

Fundamentals of Management

Global Management



How Do You Become a World Citizen?

- Learn How Not to Be an “Ugly Foreigner”
- Be Global in Your Focus, but Think Local
- Learn What’s Appropriate Behavior
- Know Your Field
- Become at Least Minimally Skilled in the Language

Globalization

The trend of the world economy toward becoming a more interdependent system.

1. The rise of the “global village” and electronic commerce.
2. The world’s becoming one market instead of many national ones.
3. The rise of both megafirms and Internet-enabled minifirms worldwide.

Cross-Border Business

- Megamergers Operating Worldwide
 - e.g., Union Pacific + Southern Pacific. Kmart + Sears. Whole Foods + Wild Oats. Bank of America + Merrill Lynch.
- Minifirms Operating Worldwide
 - Small companies can get started more easily.
 - Small companies can maneuver faster.

Why Global Management

- You May Deal with Foreign Customers or Partners
- You May Deal with Foreign Employees or Suppliers
- You May Work for a Foreign Firm in Your Home Country
- You May Work for a Firm Outside Your Home Country

The attitude of managing global

- **Ethnocentric**—“We Know Best”
 - The home country, culture, language, and behavior are superior to all others.
- **Polycentric**—“They Know Best”
 - Foreign managers in the foreign offices best understand their personnel and practices, and so the home office should leave them alone.
- **Geocentric**—“What’s Best Is What’s Effective, Regardless of Origin”
 - There are differences and similarities between home and foreign personnel and practices and that they should use whatever techniques are most effective.

Why Companies Expand to International Markets??

Please list 5 reasons why company expands internationally.
Please limit your answers within 3 words.

<https://www.menti.com/k7ubocxf6a>



- *Availability of Supplies*
- *New Markets*
- *Lower Labor Costs*
- *Access to Capital*
- *Avoid trade barriers*
- *.....*

How Do Companies Expand Internationally?

FIGURE 4.1 Five Ways of Expanding Internationally

These range from lowest risk and investment (*left*) to highest risk and investment (*right*).



1. Global Outsourcing (offshoring)

- Using suppliers outside the country to provide labor, goods, or services.

2. Importing, Exporting, & Countertrading

- Importing – a company buys goods outside the country and resells them domestically.
- Exporting – a company produces goods domestically and sells them outside the country.
- Countertrading – bartering goods for goods.

3. Licensing & Franchising

- Licensing – a company **allows a foreign company** to pay a fee **to make or distribute its product or service**.
- The Du Pont chemical company might license a company in Brazil to make Teflon
- Franchising (a form of licensing) – a company **allows a foreign company** to pay a fee and a share of the profit in return for **using its brand name and a package of materials and services**.
- Burger King, Hertz, and Hilton Hotels might provide the use of their names plus their operating know-how to companies in other countries in return for an up-front fee plus a percentage of the profits.

#1. Concept

Licensing



It is a Legal arrangement in which an organization (Licensor) will be selling the intellectual property rights to the local company (Licensee) for a royalty.

Franchising



It is a Legal system where the Franchisor (Original Company) will permit Franchisee (Local Company) to use its business model and brand for a specific fee like an independent branch.

#2. Compliance Aspect

Licensing



Licensing is governed by the respective Contract acts at a national level, and at an international Level via the Paris Convention i.e., TRIPS (Trade Related Intellectual Property Rights).

Franchising



They are protected by the respective Franchise laws of their own territory. As of now an international law specific to Franchising has not been made.

#3. Sphere of Control

Licensing



The Licensor may entail some control on the intellectual property given to the Licensee, but have no control in the particulars of his business operations.

Franchising



The Franchisor can exert considerable control over Franchisee business and operational models, by establishing norms, inspections and maintenance of accounts.

#4. Nature

Licensing



It involves a single time transfer of the specific intellectual property by the Licensor to the Licensee, where the training and support are not being provided.

Franchising



It involves a consistent ongoing assistance by the Franchisor to the Franchisee, where the training and support were also being provided.

Table 9.2 Franchising vs. Licensing

	<i>Franchising</i>	<i>Licensing</i>
<i>Structure</i>	<p>Notable service component</p> <p>Franchisor allocates responsibilities, decision rights, and profits to franchisee – must maintain predetermined level of quality among brand name and performance</p> <p>Franchisee is responsible for setting prices, wages, and determining location</p> <p>Franchisor develops system's trademark and standardized products</p>	<p>Only sells proprietary knowledge</p> <p>Management is 'hands off' – licensee does not have to meet predetermined levels of quality</p> <p>Licensee is responsible for setting prices, wages, and determining location</p> <p>May license a trademark, patent, or operating system without having to develop a standardized business</p> <p>Saves developmental costs</p>
<i>Benefits</i>	<p>System creates efficiencies in information, supervision, and scale</p> <p>Franchisees receive services (i.e., training, production processes, blueprints, etc.)</p> <p>Growth of brand name allows firm to capture economies of scale quicker</p> <p>Franchising enhances likelihood of firm survival and growth</p> <p>Creates brand name equity (franchise reputation)</p>	<p>Expertise, capital resources, and local knowledge are not needed to grow the brand – lowers Licensor risk</p> <p>Licensee uses strong brand name to attract customers</p>

4. Joint Ventures (strategic alliances)

- A domestic company and a foreign company share the risks and rewards of starting a new enterprise together.
- Ford has a joint venture in China with Changan Ford.

5. Wholly-Owned Subsidiaries

- A foreign subsidiary that is totally owned and controlled by an organization.
- General Motors owns Adam Opel AG in Germany and Vauxhall Motor Cars in the United Kingdom.

Free Trade vs. Trade Protectionism

- Free trade: the movement of goods and services among nations *without political or economic obstruction*.
- Trade protectionism: the use of government regulations *to limit the import of goods and services* to protect their domestic industries against foreign competition.

- Why free trade?
- Why trade protectionism?
- Are you for free trade or trade protectionism?

Protection: Logic and Illogic

Arguments for protectionism:

- Protection of infant industry; Protection of the home market; Increase the business size of local companies
- Need to keep money at home; Encouragement of capital accumulation
- Maintenance of the standard of living and real wages; Industrialization of a low-wage nation; Maintenance of employment and reduction of unemployment
- Conservation of natural resources
- National defense
- Retaliation and bargaining

Barriers to Free Trade

1. Tariffs

- A trade barrier in the form of a customs duty, or tax, levied mainly on imports.

2. Import Quotas

- A limit on the numbers of a product that can be imported.

3. Embargoes

- A complete ban on the import or export of certain products of a country.

International Organizations

1. The World Trade Organization (WTO)

- To monitor and enforce trade agreements. The agreements are based on the General Agreement on Tariffs and Trade (GATT)

2. The World Bank

- To provide low-interest loans to developing nations.

3. The International Monetary Fund

- To assist in smoothing the flow of money between nations.

Regional Organizations

1. NAFTA—North American Free Trade Agreement

Formed in 1994, NAFTA is a trading bloc consisting of the *United States, Canada, and Mexico*, encompassing 444 million people.

2. The EU—European Union

Formed in 1957, EU consists of 28 trading partners in Europe, covering nearly 500 million consumers.

3. APEC—Asia-Pacific Economic Cooperation

Founded in 1989, APEC is a group of 21 Pacific Rim countries whose purpose is to improve economic and political ties.

4. ASEAN—Association of Southeast Asian Nations

ASEAN is a trading bloc consisting of 10 countries in Asia

Culture

- Culture is the shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people.
- Culture shock is the feelings of discomfort and disorientation associated with being in an unfamiliar culture.

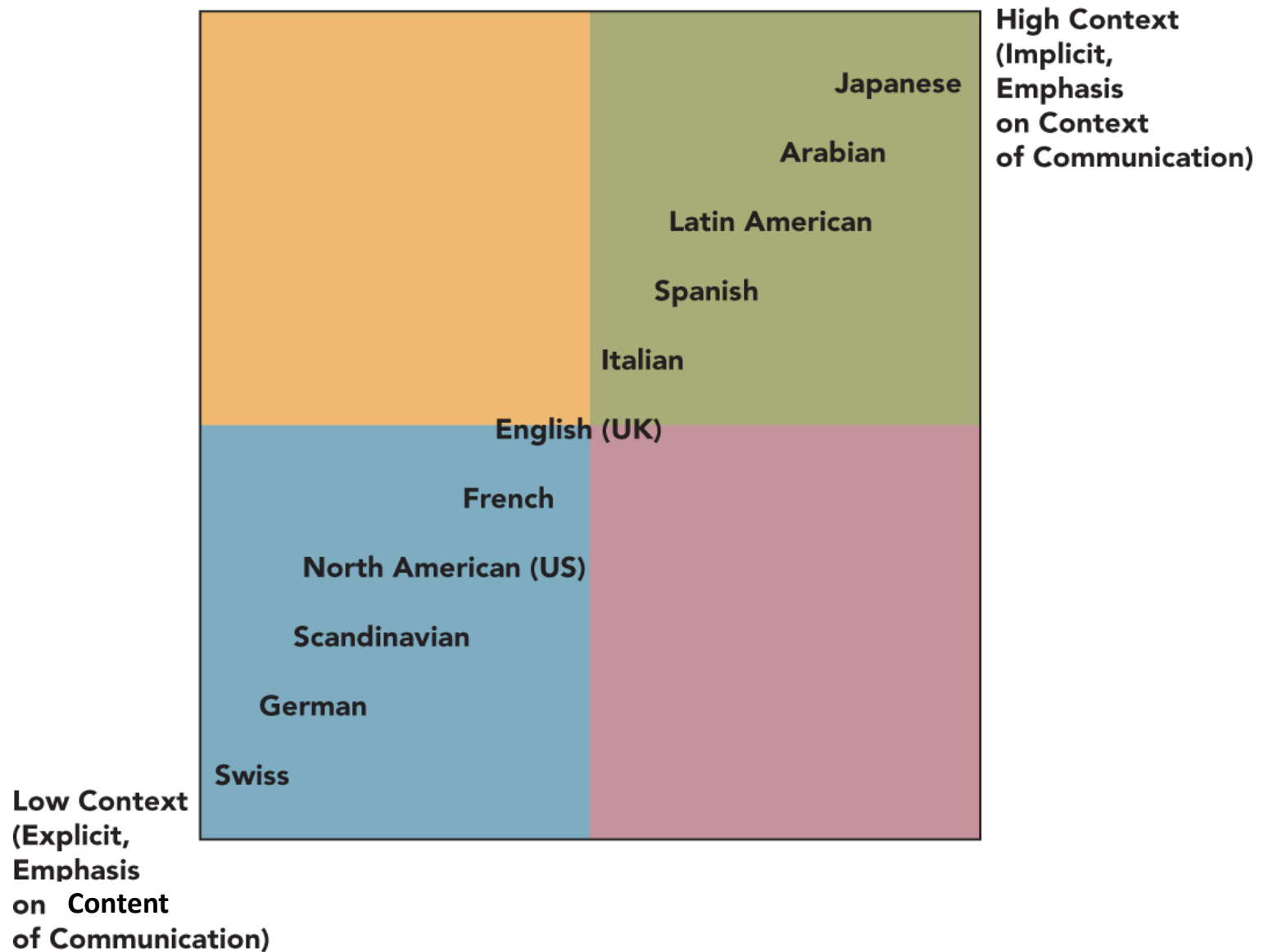
Communication Style

In a **low-context culture**, shared meanings are primarily derived from written and spoken words.

- North America, Great Britain, Scandinavia, Germany, or Switzerland

In a **high-context culture**, people rely heavily on situational cues for meaning when communicating with others.

- The situational cues are nonverbal such as another person's official position, status, or family connections.
- China, Korea, Japan, Vietnam, Mexico, or many Arab cultures



Cultural Dimensions: The GLOBE Project

the GLOBE (Global Leadership and Organizational Behavior Effectiveness) project is a massive and ongoing cross-cultural investigation of nine cultural dimensions involved in leadership and organizational processes.

Power distance—the degree to which a society's members **expect power to be *unequally* shared.**

Uncertainty avoidance—the extent to which a society **relies on social norms** and procedures **to alleviate the unpredictability** of future events.

Institutional collectivism—the extent to which individuals are encouraged and rewarded for **loyalty to the group as opposed to pursuing individual goals.**

In-group collectivism—the extent to which people should **take pride in being members** of their family, circle of close friends, and their work organization.

Gender egalitarianism—the extent to which a society should **minimize gender discrimination** and role inequalities.

Assertiveness—the extent to which a society **expects people to be confrontational and competitive** as opposed to tender and modest.

Future orientation—the extent to which a society encourages investment in the future, as by planning and saving.

Performance orientation—the extent to which society encourages and rewards its members for performance improvement and excellence.

Human orientation—the extent to which individuals are encouraged to be altruistic, caring, kind, generous, and fair.

DIMENSION	HIGHEST	LOWEST
Power distance	Morocco, Argentina, Thailand, Spain, Russia	Denmark, Netherlands, South Africa (black sample), Israel, Costa Rica
Uncertainty avoidance	Switzerland, Sweden, Germany (former West), Denmark, Austria	Russia, Hungary, Bolivia, Greece, Venezuela
Institutional collectivism	Sweden, South Korea, Japan, Singapore, Denmark	Greece, Hungary, Germany (former East), Argentina, Italy
In-group collectivism	Iran, India, Morocco, China, Egypt	Denmark, Sweden, New Zealand, Netherlands, Finland
Gender egalitarianism	Hungary, Poland, Slovenia, Denmark, Sweden	South Korea, Egypt, Morocco, India, China
Assertiveness	Germany (former East), Austria, Greece, United States, Spain	Sweden, New Zealand, Switzerland, Japan, Kuwait
Future orientation	Singapore, Switzerland, Netherlands, Canada (English speaking), Denmark	Russia, Argentina, Poland, Italy, Kuwait
Performance orientation	Singapore, New Zealand, United States	Russia, Argentina, Greece, Venezuela, Italy
Human orientation	Philippines, Ireland, Malaysia, Egypt, Indonesia	Germany (former West), Spain, France, Singapore, Brazil

Consider a country that you like:

Try to guess the 9 GLOBE culture dimensions
(indicate each at a low/medium/high level).

Compare your results with the following:

[https://globeproject.com/results/countries/CHN
?menu=list#list](https://globeproject.com/results/countries/CHN?menu=list#list)

Other Cultural Variations

- Interpersonal Space

- The people of North America and northern Europe tend to conduct business conversations at a range of 3–4 feet.
- For people in Latin American and Asian cultures, the range is about 1 foot.
- For Arabs, it is even closer.

- Time Orientation

- **Monochronic time** is a preference for *doing one thing at a time*.
 - Time is viewed as being limited, precisely segmented, and schedule driven.
 - Standard American business practice
- **Polychronic time** is a preference for *doing more than one thing at a time*.
 - Time is viewed as being flexible and multidimensional.
 - Mediterranean, Latin American, and especially Arab cultures

Case study - Norwegian Air Shuttle Aspires to Become the Cheapest Global Airline

Work in pairs or individually and discuss:

1. What are the biggest challenges Norwegian experienced in trying to expand its airline across the globe?
2. To what extent did you observe examples of ethnocentric, polycentric, or geocentric attitudes in this case? Provide examples to support your conclusions.
3. Use the GLOBE Table to identify cultural differences that are likely to arise between Norwegian employees working in Denmark and Sweden and Thailand.
4. How might these differences affect interpersonal interactions, and what can the company do to reduce any unintended conflict from these differences?
5. What are the most important lessons to be learned about global management from this case? Discuss

Return your answer, name and student No. to the course liaison by 16:30

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Fundamentals of Management

Planning



Planning: Coping with Uncertainty

- **Planning** is defined as **setting goals** and deciding **how to achieve them**.
- Or, planning is coping with uncertainty by formulating future courses of action to achieve specified results.
- **Business plan**: a document that outlines a proposed firm's goals, the strategy for achieving them, and the standards for measuring success.
- **Business model**: which outlines the need the firm will fill, the operations of the business, its components and functions, as well as the expected revenues and expenses.

EXAMPLE

Is Planning Necessary? Launching a Vending-Machine Business on \$425

Brian Allman of Reno, Nevada, was 17 years old when he bought a simple vending machine at Sam's Club for \$425 and used it to start Bear Snax Vending, stocking the machine and four others he added later with Skittles, M&Ms, and Snickers to serve several small to midsize businesses, such as banks. Allman did this without apparently drawing up a business plan.¹²

Why Plan? Almost everyone starting a new business is advised to write a business plan. The reasons: Creating such a plan helps you get financing. ("If you want us to invest our money, show us your plan.") It helps you think through important details. ("Don't rush things; it's best to get the strategy right.") Finally, it better guarantees your firm will succeed. (A study of 396 entrepreneurs in Sweden found that a greater number of firms that failed never had a formal business plan.¹³)

"Going with What You've Got" Even so, sometimes major decisions, including starting up companies, are made without much planning. Indeed, one study found that 41% of *Inc.* magazine's 1989 list of fastest-growing private firms didn't have a business plan and 26% had only rudimentary plans, percentages essentially unchanged in 2002.¹⁴ Planning of any sort, of course, requires time, and sometimes you need to make a quick decision and "go with what you've got"—with or without a plan.¹⁵

YOUR CALL

Nine years after founding Bear Snax Vending without a formal business plan, Brian Allman was still running it. (Allman was also working as a financial advisor for financial services firm Edward Jones.) If you had a few hundred dollars with which to launch a small business, **do you think writing a business plan would help you or just be a waste of time?**

Strategy

- A **strategy** is a **large-scale action plan** that sets the direction for an organization.
 - “Budweiser’s ultimate strategy. . .” or “Visa’s overseas strategy. . .” or financial strategy, marketing strategy, and human resource strategy.
 - “Find out what customers want, then provide it to them as cheaply and quickly as possible” (the strategy of Walmart)
- It needs to **be revisited from time to time** due to ever changing business conditions.
- **Strategic management** is a process that involves managers from all parts of the organization in the formulation and the implementation of strategies and strategic goals.

Why Planning & Strategic Management Are Important

1. Providing Direction & Momentum

- Strategy can determine the very structure of the organization
- A poor plan can send an organization in the wrong direction

2. Encouraging New Ideas

- Far from being a straitjacket for new ideas, strategic planning can help encourage them by stressing the importance of innovation in achieving long-range success.
- Apple's strategy innovation

3. Developing a Sustainable Competitive Advantage

- Produce goods or services more effectively than its competitors do, (1) in being responsive to customers, (2) in innovating, (3) in quality, and (4) in effectiveness.

EXAMPLE

Developing Competitive Advantage: What's the Best Strategy in an E-Commerce Age?

E-commerce has completely changed retail shopping, as more Americans skip going into stores and order via their tablets and smartphones instead.²⁸ The result has severely impacted such chains as Staples, RadioShack, and Sears, which have reduced the number of stores, and forced other big retailers, such as Walmart, to ramp up their online buying and delivery operations.²⁹

Adjusting to Online Competition. Other stores have shifted their focus and their services:³⁰ J. Crew has gone to a new format (J. Crew Mercantile) to appeal to discount shoppers. Abercrombie & Fitch is reaching out to teens with less nudity on its clothing dummies, more black apparel, and larger sizes. Sears, Saks, and Macy's are instructing their clerks to encourage virtual customers by picking and packing items from the stores themselves (rather than the warehouses) and ordering a same-day UPS or FedEx pickup, to avoid losing shoppers to Amazon.

IKEA'S Advantage. However, 71-year-old Sweden-based IKEA, the world's largest furniture retailer, with 345 stores in 42 countries (50 in North America), has a different strategy—add *more* physical stores, as well as competing online and with catalogs. “We see that Internet and e-commerce is growing,” says IKEA CEO Peter Agnefjäll, “but at the same time, when buying a new bed a lot of people want to try it first, and if you buy a sofa you may want to touch the fabric.”³¹

YOUR CALL

For what kinds of products is a visit to a physical store a more attractive shopping experience for consumers than buying online? How realistic is the prospect of the use of holograms (which could enable consumers to try clothes on at home) and 3-D printers (which could print out three-dimensional products remotely) in the shopping experience within the next 15 years?

Fundamentals of Planning



Mission Statement

—“What Is Our Reason for Being?”

- An organization’s mission is its purpose or reason for being.
- A **mission statement**, which expresses the purpose of the organization.

EXAMPLE

Mission Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Mission statements answer the question, “What is our reason for being?” or “Why are we here?”

Here are the mission statements for three companies, drawn from their websites. The mission statement for Hilton Hotels, a large company, reads: “To fill the earth with the light and warmth of hospitality.”

Amazon’s mission statement is “Use the Internet to offer products that educate, inform, and inspire. We decided to build an online store that would be customer friendly and easy to navigate and would offer the broadest possible selection. . . .

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*.”

Clothing maker Patagonia’s mission statement is to “Build the best product, cause no unnecessary harm, [and] use business to inspire and implement solutions to the environmental crisis.”

YOUR CALL

Do you think any of these mission statements could be adapted to different companies offering different products or services? Give an example.

Vision Statement

—“What Do We Want to Become?”

- A vision is a long-term goal describing “what” an organization wants to become.
- It is a clear sense of the future and the actions needed to get there.
- A **vision statement** expresses what the organization should become, where it wants to go strategically.

EXAMPLE

Vision Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Vision statements answer the question, “What do we want to become?” or “Where do we want to go?”

Here is Hilton Hotels’ statement: “To be the first choice of the world’s travelers, building on the rich heritage and strength of our brands by consistently delighting our customers, investing in our team members, delivering innovative products and services, expanding our family of brands, and continuously improving performance.”

Amazon’s vision statement: “Our vision is to be earth’s most customer-centric company; to build a place where

people can come to find and discover anything they might want to buy online.”

Patagonia’s statement: “We prefer the human scale to the corporate, vagabonding to tourism, and the quirky to the toned-down and flattened out.”

YOUR CALL

Do these vision statements work? Do they meet *Fortune’s* criterion of describing “what’s happening in the world you compete in and what you want to do about it. It should guide decisions”?

Three Types of Planning

- **Strategic planning**—to determine what the organization's long-term goals should be for the **next 1–5 years** with the resources they expect to have available.
- **Tactical planning**—to determine what contributions their departments or similar work units can make with their given resources during the **next 6–24 months**.
- **Operational planning**—to determine how to accomplish specific tasks with available resources within the **next 1–52 weeks**.

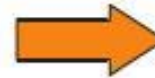
Types of Planning and Levels of Management

Top management

chief executive officer,
president, vice president,
general managers,
division heads



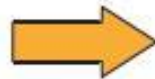
Strategic planning:
1–5 years



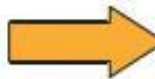
Make long-term decisions about overall direction of organization. Managers need to pay attention to environment outside the organization, be future oriented, deal with uncertain and highly competitive conditions.

Middle management

functional managers,
product-line managers,
department managers



Tactical planning:
6–24 months



Implement policies and plans of top management, supervise and coordinate activities of first-line managers below, make decisions often without base of clearly defined information procedures.

First-line management

unit managers, team leaders,
first-line supervisors



Operational planning:
1–52 weeks



Direct daily tasks of nonmanagerial personnel; decisions often predictable, following well-defined set of routine procedures.