CHAPTER 6

Managing in the Global Environment

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Learning Objectives

After studying this chapter, you should be able to:

LO6-1 Explain why the ability to perceive, interpret, and respond appropriately to the global environment is crucial for managerial success.

LO6-2 Differentiate between the global task and global general environments.

LO6-3 Identify the main forces in the global task and general environments, and describe the challenges that each force presents to managers.

LO6-4 Explain why the global environment is becoming more open and competitive, and identify the forces behind the process of globalization that increase the opportunities, complexities, challenges, and threats managers face.

LO6-5 Discuss why national cultures differ and why it is important that managers be sensitive to the effects of falling trade barriers and regional trade associations on the political and social systems of nations around the world.

A MANAGER'S CHALLENGE

Walmart Takes on Amazon in India

Which factors should managers consider when going global? Walmart has played a dominant role in retailing, with more than $500 billion in annual sales. Although more than half of Walmart's 12,000 stores are located in 27 other countries, two-thirds of the company's revenues are still generated in the United States. Managers see potential for significant future growth if they can operate more successfully in foreign markets.[1]

Retailing is a turbulent industry, where yesterday's winners quickly become the has-beens of the future. To enjoy long-term success, retailers must continually anticipate the next growth markets and craft new strategies. Walmart executives are trying to keep pace with changing technology and identifying where consumer demand will most likely increase. India, for example, has a huge population, and as its economy moves more Indians into the middle class, they are increasingly gaining access to the Internet for shopping as well as other activities.[2]

As Walmart monitors the retail environment, it is shifting its focus away from some regions and toward others. The company recently announced sale of a majority stake in a Brazilian supermarket group whose stores have posted disappointing sales growth, with some operating at a loss. In India, Walmart is looking for new pathways to growth in a country where retail sales are expected to top $1 trillion in the near future. Walmart entered the Indian market in 2009 but faced legal restrictions. Foreign-owned stores may not sell other companies' brands directly to consumers, so Walmart opened Best Price wholesale outlets serving business customers. The restriction to business customers limits sales, but the low-price strategy is effective enough that Walmart plans to add more outlets.[3]

Walmart is increasing its online presence in India with its largest acquisition so far: a 75% stake in an Indian retail site called Flipkart for $16 billion. Flipkart was started in India in 2007 by two former Amazon engineers, and under their leadership, it launched an innovative payment model (cash on delivery) in a country where few people have credit cards. Flipkart has grown into India's largest e-commerce site, with a market share of more than 30%. Walmart's majority ownership puts it in control of the company and able to get around the restrictions placed on foreign-owned retail stores. It also positions Walmart to compete online with Amazon, the second-largest e-commerce site in India. Both companies are trying to enter on the ground floor of online selling to consumers in India, where online shopping is still in its early stages. Although the majority of Indians do not shop online currently, online sales have more than quadrupled since 2015 and are forecast to top $62 billion by 2023. Both sites have the potential

Walmart CEO Doug McMillion (right) and Flipkart co-founder Binny Bansal (left) join forces in Bangalore, India, to announce Walmart's $16 billion stake in the Indian e-commerce giant.
AFP/Getty Images

to become the main destination for e-tailing in India, as Amazon is in the United States.[4]

Walmart hopes the Flipkart deal will rev up its growth in India, which has been slow. Besides the restrictions on store retailing, India's traditional mom-and-pop stores, called *kiranas,* are formidable competition. The costs for renting a tiny space and hiring workers in India are so low that the stores make a good profit selling to their neighborhoods. The owners know the names and needs of their local clientele and can offer swift delivery by store employees. The personal touch creates strong customer loyalty. So far, Walmart has been able to carve out a niche with its Best Price outlets selling to the kiranas. Despite recent rule changes by the Indian government that will affect how both Walmart and Amazon conduct their e-commerce businesses, Walmart believes the combination of its expertise in store retail and Flipkart's local market knowledge and expertise in online selling will make the combined businesses a success.[5]

Overview

global organizations Organizations that operate and compete in more than one country.

LO6-1 Explain why the ability to perceive, interpret, and respond appropriately to the global environment is crucial for managerial success.

Top managers of a global company like Walmart operate in an environment where they compete with other companies for scarce and valuable resources. Managers of companies large and small have found that to survive and prosper in the 21st century, most organizations must become **global organizations** that operate and compete not only domestically, at home, but also globally, in countries around the world. Operating in the global environment is uncertain and unpredictable because it is complex and changes constantly.

If organizations are to adapt successfully to this changing environment, their managers must learn to understand the forces that operate in it and how these forces give rise to opportunities and threats. In this chapter we examine why the environment, both domestically and globally, has become more open, vibrant, and competitive. We examine how forces in the task and general environments affect global organizations and their managers. By the end of this chapter, you will appreciate the changes that are taking place in the environment and understand why it is important for managers to develop a global perspective as they strive to increase organizational efficiency and effectiveness.

What Is the Global Environment?

LO6-2 Differentiate between the global task and global general environments.

global environment The set of global forces and conditions that operates beyond an organization's boundaries but affects a manager's ability to acquire and utilize resources.

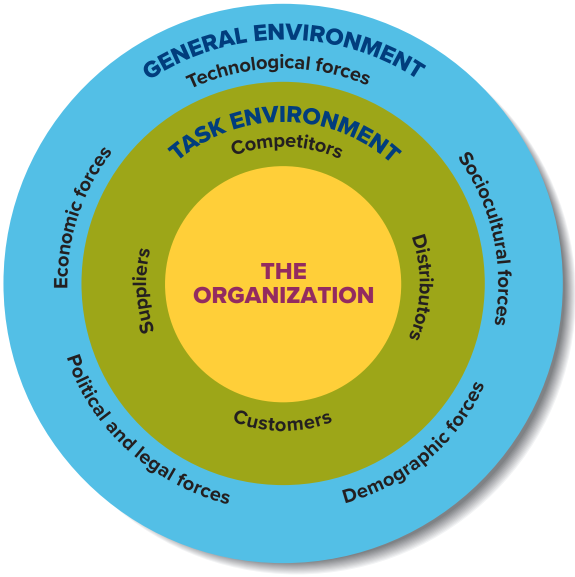
task environment The set of forces and conditions that originates with suppliers, distributors, customers, and competitors and affects an organization's ability to obtain inputs used to manufacture and sell its products or services.

The **global environment** is a set of forces and conditions in the world outside an organization's boundary that affects how it operates and shapes its behavior.[6] These forces change over time and thus present managers with *opportunities* and *threats.* Some changes in the global environment, such as the development of efficient new production technology, the availability of lower-cost components, or the opening of new global markets, create opportunities for managers to make and sell more products, obtain more resources and capital, and thereby strengthen their organization. In contrast, the rise of new global competitors, a global economic recession, or an oil shortage poses threats that can devastate an organization if managers are unable to sell its products. The quality of managers' understanding of forces in the global environment and their ability to respond appropriately to those forces, such as Samsung's managers' ability to make and sell the electronic products that customers around the world want to buy, are critical factors affecting organizational performance.

In this chapter we explore the nature of these forces and consider how managers can respond to them. To identify opportunities and threats caused by forces in the environment, it is helpful for managers to distinguish between the *task environment* and the more encompassing *general environment* (see Figure 6.1).

The **task environment** is the set of forces and conditions that originates with global suppliers, distributors, customers, and competitors; these forces and conditions affect an organization's ability to obtain inputs used to manufacture and sell its products or services. The task environment contains the forces that have the most *immediate* and *direct* effect on managers because they pressure and influence managers daily. When managers turn on the radio or

Figure 6.1
Forces in the Global Environment



television, arrive at their offices in the morning, open their mail, or look at their computer screens, they are likely to learn about problems facing them because of changing conditions in their organization's task environment.

general environment The wide-ranging global, economic, technological, sociocultural, demographic, political, and legal forces that affect an organization and its task environment.

The **general environment** includes the wide-ranging global, economic, technological, sociocultural, demographic, political, and legal forces that affect the organization and its task environment. For the individual manager, opportunities and threats resulting from changes in the general environment are often more difficult to identify and respond to than are events in the task environment. However, changes in these forces can have major impacts on managers and their organizations.

The Task Environment

Forces in the task environment result from the actions of suppliers, distributors, customers, and competitors both at home and abroad (see Figure 6.1). These four groups affect a manager's ability to obtain resources and dispose of outputs daily, weekly, and monthly and thus have a significant impact on short-term decision making.

Suppliers

suppliers Individuals and organizations that provide an organization with the input resources it needs to produce goods and services.

Suppliers are the individuals and companies that provide an organization with the input resources (such as raw materials, component parts, or employees) it needs to produce goods and services. In return, the suppliers receive payment for those goods and services. An important aspect of a manager's job is to ensure a reliable supply of input resources.

LO6-3 Identify the main forces in the global task and general environments, and describe the challenges that each force presents to managers.

Consider Dell Technologies—a leading PC and information technology company—as an example. Dell has many suppliers of component parts such as microprocessors (Intel) and disk drives (Nvidia and Intel). It also has suppliers of pre-installed software, including the operating systems and specific application software (Microsoft, Chrome, and Adobe). Dell's providers of capital, such as banks and other financial institutions, are also key suppliers.

Dell has several suppliers of labor. One source is the educational institutions that train future Dell employees and therefore provide the company with skilled workers. Another is trade unions, organizations that represent employee interests and can control the supply of labor by exercising the right of unionized workers to strike. Unions also can influence the terms and conditions under which labor is employed. In organizations and industries where unions are strong, an important part of a manager's job is negotiating and administering agreements with unions and their representatives.

Changes in the nature, number, or type of suppliers produce opportunities and threats to which managers must respond if their organizations are to prosper. For example, a major supplier-related threat that confronts managers arises when suppliers' bargaining positions are so strong that they can raise the prices of the inputs they supply to the organization. A supplier's bargaining position is especially strong when (1) the supplier is the sole source of an input and (2) the input is vital to the organization.[7] For example, for 17 years G. D. Searle was the sole supplier of NutraSweet, the artificial sweetener used in most diet soft drinks. Not only was NutraSweet an important ingredient in diet soft drinks, but it also was one for which there was no acceptable substitute (saccharin and other artificial sweeteners raised health concerns). Searle earned its privileged position because it invented and held the patent for NutraSweet, and patents prohibit other organizations from introducing competing products for 17 years. As a result, Searle was able to demand a high price for NutraSweet, charging twice the price of an equivalent amount of sugar; paying that price raised the costs of soft drink manufacturers such as Coca-Cola and PepsiCo. When Searle's patent expired, many other companies introduced products similar to NutraSweet, and prices fell.[8] In the 2000s Splenda, which was made by McNeil Nutritionals, replaced NutraSweet as the artificial sweetener of choice, and NutraSweet's price fell further; Splenda began to command a high price from soft drink companies.[9]

However, a natural sweetener introduced less than a decade ago has gained market share on Splenda and other sweeteners. A zero-calorie sweetener extracted from the stevia plant is expected to have a global market of more than $980 million by 2025, according to recent research, replacing many artificial sweeteners in soft drinks, other beverages, and food products.[10]

In contrast, when an organization has many suppliers for a particular input, it is in a relatively strong bargaining position with those suppliers and can demand low-cost, high-quality inputs from them. Often an organization can use its power with suppliers to force them to reduce their prices, as Dell frequently does. Dell, for example, is constantly searching for low-cost suppliers abroad to keep its prices competitive. At a global level, organizations can buy products from suppliers overseas or become their own suppliers by manufacturing their products abroad.

It is important that managers recognize the opportunities and threats associated with managing the global supply chain. On one hand, gaining access to low-cost products made abroad represents an opportunity for U.S. companies to lower their input costs.[11] On the other hand, they have less control over production processes carried out by contractors located far away. This poses a threat to the brand if the suppliers deliver poor quality. Buying from low-wage countries also involves a threat related to social responsibility: if stakeholders determine that suppliers aren't meeting minimum standards for ethical treatment of their workers, the company's reputation may be damaged. To see how Levi Strauss has addressed this issue, read the "Ethics in Action" feature.

ETHICS IN ACTION

Levi Strauss Motivates Global Suppliers to Treat Workers Well

When Levi Strauss & Company began sourcing work from low-wage countries in the 1990s, it was concerned about poor working conditions. In response, the global retailer prepared a code of conduct—its Terms of Engagement, requiring measures to meet workers' basic needs and protect their rights and the environment.[12] A supplier wanting to sell to Levi's had to meet those terms. Eventually, this innovation became the norm in the clothing industry. But despite efforts to enforce the terms with suppliers, violations continued. CEO Chip Bergh decided that lasting change required a shift in managers' attitudes.

Levi's launched an initiative it calls Worker Well-Being.[13] Its goal is to improve the experience of workers at Levi's suppliers, leading to greater efficiency and reliability, thereby creating a stronger supply network. Caring for workers' interests thus generates a win for all. Levi's provides funds and guidance, but each supplier plans how to achieve worker well-being. The basic approach is to survey workers; learn what they need to be healthy, productive, and engaged at work; identify the company's labor-related areas of improvement; and work with nonprofit partners to meet those needs. Because "well-being" is a broad objective, Levi's partnered with Harvard's Center for Health and the Global Environment to develop success measures that connect worker well-being with business performance.[14] Ultimately, the measures should demonstrate to factory managers why worker well-being matters to the company.

Early participants in the well-being initiative included the 1,200-worker Apparel International factory in Nazareno, Mexico.[15] AI's president, Oscar González Franch, and CEO Tomas Bello Garza were uncertain how to start, but they already had a track record of innovating to improve the factory's environmental impact. After a company-provided survey didn't illuminate worker needs, they partnered with a nongovernment organization, which created tools more appropriate for the community. They learned that the key issues were lack of access to health care and poor communication between managers and workers. AI trained its supervisors in communicating respectfully and creating a healthier work environment. As attitudes and productivity improved, González Franch and Bello Garza began using company resources to improve health conditions in the community.

In the first five years, Levi's rolled out the program to facilities in 12 countries with 100,000 workers.[16] In Egypt, health education reduced absenteeism and turnover among female employees, and in Turkey, changes to the work schedule did the same. Levi's set a timetable for the program to cover the factories producing 80% of its products by 2020—and surpassed this goal in 2019, one year ahead of schedule.[17]

The purchasing activities of global companies have become increasingly complicated. Hundreds of suppliers around the world produce parts for Boeing's 787 Dreamliner.
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A common problem facing managers of large, global companies such as Ford, Caterpillar, and Dell is managing the development of a global supplier network that will allow their companies to keep costs down and quality high. For example, Boeing's 777 jet was originally built using many components from more than 500 global suppliers. Boeing chose these suppliers because they were the best in the world at performing their particular activities, and Boeing's goal was to produce a high-quality final product.[18] Pleased with the outcome, Boeing decided to outsource a greater percentage of components to global suppliers when it designed the Boeing 787 Dreamliner; however, many serious problems delayed the introduction of the new aircraft for several years.[19]

The purchasing activities of global companies have become increasingly complicated as a result of the development of a whole range of skills and competencies in different countries around the world. It is clearly in companies' interests to search out the lowest-cost, best-quality suppliers. Advances in technology and the global reach of the Internet continue to make it easier for companies to coordinate complicated long-distance exchanges involving the purchasing of inputs and the disposal of outputs—something many global companies have taken advantage of as they consolidate the number of suppliers to reduce costs.

global outsourcing The purchase or production of inputs or final products from overseas suppliers to lower costs and improve product quality or design.

Global outsourcing occurs when a company contracts with suppliers in other countries to make the various inputs or components that go into its products or to assemble the final products to reduce costs. For example, Apple contracts with companies in Taiwan and China to make inputs such as the chips, batteries, and LCD displays that power its digital devices; then it contracts with outsourcers such as Foxconn to assemble its final products—such as iPhones and iPads. Apple also outsources the distribution of its products around the world by contracting with companies such as FedEx or UPS.

Global outsourcing has grown enormously to take advantage of national differences in the cost and quality of resources such as labor or raw materials that can significantly reduce manufacturing costs or increase product quality or reliability. Today such global exchanges are becoming so complex that some companies specialize in managing other companies' global supply chains. Global companies use the services of overseas intermediaries or brokers, which are located close to potential suppliers, to find the suppliers that can best meet the needs of a particular company. They can design the most efficient supply chain for a company to outsource the component and assembly operations required to produce its final products. Because these suppliers are located in thousands of cities in many countries, finding them is difficult. Li & Fung, based in Hong Kong, is one broker that has helped hundreds of major U.S. companies to outsource their component or assembly operations to suitable overseas suppliers, especially suppliers in mainland China.[20]

Although outsourcing to take advantage of low labor costs has helped many companies perform better, in the 2010s its risks have also become apparent, especially when issues such as reliability, quality, and speed are important. Consequently, some companies have decided to bring jobs back to the United States. For example, Trans-Lux, a New York–based manufacturer of LCD and LED displays, including the large digital screens (that is, the "Big Board") that run the tickers at the New York Stock Exchange, recently announced it would bring back the manufacturing of its products from China to a facility in Missouri. Company officials explained increasing labor and shipping costs accelerated their decision to move jobs back home.[21]

On the other hand, some companies do not outsource manufacturing; they prefer to establish their own assembly operations and factories in countries around the world to protect their proprietary technology. For example, most global automakers own their production operations in China to retain control over their global decision making and keep their operations secret.

Distributors

distributors Organizations that help other organizations sell their goods or services to customers.

Distributors are organizations that help other organizations sell their goods or services to customers. The decisions managers make about how to distribute products to customers can have important effects on organizational performance. For example, package delivery companies such as FedEx, UPS, and the U.S. Postal Service have become vital distributors for the millions of items bought online and shipped to customers by Internet companies, both at home and abroad.

The changing nature of distributors and distribution methods can bring opportunities and threats for managers. If distributors become so large and powerful that they can control customers' access to a particular organization's goods and services, they can threaten the organization by demanding that it reduce the prices of its goods and services.[22] For example, the huge retail distributor Walmart controls its suppliers' access to millions of customers and, thus, can demand that its suppliers reduce their prices to keep its business. If an organization such as Procter & Gamble refuses to reduce its prices, Walmart might respond by buying products only from Procter & Gamble's competitors—companies such as Unilever and Colgate. Walmart recently used its power as a distributor to put more pressure on suppliers to deliver more orders on time, within a specified two-day window, in an effort to compete head on with Amazon for shoppers online and in stores. In addition, suppliers face a fine of 3% of the cost of goods sold for incomplete deliveries.[23]

Customers

customers Individuals and groups that buy the goods and services an organization produces.

Customers are the individuals and groups that buy the goods and services an organization produces. For example, Dell's customers can be segmented into several distinct groups: (1) individuals who purchase PCs for home use, (2) small companies, (3) large companies, and (4) government agencies and educational institutions. Changes in the number and types of customers or in customers' tastes and needs create opportunities and threats. An organization's success depends on its responsiveness to customers—whether it can satisfy their needs. In the PC industry, customers are demanding smaller computers, longer battery life, new apps, and lower prices—and PC makers must respond to the changing types and needs of customers, such as by introducing tablets and other mobile devices. A school, too, must adapt to the changing needs of its customers. For example, if more Spanish-speaking students enroll, additional classes in English as a second language may need to be scheduled. A manager's ability to identify an organization's main customer groups, and make the products that best satisfy their particular needs, is a crucial factor affecting organizational and managerial success.

The most obvious opportunity associated with expanding into the global environment is the prospect of selling goods and services to millions or billions of new customers, as Amazon's CEO, Jeff Bezos, discovered when he expanded his company's operations in many countries. Similarly, Accenture and Capgemini, two large consulting companies, established regional operating centers around the globe, and they recruit and train thousands of overseas consultants to serve the needs of customers in their respective world regions.

Today many products have gained global customer acceptance. This consolidation is occurring both for consumer goods and for business products and has created enormous opportunities for managers. The worldwide acceptance of Coca-Cola, Apple iPads, McDonald's hamburgers, and Samsung smartphones is a sign that the tastes and preferences of customers in different countries may not be so different after all. Likewise, large, global markets exist for business products such as telecommunications equipment, electronic components, and computer and financial services. Thus, Cisco and Siemens sell their telecommunications equipment; Intel, its microprocessors; and Oracle and SAP, their business systems management software, to customers all over the world.

Competitors

competitors Organizations that produce goods and services that are similar to a particular organization's goods and services.

potential competitors Organizations that presently are not in a task environment but can enter if they so choose.

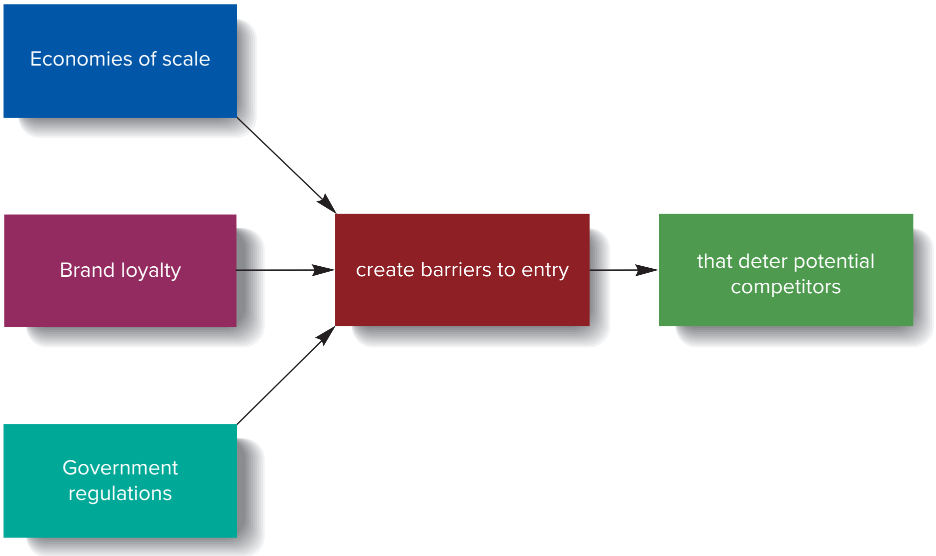
One of the most important forces an organization confronts in its task environment is competitors. **Competitors** are organizations that produce goods and services similar and comparable to a particular organization's goods and services. In other words, competitors are organizations trying to attract the same customers. Dell's competitors include other domestic PC makers (such as Apple and Microsoft) as well as overseas competitors (such as Sony and Toshiba in Japan, Lenovo in China, and Acer in Taiwan). Similarly, online stockbroker E*Trade has other competitors such as Fidelity and Charles Schwab.

Rivalry between competitors is potentially the most threatening force managers must deal with. A high level of rivalry typically results in price competition, and falling prices reduce customer revenues and profits. In the early 2000s competition in the PC industry became intense because Dell was aggressively cutting costs and prices to increase its global market share. IBM had to exit the PC business after it lost billions in its battle against low-cost rivals, and HP also suffered losses while Dell's profits soared. By 2006, however, HP's fortunes had recovered because it had found ways to lower its costs and offer stylish new PCs, and Apple was growing rapidly, so Dell's profit margins continued to shrink. In 2009 HP overtook Dell to become the largest global PC maker. After a long and harsh battle with investors over the future of Dell, founder Michael Dell took the company private and shifted its focus to becoming more of an all-around technology company with less reliance on PC sales. In 2019, China's Lenovo retained its top position as the world's largest PC maker, followed by HP, Dell Technologies, Apple, and Acer, with the overall PC market showing nearly a 3% annual growth rate from previous years.[24]

Competition among PC makers continues to be strong as consumers look for the best prices and features, whether in retail stores or online.
97/Getty Images

Although extensive rivalry between existing competitors is a major threat to profitability, so is the potential for new competitors to enter the task environment. **Potential competitors** are organizations that are not presently in a task environment but have the resources to enter if they so choose. Ten years ago, for example, Amazon was not in the

Figure 6.2
Barriers to Entry and Competition



furniture or large appliance business, but it could enter these businesses if its managers decided it could profitably sell such products online—and today, the e-commerce giant sells furniture and appliances. When new competitors enter an industry, competition increases and prices and profits decrease—as furniture and electronics stores such as Best Buy have discovered as they continue to do battle with Amazon.

barriers to entry Factors that make it difficult and costly for an organization to enter a particular task environment or industry.

economies of scale Cost advantages associated with large operations.

brand loyalty Customers' preference for the products of organizations currently existing in the task environment.

BARRIERS TO ENTRY In general, the potential for new competitors to enter a task environment (and thus increase competition) is a function of barriers to entry. **Barriers to entry** are factors that make it difficult and costly for a company to enter a particular task environment or industry.[25] In other words, the more difficult and costly it is to enter the task environment, the higher are the barriers to entry. The higher the barriers to entry, the fewer the competitors in an organization's task environment and, thus, the lower the threat of competition. With fewer competitors, it is easier to obtain customers and keep prices high.

Barriers to entry result from three main sources: economies of scale, brand loyalty, and government regulations that impede entry (see Figure 6.2). **Economies of scale** are the cost advantages associated with large operations. Economies of scale result from factors such as manufacturing products in very large quantities, buying inputs in bulk, or making more effective use of organizational resources than do competitors by fully utilizing employees' skills and knowledge. If organizations already in the task environment are large and enjoy significant economies of scale, their costs are lower than the costs that potential entrants will face, and newcomers will find it expensive to enter the industry. Amazon, for example, enjoys significant economies of scale relative to its competitors because of its highly efficient and expansive distribution system. The company recently purchased several huge parcels of land in the Chicago suburbs, Nashville, and Colorado Springs to build distribution centers.[26]

Brand loyalty is customers' preference for the products of organizations currently in the task environment. If established organizations enjoy significant brand loyalty, a new entrant will find it difficult and costly to obtain a share of the market. Newcomers must bear huge marketing costs to build customer awareness of the goods or services they intend to provide. Today Apple, Google, Samsung, and Amazon enjoy a high level of brand loyalty and have some of the highest website hit rates, which allows them to increase their marketing revenues.

In some cases, *government regulations* function as a barrier to entry at both the industry and the country levels. Many industries that were deregulated, such as air transport, trucking, utilities, and telecommunications, experienced a high level of new entry after deregulation; this forced existing companies in those industries to operate more efficiently or risk being put out of business. At the national and global levels, administrative barriers are government policies

Now that Japan imports rice from other countries, including the United States, Japanese rice farmers, who can't compete against lower-priced imports, have been forced to leave their fields idle or grow less profitable crops.
MAHATHIR MOHD YASIN/Shutterstock

that create barriers to entry and limit imports of goods by overseas companies. Japan is well known for the many ways in which it attempts to restrict the entry of overseas competitors or lessen their impact on Japanese firms. Japan has come under intense pressure to relax and abolish regulations such as those governing the import of rice, for example.

The Japanese rice market, like many other Japanese markets, was closed to overseas competitors until 1993 to protect Japan's thousands of high-cost, low-output rice farmers. Rice cultivation is expensive in Japan because of the country's mountainous terrain, and Japanese consumers have always paid high prices for rice. Under overseas pressure, the Japanese government opened the market, but overseas competitors were allowed to export to Japan only 8% of its annual rice consumption, to protect its farmers.

In the 2000s, however, an alliance between organic rice grower Lundberg Family Farms of California and the Nippon Restaurant Enterprise Co. found a new way to break into the Japanese rice market. Because there is no tariff on rice used in processed foods, Nippon converts the U.S. organic rice into "O-bento," an organic hot boxed lunch packed with rice, vegetables, chicken, beef, and salmon, all imported from the United States. The lunches became very popular, and Japanese rice farmers protested to the government because the entry of U.S. rice growers into the Japanese market forced them to leave their fields idle or grow less profitable crops. Recently, Japan experienced a severe shortage of reasonably priced rice for its food service sector due to the country's strict policy on growing rice for animal feed. This resulted in a higher demand for U.S. rice, which accounted for roughly 49% of Japan's rice imports in 2018. However, recent trade talks between the United States and Japan have broken down, including discussions about Japan importing U.S. rice, because of the U.S. withdrawal from the Trans-Pacific Partnership (TTP). Several countries in the TTP that export rice could provide strong competition for the United States in Japan's rice import business, including Australia.[27]

In summary, intense rivalry among competitors creates a task environment that is highly threatening and makes it increasingly difficult for managers to gain access to the resources an organization needs to make goods and services. Conversely, low rivalry results in a task environment where competitive pressures are more moderate and managers have greater opportunities to acquire the resources they need to make their organizations effective.

The General Environment

Economic, technological, sociocultural, demographic, political, and legal forces in the general environment often have important effects on forces in the task environment that determine an organization's ability to obtain resources—effects that managers may not be aware of. For example, the sudden, dramatic upheavals in the mortgage and banking industry that started in 2007 were brought about by a combination of the development of complex new financial lending instruments called derivatives; a speculative boom in commodities and housing prices; and lax government regulation that allowed unethical bankers and financial managers to exploit the derivatives to make immense short-term profits. These events triggered the economic crisis that peaked in 2008 but continued to ripple through the world economy for years, causing stock markets around the world to plummet, devastating the retirement savings of hundreds of millions of ordinary people, and causing layoffs of millions of employees as companies slashed their workforces because customers reduced their spending. Fortunately, sound economic policies put in place during the recession helped the economy rebound strongly over the past few years, although the 2020 COVID-19 pandemic continues to take its toll on the global economy.

The implication is clear: Managers must continuously analyze forces in the general environment because these forces affect ongoing decision making and planning. How well managers can perform this task determines how quickly an organization can respond to the changes taking place. Next we discuss the major forces in the general environment and examine their impact on an organization's task environment.

Economic Forces

economic forces Interest rates, inflation, unemployment, economic growth, and other factors that affect the general health and well-being of a nation or the regional economy of an organization.

Economic forces affect the general health and well-being of a country or world region. They include interest rates, inflation, unemployment, and economic growth. Economic forces produce many opportunities and threats for managers. Low levels of unemployment and falling interest rates give people more money to spend, and as a result organizations can sell more goods and services. Good economic times affect the supply of resources that become easier or more inexpensive to acquire, and organizations have an opportunity to flourish. High-tech companies enjoyed this throughout the 1990s when computer and electronics companies, like Sony, made record profits as the global economy boomed because of advances in technology and growing global trade. For creative businesspeople, economic times can be good in a region or nation with a less-developed economy, as long as people can see the opportunities that exist in that environment. For an example, see the "Management Insight" feature.

In contrast, worsening macroeconomic conditions, like those in 2020, pose a major threat because they reduce managers' ability to gain access to the resources their organizations need to survive and prosper. Profit-seeking organizations such as hotels and retail stores have fewer customers during economic downturns. For example, in 2020 hotel occupancy plummeted by more than 70% and several major retailers shut their doors for good, as the spread of COVID-19 restricted travel and in-person shopping. Nonprofits such as charities and colleges also saw donations decline by double digits because of the economic downturn.

Poor economic conditions make the environment more complex and managers' jobs more difficult and demanding. Companies often need to reduce the number of their managers and employees, streamline their operations, and identify ways to acquire and use resources more efficiently and effectively. Successful managers realize the important effects that economic forces have on their organizations, and they pay close attention to what is occurring in the economy at the national and regional levels to respond appropriately.

MANAGEMENT INSIGHT

Nollywood's a Hit in a Developing Economy

What filmmaking center produces 1,500 movies per year, is worth over $3 billion, and employs a million people? For now, Americans might be forgiven for not knowing the answer: It's Nollywood, the nickname of the Nigerian film industry.[28]

The industry had a modest beginning. In 1992, an electronics salesman named Kenneth Nnebue made a deal to buy a large quantity of blank videocassettes, which he knew would sit on store shelves. His customers had no way to use a blank cassette. Instead, he worked with the seller to record something on them. They wrote a script; hired a producer, director, and actors; and made a movie that sold hundreds of thousands of copies in Nigeria and other African countries. Nnebue wisely recognized that the local market had no movie theaters but plenty of people who enjoyed a good story on film. His early profitability encouraged bank lending and created a market for this kind of entertainment. The demand for videos led to demand for film actors and the establishment of film schools in the country.[29]

In the years since then, Nollywood has grown rapidly, becoming the second-largest center of film production in terms of output, after Bollywood in India. As it expanded its audience beyond Nigeria to the rest of Africa, it kept up with economic conditions and advances in technology. Competitors in this marketplace continue to find opportunities in what might seem like impossible conditions. For example, piracy of intellectual property is an ongoing problem, so a popular movie can actually lose money as consumers snap up illegally produced DVDs. Recently, however, the Nigerian film studio EbonyLife Films got around this problem with DVD sales by making Nollywood's first deal with Netflix to stream its hit *Chief Daddy* to a global market of 149 million customers in 190 countries. Netflix also recently acquired its first original Nollywood movie, *Lionheart.*[30]

The Nollywood story provides lessons for managers evaluating the economic environment. A developing nation may lack much that a business is thought to need: a transportation network, a trustworthy court system, supportive financial institutions, and so on. But what Nnebue saw was a business opportunity that could generate the prosperity needed to change the environment. Instead of entering an existing market, he helped create one by focusing on the particular needs of his local community and offering an affordable product.[31]

Technological Forces

technology The combination of skills and equipment that managers use in designing, producing, and distributing goods and services.

technological forces Outcomes of changes in the technology managers use to design, produce, or distribute goods and services.

Technology is the combination of tools, machines, computers, skills, information, and knowledge that managers use to design, produce, and distribute goods and services; **technological forces** are outcomes of changes in that technology. The overall pace of technological change has accelerated greatly in the last decades because technological advances in microprocessors and computer hardware and software have spurred technological advances in most businesses and industries. The effects of changing technological forces are still increasing in magnitude.

Technological forces can have profound implications for managers and organizations. Technological change can make established products obsolete—for example, cathode-ray tube (CRT) computer monitors and televisions, bound sets of encyclopedias, and newspapers and magazines—forcing managers to find new ways to satisfy customer needs. Although technological change can threaten an organization, it also can create a host of new opportunities for designing, making, or distributing new and better kinds of goods and services. For example, in 2020, AMD launched a new generation of Ryzen processors for use in both desktop units and ultrathin and gaming laptops. Features of the new products include high-performance, top-notch graphics and longer battery life for mobile use. Innovations like these continue to push technological boundaries and spur demand for all kinds of new digital devices and services, which affect the competitiveness of today's companies.[32]

Changes in technology are altering the nature of work itself within organizations, including that of the manager's job. Today telecommuting, videoconferencing, and cloud computing are everyday activities that let managers supervise and coordinate geographically dispersed employees. Salespeople in many companies work from home offices and commute electronically to work. They communicate with other employees through companywide electronic communication networks using smartphones and other mobile devices to orchestrate "face-to-face" meetings with coworkers across the country or globe.

Sociocultural Forces

sociocultural forces Pressures emanating from the social structure of a country or society or from the national culture.

social structure The traditional system of relationships established between people and groups in a society.

national culture The set of values that a society considers important and the norms of behavior that are approved or sanctioned in that society.

Sociocultural forces are pressures emanating from the social structure of a country or society or from the national culture, such as the concern for diversity, discussed in the previous chapter. Pressures from both sources can either constrain or facilitate the way organizations operate and managers behave. **Social structure** is the traditional system of relationships established between people and groups in a society. Societies differ substantially in social structure. In societies that have a high degree of social stratification, there are many distinctions among individuals and groups. Caste systems in India and Tibet and the recognition of numerous social classes in Great Britain and France produce a multilayered social structure in each of those countries. In contrast, social stratification is lower in relatively egalitarian New Zealand and in the United States, where the social structure reveals few distinctions among people. Most top managers in France come from the upper classes of French society, but top managers in the United States come from all strata of American society.

Societies also differ in the extent to which they emphasize the individual over the group. Such differences may dictate how managers need to motivate and lead employees.

National culture is the set of values that a society considers important and the norms of behavior that are approved or sanctioned in that society. Societies differ substantially in the values and norms they emphasize. For example, in the United States, individualism is highly valued, but in Korea and Japan individuals are expected to conform to group expectations.[33] National culture, discussed at length later in this chapter, also affects how managers motivate and coordinate employees and how organizations do business. Ethics, an important aspect of national culture, were discussed in detail in Chapter 4.

Social structure and national culture not only differ across societies but also change within societies over time. In the United States, attitudes toward the roles of women, sex, marriage, and the LGBTQ community changed in each past decade. Many people in Asian countries such as Hong Kong, Singapore, Korea, and even China think the younger generation is far more individualistic and "American-like" than previous generations. Currently, throughout much of Eastern Europe, new values that emphasize individualism and entrepreneurship are replacing communist values based on collectivism and obedience to the state. The pace of change is accelerating.

Individual managers and organizations must be responsive to changes in, and differences among, the social structures and national cultures of all the countries in which they operate. In today's increasingly integrated global economy, managers are likely to interact with people from several countries, and many managers live and work abroad. Effective managers are sensitive to differences between societies and adjust their behavior accordingly.

Blue Apron is one of many online meal-kit delivery companies offering complete meals to consumers, delivered to their front door.
Scott Eisen/Stringer/Getty Images

Managers and organizations also must respond to social changes within a society. In the last decades, for example, Americans have become increasingly interested in their personal health and fitness. Managers who recognized this trend early and took advantage of the opportunities that resulted from it were able to reap significant gains for their organizations, such as organic food and meal kit delivery services. The organic produce industry has been growing for the past decade, even during the recession, due to people's interest in healthy and organic food. Many companies offer weekly deliveries of organic fruits, vegetables, and meats to consumers' homes; while others sell complete meal kits for delivery, taking the stress and time required to menu plan and shop out of the equation.[34] But getting portioned meal ingredients delivered to your front door is not cheap—a recent study determined that purchasing meal kits was five times more expensive than food shopping at a local store.[35]

Demographic Forces

demographic forces
Outcomes of changes in, or changing attitudes toward, the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class.

Demographic forces are outcomes of changes in, or changing attitudes toward, the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class. Like the other forces in the general environment, demographic forces present managers with opportunities and threats and can have major implications for organizations. We examined the nature of these challenges in depth in our discussion of diversity in Chapter 5.

Today most industrialized nations are experiencing the aging of their populations as a consequence of falling birth and death rates and the aging of the Baby Boomer generation. Consequently, the absolute number of older people has increased substantially, which has generated opportunities for organizations that cater to older people, such as the home health care, recreation, and medical industries, which have seen an upswing in demand for their services. The aging of the population also has several implications for the workplace. Most significant are a relative decline in the number of young people joining the workforce and an increase in the number of active employees who are postponing retirement beyond the traditional age of 65. Indeed, the financial crisis in the late 2000s made it impossible for millions of older people to retire because their savings were all but wiped out. These changes suggest that organizations need to find ways to motivate older employees and use their skills and knowledge—an issue that many Western societies continue to tackle.

Political and Legal Forces

political and legal forces
Outcomes of changes in laws and regulations, such as deregulation of industries, privatization of organizations, and increased emphasis on environmental protection.

Political and legal forces are outcomes of changes in laws and regulations. They result from political and legal developments that take place within a nation, within a world region, or across the world and significantly affect managers and organizations everywhere. Political processes shape a nation's laws and the international laws that govern the relationships between nations. Laws constrain the operations of organizations and managers and thus create both opportunities and threats.[36] For example, throughout much of the industrialized world there has been a strong trend toward deregulation of industries previously controlled by the state and privatization of organizations once owned by the state such as airlines, railways, and utility companies.

Another important political and legal force affecting managers and organizations is the political integration of countries that has been taking place during the last decades. Increasingly, nations are forming political unions that allow free exchange of resources and capital. The growth of the European Union (EU) is one example: Common laws govern trade and commerce between EU member countries, and the European Commission has the right to examine the business of any global organization and to approve any proposed mergers between overseas companies that operate inside the EU. For example, in 2018, Apple's proposed acquisition of Shazam, a UK-based app, was reviewed by the European Commission because of its potential threat to competition among music-sharing platforms in Europe. The Shazam app uses a microphone on a smartphone or computer to identify almost any song playing nearby and then directs users to places where they can listen to the music, such as Apple Music or Spotify. Acquiring Shazam would help Apple embed that capability deeper into its music offerings, which might push more consumers to sign on with Apple Music. The Commission took up the review at the request of several EU members, including Austria, Italy, and Sweden. After a detailed review, the Commission gave Apple the green light to purchase Shazam, saying that the acquisition did not violate anti-trust laws in the European Union.[37]

Another political and legal issue that has implications for managers around the world is the departure of the United Kingdom from the EU, a situation that has been in the works for the past five years. In June 2016, UK voters decided that the country should leave the EU. Although the Brexit saga took several years to finally happen, the UK is no longer part of the European organization as of January 31, 2020. During a transition period that will close at the end of 2020, the UK and EU will need to work out several key issues, including a new free trade agreement, aviation standards and safety, licensing and regulation of medicines, access to fishing waters, and supplies of electricity and gas. It is too early to tell what the implications will be for the UK's withdrawal from the EU, but it is safe to say the departure will affect the global economy in numerous ways.[38]

Indeed, international agreements to abolish laws and regulations that restrict and reduce trade between countries have been having profound effects on global organizations. The falling legal trade barriers create enormous opportunities for companies to sell goods and services internationally. But by allowing overseas companies to compete in a nation's domestic market for customers, falling trade barriers also pose a serious threat because they increase competition in the task environment. For example, the Obama administration negotiated for several years for the United States to join the Trans-Pacific Partnership (TPP), a trade agreement between the United States and 11 other countries. In 2017, however, in the early days of his presidency, Donald Trump issued an executive order pulling the country out of the TPP, taking a stand against foreign competitors as part of his "America First" strategy.[39]

Deregulation, privatization, and the removal of legal barriers to trade are just a few of the many ways in which changing political and legal forces can challenge organizations and managers. Others include increased emphasis on environmental protection and the preservation of endangered species, increased emphasis on workplace safety, and legal constraints against discrimination on the basis of race, gender, or age. Managers face major challenges when they seek to take advantage of the opportunities created by changing political, legal, and economic forces.

The Changing Global Environment

LO6-4 Explain why the global environment is becoming more open and competitive, and identify the forces behind the process of globalization that increase the opportunities, complexities, challenges, and threats managers face.

The 21st century has banished the idea that the world is composed of distinct national countries and markets that are separated physically, economically, and culturally. Managers need to recognize that companies compete in a truly global marketplace, which is the source of the opportunities and threats they must respond to. Managers continually confront the challenges of global competition such as establishing operations in a country abroad, obtaining inputs from suppliers abroad, or managing in a different national culture.[40]

In essence, as a result of falling trade barriers, managers view the global environment as open—that is, as an environment in which companies are free to buy goods and services from, and sell goods and services to, whichever companies and countries they choose. They also are free to compete against each other to attract customers around the world. All large companies must establish an international network of operations and subsidiaries to build global competitive advantage. Coca-Cola and PepsiCo, for example, have competed aggressively for decades to develop the strongest global beverage empire, just as Toyota and Honda have built hundreds of car plants around the world to provide the vehicles that global customers like.

In this section we first explain how this open global environment is the result of globalization and the flow of capital around the world. Next we examine how specific economic, political, and legal changes, such as the lowering of barriers to trade and investment, have increased globalization and led to greater interaction and exchanges between organizations and countries. Then we discuss how declining barriers of distance and culture have also increased the pace of globalization, and we consider the specific implications of these changes for managers and organizations. Finally, we note that nations still differ widely from each other because they have distinct cultural values and norms and that managers must appreciate these differences to compete successfully across countries.

The Process of Globalization

globalization The set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographic regions so that nations become increasingly interdependent and similar.

Perhaps the most important reason the global environment has become more open and competitive is the increase in globalization. **Globalization** is the set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographic regions. The result of globalization is that nations and peoples become increasingly interdependent because the same forces affect them in similar ways. The fates of peoples in different countries become interlinked as the world's markets and businesses become increasingly interconnected. And as nations become more interdependent, they become more similar to one another in the sense that people develop a similar liking for products as diverse as cell phones, iPads, blue jeans, soft drinks, sports teams, hybrid cars, and foods such as curry, green tea, and Colombian coffee.

But what drives or spurs globalization? What makes companies like IKEA, Toyota, or Microsoft want to venture into an uncertain global environment? The answer is that the path of globalization is shaped by the ebb and flow of *capital*—valuable wealth-generating assets or resources that people move through companies, countries, and world regions to seek their greatest returns or profits. Managers, employees, and companies like Hyundai and Samsung are motivated to try to profit or benefit by using their skills to make products customers around the world want to buy. The four principal forms of capital that flow between countries are these:

- *Human capital:* the flow of people around the world through immigration, migration, and emigration
- *Financial capital:* the flow of money capital across world markets through overseas investment, credit, lending, and aid
- *Resource capital:* the flow of natural resources, parts, and components between companies and countries, such as metals, minerals, lumber, energy, food products, microprocessors, and auto parts
- *Political capital:* the flow of power and influence around the world using diplomacy, persuasion, aggression, and force of arms to protect the right or access of a country, world region, or political bloc to the other forms of capital

Despite recent headwinds, Africa's overall economic outlook continues to be strong, according to the African Development Bank, with a projected growth of more than 4% across the continent over the next several years. African countries continue to face economic, political, social, and environmental challenges as globalization accelerates changes to business and everyday life in cities such as Lagos, Nigeria, pictured here.
Pius Utomi Ekpei/AFP/Getty Images

Most of the economic advances associated with globalization are the result of these four capital flows and the interactions between them, as nations compete on the world stage to protect and increase their standards of living and to further the political goals and social causes that are espoused by their societies' cultures. The next sections look at the factors that have increased the rate at which capital flows between companies and countries. In a positive sense, the faster the flow, the more capital is being utilized where it can create the most value, such as people moving to where their skills earn more money, or investors switching to the stocks or bonds that give higher dividends or interest, or companies finding lower-cost sources of inputs. In a negative sense, however, a fast flow of capital also means that individual countries or world regions can find themselves in trouble when companies and investors move their capital to invest it in more productive ways in other countries or world regions—often those with lower labor costs or rapidly expanding markets. When capital leaves a country, the results are higher unemployment, recession, and a lower standard of living for its people.

Declining Barriers to Trade and Investment

tariff A tax that a government imposes on imported or, occasionally, exported goods.

One of the main factors that has speeded globalization by freeing the movement of capital has been the decline in barriers to trade and investment, discussed earlier. During the 1920s and 1930s many countries erected formidable barriers to international trade and investment in the belief that this was the best way to promote their economic well-being. Many of these barriers were high tariffs on imports of manufactured goods. A **tariff** is a tax that a government imposes on goods imported into one country from another. The aim of import tariffs is to protect domestic industries and jobs, such as those in the auto or steel industry, from overseas competition by raising the price of these products from abroad. In May 2018, President Trump announced a 25% tariff on imported steel and 10% tariff on imported aluminum, which caused a global outcry from other countries and received mixed reviews from U.S. business leaders. As of this writing, the tariffs are still in place, although steel and aluminum products from Canada and Mexico are now exempt from tariffs as part of the renegotiated NAFTA deal, which we discuss in the next section of the chapter.[41] In addition, the United States imposed heavy sanctions on China in retaliation for its theft of American intellectual property; however, the two nations signed a trade pact in early 2020 that slashed import tariffs to both countries in large part due to China's agreeing to purchase U.S. goods and services worth more than $200 billion over two years.[42] Despite this recent agreement between China and the United States, tariffs continue to affect the global supply chain for auto manufacturers, as discussed in the "Managing Globally" feature.

The reason for removing tariffs is that, very often, when one country imposes an import tariff, others follow suit and the result is a series of retaliatory moves as countries progressively raise tariff barriers against each other. In the 1920s this behavior depressed world demand and helped usher in the Great Depression of the 1930s and massive unemployment. Beginning with the 2009 economic crisis, the governments of most countries have worked hard in the 2010s not to fall into the trap of raising tariffs to protect jobs and industries in the short run because they know the long-term consequences of this would be the loss of even more jobs. Governments of countries that resort to raising tariff barriers ultimately reduce employment and undermine the economic growth of their countries because capital and resources will always move to their most highly valued use—wherever that is in the world.

MANAGING GLOBALLY

Tariffs Are Tangling Auto Supply Chains

After decades of free-trade policies, the United States has shifted focus under the Trump administration, targeting the impact of trade agreements on U.S. jobs. To gain the upper hand in trade negotiations, the government has imposed tariffs. Most notable for the auto industry are tariffs on steel and aluminum, as well as tariffs on auto parts from China, which exports more than $70 billion of car parts and accessories every year, about 20% that come to the United States.[43]

For auto companies and their suppliers, the tariffs pose significant challenges. Vehicle production involves complex supply chains in which hundreds of companies turn raw materials into 30,000 parts, shipped to producers of components, who ship the components to assembly plants. Parts and components often move back and forth across national borders before reaching assembly plants. For each model, supply chain members engage in years of planning, negotiation, and testing to develop products that meet quality and safety requirements, as well as terms for schedule and price. Even the Ford F-150 pickup, with more U.S. parts than most vehicles, includes 15% of parts from Canada and Mexico plus 15% from outside North America. In addition, producers improve quality and efficiency by using tools specifically designed for making a particular model; thus, tool makers are links in the supply chains.[44]

The announcement of a tariff creates unplanned-for change in supply chains. Prices suddenly jump significantly. Who will pay for the increase? Because major tariffs only recently displaced free trade, few existing contracts have terms for this situation. Domestic steel makers have raised prices in line with price increases for imported steel, and parts makers have told their customers they won't ship imported parts unless they can pass on the cost of tariffs. Some buyers are small businesses with little leverage to negotiate. They must pay the higher prices and cut spending elsewhere, including investments in growth.[45]

Auto companies are big customers, which gives them power in supply chains. Some have informed suppliers not to expect to renegotiate existing agreements. When negotiating new agreements, they seek provisions that protect them from future tariffs. Still, they face challenges as they purchase steel and decide where to locate facilities years down the road. According to a recent report by Germany's Center for Automotive Research, the ongoing tariff war between China and the United States, along with a possible economic slowdown, could cost the global auto industry nearly $770 billion in lost car sales over the next five years.[46]

GATT AND THE RISE OF FREE TRADE After World War II, advanced Western industrial countries, having learned from the Great Depression, committed themselves to the goal of removing barriers to the free flow of resources and capital between countries. This commitment was reinforced by acceptance of the principle that free trade, rather than tariff barriers, was the best way to foster a healthy domestic economy and low unemployment.[47]

free-trade doctrine The idea that if each country specializes in the production of the goods and services that it can produce most efficiently, this will make the best use of global resources.

The **free-trade doctrine** predicts that if each country agrees to specialize in the production of the goods and services that it can produce most efficiently, this will make the best use of global capital resources and will result in lower prices.[48] For example, if Indian companies are highly efficient in the production of textiles and U.S. companies are highly efficient in the production of computer software, then, under a free-trade agreement, capital would move to India and be invested there to produce textiles, while capital from around the world would flow to the United States and be invested in its innovative software companies. Consequently, prices of both textiles and software should fall because each product is being produced where it can be made at the lowest cost, benefiting consumers and making the best use of scarce capital. This doctrine is also responsible for the increase in global outsourcing and the loss of millions of U.S. jobs in textiles and manufacturing as capital has been invested in factories in Asian countries such as China and Malaysia. However, millions of U.S. jobs have also been created because of new capital investments in the high-tech and service sectors, which in theory should offset manufacturing job losses in the long run.

Historically, countries that accepted this free-trade doctrine set as their goal the removal of barriers to the free flow of goods, services, and capital between countries. They attempted to achieve this through an international treaty known as the General Agreement on Tariffs and Trade (GATT). In the years since World War II, there have been multiple rounds of GATT negotiations aimed at lowering tariff barriers. For example, the Uruguay Round involved 117 countries and succeeded in lowering tariffs by more than 30% from the previous level. It also led to the dissolution of GATT and its replacement by the World Trade Organization (WTO), which continues the struggle to reduce tariffs and has more power to sanction countries that break global agreements. The latest round of negotiations, called the Doha Round, effectively ended in 2015, when trade ministers failed to agree to keep the negotiations and discussions alive. It seems that many of the key countries (United States, China, India, and EU members) were unwilling or unable to make fundamental concessions.[49]

Declining Barriers of Distance and Culture

Historically, barriers of distance and culture also closed the global environment and kept managers focused on their domestic market. The management problems Unilever, the global consumer goods company now with more than 400 brands, experienced at the turn of the 20th century illustrate the effect of these barriers.

Founded in London during the 1880s by William Lever, a Quaker, Unilever had a worldwide reach by the early 1900s and operated subsidiaries in most major countries of the British Empire, including India, Canada, and Australia. Lever had a very hands-on, autocratic management style and found his far-flung business empire difficult to control. The reason for Lever's control problems was that communication over great distances was difficult. It took six weeks to reach India by ship from England, and international telephone and telegraph services were unreliable.

Another problem Unilever encountered was the difficulty of doing business in societies that were separated from Britain by barriers of language and culture. Different countries have different sets of national beliefs, values, and norms, and Lever found that a management approach that worked in Britain did not necessarily work in India or Persia (now Iran). As a result, management practices had to be tailored to suit each unique national culture. After Lever's death in 1925, top management at Unilever lowered or *decentralized* decision-making authority to the managers of the various national subsidiaries so they could develop a management approach that suited the country in which they were operating. One result of this strategy was that the subsidiaries grew distant and remote from one another, which reduced Unilever's performance.[50]

Since the end of World War II, a continuing stream of advances in communications and transportation technology has worked to reduce the barriers of distance and culture that affected Unilever and all global organizations. Over the last decades, global communication has been revolutionized by developments in satellites, digital technology, the Internet and global computer networks, and video teleconferencing that allow transmission of vast amounts of information and make reliable, secure, and instantaneous communication possible between people and companies anywhere in the world. This revolution has made it possible for a global organization—a tiny garment factory in Li & Fung's network or a huge company such as IKEA or Unilever—to do business anywhere, anytime and to search for customers and suppliers around the world.

One of the most important innovations in transportation technology that has opened the global environment has been the growth of commercial jet travel. New York is now closer in travel time to Tokyo than it was to Philadelphia in the days of the 13 colonies—a fact that makes control of far-flung international businesses much easier today than in William Lever's era. In addition to speeding travel, modern communications and transportation technologies have also helped reduce the cultural distance between countries. The Internet and its millions of websites facilitate the development of global communications networks and media that are helping to create a worldwide culture that, in some cases, has diluted unique national cultures. Moreover, entertainment and news networks such as CNN, MTV, ESPN, BBC, and HBO can now be received in many countries, and Hollywood films and other original content are streamed via the Internet across the globe.

Effects of Free Trade on Managers

The lowering of barriers to trade and investment and the decline of distance and culture barriers have created enormous opportunities for companies to expand the market for their goods and services through exports and investments in overseas countries. The shift toward a more open global economy has created not only more opportunities to sell goods and services in markets abroad but also the opportunity to buy more from other countries. A manager's job is more challenging in a dynamic global environment because of the increased intensity of competition that goes hand in hand with the lowering of barriers to trade and investment.

REGIONAL TRADE AGREEMENTS The growth of regional trade agreements, such as the North American Free Trade Agreement (NAFTA), and more recently the Central American Free Trade Agreement (CAFTA), also presents opportunities and threats for managers and their organizations. In North America, NAFTA, which became effective in 1994, had the aim of abolishing the tariffs on 99% of the goods traded between Mexico, Canada, and the United States by 2004. Although it did not achieve this lofty goal, NAFTA has removed most barriers on the cross-border flow of resources, giving, for example, financial institutions and retail businesses in Canada and the United States unrestricted access to the Mexican marketplace. After NAFTA was signed, there was a flood of investment into Mexico from the United States, as well as many other countries such as Japan. Walmart, Costco, Ford, and many major U.S. retail chains expanded their operations in Mexico; Walmart, for example, is stocking many more products from Mexico in its U.S. stores, and its Mexican store chain is also expanding rapidly.

The establishment of free-trade areas creates an opportunity for manufacturing organizations because it lets them reduce their costs. They can do this either by shifting production to the lowest-cost location within the free-trade area (for example, U.S. auto and textile companies shifting production to Mexico) or by serving the whole region from one location rather than establishing separate operations in each country. Some managers, however, view regional free-trade agreements as a threat because they expose a company based in one member country to increased competition from companies based in the other member countries. NAFTA has had this effect; today Mexican managers in some industries face the threat of head-to-head competition against efficient U.S. and Canadian companies. But the opposite is true as well: U.S. and Canadian managers are experiencing threats in labor-intensive industries, such as the flooring tile, roofing, and textile industries, where Mexican businesses have a cost advantage.

Over the past several years, negotiating teams from the United States, Mexico, and Canada have worked through more than seven rounds of meetings to renegotiate and modernize NAFTA. The new agreement—the United States–Mexico–Canada Agreement (USMCA)—has been ratified by all three countries and went into effect on July 1, 2020. USMCA includes major changes on car manufacturing rules; new policies on labor and environmental standards; intellectual property and digital trade protections; and increased access to the Canadian dairy market by U.S. farmers.[51]

There are many regional trade agreements around the world. For example, founded in 1999, the African Union's purpose is both political and economic. Its goals include removing any remnants of colonization and apartheid, as well as creating cooperation for development. Complementing the role of the African Union is the Southern African Development Community, a 16-country group whose goals include socioeconomic development and poverty eradication. Another trade agreement is the Cooperation Council for the Arab States of the Gulf, which is made up of several countries, including Qatar, Oman, Bahrain, the United Arab Emirates, Kuwait, and Saudi Arabia. As part of the agreement, countries work on regional cooperation and economic relations.[52] These trade agreements are designed to allow managers to take advantage of opportunities that other members of the agreements can provide.

The Role of National Culture

Despite evidence that countries are becoming more similar because of globalization and that the world may become "a global village," the cultures of different countries still vary widely because of vital differences in their values, norms, and attitudes. As noted earlier, national culture includes the values, norms, knowledge, beliefs, moral principles, laws, customs, and other practices that unite the citizens of a country. National culture shapes individual behavior by specifying appropriate and inappropriate behavior and interaction with others. People learn national culture in their everyday lives by interacting with those around them. This learning starts at an early age and continues throughout their lives.

Cultural Values and Norms

values Ideas about what a society believes to be good, right, desirable, or beautiful.

The basic building blocks of national culture are values and norms. **Values** are beliefs about what a society considers to be good, right, desirable, or beautiful—or their opposites. They provide the basic underpinnings for notions of individual freedom, democracy, truth, justice, honesty, loyalty, social obligation, collective responsibility, the appropriate roles for men and women, love, sex, marriage, and so on. Values are more than merely abstract concepts; they are invested with considerable emotional significance. People argue, fight, and even die over values such as freedom or dignity.

Although deeply embedded in society, values are not static; they change over time, but change is often the result of a slow and painful process. For example, the value systems of many former communist states such as Georgia, Hungary, and Romania have undergone significant changes as these countries have moved away from values that emphasize state control toward values that emphasize individual freedoms. Social turmoil often results when countries undergo major changes in their values, as is happening today in Asia, South America, and the Middle East.

norms Unwritten, informal codes of conduct that prescribe how people should act in particular situations and are considered important by most members of a group or organization.

mores Norms that are considered to be central to the functioning of society and to social life.

folkways The routine social conventions of everyday life.

individualism A worldview that values individual freedom and self-expression and adherence to the principle that people should be judged by their individual achievements rather than by their social background.

Norms are unwritten, informal codes of conduct that prescribe appropriate behavior in particular situations and are considered important by most members of a group or organization. They shape the behavior of people toward one another. Two types of norms play a major role in national culture: mores and folkways. **Mores** are norms that are considered to be of central importance to the functioning of society and to social life. Accordingly, the violation of mores brings serious retribution. Mores include proscriptions against murder, theft, adultery, and incest. In many societies mores have been enacted into law. Thus, all advanced societies have laws against murder and theft. However, there are many differences in mores from one society to another. In the United States, for example, drinking alcohol is widely accepted, but in Saudi Arabia consumption of alcohol is viewed as a serious violation of social mores and is punishable by imprisonment or even death.

Folkways are the routine social conventions of everyday life. They concern customs and practices such as dressing appropriately for particular situations, having good social manners, eating with the correct utensils, and engaging in neighborly behavior. Although folkways define how people are expected to behave, violation of folkways is not a serious or moral matter. People who violate folkways are often thought to be eccentric or ill-mannered, but they are not usually considered immoral or wicked. In many countries, strangers are usually excused for violating folkways because they are unaccustomed to local behavior, but if they repeat the violation, they are censured because they are expected to learn appropriate behavior—hence the importance of managers working in countries abroad to gain wide experience.

Hofstede's Model of National Culture

LO6-5 Discuss why national cultures differ and why it is important that managers be sensitive to the effects of falling trade barriers and regional trade associations on the political and social systems of nations around the world.

Researchers have spent considerable time and effort identifying similarities and differences in the values and norms of different countries. One model of national culture was developed by Geert Hofstede.[53] As a psychologist for IBM, Hofstede collected data on employee values and norms from more than 100,000 IBM employees in 64 countries. Based on his research, Hofstede developed five dimensions along which national cultures can be placed.[54]

INDIVIDUALISM VERSUS COLLECTIVISM The first dimension, which Hofstede labeled "individualism versus collectivism," has a long history in human thought. **Individualism** is a worldview that values individual freedom and self-expression and adherence to the principle that people should be judged by their individual achievements rather than by their social background. In Western countries, individualism usually includes admiration for personal success, a strong belief in individual rights, and high regard for individual entrepreneurs.[55]

collectivism A worldview that values subordination of the individual to the goals of the group and adherence to the principle that people should be judged by their contribution to the group.

In contrast, **collectivism** is a worldview that values subordination of the individual to the goals of the group and adherence to the principle that people should be judged by their contribution to the group. Collectivism was widespread in communist countries but has become less prevalent since the collapse of communism in most of those countries. Japan is a noncommunist country where collectivism is highly valued.

Managers must realize that organizations and organizational members reflect their national culture's emphasis on individualism or collectivism. Indeed, one of the major reasons Japanese and American management practices differ is that Japanese culture values collectivism and U.S. culture values individualism.[56]

power distance The degree to which societies accept the idea that inequalities in the power and well-being of their citizens are due to differences in individuals' physical and intellectual capabilities and heritage.

POWER DISTANCE By **power distance**, Hofstede meant the degree to which societies accept the idea that inequalities in the power and well-being of their citizens are due to differences in individuals' physical and intellectual capabilities and heritage. This concept also encompasses the degree to which societies accept the economic and social differences in wealth, status, and well-being that result from differences in individual capabilities.

Societies in which inequalities are allowed to persist or grow over time have *high power distance.* In high-power-distance societies, workers who are professionally successful amass wealth and pass it on to their children, and, as a result, inequalities may grow over time. In such societies, the gap between rich and poor, with all the attendant political and social consequences, grows very large. In contrast, in societies with *low power distance,* large inequalities between citizens are not allowed to develop. In low-power-distance countries, the government uses taxation and social welfare programs to reduce inequality and improve the welfare of the least fortunate. These societies are more attuned to preventing a large gap between rich and poor and minimizing discord between different classes of citizens.

Advanced Western countries such as the United States, Germany, the Netherlands, and the United Kingdom have relatively low power distance and high individualism. Economically poor Latin American countries such as Guatemala and Panama, and Asian countries such as Malaysia and the Philippines, have high power distance and low individualism.[57] These findings suggest that the cultural values of richer countries emphasize protecting the rights of individuals and, at the same time, provide a fair chance of success to every member of society.

achievement orientation A worldview that values assertiveness, performance, success, and competition.

nurturing orientation A worldview that values the quality of life, warm personal friendships, and services and care for the weak.

ACHIEVEMENT VERSUS NURTURING ORIENTATION Societies that have an **achievement orientation** value assertiveness, performance, success, competition, and results. Societies that have a **nurturing orientation** value the quality of life, warm personal relationships, and services and care for the weak. Japan and the United States tend to be achievement-oriented; the Netherlands, Sweden, and Denmark are more nurturing-oriented.

uncertainty avoidance The degree to which societies are willing to tolerate uncertainty and risk.

UNCERTAINTY AVOIDANCE Societies as well as individuals differ in their tolerance for uncertainty and risk. Societies low on **uncertainty avoidance** (such as the United States and Hong Kong) are easygoing, value diversity, and tolerate differences in personal beliefs and actions. Societies high on uncertainty avoidance (such as Japan and France) are more rigid and skeptical about people whose behaviors or beliefs differ from the norm. In these societies, conformity to the values of the social and work groups to which a person belongs is the norm, and structured situations are preferred because they provide a sense of security.

long-term orientation A worldview that values thrift and persistence in achieving goals.

short-term orientation A worldview that values personal stability or happiness and living for the present.

LONG-TERM VERSUS SHORT-TERM ORIENTATION The last dimension that Hofstede described is orientation toward life and work.[58] A national culture with a **long-term orientation** rests on values such as thrift (saving) and persistence in achieving goals. A national culture with a **short-term orientation** is concerned with maintaining personal stability or happiness and living for the present. Societies with a long-term orientation include Taiwan and Hong Kong, well known for their high rate of per capita savings. The United States and France have a short-term orientation, and their citizens tend to spend more and save less.

In Asian countries such as Japan where collectivism is highly valued, co-workers identify strongly with being part of a group.
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The GLOBE Project

Hofstede's research has inspired other major international research projects, including the GLOBE Project, which extends Hofstede's work by looking at additional cultural dimensions. Conceived in the early 1990s by Professor Robert J. House of the University of Pennsylvania, the GLOBE (Global Leadership and Organizational Behavior Effectiveness) Project is an ongoing international research endeavor involving more than 200 researchers who have collected data from more than 17,000 managers in 62 countries.[59] The GLOBE Project looks at nine cultural dimensions:

1. *Performance orientation:* The degree to which individuals in a society are rewarded for performance improvement and excellence.
2. *Assertiveness:* The degree to which members of organizations are confrontational and aggressive in their relationships with others.
3. *Future orientation:* The extent to which individuals engage in behaviors such as planning, investing in the future, and delaying gratification.
4. *Humane orientation:* The degree to which an organization encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others.
5. *Institutional collectivism:* The degree to which organizational and societal practices encourage and reward collective distribution of resources and collective action.
6. *In-group collectivism:* The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.
7. *Gender egalitarianism:* The degree to which an organization minimizes gender inequality.
8. *Power distance:* The extent to which the community accepts and endorses authority, unequal distribution of power, and status privileges.
9. *Uncertainty avoidance:* The extent to which a society or organization uses rules, regulations, and procedures to alleviate the unpredictability of future events.[60]

Based on the data, countries receive an average score on the nine cultural dimensions. For example, Russia scores high on power distance, Singapore scored low on humane orientation, and China scored high on gender differentiation. Managers can also use GLOBE data to cluster countries based on similar cultural values, which would give people working in foreign countries a research-based starting point on how individuals from these cultural clusters are likely to behave.[61]

National Culture and Global Management

Differences among national cultures have important implications for managers. First, because of cultural differences, management practices that are effective in one country might be trouble-some in another. General Electric's managers learned this while trying to manage Tungsram, a Hungarian lighting products company GE acquired for $150 million. GE was attracted to Tungsram, widely regarded as one of Hungary's best companies, because of Hungary's low wage rates and the possibility of using the company as a base from which to export lighting products to Western Europe. GE transferred some of its best managers to Tungsram and hoped it would soon become a leader in Europe. Unfortunately, many problems arose.

One problem resulted from major misunderstandings between the American managers and the Hungarian workers. The Americans complained that the Hungarians were lazy; the Hungarians thought the Americans were pushy. The Americans wanted strong sales and marketing functions that would pamper customers. In the prior command economy, sales and marketing activities were unnecessary. In addition, Hungarians expected GE to deliver Western-style wages, but GE went to Hungary to take advantage of the country's low wage structure.[62] As Tungsram's losses mounted, GE managers had to admit that because of differences in basic attitudes between countries, they had underestimated the difficulties they would face in turning Tungsram around. Nevertheless, these problems were eventually solved, and the increased efficiency of GE's Hungarian operations made General Electric a major player in the European lighting market for more than a decade. Recently GE sold its lighting operations in Europe, the Middle East, Africa, and Turkey to a company now headed by the former CEO of GE Hungary.[63]

Often management practices must be tailored to suit the cultural contexts within which an organization operates. An approach effective in the United States might not work in Japan, Hungary, or Mexico because of differences in national culture. For example, U.S.-style pay-for-performance systems that emphasize the performance of individuals might not work well in Japan, where individual performance in pursuit of group goals is the value that receives emphasis.

Managers doing business with individuals from another country must be sensitive to the value systems and norms of that country and behave accordingly. For example, Friday is the Islamic Sabbath. Thus, it would be impolite and inappropriate for a U.S. manager to schedule a busy day of activities for Saudi Arabian managers on a Friday.

A culturally diverse management team can be a source of strength for an organization participating in the global marketplace. Compared to organizations with culturally homogeneous management teams, organizations that employ managers from a variety of cultures have a better appreciation of how national cultures differ, and they tailor their management systems and behaviors to the differences.[64] Indeed, one advantage that many Western companies have over their Japanese competitors is greater willingness to create global teams composed of employees from different countries around the world who can draw on and share their different cultural experiences and knowledge to provide service that is customized to the needs of companies in different countries. For example, because technology services account for more than half of IBM's annual revenues, it has been searching for ways to better use its talented workforce to both lower costs and offer customers unique, specialized kinds of services that its competitors cannot. IBM has developed several kinds of techniques to accomplish this.[65]

In the 2000s, IBM created "competency centers" around the world, staffed by employees who share the same specific technology skill. Most of IBM's employees are concentrated in competency centers located in the countries in which IBM has the most clients and does the most business. These employees have a wide variety of skills, developed from their previous work experience, and the challenge facing IBM is to use these experts efficiently. To accomplish this, IBM used its own expertise to develop sophisticated software that allows it to create self-managed teams composed of IBM experts who have the optimum mix of skills to solve a client's particular problems. First, IBM programmers analyze the skills and experience of its 80,000 global employees and enter the results into the software program. Then they analyze and code the nature of a client's specific problem and input that information. IBM's program matches each specific client problem to the skills of IBM's experts and identifies a list of "best fit" employees. One of IBM's senior managers narrows this list and decides on the actual composition of the self-managed team.

IBM's competency centers customize teams of workers who have just the right mix of skills to address a specific client's business needs.
ColorBlind Images/Blend Images LLC

Once selected, team members, from wherever they happen to be in the world, assemble as quickly as possible and go to work analyzing the client's problem. Together, team members use their authority. This lets IBM create an ever-changing set of global self-managed teams that form to develop the software and service packages necessary to solve the problems of IBM's global clients. At the same time, IBM's technology also optimizes the use of its whole talented workforce because each employee is placed in his or her "most highly valued use"—that is, in the team where the employee's skills can best increase efficiency and effectiveness.

Summary and Review

LO6-1 **WHAT IS THE GLOBAL ENVIRONMENT?** The global environment is the set of forces and conditions that operates beyond an organization's boundaries but affects a manager's ability to acquire and use resources. The global environment has two components: the task environment and the general environment.

LO6-2, 6-3 **THE TASK ENVIRONMENT** The task environment is the set of forces and conditions that originates with global suppliers, distributors, customers, and competitors and influences managers daily. The opportunities and threats associated with forces in the task environment become more complex as a company expands globally.

LO6-2, 6-3 **THE GENERAL ENVIRONMENT** The general environment comprises wide-ranging global economic, technological, sociocultural, demographic, political, and legal forces that affect an organization and its task environment.

LO6-4, 6-5 **THE CHANGING GLOBAL ENVIRONMENT** In recent years there has been a marked shift toward a more open global environment in which capital flows more freely as people and companies search for new opportunities to create profit and wealth. This has hastened the process of globalization. Globalization is the set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographic regions so that nations become increasingly interdependent and similar. The process of globalization has been furthered by declining barriers to international trade and investment and declining barriers of distance and culture.

Management in Action

Topics for Discussion and Action

Discussion

1. Why is it important for managers to understand the forces in the global environment that are acting on them and their organizations? [LO6-1]
2. Which organization is likely to face the most complex task environment—a biotechnology company trying to develop a cure for cancer or a large retailer such as The Gap or Macy's? Why? [LO6-2, 6-3]
3. The population is aging because of declining birth rates, declining death rates, and the aging of the Baby Boomer generation. What might some of the implications of this demographic trend be for (a) a pharmaceutical company and (b) the home construction industry? [LO6-1, 6-2, 6-3]
4. How do political, legal, and economic forces shape national culture? What characteristics of national culture do you think have the most important effect on how successful a country is in doing business abroad? [LO6-3, 6-5]
5. After the passage of NAFTA, many companies shifted production operations to Mexico to take advantage of lower labor costs and lower standards for environmental and worker protection. As a result, they cut their costs and were better able to survive in an increasingly competitive global environment. Was their behavior ethical—that is, did the ends justify the means? [LO6-4]

Action

6. Choose an organization, and ask a manager in that organization to list the number and strengths of forces in the organization's task environment. Ask the manager to pay particular attention to identifying opportunities and threats that result from pressures and changes in customers, competitors, and suppliers. [LO6-1, 6-2, 6-3]

Building Management Skills

Analyzing an Organization's Environment [LO6-1, 6-2, 6-3]

Pick an organization with which you are familiar. It can be an organization in which you have worked or currently work or one that you interact with regularly as a customer (such as the college you are attending). For this organization, do the following:

1. Describe the main forces in the global task environment that are affecting the organization.
2. Describe the main forces in the global general environment that are affecting the organization.
3. Explain how environmental forces affect the job of an individual manager within this organization. How do they determine the opportunities and threats that its managers must confront?

Managing Ethically [LO6-4, 6-5]

Home Depot misjudged the Chinese market for its products and services. The world's largest home improvement chain entered China in 2006 and left six years later. The company was unable to sell its do-it-yourself brand to Chinese consumers. Cheap labor in China means many people can hire someone else to do home improvement work for them, so Chinese consumers are not very interested in DIY projects. In addition, apartment or high-rise living is prevalent in China, which means demand for extensive DIY projects is not extensive among Chinese consumers.[66]

Questions

1. What could Home Depot have done to avoid its mistake?
2. In what cultures might Home Depot find better success?

Small Group Breakout Exercise

How to Enter the Copying Business [LO6-1, 6-2]

Form groups of three to five people, and appoint one group member as the spokesperson who will communicate your findings to the whole class when called on by the instructor. Then discuss the following scenario:

You and your partners have decided to open a small printing and copying business in a college town of 100,000 people. Your business will compete with companies like FedEx Office. You know that over 50% of small businesses fail in their first year, so to increase your chances of success, you have decided to perform a detailed analysis of the task environment of the copying business to discover what opportunities and threats you will encounter.

1. Decide what you must know about (a) your future customers, (b) your future competitors, and (c) other critical forces in the task environment if you are to be successful.
2. Evaluate the main barriers to entry into the copying business.
3. Based on this analysis, list some steps you would take to help your new copying business succeed.

Be the Manager [LO6-1, 6-2]

The Changing Environment of Retailing

You are the new manager of a major clothing store that is facing a crisis. This clothing store has been the leader in its market for the last 15 years. In the last 3 years, however, two other major clothing store chains have opened, and they have steadily been attracting customers away from your store—your sales are down 30%. To find out why, your store surveyed former customers and learned that they perceive your store as not keeping up with changing fashion trends and new forms of customer service. In examining how the store operates, you found out that the 10 purchasing managers who buy the clothing and accessories for the store have been buying from the same clothing suppliers and have become reluctant to try new ones. Moreover, salespeople rarely, if ever, make suggestions for changing how the store operates, and they don't respond to customer requests; the culture of the store has become conservative and risk-averse.

Questions

1. Analyze the major forces in the task environment of a retail clothing store.
2. Devise a program that will help other managers and employees to better understand and respond to their store's task environment.

Case in the News [LO6-3, 6-4, 6-5]

Huawei's Contentious but High-Potential Environment

Huawei Technologies, based in China, is the world's largest maker of telecommunications equipment and second-largest maker of cellphones. It builds fifth-generation (5G) wireless networks for sharing information and controlling Internet-connected products such as self-driving vehicles and robot-operated factories. Huawei cellphones are popular in Asia and Europe, but few Americans recognize the brand, largely because of the U.S. political environment. The federal government has cautioned that Huawei technology can invade privacy and has charged the company with stealing intellectual property from several U.S. companies.

The United States alleges that Huawei's products would enable it to fulfill requests from the Chinese government for information about users. This concern is based on a Chinese law requiring businesses and individuals to assist in intelligence gathering if requested to do so. If Huawei were to comply with such a request, China could obtain information about Internet use from Huawei's monitoring of networks using its equipment. This issue is not limited to the United States. In Africa, the Zambian telecommunications network was once found to be blocking certain websites, and its network allegedly included monitoring and blocking equipment from Huawei. Extending such capabilities to 5G would create potential to interfere with the operations of vehicles, power grids, and anything else connected to a network.

The U.S. government and businesses have also accused Huawei of stealing intellectual property such as patents. A criminal filing charged Huawei employees in China with pressuring U.S. colleagues to share information about a competitor's robot used for testing mobile phones. A different Huawei competitor has filed lawsuits for theft of intellectual property.

The United States, besides enforcing laws related to cybersecurity and intellectual property theft, has urged businesses and governments to avoid signing contracts with Huawei. In many countries, the customers for computer networks are those countries' governments. So far, the official response from other countries has been cautious. Many still work with Huawei on 5G networks, but some are limiting purchases to the least sensitive components. The U.S. Commerce Department recently banned the sale of U.S.-made products to Huawei unless makers can obtain a license showing they are exempt. Affected suppliers include Qualcomm and Intel (microchips) and Google (the Android operating system for cell phones). Google then announced it would not provide Android on future Huawei cell phone models.

Huawei's response to these threats has been firm. It denied charges of using its technology to spy and said it would sign sales agreements that ban spying. Although the ban on U.S. components poses a serious challenge, because half of Huawei's microchips come from U.S. suppliers, the company anticipated the ban and built up an inventory of parts to use while it prepares a way forward. Some U.S. suppliers have determined they can sell to Huawei, presumably because their products are made outside the country. Meanwhile, Huawei is asking its product developers in China to work around the clock to write software and design components it can make there, instead of importing. And because its U.S. research subsidiary, Futurewei Technologies, cannot supply it with research services under the ban, Huawei has announced layoffs at those facilities.

Huawei's domestic political environment, within China, is more favorable. On the same day the U.S. government banned sales to Huawei, China's government announced it would waive taxes for two years on local software and microchip companies, which would give them an edge in replacing U.S. suppliers. China also is expected to back Huawei by making the easing of restrictions on the company a topic of trade negotiations with the United States. China's support has been present since Huawei's start as a maker of switches. An analysis of Huawei's financial history found that government support has totaled $75 billion in tax waivers, loans, lines of credit, grants, and discounts on land purchases. China's banking system, controlled by the state, has ensured that loans are at favorable rates. Competitors, including U.S.-based Cisco Systems, Finland-based Nokia, and Sweden-based Ericsson, have received government support, too, but not on the same scale.

In this environment, Huawei has generated profit growth by offering a wide range of reliable, advanced products coupled with financing at favorable terms. In 5G, few competitors are as far along in the development of the technology. As of early 2019, Huawei had participated in the development of 10 countries' 5G networks and had plans to do so in 20 more by year-end. Low prices and financing are especially helpful for selling in high-growth developing markets such as Vietnam and Zambia. When the U.S. ban on selling components was announced, sales of cellphones dipped and then steadied. Huawei ended the year with record profits, despite growth slightly below expectations.

Questions for Discussion

1. Briefly summarize the threats and opportunities you see for Huawei in its task environment. Consider suppliers, distributors, customers, and competitors, if applicable.
2. Briefly summarize the threats and opportunities you see for Huawei in its general environment. Consider economic, technological, sociocultural, demographic, and political/legal forces, if applicable.
3. In Hofstede's model of national culture, China has been found to score relatively high on collectivism and very high on long-term orientation. In light of what this chapter says about those dimensions, how would you predict that Huawei's Chinese managers and employees will deal with their opportunities and challenges?

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