

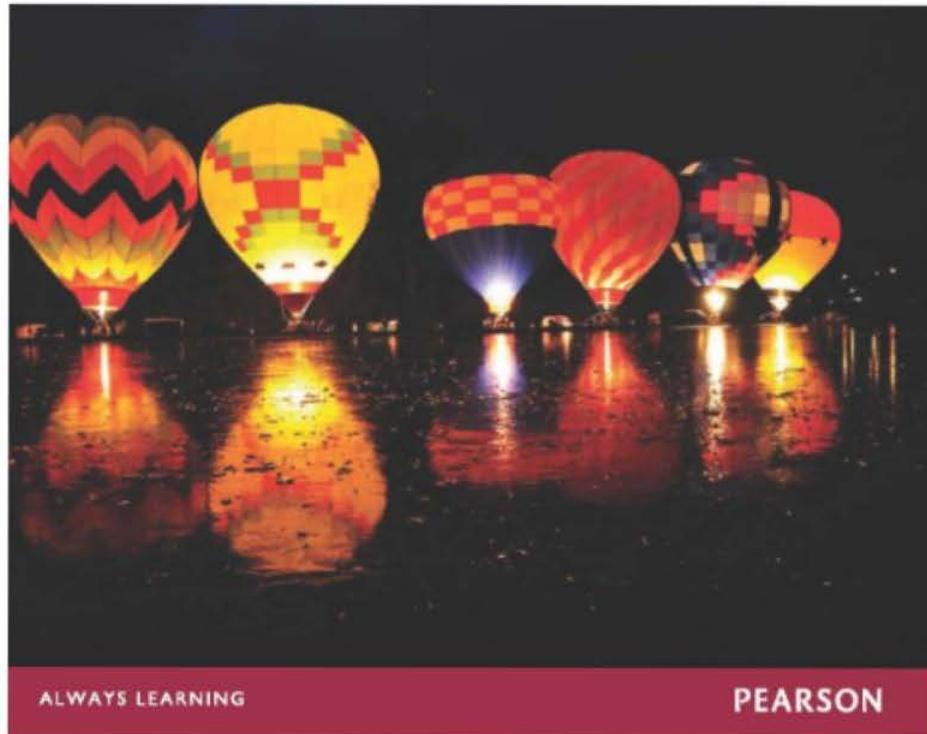
GLOBAL
EDITION



Management

TWELFTH EDITION

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Global Management

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CHAPTER

3

LEARNING OUTCOMES

Contrast 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.

What's Your Global Perspective?

- **Parochialism** - viewing the world solely through your own perspectives, leading to an inability to recognize differences between people.
- **Ethnocentric Attitude** - the parochialistic belief that the best work approaches and practices are those of the home country.

Other Global Perspectives

- **Polycentric Attitude** - the view that the managers in the host country know the best work approaches and practices for running their business.
- **Geocentric Attitude** - a world-oriented view that focuses on using the best approaches and people from around the globe.

Understanding the Global Environment – Trading Alliances

- **European Union (EU)** - a union of 27 European nations created as a unified economic and trade entity with the **Euro** as a single common currency.



Trading Alliances (cont.)

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

Trading Allowances (cont.)

- **Association of Southeast Asian Nations (ASEAN)** - A trading alliance of 10 Southeast Asian nations

Exhibit 3-2 ASEAN Map



Global Trade Mechanisms

- **World Trade Organization (WTO)** - a global organization of 153 countries that deals with the rules of trade among nations.
- **International Monetary Fund (IMF)** - an organization of 185 countries that promotes international monetary cooperation and provides advice, loans, and technical assistance.

Global Trade Mechanisms (cont.)

- **World Bank Group** - a group of five closely associated institutions that provides financial and technical assistance to developing countries.
- **Organization for Economic Cooperation and Development (OECD)** - an international economic organization that helps its 30 member countries achieve sustainable economic growth and employment.

Types of International Organizations

- **Multinational Corporation (MNC)** - a broad term that refers to any and all types of international companies that maintain operations in multiple countries.
- **Multidomestic Corporation** - an MNC that decentralizes management and other decisions to the local country.

Types of International Organizations (cont.)

- **Global Company** - an MNC that centralizes management and other decisions in the home country.
- **Transnational or Borderless Organization** - an MNC in which artificial geographical barriers are eliminated.

How Organizations Go Global

- **Global Sourcing** - purchasing materials or labor from around the world wherever it is cheapest.
- **Exporting** - making products domestically and selling them abroad.

Going Global (cont.)

- **Importing** - acquiring products made abroad and selling them domestically.
- **Licensing** - an organization gives another organization the right to make or sell its products using its technology or product specifications.
- **Franchising** - an organization gives another organization the right to use its name and operating methods.

Going Global (cont.)

- **Strategic Alliance** - a partnership between an organization and one or more foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities.
- **Joint Venture** - a specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose.

Going Global (cont.)

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

Exhibit 3-3

How Organizations Go Global



The 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.

The Cultural Environment

- **National Culture** - the values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important.
- **Hofstede's framework for assessing cultures** - one of the most widely referenced approaches to helping managers better understand differences between national cultures.

Exhibit 3-5

Hofstede's Five Dimensions of National Culture

- 1. Individualistic**—People look after their own and family interests
Collectivistic—People expect the group to look after and protect them

Individualistic ←————→ Collectivistic
United States, Canada, Australia Japan Mexico, Thailand
- 2. High power distance**—Accepts wide differences in power; great deal of respect for those in authority
Low power distance—Plays down inequalities: employees are not afraid to approach nor are in awe of the boss

High power distance ←————→ Low power distance
Mexico, Singapore, France Italy, Japan United States, Sweden
- 3. High uncertainty avoidance**—Threatened with ambiguity and experience high levels of anxiety
Low uncertainty avoidance—Comfortable with risks; tolerant of different behavior and opinions

High uncertainty avoidance ←————→ Low uncertainty avoidance
Italy, Mexico, France United Kingdom Canada, United States, Singapore
- 4. Achievement**—Values such as assertiveness, acquiring money and goods, and competition prevail
Nurturing—Values such as relationships and concern for others prevail

Achievement ←————→ Nurturing
United States, Japan, Mexico Canada, Greece France, Sweden
- 5. Long-term orientation**—People look to the future and value thrift and persistence
Short-term orientation—People value tradition and the past

Short-term orientation ←————→ Long-term orientation
Germany, Australia, United States, Canada China, Taiwan, Japan

Global Management in Today's World

- **Global Leadership and Organizational Behavior Effectiveness (GLOBE) program** - a research program that studies cross-cultural leadership behaviors.

Global Management in Today's World

- The Challenge of Openness
 - The increased threat of terrorism by a truly global terror network
 - Economic interdependence of trading countries
 - intense underlying and fundamental cultural differences— differences that encompass traditions, history, religious beliefs, and deep-seated values.

Global Management in Today's World

- **Cultural Intelligence** - cultural awareness and sensitivity skills.
- **Global Mind-Set** - attributes that allow a leader to be effective in cross-cultural environments.

Exhibit 3-6

A 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



Source: Based on "Making It Overseas," by M. Javidan, M. Teagarden, and D. Bowen, from *Harvard Business Review*, April 2010; and "Testing Managers' Global IQ," by J. McGregor (ed.), from *Bloomberg BusinessWeek*, September 28, 2009.

Review Learning Outcome 3.1

- Contrast ethnocentric, polycentric, and geocentric attitudes toward global business
 - **Parochialism** - viewing the world solely through your own eyes and perspectives
 - **Polycentric attitude** - managers in the host country know the best work approaches and practices for running their business
 - **Geocentric attitude** - a world-oriented view that focuses on using the best approaches and people from around the globe

Review Learning Outcome 3.2

- Discuss the importance of regional trading alliances and global trade mechanisms.
 - The European Union consists of 27 democratic countries
 - NAFTA helps Canada, Mexico, and the United States strengthen their global economic power.
 - ASEAN is a trading alliance of 10 Southeast Asian nations

Review Learning Outcome 3.2 (cont.)

- World Trade Organization (WTO) monitors and promotes trade relationships
- The International Monetary Fund (IMF) and the World Bank Group provide monetary support and
- The Organization for Economic Cooperation and Development assists its member countries with financial support

Review Learning Outcome 3.3

- Describe the structures and techniques organizations use as they go international
 - A multinational corporation - an international company that maintains operations in multiple countries
 - A multidomestic organization - an MNC that decentralizes management and other decisions to the local country
 - A global organization - an MNC that centralizes management and other decisions in the home country
 - A transnational organization is an MNC that has eliminated artificial geographical barriers

Review Learning Outcome 3.3 (cont.)

- Global sourcing - purchasing materials or labor from around the world wherever it is cheapest.
- Exporting is making products domestically and selling them abroad.
- Importing is acquiring products made abroad and selling them domestically.

Review Learning Outcome 3.3 (cont.)

- Licensing - gives that organization the
- right to use the company's brand name, technology, or product specifications.
- Franchising - use another company's name and operating methods.
- Global strategic alliance - partnership between an organization and foreign company partners

Review Learning Outcome 3.3 (cont.)

- Joint venture - a strategic alliance in which the partners agree to form a separate, independent organization for some business purpose.
- Foreign subsidiary is a direct investment in a foreign country that a company creates by establishing a separate and independent facility or office.

Review Learning Outcome 3.4

- Explain the relevance of the political/legal, economic, and cultural environments to global business.
 - The laws and political stability of a country are issues in the global political/legal environment with which managers must be familiar
 - Managers must be aware of a country's economic issues such as currency exchange rates, inflation rates, and tax policies

Review Learning Outcome 3.4 (cont.)

- Geert Hofstede identified five dimensions for assessing a country's culture:
 - individualism-collectivism, power distance, uncertainty avoidance, achievement-nurturing, and long-term/short-term orientation
- The GLOBE studies identified nine dimensions for assessing country cultures



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