

B0646

# 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.

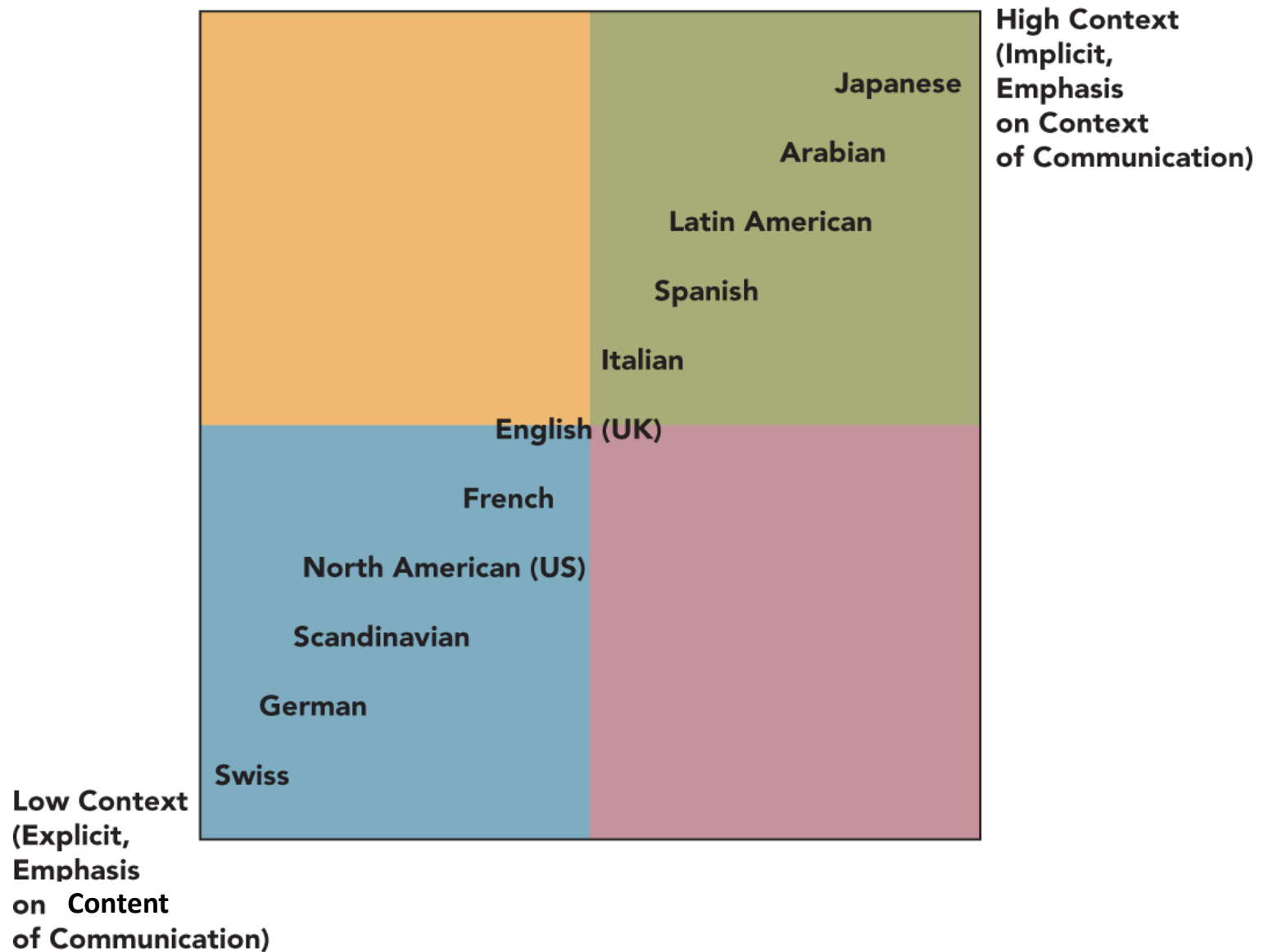
# Communication Style

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