

Introduction to **Management**

Lecture 5



Chapter 4: Managing in a Global Environment



Learning Objectives

- Differentiate between ethnocentric, polycentric, and geocentric attitudes toward global business
- Discuss the importance of regional trading alliances and global trade mechanisms
- Describe the structures and techniques organizations use as they go international
- Explain the relevance of the political/legal, economic, and cultural environments to global business



Why companies go global?



Why companies Go Global?

Market-Seeking Motives

- Local markets are saturated
- Short product life cycle (PLC)
- Local markets are small

Cost Reduction Motives

- Cheap labor is the strongest incentive
- Eliminating transportation cost (must be traded off against economies of scale in home country)
- Avoiding environmental regulations

Strategic Motives

- Strategic decisions are those that are made to maintain or enhance the competitive position of a company in an industry or a market
- Firms may follow their customers or their competitors (known as the “bandwagon effect”).
- Cross subsidization: is using profits generated in one market to compete in another one.
- Other motives (first mover advantage, vertical integration, export to a third country)



Most Powerful **Egyptian MNCs** in 2018

- The list of the most powerful **100** public companies in **MENA** included four Egyptian companies:
 1. CIB
 2. El Sewedy Electric Co.
 3. Orascom Construction Limited
 4. Orascom Global Telecom

egypttoday.com



Forbes_Middle_East-_Creative_Commons_via_Forbes

4 Egyptian companies in top 100 powerful companies in MENA

By: **Egypt Today staff**
Tue, Jun. 19, 2018

CAIRO – 19 June 2018: Forbes Middle East Magazine published two lists of top 100 most powerful public companies and top 50 private companies in the region.

The list of the most powerful 100 public companies included four Egyptian companies, which are Commercial





14 Egyptian Companies Gone Global

1. FOOD SECTOR: MO'MEN GROUP

MO'MEN
GROUP

2. TRAVEL: TRAVCO GROUP



3. BANKS AND FINANCIAL SERVICES SECTOR: COMMERCIAL INTERNATIONAL BANK



4. INDUSTRIAL SECTOR: ELSEWEDEY ELECTRIC



5. DIVERSIFIED: MANSOUR GROUP



6. Real estate and Construction Sector: Orascom Construction Limited



14 Egyptian Companies **Gone Global**

7. Automobiles: Ghabbour Group



9. Engineering Sector: Si-Ware Systems



11. FASHION INDUSTRY: AZZA FAHMY



8. Telecommunication Sector: Global Telecom Holding (formerly Orascom Telecom Holding)



10. Engineering Sector: Giza Systems



12. FASHION INDUSTRY: OKHTEIN



14 Egyptian Companies **Gone Global**

13. FASHION INDUSTRY: TEMRAZA



14. FOOD SECTOR: ZOÖBA



What's Your Global Perspective?

Parochialism is viewing the world solely through one's own eyes and perspectives.

- is not recognizing that others have different ways of living and working.
- is a significant obstacle for managers working in a global business world.
- is falling into the trap of ignoring others' values and customs and rigidly applying an attitude of "ours is better than theirs" to foreign cultures.



Three Possible Global Attitudes

- **Ethnocentric:** view that home country has best work practices
- **Polycentric:** view that managers in the host country know the best approaches
- **Geocentric:** world-oriented view; wants to use best practices from around the globe

First, an **ethnocentric attitude** is the belief that the best work approaches and practices are those of the *home* country (the country in which the company's parochialistic headquarters are located). Managers with an ethnocentric attitude believe that people in foreign countries don't have the needed skills, expertise, knowledge, or experience to make the best business decisions as people in the home country do.

A **polycentric attitude** is the view that employees in the *host* country (the foreign country in which the organization is doing business) know the best work approaches and practices for running their business. Managers with this attitude view every foreign operation as different and hard to understand. Thus, they're likely to let employees there figure out how best to do things.

A **geocentric attitude** is a *world-oriented* view that focuses on using the best approaches and people from around the globe. Managers with this type of attitude have a global view and look for the best approaches and people regardless of origin.



Regional Trading Alliances

- Global competition and the global economy are shaped by regional trading agreements, including:

European Union (EU): a union of 28 democratic European nations created as a unified economic and trade entity with the **Euro** as a single common currency

North American Free Trade Agreement (NAFTA): an agreement among the Mexican, Canadian, and U.S. governments in which barriers to trade have been eliminated

Association of Southeast Asian Nations (ASEAN): a trading alliance of 10 Southeast Asian nations



Exhibit 4-1 European Union Map



Regional Trading Alliances

The Council of Arab Economic Unity (CAEU):

Established by Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Palestine, Somalia, Sudan, Tunisia, Syria, United Arab Emirates and Yemen in June 1957. The organization aims to achieve **economic integration**, promoting an environment of free movement of labor, capital, and services.

The Greater Arab Free Trade Area (GAFTA):

Is a pact made by the Arab League to achieve a complete Arab economic bloc that can compete internationally.

The project was adopted in the Arab League Summit of Amman in 1997, with 17 Arab League members signing the pact. The agreement aims at **reaching full liberalization of trade** among member states and facilitating commercial activities.

The Gulf Cooperation Council (GCC)

Created in **1981**, it comprises the Arabian Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

The objectives are to “effect **coordination, integration and interconnection** in all fields, strengthening ties between their peoples, formulating similar regulations as well as fostering scientific and technical progress ..., and encouraging cooperation of the private sector.”



Exhibit 4–2 GCC Countries



•Sources: "Map of the countries comprising GCC," Doing Business in GCC Countries, <http://www.gcccountries-business.com>, 2007.



Global Trade Mechanisms

- **World Trade Organization (WTO):** global organization of 159 countries that deals with the rules of trade among nations
 - Formed in 1995
 - The WTO evolved from the General Agreement on Tariffs and Trade (GATT) after the World War II
 - Its goal is to help countries conduct trade through a system of trade rules
 - It has played an important role in keeping trade active during the global economic crisis
 - Trade agreements and disputes are negotiated through the WTO



Different Types of International Organizations

- **Multinational Corporation (MNC)**
 - Maintains operations in multiple countries.
- **Multidomestic Corporation**
 - Is an MNC that decentralizes management and other decisions to the local country-polycentric.



Different Types of International Organizations

- Global Company

- Is an MNC that centralizes its management and other decisions in the home country- ethnocentric

SONY

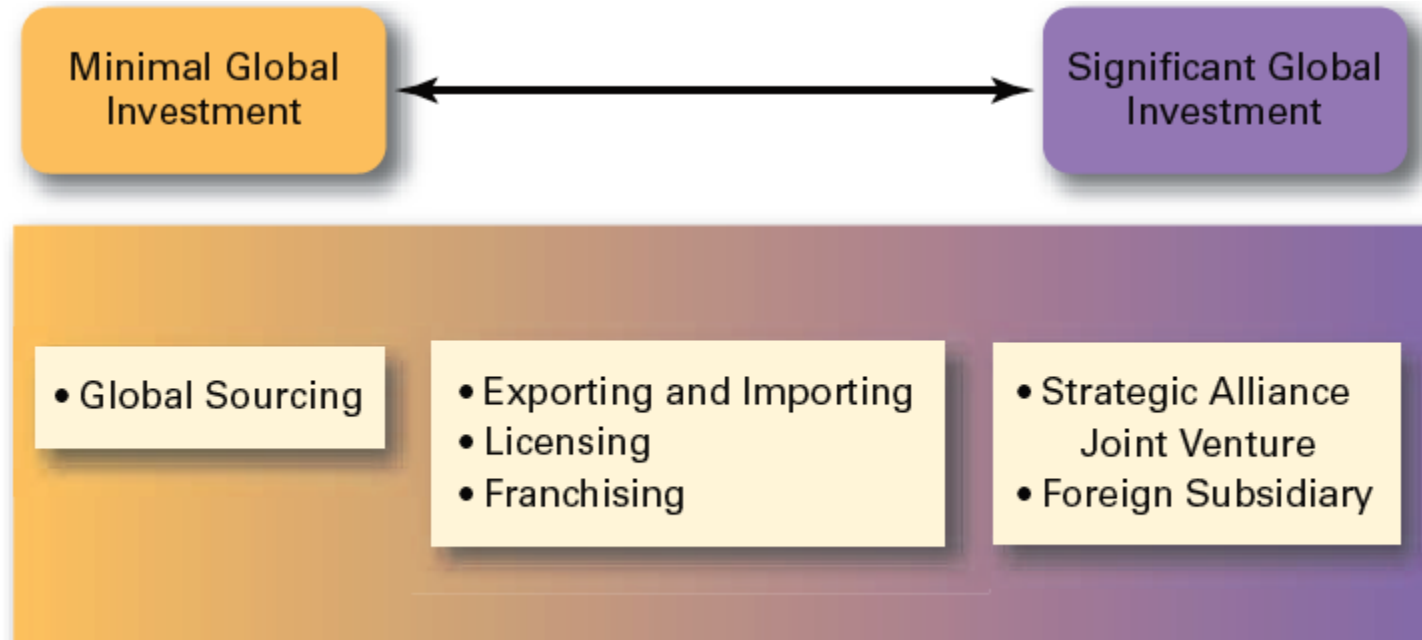
- Transnational or borderless organization

- Is an MNC that uses an arrangement that eliminates artificial geographic barriers
- It reflects the geocentric attitude

IBM



Exhibit 4–3 How Organizations Go Global



How Organizations Go International

Going Global: Global Sourcing and Exporting

- **Global sourcing:** purchasing materials or labor from around the world wherever it is cheapest
 - Call centers staffed with low-cost English speaking workers in the Philippines and Pakistan and India
- **Exporting:** making products domestically and selling them abroad



Going Global: Licensing and Franchising

- **Licensing:** an organization gives another organization the right to make or sell its products using its technology or product specifications (Normally used by manufacturing companies)
- **Franchising:** an organization gives another organization the right to use its name and operating methods (Normally used by service companies)



Walt Disney Company world's is leading licensor with \$56.6bn in licensed products in 2016

- License Global magazine report lists the Walt Disney Company as the world's leading licensor with brands that include Locusfilm, Marvel, ABC, ESPN, DisneyPixar and Walt Disney Studios and a total of **\$56.6bn** in licensed merchandise sold in 2016.



Going Global: Strategic Alliances

- **Strategic Alliance:** partnership between an organization and foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities
- **Examples of strategic alliances in R&D:**
 - Microsoft & Nokia (software partnership for Nokia's Windows)
 - Spotify and Uber
 - Starbucks and Barnes & Nobel
 - Apple/IBM, Applepay & mastercard
 - BMWi8 & LV.



Going Global: Joint Ventures

- **Joint Venture:** A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose
- **Example** is the joint venture between the taxi giant UBER and the heavy vehicle manufacturer Volvo
- The joint venture goal was to produce driverless cars. The ratio of the ownership is 50%-50%. The business worth was \$350 million as per the agreement in the joint venture



Going Global: Foreign Subsidiary

- **Foreign Subsidiary:** directly investing in a foreign country by setting up a separate and independent production facility or office



NIKE Hong Kong Limited
NIKE Hungary LLC
NIKE Ignite LLC
NIKE IHM, Inc.
NIKE India Holding B.V.
NIKE India Private Limited
NIKE Innovate C.V.
NIKE International Holding B.V.
NIKE International Holding Inc.
NIKE International LLC
NIKE International Ltd.
NIKE Israel Ltd.
NIKE Italy S.R.L.
NIKE Japan Corp.
NIKE Japan Group LLC
NIKE Korea LLC
NIKE Laser Holding B.V.
NIKE Licenciamentos Ltda.
NIKE Lightning C.V.
NIKE Logistics Yugen Kaisha
NIKE Maxim C.V.
NIKE Mercurial Corp.

Hong Kong
Hungary
Delaware
Missouri
Netherlands
India
Netherlands
Netherlands
Delaware
Delaware
Bermuda
Israel
Italy
Japan
Japan
South Korea
Netherlands
Brazil
Netherlands
Japan
Netherlands
Delaware

Subsidiaries of Nike Inc



What challenges will a manager face in a new country?



Managing in a Global Environment

Political/Legal Environment

- U.S. managers are accustomed to a stable legal and political system
 - Managers must stay informed of the specific laws in countries where they do business
 - Some countries have risky political climates



Managing in a Global Environment

Economic Environment

- **Free Market Economy:** an economic system in which resources are primarily owned and controlled by the private sector
- **Planned Economy:** an economic system in which economic decisions are planned by a central government
- **Monetary and Financial Factors**
 - Currency exchange rates
 - Inflation rates
 - Diverse tax policies



Managing in a Global Environment

Cultural Environment

- **National Culture** is the values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important.



Exhibit 4-6 Hofstede's Five Dimensions of National Culture



Global Leadership and Organizational Behavior Effectiveness (GLOBE)

- **Power distance** — The degree to which members of a society expect power to be unequally shared.
- **Uncertainty avoidance** — A society's reliance on social norms and procedures to reduce the effects of the unpredictability of future events.
- **Assertiveness** — The extent to which a society encourages people to be tough, confrontational, assertive, and competitive rather than modest and tender.
- **Humane orientation** — The degree to which a society encourages and rewards individuals for being fair, self-sacrificing, generous, caring, and kind to others.
- **Future orientation** — The extent to which a society encourages and rewards future oriented behaviors such as planning, investing in the future, and delaying gratification.



Global Leadership and Organizational Behavior Effectiveness (GLOBE)

- **Institutional collectivism** — The degree to which individuals are encouraged by societal institutions to be integrated into groups in organizations and society.
- **Gender differentiation** — The extent to which a society maximizes gender role differences, as measured by how much status and decision-making responsibilities women have.
- **In-group collectivism** — The extent to which members of a society take pride in membership in small groups, such as their families, their circles of close friends, and the organizations in which they are employed.
- **Performance orientation** — The degree to which a society encourages and rewards group members for performance improvement and excellence.



Global Management in Today's World

- The Challenge of Openness
 - Increased threat of terrorism
 - Economic interdependence of trading countries
 - Intense fundamental cultural differences
- Cultural Intelligence: cultural awareness and sensitivity skills
- Global Mind-Set: attributes that allow a leader to be effective in cross-cultural environments



Exhibit 4-7A Global Mind-Set

Intellectual capital: Knowledge of international business and the capacity to understand how business works on a global scale

Psychological capital: Openness to new ideas and experiences

Social capital: Ability to form connections and build trusting relationships with people who are different from you





THANK
YOU

