Chapter 02: Environmental Constraints on Managers

Table of Contents

[External Factors Affecting Decisions of Managers 2](#_Toc134017774)

[Specific Conditions 2](#_Toc134017775)

[General Conditions 3](#_Toc134017776)

[Global Factors 3](#_Toc134017777)

[Types of Global Organizations 5](#_Toc134017778)

[Methods of Doing Global Business 6](#_Toc134017779)

[Organizational Situations 8](#_Toc134017780)

[Benefits and Drawbacks of Globalization 8](#_Toc134017781)

People have a tendency to view managers in a symbolic manner, as though they are either all powerful or completely powerless. They are the sole reason for the success or failure of an organization. Usually though, this is wrong.

Consider the Keystone project, which was designed to carry oil from Canada to the Gulf of Mexico. Environmental activists managed to put a stop to this project, which resulted in the company behind it having to shift their focus to China instead because the alternative would be to actually care about the planet. This is an example of an **external factor** affecting the course of an organization that the managers could do nothing about. Well, they could work at a less problematic company but $$$.

## External Factors Affecting Decisions of Managers

There are mainly three categories of external factors that can affect the decisions of managers:

1. Specific Conditions
2. General Conditions
3. Global Conditions

### Specific Conditions

**Specific Conditions** work at the **micro-level** and affect decisions directly and immediately. These are usually related to stakeholders flipping sides suddenly, such as customers finding out that you used ingredients that can cause cancer in your food products.

### General Conditions

**General Conditions** work at the **macro-level**. They do affect decisions, but not immediately. Their effects are felt months later.

General conditions fall into one of 6 categories which can be summarized into the acronym **PESTEL**:

1. **Political Conditions** – Which government is in power?
2. **Economic Conditions** – The price of silicon has started to rise. How are you going to make computers next year?
3. **Socio-Cultural Conditions** – Has anyone noticed you test your products on bunnies yet?
4. **Technical Conditions** – Is there a way to automate your factory so you can fire more employees?
5. **Environmental Conditions** – The oil reserves are drying up. Where are you going to drill next?
6. **Legal Conditions** – GDPR is making it harder to sell people’s data. How do you get around it?

### Global Factors

**Global Factors** only come into play if your company is involved in global trading.

Global trade is overseen by one of a handful or organizations:

1. **World Trade Organization** (WTO) – The WTO regulates international trading. Nearly every country that is involved in international trading is a member of this organization.
2. **Regional Trade Organizations** – These are smaller organizations that regulate trade between groups of countries or in specific regions, such as the EU, NAAFTA, ASEAN, TPP, BRICS, etc.

The reason global factors are of importance is because a foreign market is wildly different from ours. One example could be the difference between a **market economy**, where businesses are free to make their own decisions, and a **planned economy**, where the government decides how the businesses will operate.

A few of the factors that may differ in a foreign market are:

1. **Individualistic VS Collectivist Attitudes**

The general public may be success oriented individually or may find it more important that their country as a whole progress.

1. **Power Distance**

For some countries, the people in power are idolized and are all mighty while in others, they are treated as equals.

1. **Uncertainty Avoidance**

People in some countries may dislike taking risks. A foreign company is a risky investment. Some people may even dislike the fact that a new company from outside their country is coming and bringing their culture, opinions and changes with them.

1. **Achievement vs Nurturing Attitude**

This refers to the competitiveness of the market. Small businesses will struggle in a very competitive market.

1. **Long-Term vs Short-Term Oriented**

Do the people in the country like to live in the present and enjoy their lives or do they like slaving away 9 to 5 dreaming about some day having a better life?

## Types of Global Organizations

1. **Multi-Nation Corporations** (MNCs)

Decisions about the business are taken at a single headquarters located in just one part of the world, even if there are offices elsewhere. Examples – Adidas, Unilever.

1. **Multi-Domestic Corporations**

Business decisions are taken more locally and power is more distributed. This results in different parts of the world having different experiences with the company. Example – Frito-Lay, the makers of Lays, which markets other chips in other parts of the world.

1. **Global Corporations**

These corporations only have outlets in other countries, no offices. These are similar to MNCs. Example – McDonalds.

1. **Trans-Nation Corporations**

These corporations provide different services in different countries. They have no structure. Example – IBM.

1. **Born-Global Corporations**

These corporations were global from the very beginning. Example – Skype.

## Methods of Doing Global Business

1. **Global Outsourcing**

Purchasing resources from the global market wherever it is cheapest.

1. **Importing and Exporting**

Buying goods that are cheaper outside and selling it in the host country at a higher rate.

Selling goods that are produced more than they are demanded in the host country to other countries.

1. **Licensing and Franchising**

Franchising involves the consent of the parent company to do business under their brand name in exchange for a portion of the profits, e.g., KFC.

Licensing involves the use of another company’s products in order to do business, but not to use their brand name in connection with ours, e.g., MS Office.

1. **Strategic Alliances**

A strategic alliance is formed when a foreign company wishes to extend their business in a new county, but they do not have enough information about the market there. Established businesses in the country can help the company during the initial stages if they collaborate.

A special type of strategic alliance is a **Joint Venture**. This is when two existing companies join to create a new one. A famous example of this is Hitachi, which was the result of a joint venture between HP and a Japanese company.

1. **Foreign Subsidiary**

An organization that is very rich may choose to invest in another country without collaborating with any of the local companies, even if they do not have knowledge about the market there. For example, they may choose to start a hotel, a business or an overhyped university. This is of course an extremely risky move.

Amongst the five methods, **licensing** is the least risky while **foreign subsidiaries** are the riskiest.

## Organizational Situations

Any organization is in one of two states, stable or dynamic. In a **stable** situation, the organization has little to no competition. This means there are fewer decisions that need to be made and managers have less work. In a **dynamic** situation, the organization has lots of competition and managers are far more active.

## Benefits and Drawbacks of Globalization

The **benefits** of globalization are related to monetary income. The company grows and its financial sphere increases.

The **drawbacks** of globalization are most **sociocultural**. Globalization is often referred to as western imperialization since companies from western countries expanding to eastern ones have a habit of injecting their culture into the countries. It is a form of mental colonization. Another drawback is the increased divided among rich and poor countries. This is a result of the fact that richer countries tend to make luxury products while poor countries make cheaper products, usually in the form of cheap labour.