Chapter 4

MANAGING IN A GLOBAL ENVIRONMENT
Learning Objectives

You should learn to:

– Explain the importance of viewing management from a global perspective
– Identify the three different attitudes towards global business
– Describe the different regional trading alliances
– Explain why so many countries have become part of regional trading alliances
– Contrast multinational, transnational, and borderless organizations
Learning Objectives (cont.)

You should learn to:

– Describe the typical stages by which organizations go global
– Explain the four dimensions of country culture
– Describe U.S. culture according to the four dimensions of country culture
– Identify the adjustment challenges faced by a manager on global assignment
Who Owns What?

Global Environment

– national borders have become increasingly irrelevant
– has potential for dramatic expansion of organizations
– presents numerous challenges for managers
## Revenues From Non-U.S. Operations For Selected Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Non-U.S. Revenues as Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manpower</td>
<td>77.0%</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>71.8</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>71.6</td>
</tr>
<tr>
<td>Texas Instruments</td>
<td>67.8</td>
</tr>
<tr>
<td>Avon</td>
<td>65.8</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>61.6</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>61.2</td>
</tr>
<tr>
<td>Gillette</td>
<td>60.1</td>
</tr>
</tbody>
</table>
What’s Your Global Perspective?

Parochialism

– nation views the world solely through its own eyes and perspectives
– people do not recognize that other people have different ways of living and working
– significant obstacle for global managers

Ethnocentric Attitude

– parochialistic belief that the best work approaches and practices are those of the home country
– lack trust in foreign employees with key decisions or technology
What’s Your Global Perspective? (cont.)

Polycentric Attitude
– belief that host-country managers know the best work approaches and practices
– let foreign employees determine work practices

Geocentric Attitude
– focuses on using the best approaches and people from around the globe
– look for the best approaches and people regardless of the country of origin
# Key Information about Three Global Attitudes

<table>
<thead>
<tr>
<th>Orientation</th>
<th>Home Country</th>
<th>Host Country</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td>Simpler structure</td>
<td>Extensive knowledge of foreign market and workplace</td>
<td>Forces understanding of global issues</td>
</tr>
<tr>
<td></td>
<td>More tightly controlled</td>
<td>More support from host government</td>
<td>Balanced local and global objectives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Committed local managers with high morale</td>
<td>Best people and work approaches used regardless of origin</td>
</tr>
<tr>
<td><strong>Drawbacks</strong></td>
<td>More ineffective management</td>
<td>Duplication of work</td>
<td>Difficult to achieve</td>
</tr>
<tr>
<td></td>
<td>Inflexibility</td>
<td>Reduced efficiency</td>
<td>Managers must have both local and global knowledge</td>
</tr>
<tr>
<td></td>
<td>Social and political backlash</td>
<td>Difficult to maintain global objectives because of intense focus on local traditions</td>
<td></td>
</tr>
</tbody>
</table>
Understanding The Global Environment

Regional Trading Alliances

– global competition is influenced by regional trading and cooperation agreements

– The European Union - created by Maastricht Treaty in 1992
  • a unified economic and trade entity
  • a single market without barriers to travel, employment, investment, and trade
  • Economic and Monetary Union (EMU)
    – Euro - common currency
  • assertion of economic power against U.S. and Japan
  • created one of the world’s richest markets
European Union Countries
Regional Trading Alliances (cont.)

– North American Free Trade Agreement (NAFTA)
  • links economies of U.S., Mexico, and Canada
  • since 1994, eliminated barriers to free trade such as tariffs, import licensing requirements, customs user fees

– other Latin American free-trade blocs
  • Free Trade Area of the Americas (FTAA)
  • Southern Cone Common Market (Mercosur)
Mercosur Members

Regional Trading Alliances (cont.)

– Association of Southeast Asian Nations (ASEAN)
  
  • alliance of 10 Southeast Asian nations
  • created in one of the fastest growing economic regions in the world
  • could rival NAFTA and EU
Different Types of Global Organizations

– *multinational corporation* (MNC)
  • maintain significant operations in multiple countries but are managed from a base in the home country
  • exemplifies the ethnocentric attitude

– *transnational corporation* (TNC)
  • maintains significant operations in more than one country but decentralizes management to the local country
  • nationals hired to run operations in each country
  • marketing strategies tailored for each country
  • exemplifies the polycentric attitude
Understanding The Global Environment (cont.)
Different Types of Global Organizations (cont.)

– *borderless organization*

• eliminates structural divisions that impose artificial geographical barriers
• an attempt to increase efficiency and effectiveness in a competitive global marketplace
• exemplifies the geocentric attitude
How Organizations Go Global

Three Stages
– each stage requires more investment globally and entails more risk

Stage I
– nominal steps toward being a global business
  • *exporting* - making products and selling them overseas
  • *importing* - selling products at home that are made overseas
– most organizations start doing business globally this way
– involves minimal investment and minimal risk

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How Organizations Go Global (cont.)

Stage II

– no physical presence of company employees outside the company’s home country

– to handle sales, company may:
  • send domestic employees on regular overseas business trips
  • hire foreign agents or brokers

– to handle manufacturing may contract with a foreign firm to produce the organization’s products
How Organizations Go Global (cont.)

Stage III

– most serious commitment to pursue global markets

– **licensing** and **franchising**
  
  • both involve an organization giving another organization the right to use its brand name, technology, or product specifications
  
  • licensing primarily used in manufacturing
  
  • franchising primarily used in service operations
How Organizations Go Global (cont.)

Stage III (cont.)

– strategic alliances

• partnerships between an organization and a foreign company
• both organizations share resources and knowledge
• both organizations share risks and rewards
• joint venture - partners agree to form a separate, independent organization for some business purpose
How Organizations Go Global (cont.)

Stage III (cont.)

– *foreign subsidiary*

• involves direct investment in a foreign country
  – establish a separate and independent production facility or office
• entails the greatest commitment of resources
• poses the greatest amount of risk
How Organizations Go Global

Stage I
Passive Response

- Exporting to foreign countries
- Importing from foreign countries

Stage II
Initial Overt Entry

- Hiring foreign representation or contracting with foreign manufacturers

Stage III
Established International Operations

- Licensing/Franchising
- Strategic Alliances
- Joint Ventures
- Foreign Subsidiary

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Managing In A Global Environment

The Legal-Political Environment

– U.S. has stable legal and political systems
– managers in foreign countries face greater uncertainty
  • some countries have history of unstable governments
  • must stay informed of laws in foreign countries
  • political interference is a fact of life in some countries

The Economic Environment

– global manager must be attentive to:
  • strength of home currency versus foreign currency
  • differences in inflation rates around the world
  • tax rules differ from country to country
Managing In A Global Environment (cont.)

The Cultural Environment

– national culture

• the values and attitudes shared by individuals from a specific country
• shapes behavior and beliefs
• has greater effect on employees than organizational culture
• getting information about a country’s cultural differences is difficult
The Cultural Environment (cont.)

– Geert Hofstede - four dimensions of national culture
  • individualism versus collectivism
    – **individualism** - loosely knit social framework
      » people are supposed to look after their own interests and those of their immediate family
      » wealthier countries tend to be individualistic
    – **collectivism** - tightly knit social framework
      » people expect others in groups in which they are a part to look after them
      » owe absolute loyalty to the group
      » poorer countries tend to be collectivistic
Managing In A Global Environment (cont.)
The Cultural Environment (cont.)
– Geert Hofstede (cont.)
  • **power distance** - degree of acceptance of unequal distributions of power in institutions and organizations
    – large power distance society accepts wide differences in power
    – low power distance society plays down inequalities
  • **uncertainty avoidance** - degree to which people tolerate risk and unconventional behavior
    – low - tolerate risks and opinion differences
    – high - political and social mechanisms created to provide security and reduce risk
Managing In A Global Environment (cont.)
The Cultural Environment (cont.)
– Geert Hofstede (cont.)
  • quantity versus quality of life
    – *quantity of life* - culture values assertiveness and the acquisition of money and material goods
    – *quality of life* - value relationships
      » show sensitivity and concern for the welfare of others
Examples of Hofstede’s Cultural Dimensions

<table>
<thead>
<tr>
<th>Country</th>
<th>Individualism/Collectivism</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Quantity of Life^a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Individual</td>
<td>Small</td>
<td>Moderate</td>
<td>Strong</td>
</tr>
<tr>
<td>Canada</td>
<td>Individual</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>England</td>
<td>Individual</td>
<td>Small</td>
<td>Moderate</td>
<td>Strong</td>
</tr>
<tr>
<td>France</td>
<td>Individual</td>
<td>Large</td>
<td>High</td>
<td>Weak</td>
</tr>
<tr>
<td>Greece</td>
<td>Collective</td>
<td>Large</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Italy</td>
<td>Individual</td>
<td>Moderate</td>
<td>High</td>
<td>Strong</td>
</tr>
<tr>
<td>Japan</td>
<td>Collective</td>
<td>Moderate</td>
<td>High</td>
<td>Strong</td>
</tr>
<tr>
<td>Mexico</td>
<td>Collective</td>
<td>Large</td>
<td>High</td>
<td>Strong</td>
</tr>
<tr>
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<td>Collective</td>
<td>Large</td>
<td>Low</td>
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<tr>
<td>Sweden</td>
<td>Individual</td>
<td>Small</td>
<td>Low</td>
<td>Weak</td>
</tr>
<tr>
<td>United States</td>
<td>Individual</td>
<td>Small</td>
<td>Low</td>
<td>Strong</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Collective</td>
<td>Large</td>
<td>High</td>
<td>Strong</td>
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</tbody>
</table>


^a A weak quantity score is equivalent to high quality of life.
Is A Global Assignment For You?
Criteria Used When Making Global Assignment
– technical and human factors are considered
– criteria used influenced by the company’s experience and commitment to global operations
– include technical skills, language fluency, flexibility, and family adaptability
Factors That Determine Adjustment to Global Assignment

– *preassignment adjustment* - depends on:
  • accurate expectations about the global job and the country of assignment
  • predeparture training and previous experience

– *in-country adjustment* - depends on:
  • individual factors
  • organizational factors
    – organizational culture
    – organizational socialization
Factors that Affect Global Adjustment

Preassignment Adjustment

Individual
- Training
- Previous Experience
- Accurate Expectations

Organization
- Selection Criteria and Mechanisms

In-Country Adjustment

Individual
- Positive Outlook
- Relationship Skills
- Perceptual Skills

Job
- Role Clarity
- Authority
- Role Novelty
- Role Conflict

Organization Culture
- Similarity to Previous
- Social Support
- Logistical Help

Organization Socialization
- Socialization Techniques
- Socialization Skills

Nonwork Factors
- Culture Novelty
- Family-Spouse Adjustment

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