

Chapter 6

International Management

- **Importance of International Management :-**

International management is a critical area for any serious student of management because of globalization, the worldwide phenomenon whereby the countries of the world are becoming more interconnected and where trade barriers among nations are disappearing.

- 1) Lowering Trade Barriers :-

The first critical factor is the lowering of trade barriers through trade agreements, government policies through which countries agree to eliminate cross-border barriers to trade and to promote global integration.

The goal of most trade agreements has been to reduce or eliminate tariffs (**Tariffs are taxes that are added to the price of imported international products**) and other barriers to make cross-border trade easier.

- 2) Foreign Direct Investment :-

Foreign direct investment (FDI) refers to deliberate efforts of a country or company to invest in another country through the form of ownership positions in companies in another country.

- 3) The Internet :-

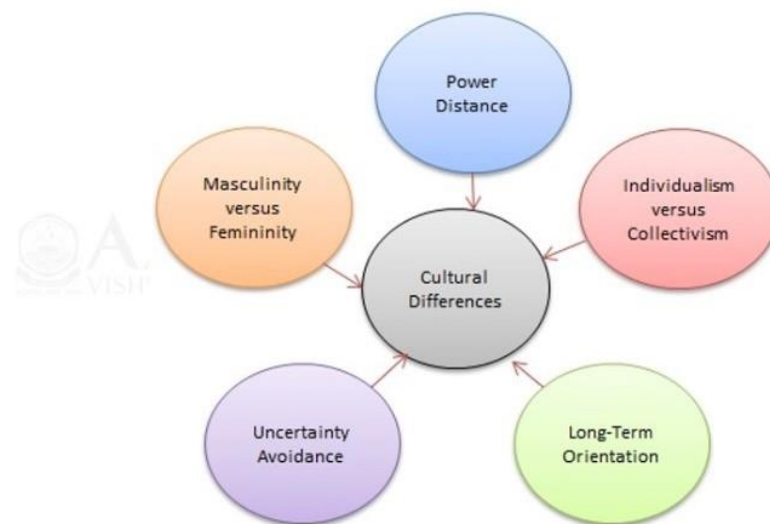
Thanks to the pervasiveness of the Internet today, any company in the world can sell its products to anyone in the world.

Social media, such as Twitter and Facebook, also provide a means for multinationals to build relationships with customers worldwide. Data also suggests that even countries that previously had little access to the Internet are now experiencing tremendous growth.

- Hofstede's Cultural Framework

Given the importance of globalization, any serious international management students will need to be able to understand the cultural aspects of a society in which they may find themselves and will need to learn how to adapt to various cultural conditions.

Hofstede's Cultural Framework



CULTURAL DIFFERENCES:-

1. Power distance:-

Refers to the degree to which societies accept power differences and authority in society.

2. Individualism:-

Refers to the degree to which a society focuses on the relationship of the individual to the group

Collectivism:-

Refers to the degree to which a society focuses on the relationship of the group as a whole.

3. Long-term orientation:-

Is a cultural orientation that deals with time—past, present, and future—to foster virtues oriented towards future rewards, in particular perseverance and thrift.

4. Uncertainty avoidance:-

Refers to the degree to which people in a society are comfortable with uncertainty and unpredictable situations.

5. Masculinity:-

The degree to which a society emphasizes traditional masculine qualities such as advancement and earnings.

Femininity:-

Femininity is seen to be the trait which stress caring and nurturing behaviors, sexuality equality, environmental awareness, and more fluid gender roles.

The GLOBE Framework:-

A second important cultural framework, the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project provides managers with an additional lens through which they can better understand how to perform well in an international environment.

The
GLOBE
Framework

Power Distance	The degree to which members of a collective expect power to be distributed equally
Uncertainty Avoidance	The extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate unpredictability of future events.
Humane Orientation	The degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others.
Collectivism I (Institutional)	The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.
Collectivism II (In-Group)	The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.
Assertiveness	The degree to which individuals are assertive, confrontational, and aggressive in their relationships with others.
Gender Egalitarianism	The degree to which a collective minimizes gender inequality.
Future Orientation	The extent to which individuals engage in future-oriented behaviors such as delaying gratification, planning, and investing in the future.
Performance Orientation	The degree to which a collective encourages and rewards group members for performance improvement and excellence.

- Power distance - Refers to the degree to which societies accept power differences and authority in society.
- Uncertainty avoidance - Refers to the degree to which people in a society are comfortable with uncertainty and unpredictable situations.
- Humane Orientation - Extent to which societies place importance on fairness, altruism, and caring.
- Collectivism (Institutional) - Refers to the degree to which a society focuses on the relationship of the group as a whole.
- Assertiveness – The degree to which individuals are assertive, confrontational, and aggressive in their relationship with others.
- Gender egalitarianism – Also called gender egalitarianism, sex equality, or sexual equality, condition of parity regardless of an individual's gender.
- Future Orientation - The current conditions of the organization are assessed and planning is based on changes needed to reach future goals.
- Performance Orientation - Degree to which societies emphasize performance and achievement.

Strategies for Expanding Globally

- A **global strategy**, whereby all operations and activities are managed fairly similarly worldwide
- A **regional strategy**, whereby activities and operations are adapted to regional requirements
- A **local strategy**, whereby the company's operations are adapted to fit specific countries.

The Necessity of Global Markets

Trade facilitation - Looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives.

Growth Opportunities - Another critical factor that supports internationalization is that emerging markets such as China, India, Brazil, and Malaysia will continue to grow and present companies with tremendous opportunities. Research from the

Boston Consulting Group suggests that such emerging markets experienced growth (as measured by GDP growth rate), surpassing more developed economies by 2.2%.

How to Go International

1. **Exporting** - International entry mode where a company sends a product to an international market and fills the order like a domestic order.
2. **Strategic Alliances** - A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity.
3. **Foreign Direct Investment** - A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region.