boundaries and capabilities: what must the firm control and what should remain external? Map institutions and actual implementation. Test whether finance, people, technology and operations can support the promise. If borders are crossed, identify the new currency, regulatory, logistics, political, partner and data exposures. Finally, perform the legal and moral review.

The sequence is not linear in practice. New evidence may send the team backward. A responsible decision process treats revision as learning rather than failure.

1.21 Common Misconceptions, Analytical Errors and Professional Pitfalls

Table 1.12. Common misconceptions and corrective reasoning

Misconception	Why it fails	Better formulation
“Business is simply profit maximization.”	Profit is necessary for many private firms but does not define what value is created, how it is created, or which moral/legal constraints apply.	A viable enterprise creates and captures sufficient value within lawful and morally defensible constraints.
“Market equilibrium means a fair outcome.”	Equilibrium describes compatibility of plans at a price; it does not establish justice, dignity or distributional legitimacy.	Separate positive analysis from moral evaluation.
“The cheapest supplier is the efficient choice.”	Quoted price can exclude transaction cost, quality risk, delay, currency exposure, labor abuse or strategic dependence.	Compare total economic and governance cost, not invoice price alone.
“Institutions are just government regulations.”	Informal norms, courts, standards, professional practice, networks and enforcement shape transactions too.	Map formal and informal institutions.
“Africa is one market.”	African economies vary greatly in institutions, income, language, infrastructure, culture, law and commercial structure.	Use continental perspective without erasing country and subnational heterogeneity.
“Informal means illegal or unproductive.”	Informality includes diverse lawful and unlawful arrangements and can be adaptive, while often limiting protection, scale and productivity.	Analyze why informality persists, its functions and its costs.

Misconception	Why it fails	Better formulation
“Deglobalization means cross-border business is ending.”	Goods, services, capital and data flows are reconfiguring unevenly rather than disappearing uniformly.	Track the specific flow, sector, corridor and policy shock.
“A global institution’s recommendation is automatically best practice.”	Institutional advice rests on assumptions, evidence and trade-offs and can affect sovereignty and distribution.	Evaluate authority, evidence, incentives, implementation capacity and consequences.

Source/Note: Author’s synthesis.

Several additional errors deserve emphasis. First, **confusing averages with margins** can lead firms to reject profitable incremental business or accept loss-making expansion. Second, **treating correlation as causal explanation** can convert dashboards into superstition; Chapters 3 and 4 address inference. Third, **using national stereotypes as market research** mistakes aggregate culture for individual behavior. Fourth, **assuming formal compliance equals institutional legitimacy** overlooks enforcement, corruption and informal norms. Fifth, **using AI-generated analysis without source verification** can scale confident error. AI can assist synthesis and scenario development, but accountable persons remain responsible for claims and decisions.

The most dangerous professional pitfall is optimization without boundary conditions. Once a metric becomes the target, employees may learn to improve the number rather than the underlying reality. Revenue targets can invite unsuitable sales; cost targets can degrade quality; ESG scores can incentivize symbolic reporting; aid-disbursement targets can reward spending rather than outcomes. The remedy is not to abandon metrics but to understand the system, verify outcomes and preserve moral accountability.

1.22 Chapter Synthesis: The Intellectual Map of Enterprise

This chapter has built a layered understanding of business. Enterprise begins with human needs and possibilities but operates under scarcity. Markets coordinate decentralized exchange through prices and contracts, yet market outcomes depend on institutions, information and power. Firms arise because market contracting is not costless and because organizations can accumulate capabilities, knowledge and control rights. Business models connect value propositions to resources, activities, partners, revenues and costs. Core functions are not independent silos but parts of one value-creation system.

The external environment shapes that system through political, economic, social, technological, legal, environmental and institutional forces. Crossing borders does not merely add distance; it adds institutional plurality. Contemporary globalization is neither a borderless triumph nor a universal retreat. Trade and investment continue, while some flows regionalize or fragment under geopolitical pressure. International and regional institutions can reduce uncertainty and enable commerce, yet their mandates, power, evidence and distributional effects require critical scrutiny. Africa exemplifies the need for such nuance: continental integration and digital innovation coexist with institutional heterogeneity, informality, infrastructure constraints, entrepreneurial dynamism and diverse local systems.

Finally, economic competence must remain morally ordered. Market price is not moral value. Equilibrium is not justice. Profit is not purpose, although sustainable profit can be a legitimate result of productive stewardship. Christian moral reasoning locates enterprise within human dignity, truthfulness, neighbor-love, stewardship, justice and accountability. These principles do not replace economics; they prevent economic tools from being mistaken for a complete moral philosophy.

1.22.1 Hand-off to Chapter 2

Once professionals can map the enterprise, they must be able to **communicate** what they know. Business decisions depend on reports, arguments, presentations, evidence, listening, negotiation and persuasion. Chapter 2, *Professional Communication for Business and Scholarship: Writing, Speaking, Evidence and Influence*, therefore develops the capability to communicate analysis truthfully and persuasively without manipulating evidence or audience. The intellectual progression is deliberate: Chapter 1 asks what is happening in the business system; Chapter 2 asks how that understanding should be expressed and defended.

Key Terms

Asset specificity. The degree to which an investment is worth more inside a particular transaction or relationship than in alternative uses.

Business. Organized value creation, delivery and capture through exchange within contractual, institutional and social relationships.

Business model. The architecture connecting a value proposition to resources, activities, partners, customers, revenue, cost and value capture.

Capability. An organization's learned ability to coordinate resources and perform activities reliably or adaptively.

Cross-border risk. Exposure arising when business activities interact with multiple currencies, jurisdictions, political systems, institutions, infrastructures and networks.

Demand. Quantities buyers are willing and able to purchase at alternative prices during a specified period, holding other relevant factors constant.

Diseconomies of scale. Increases in long-run average cost as organizational scale expands beyond an efficient range.

Economic profit. Revenue less both explicit costs and the opportunity cost of resources supplied to the enterprise.

Economies of scale. Reductions in long-run average cost as output expands over a relevant range.

Economies of scope. Cost advantages from producing multiple products or services together rather than separately.

Elasticity. A unit-free measure of the proportional responsiveness of one variable to a proportional change in another.

Enterprise. An organized undertaking that coordinates resources and relationships to pursue a sustained economic or social purpose.

Externality. A benefit or cost of an activity borne by parties not fully represented in the transaction price.

Firm boundary. The line between activities governed inside the organization and activities coordinated through external contracts, partnerships or markets.

Fragmentation. Reorientation or restriction of international economic relationships along geopolitical, strategic or policy lines.

Global value chain. A network in which value-creating activities are distributed across firms and locations, often in multiple countries.

Globalization. Intensification of cross-border flows and interdependence in goods, services, capital, data, knowledge, technology, people and organizational relationships.

Institution. A formal rule or informal constraint that structures human interaction and shapes incentives, expectations and transaction costs.

Informality. Economic activity or employment occurring partly or wholly outside formal registration, regulation, taxation or standard employment arrangements.

Marginal analysis. Evaluation of the incremental benefit and incremental cost associated with a small change in activity.

Market. An institutionalized arena of exchange in which buyers and sellers coordinate through prices, contracts, information and rules.

Market equilibrium. A modeled condition in which quantity demanded equals quantity supplied at a particular price under stated assumptions.

Market failure. A condition in which decentralized market exchange does not produce an efficient or otherwise socially desirable outcome under the relevant criterion.

Market power. The ability of a buyer or seller materially to influence price, terms, access or competitive conditions.

Multinational enterprise (MNE). A firm that owns or controls value-creating activities in more than one country.

Opportunity cost. The value of the best feasible alternative forgone when a choice is made.

PESTLE-I. A scanning framework covering political, economic, social, technological, legal, environmental and institutional dimensions of the external environment.

Production function. A representation of the maximum output obtainable from combinations of inputs under a specified technology and organizational arrangement.

Regionalization. Increasing concentration of trade, production, investment or organizational networks within geographic or political regions.

Residual control rights. Decision rights over uses of an asset in circumstances not fully specified by contract.

Scarcity. The condition that resources have competing uses and are insufficient to satisfy every possible use simultaneously.

Stakeholder. A person or group that affects or is affected by the enterprise and may possess contractual, legal, economic or moral claims relevant to decision-making.

Stewardship. Responsible management of entrusted resources, authority and relationships under accountability for their use and consequences.

Supply. Quantities sellers are willing and able to offer at alternative prices during a specified period, holding other factors constant.

Transaction cost. A cost of arranging, monitoring, adapting or enforcing exchange beyond the physical production cost of the good or service itself.

Value capture. The portion of created value retained by the enterprise and its financial claimants through revenue, margin or other economic mechanisms.

Value creation. Production of a benefit that customers, users or other legitimate beneficiaries regard as preferable to relevant alternatives.

Concept-Check Questions

1. Distinguish value creation, value delivery and value capture. Why can a firm succeed at one while failing at another?
2. Why is accounting profit not the same as economic profit? Give one example of an implicit opportunity cost.
3. Explain the difference between a movement along a demand curve and a shift in demand.
4. What does a price elasticity of demand of -1.5 mean? What would you expect to happen to total revenue after a small price increase, all else equal?
5. Why is the marginal cost of a decision often more useful than average cost for short-run incremental choices?
6. Define economies of scale and economies of scope. Give a different business example of each.
7. According to transaction-cost economics, why might a firm internalize an activity instead of purchasing it in the market?
8. What are residual control rights, and why do they matter when contracts are incomplete?
9. How does a capability perspective differ from a transaction-cost perspective on the firm?
10. Why should PESTLE-I be treated as a question-generating framework rather than a checklist?
11. Distinguish globalization, regionalization and fragmentation. Can they occur simultaneously?
12. Why is a multinational enterprise not simply a firm that exports?
13. Explain why an international institution's recommendation should be neither automatically accepted nor automatically rejected.
14. Why is informality not synonymous with illegality?
15. Explain the statement: "Market equilibrium is an economic description, not a moral verdict."

Higher-Order Analytical and Critical-Thinking Questions

1. A platform has strong network effects and near-zero marginal cost for additional digital users. Explain how these characteristics can simultaneously increase consumer value and create concerns about market power.
2. Compare Coase's transaction-cost explanation of firm boundaries with the resource/capability perspective. Under what real business decision might the two perspectives recommend different conclusions?
3. "The most globally integrated firm is not necessarily the most resilient firm." Evaluate this statement using the concepts of specialization, concentration, transaction cost and geopolitical fragmentation.
4. Using the MTN case, explain how one business-model extension can change the firm's institutional identity. What new risks arise when a telecom operator becomes a major payments platform?
5. Rwanda's B-READY 2025 profile reports a high Business Entry score and a substantially lower International Trade score. What does this reveal about the dangers of one-dimensional country rankings?
6. Evaluate the claim that formalization always improves African entrepreneurship. Under what conditions could formalization increase productivity and rights, and under what conditions could it merely add cost?
7. Compare the moral claim that workers possess intrinsic dignity with the instrumental claim that treating workers well increases productivity. Why does the distinction matter when the two claims point to different decisions?
8. A government invokes "national security" to require local production of a strategic component. Construct the strongest economic case for the intervention and the strongest case against it. What evidence would allow you to judge between them?

9. Does a firm have moral responsibility for labor or environmental harms at an independent supplier it does not own? Develop a reasoned answer using influence, foreseeability, contract design and stakeholder responsibility.
10. In what circumstances should sovereignty limit international harmonization, and in what circumstances can subsidiarity justify regional or global coordination?

Applied Case/Problem: Akagera Foods Ltd. and a Regional Expansion Decision

Case status: This is a constructed teaching case. It does not describe an actual company. Akagera Foods Ltd. is a Rwandan producer of shelf-stable fruit spreads. Its domestic business is profitable and the management team is considering entry into a neighboring regional market through an independent distributor. The opportunity looks attractive because customer interviews indicate demand for premium, locally sourced products. The board, however, is concerned about price sensitivity, additional cross-border cost, packaging capacity and dependence on a single distributor.

Table 1.13. Constructed teaching case data: Akagera Foods Ltd. cross-border expansion

Item	Value / assumption
Current home-market selling price	US\$2.50 per jar
Current home-market variable production cost	US\$1.35 per jar
Proposed foreign-market selling price	US\$3.00 per jar
Distributor and last-mile fee	US\$0.35 per jar
Additional cross-border logistics/compliance cost	US\$0.25 per jar
Projected foreign-market annual volume	240,000 jars
Estimated own-price elasticity in target segment	-1.30
Dedicated expansion fixed cost	US\$180,000 per year
In-house packaging option	US\$90,000 annual fixed cost + US\$0.14 per jar
External packaging option	US\$12,000 annual contracting/quality cost + US\$0.38 per jar

Source/Note: Constructed case for teaching. All numbers are hypothetical and are not claims about any actual firm or market.

The target-market unit contribution before the dedicated annual fixed expansion cost is $\text{US\$}3.00 - \text{US\$}1.35 - \text{US\$}0.35 - \text{US\$}0.25 = \text{US\$}1.05$ per jar. At the projected 240,000 jars, annual contribution is $\text{US\$}252,000$. After the dedicated $\text{US\$}180,000$ fixed expansion cost, the simplified operating contribution is $\text{US\$}72,000$. This is not a valuation. It excludes tax, financing, working capital, currency movements, demand error, product returns and other risks.

The estimated own-price elasticity of -1.30 suggests that demand is elastic over the estimated range. If management raises price by 5% and the estimate is locally valid, quantity demanded would be expected to decline by approximately 6.5% before considering competitor responses or nonlinear effects. A price increase could therefore reduce revenue even while increasing contribution per jar. Management needs a demand curve and cost response, not a rule that “higher price means higher profit.”

For packaging, internal annual cost is $90,000 + 0.14Q$ and external economic cost is $12,000 + 0.38Q$. The break-even volume is obtained by setting them equal: $90,000 + 0.14Q = 12,000 + 0.38Q$, giving $78,000 = 0.24Q$ and $Q = 325,000$ jars. At 240,000 projected units, the simplified cost comparison favors external packaging. Yet

the firm should investigate quality control, supplier reliability, asset specificity, lead times, foreign content rules, learning and the value of flexibility before deciding.

Case Question 1. Recalculate the target-market operating contribution if cross-border logistics/compliance cost rises from US\$0.25 to US\$0.45 per jar. What does this reveal about margin sensitivity?

Case Question 2. If management expects annual volume to reach 400,000 jars in year two, compare the in-house and external packaging costs at that volume. Does the cost result alone justify vertical integration?

Case Question 3. Construct a PESTLE-I evidence plan for the target market. Specify at least one source of evidence for each dimension and identify which variables can invalidate the projected unit economics.

Case Question 4. Identify at least four transaction costs that the distributor contract may create beyond the stated US\$0.35 per-jar fee.

Case Question 5. Which business functions must validate the expansion before approval? Explain one failure that could arise if each relevant function is excluded.

Case Question 6. Suppose the distributor offers a guaranteed volume only if it receives exclusive rights for five years. Use transaction-cost and property-rights reasoning to analyze the proposal.

Case Question 7. Develop a board recommendation that separates what the available numbers establish, what remains uncertain, and what moral or legal constraints should be checked before entry.

Ethical and Faith-Informed Dilemma: Pricing Essential Goods During a Supply Shock

A severe flood blocks the main transport corridor into a city. A private distributor has one of the few remaining inventories of safe bottled water. Replacement supply will require expensive emergency transport, and demand has surged. The distributor's economists argue that a much higher price will ration scarce stock, discourage hoarding and attract new supply. Community leaders argue that the increase exploits families with no realistic alternative. The law allows flexible pricing during the emergency.

ETHICAL DILEMMA | When a market-clearing price and neighbor-love appear to conflict

The manager must avoid two simplistic answers. Holding price artificially low can cause stockouts, queues, favoritism or resale and may discourage costly emergency supply. Raising price without restraint can allocate water toward purchasing power rather than urgent need and may exploit vulnerability. A defensible solution could combine cost-reflective pricing, quantity limits, targeted concessions, transparent rationing, priority channels for critical institutions and public/private mechanisms that subsidize access for vulnerable households. The precise design requires facts. Christian reasoning adds a non-negotiable concern for truth, mercy, justice and the neighbor in need; economic reasoning helps identify unintended consequences of well-meant controls. Neither discipline should be silenced.

Dilemma Question 1. What additional facts are necessary before judging whether the price increase is exploitative or a legitimate response to higher marginal cost and scarcity?

Dilemma Question 2. Separate the positive economic claims, legal claims and moral claims in the dispute.

Dilemma Question 3. Evaluate at least three policy or managerial alternatives and identify likely unintended consequences of each.

Dilemma Question 4. How should [Matthew 22:37-40](#) and the biblical concern for honest dealing shape a Christian manager's decision without pretending that Scripture supplies a numerical emergency price?

Dilemma Question 5. Would your judgment change if the distributor had deliberately withheld stock before the flood in anticipation of a price spike? Explain why the causal history of profit matters morally.

Data and Evidence Exercise: Reading the 2026 Business Environment Without False Precision

Table 1.14. Evidence exercise: interpreting current global and African indicators

Source / publication date	Indicator	Reported value	Interpretive caution
WTO, March 2026	World merchandise trade volume growth, 2026 baseline	1.9%	A forecast, not an observed outcome; subject to energy/geopolitical shocks.
WTO, March 2026	World services trade volume growth, 2026 baseline	4.8%	Services are not a single market; sector and mode of supply matter.
UNCTAD, July 2026	Global FDI inflows, 2025	\$1.6 trillion; +6%	Headline recovery was concentrated and affected by large projects and financial conduits.
AfDB, May 2026	Africa real GDP growth forecast, 2026	4.2%	“Africa” aggregate and assumptions differ from other institutions’ regional aggregates.
World Bank, June 2026	Sub-Saharan Africa real GDP growth forecast, 2026	4.0%	Different geographic coverage, weights and forecast vintage from AfDB.
World Bank B-READY 2025	Rwanda International Trade topic score	47/100	Indicator score within a specific methodology, not a direct measure of export profitability.

Source/Note: World Trade Organization (2026), UNCTAD (2026), African Development Bank (2026), World Bank (2025a, 2026). Values are deliberately presented together so learners can practice evidence discipline rather than merge incomparable indicators.

The exercise is designed to cultivate habits that will be formalized in Chapters 3 and 4. Using the original publications rather than secondary news summaries, answer the following questions.

Evidence Task 1. Classify each value in Table 1.14 as an observed statistic, forecast, model-based estimate or composite indicator. Why does the classification matter?

Evidence Task 2. Explain why the African Development Bank’s Africa growth forecast and the World Bank’s Sub-Saharan Africa forecast cannot be averaged without further methodological work.

Evidence Task 3. The WTO forecasts positive services-trade growth alongside slower merchandise-trade growth. Identify two business models that could benefit from this divergence and two that could be exposed negatively.

Evidence Task 4. UNCTAD reports global FDI recovery but also concentration in a small group of economies and strategic sectors. Explain why a rising global aggregate does not establish improved investment access for a particular African country or SME.

Evidence Task 5. Read the B-READY methodology and identify at least three aspects of Rwanda’s actual international-trade environment that a 47/100 score cannot by itself explain.

Evidence Task 6. Write a 250-word executive evidence note that states what a manager can reasonably infer from the six indicators and what the data do not justify claiming.

References

- Acemoglu, D., Johnson, S., & Robinson, J. A. (2001). The colonial origins of comparative development: An empirical investigation. *American Economic Review*, 91(5), 1369–1401. <https://doi.org/10.1257/aer.91.5.1369>
- African Development Bank. (2026). *African economic outlook 2026: Mobilizing Africa's development financing at scale in a fragmented world*. <https://www.afdb.org/en/knowledge/publications/african-economic-outlook>
- African Union. (2018). *Agreement establishing the African Continental Free Trade Area*. https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-_en.pdf
- African Union. (2021). Trading under the AfCFTA begins. <https://au.int/en/articles/trading-under-afcfta-begins>
- Akerlof, G. A. (1970). The market for “lemons”: Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics*, 84(3), 488–500. <https://doi.org/10.2307/1879431>
- Apple Inc. (2025a, August 6). Apple increases U.S. commitment to \$600 billion, announces American Manufacturing Program. <https://www.apple.com/newsroom/2025/08/apple-increases-us-commitment-to-600-billion-usd-announces-ambitious-program/>
- Apple Inc. (n.d.). *Supply chain innovation*. Retrieved August 26, 2026, from <https://www.apple.com/uk/supply-chain/>
- Apple Inc. (2026, March 26). Apple adds new partners to its American Manufacturing Program. <https://www.apple.com/newsroom/2026/03/apple-adds-new-partners-to-its-american-manufacturing-program/>
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Bolhuis, M. A., Mighri, H., Rawlings, H., Reyes, I., & Zhang, Q. (2024). *How vulnerable is Sub-Saharan Africa to geoeconomic fragmentation?* (IMF Working Paper No. 2024/083). International Monetary Fund. <https://doi.org/10.5089/9798400270796.001>
- Chandler, A. D., Jr. (1977). *The visible hand: The managerial revolution in American business*. Belknap Press of Harvard University Press.
- Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16), 386–405. <https://doi.org/10.1111/j.1468-0335.1937.tb00002.x>
- Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review*, 20(1), 65–91. <https://doi.org/10.5465/amr.1995.9503271992>
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.
- Gereffi, G. (2014). Global value chains in a post-Washington Consensus world. *Review of International Political Economy*, 21(1), 9–37. <https://doi.org/10.1080/09692290.2012.756414>
- Gereffi, G., Humphrey, J., & Sturgeon, T. (2005). The governance of global value chains. *Review of International Political Economy*, 12(1), 78–104. <https://doi.org/10.1080/09692290500049805>
- Gopinath, G., Gourinchas, P.-O., Presbitero, A. F., & Topalova, P. (2025). Changing global linkages: A new Cold War? *Journal of International Economics*, 153, 104042. <https://doi.org/10.1016/j.jinteco.2024.104042>
- Grossman, S. J., & Hart, O. D. (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, 94(4), 691–719. <https://doi.org/10.1086/261404>
- Hart, O., & Moore, J. (1990). Property rights and the nature of the firm. *Journal of Political Economy*, 98(6), 1119–1158. <https://doi.org/10.1086/261729>
- Hayek, F. A. (1945). The use of knowledge in society. *American Economic Review*, 35(4), 519–530. <https://www.jstor.org/stable/1809376>
- International Labour Organization. (2018). *Women and men in the informal economy: A statistical picture* (3rd ed.). <https://www.ilo.org/publications/women-and-men-informal-economy-statistical-picture-third-edition>
- Jensen, M. C. (2001). Value maximisation, stakeholder theory, and the corporate objective function. *European Financial Management*, 7(3), 297–317. <https://doi.org/10.1111/1468-036X.00158>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)

- La Porta, R., & Shleifer, A. (2014). Informality and development. *Journal of Economic Perspectives*, 28(3), 109–126. <https://doi.org/10.1257/jep.28.3.109>
- MTN Group. (2026a). *Financial results for the year ended 31 December 2025*. <https://www.mtn-investor.com/reporting/annuals-2025/index.php>
- MTN Group. (2026b, March 16). MTN Group reports exceptional 2025 results, unveils evolved platform strategy. <https://www.mtn.com/mtn-group-reports-exceptional-2025-results-unveils-evolved-platform-strategy/>
- MTN Rwanda. (2026, March 11). *Audited results for the year ended 31 December 2025*. <https://www.mtn.co.rw/wp-content/uploads/2026/03/MTN-Rwandacell-FY-2025-Earnings-Release.pdf>
- North, D. C. (1991). Institutions. *Journal of Economic Perspectives*, 5(1), 97–112. <https://doi.org/10.1257/jep.5.1.97>
- Penrose, E. T. (1959). *The theory of the growth of the firm*. Basil Blackwell.
- Rodrik, D., Subramanian, A., & Trebbi, F. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development. *Journal of Economic Growth*, 9(2), 131–165. <https://doi.org/10.1023/B:JOEG.0000031425.72248.85>
- Simon, H. A. (1955). A behavioral model of rational choice. *The Quarterly Journal of Economics*, 69(1), 99–118. <https://doi.org/10.2307/1884852>
- Tan, J. (2024). *How widespread is FDI fragmentation?* (IMF Working Paper No. 2024/179). International Monetary Fund. <https://doi.org/10.5089/9798400281211.001>
- Teece, D. J. (2010). Business models, business strategy and innovation. *Long Range Planning*, 43(2–3), 172–194. <https://doi.org/10.1016/j.lrp.2009.07.003>
- Teece, D. J. (2018). Business models and dynamic capabilities. *Long Range Planning*, 51(1), 40–49. <https://doi.org/10.1016/j.lrp.2017.06.007>
- Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), 509–533. [https://doi.org/10.1002/\(SICI\)1097-0266\(199708\)18:7%3C509::AID-SMJ882%3E3.0.CO;2-Z](https://doi.org/10.1002/(SICI)1097-0266(199708)18:7%3C509::AID-SMJ882%3E3.0.CO;2-Z)
- UN Trade and Development. (2026). *World investment report 2026: International investment in a turbulent era*. <https://investmentpolicy.unctad.org/publications/1324/world-investment-report-2026-international-investment-in-a-turbulent-era>
- Williamson, O. E. (2000). The new institutional economics: Taking stock, looking ahead. *Journal of Economic Literature*, 38(3), 595–613. <https://doi.org/10.1257/jel.38.3.595>
- World Bank. (2025a). *B-READY 2025: Economy profile, Rwanda*. <https://www.worldbank.org/content/dam/sites/b-ready/documents/pdf/economy/2025/rwanda-2025.pdf>
- World Bank. (2025b). *Africa's Pulse, October 2025: Pathways to job creation in Africa*. <https://thedocs.worldbank.org/en/doc/4746c2466bf5e1b173d5f2e45e9d23cb-0360012025/africa-s-pulse-october-2025>
- World Bank. (2026). *Global economic prospects, June 2026*. <https://thedocs.worldbank.org/en/doc/2b672b3b0415d6b66c45b66579db4ef5-0050012026/original/GEP-Jun-2026.pdf>
- World Trade Organization. (2026). *Global trade outlook and statistics: March 2026*. https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341–363. <https://doi.org/10.5465/256683>

Annotated Further Reading

Coase, R. H. (1937). “The Nature of the Firm.” *Economica*, 4(16), 386–405. <https://doi.org/10.1111/j.1468-0335.1937.tb00002.x>

The foundational essay asking why firms exist when markets can coordinate exchange. It remains the most efficient entry point into transaction-cost reasoning and organizational boundaries.

North, D. C. (1991). “Institutions.” *Journal of Economic Perspectives*, 5(1), 97–112. <https://doi.org/10.1257/jep.5.1.97>

A concise, influential statement of how formal rules and informal constraints structure incentives, transaction costs and economic change. Particularly valuable for avoiding the error of equating institutions with regulation alone.

Williamson, O. E. (2000). “The New Institutional Economics: Taking Stock, Looking Ahead.” *Journal of Economic Literature*, 38(3), 595–613. <https://doi.org/10.1257/jel.38.3.595>

A rigorous overview of transaction-cost economics and governance. Read after Coase to understand how transaction attributes affect organizational form.

Teece, D. J. (2010). “Business Models, Business Strategy and Innovation.” *Long Range Planning*, 43(2–3), 172–194. <https://doi.org/10.1016/j.lrp.2009.07.003>

Clarifies the business-model concept and its relation to innovation and value capture. Useful preparation for later strategy and entrepreneurship chapters.

Gereffi, G., Humphrey, J., & Sturgeon, T. (2005). “The Governance of Global Value Chains.” *Review of International Political Economy*, 12(1), 78–104. <https://doi.org/10.1080/09692290500049805>

A seminal framework for understanding how coordination and power operate across legally separate firms in global production networks. Chapter 15 develops these issues further.

Gopinath, G., Gourinchas, P.-O., Presbitero, A. F., & Topalova, P. (2025). “Changing Global Linkages: A New Cold War?” *Journal of International Economics*, 153, 104042. <https://doi.org/10.1016/j.jinteco.2024.104042>

High-quality contemporary evidence on how geopolitical distance is reshaping trade and investment. Valuable as an antidote to both “nothing has changed” and “globalization is over” narratives.

African Development Bank. (2026). *African Economic Outlook 2026*. <https://www.afdb.org/en/knowledge/publications/african-economic-outlook>

A current macroeconomic and development-finance reference for interpreting African business environments in a fragmented global context. Use alongside country data rather than as a substitute for them.

UN Trade and Development. (2026). *World Investment Report 2026: International Investment in a Turbulent Era*. <https://investmentpolicy.unctad.org/publications/1324/world-investment-report-2026-international-investment-in-a-turbulent-era>

An authoritative source on FDI flows, policy trends and the changing geography of international investment. Especially useful for separating headline global investment recovery from its concentration across sectors and economies.