

BUS108

W3

Chapter 4

Managing in a Global Environment



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Learning Outcomes:

1. Compare and contrast the ethnocentric, polycentric, and geocentric **attitudes** toward global business.
2. Discuss the importance of regional trading alliances and global trade mechanisms that affect **trade relations** among countries in the world.
3. Describe the **structures** and **techniques** organizations use as they become global.
4. Explain the **relevance** of the legal–political, economic, and cultural environments to global business.



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What's Your Global Perspective? (1 of 4)**Parochialism:**

Viewing the world solely through **your own perspective**, leading to an **inability** to recognize differences among people.



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What's Your Global Perspective? (2 of 4)

Ethnocentric Attitude:

The belief that the best work approaches and practices are those of the **home** country.

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What's Your Global Perspective? (3 of 4)

Polycentric Attitude:

View that managers in the **host** country know the best approaches and practices for running their businesses.

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What's Your Global Perspective? (4 of 4)

Geocentric Attitude:

A world-oriented view that focuses on using the best approaches and people from **around** the globe.

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Exhibit 4-1 Key Information About Three Global Attitudes

Orientation	Ethnocentric Home Country	Polycentric Host Country	Geocentric World
Advantages	Simpler structure	Extensive knowledge of foreign market and workplace	Extensive understanding of global issues
	More tightly controlled	More support from host government	Balance between local and global objectives
		Committed local managers with high morale	Best people and work approaches used regardless of origin
Drawbacks	More ineffective management	Duplication of work	Difficult to achieve
	Inflexibility	Reduced efficiency	Managers must have both local and global knowledge
	Social and political backlash	Difficult to maintain global objectives because of intense focus on local traditions	

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Understanding the Global Environment (1 of 11)

Regional Trading Alliances

- Several years ago, global competition was best described in terms of country against country....this is not longer the case!

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Understanding the Global Environment (2 of 11)

The European Union (EU)

- A union of 27 European countries that forms an economic and political entity.
- Barriers to travel, employment, investment, and trade prevented European companies from developing economic efficiencies. Now, these barriers have been removed.
- Use the Euro as a common European currency

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Exhibit 4-2: European Union Countries

Exhibit 4-2

European Union Countries



[Source: Data based on EU Member Countries and On the Road to EU Membership, 7th ed., 2014, Pearson Education, Inc.]



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Understanding the Global Environment (3 of 11)

North American Free Trade Agreement (NAFTA)

- An **agreement among** the Canadian, American, and Mexican governments in which barriers to free trade were reduced.
- As of 2012, it is the second-largest trade bloc in the world in terms of combined GDP of its members.



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Understanding the Global Environment (4 of 11)

US-Central America Free Trade Agreement (CAFTA)

Free Trade Area of the Americas (FTAA)

Canada-EU Trade Agreement (CETA)

Trans-Pacific Partnership (TPP)



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Understanding the Global Environment (5 of 11)

- **Association of Southeast Asian Nations (ASEAN)**
 - Trading alliance of 10 Southeast Asian Countries

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Exhibit 4-3 ASEAN Members

Exhibit 4-3
ASEAN Members



Source: Based on J. McCreath and T. Clark, "ASEAN at Work," IndustryWeek, May 19, 1997, p. 42.

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Understanding the Global Environment (6 of 11)

Other Trade Alliances

- 54-Nation African Union (AU)
- East African Community (EAC)
- South Asian Association for Regional Cooperation (SAARC)

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Understanding the Global Environment (7 of 11)

Four Important Global Trade Mechanisms

- The World Trade Organization
- International Monetary Fund
- World Bank Group
- Organization for Economic Cooperation and Development

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Understanding the Global Environment (8 of 11)

The World Trade Organization

- Evolved from the **General Agreement on Tariffs and Trade** (GATT) in 1995
- Functions as the **only global organization** dealing with the rules of trade among nations
- Has **147** member nations
- **Monitors** and **promotes** world trade

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Understanding the Global Environment (9 of 11)

International Monetary Fund

- Organization of 188 countries that promotes international monetary cooperation and provides member countries with policy advice, temporary loans, and technical assistance to establish and maintain financial stability and to strengthen economies.

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Understanding the Global Environment (10 of 11)

World Bank Group

- A group of five closely associated institutions, all owned by its member countries, that provides vital financial and technical assistance to developing countries around the world.

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Understanding the Global Environment (11 of 11)

Organization for Economic Co-operation and Development

- A Paris-based international economic organization whose mission is to help its 34 member countries achieve sustainable economic growth and employment
- Raise the standard of living in member countries while maintaining financial stability in order to contribute to the development of the world economy.

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Doing Business Globally (1 of 10)

Types of International Organizations

- Multinational Corporation (MNC)
- Multidomestic Corporations
- Global Company
- Transnational or Borderless Organizations

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Doing Business Globally (2 of 10)**Multinational Corporation (MNC):**

A firm that maintains operations in multiple countries but manages from the home country.

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Doing Business Globally (3 of 10)**Multidomestic Corporation:**

An international company that decentralizes management and other decisions to the local country.

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Doing Business Globally (4 of 10)**Global Company:**

An international company that centralizes management and other decisions in the home country.

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Doing Business Globally (5 of 10)

Transnational/Borderless Organization:

A type of international company in which artificial geographical barriers are eliminated.

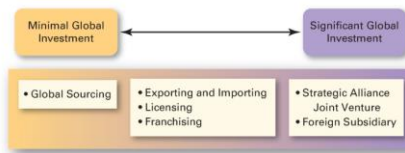
Born Globals are international companies that choose to go global from inception.

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Exhibit 4-4 How Organizations Go International

Exhibit 4-4

How Organizations Go International



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Doing Business Globally (6 of 10)

Exporting:

Making products at home and selling them abroad.

Importing:

Acquiring products made abroad and selling them at home.

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Doing Business Globally (7 of 10)

Licensing:

Giving another organization the **right to use** its brand name, technology, or product specifications.

Franchising:

A service organization gives a person or group the **right to sell** a product, using specific business methods and practices that are standardized.

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Doing Business Globally (8 of 10)

Strategic Alliance:

Partnership between an domestic and a foreign company in which both **share resources and knowledge** in developing new products or building new production facilities.

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Doing Business Globally (9 of 10)

Joint Venture:

A **specific type of strategic alliance** in which the partners agree to form a separate, independent organization for some business purpose.

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Doing Business Globally (10 of 10)

Foreign Subsidiaries:

An approach that involves a **direct investment** in a foreign country by setting up a **separate and independent** production facility or office.

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Managing in a Global Environment (1 of 10)

The Legal-Political Environment

- Stability or instability of **legal** and **political** systems
 - **Legal procedures** are established and followed
 - **Fair and honest elections** held on a regular basis

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Managing in a Global Environment (2 of 10)

The Legal-Political Environment

- Differences in the **laws** of various nations
 - Effects on **business activities**
 - Effects on **delivery** of products and services

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Managing in a Global Environment (3 of 10)

The Economic Environment

• Economic Systems

- **Free market economy**
 - An economy in which resources are primarily owned and controlled by the private sector
- **Planned economy**
 - An economy in which all economic decisions are planned by a central government

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Managing in a Global Environment (4 of 10)

The Economic Environment

• Monetary and Financial Factors

- **Currency exchange rates**
- **Inflation rates**
- **Diverse tax policies**

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Managing in a Global Environment (5 of 10)

The Cultural Environment

• National Culture

- **Values** and **attitudes** shared by individuals from a specific country that shape their behaviour and their beliefs about what is important
- May have **more influence** on an organization than the organization **culture**.

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Managing in a Global Environment (6 of 10)

Hofstede's Framework for Assessing Cultures (Exhibit 4-5)

- Individualism vs. Collectivism
- Power Distance
- Uncertainty Avoidance
- Achievement vs. Nurturing
- Long-Term vs. Short-Term Orientation



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Examples of Hofstede's Cultural Dimensions

Exhibit 4-5 Examples of Hofstede's Cultural Dimensions

Country	Individualism/Collectivism	Power Distance	Uncertainty Avoidance	Achievement/Nurturing*
Australia	Individual	Small	Moderate	Strong
Canada	Individual	Moderate	Low	Moderate
England	Individual	Small	Moderate	Strong
France	Individual	Large	High	Weak
Greece	Collective	Large	High	Moderate
Italy	Individual	Moderate	High	Strong
Japan	Collective	Moderate	High	Strong
Mexico	Collective	Large	High	Strong
Singapore	Collective	Large	Low	Moderate
Sweden	Individual	Small	Low	Weak
United States	Individual	Small	Low	Strong
Venezuela	Collective	Large	High	Strong

*A weak achievement score is equivalent to high nurturing.

Source: Based on G. Hofstede, "Motivation, Leadership, and Organization: Do American Theories Apply Abroad?" *Organizational Dynamics*, Summer 1980, pp. 42-63.



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Managing in a Global Environment (7 of 10)

The GLOBE Framework For Assessing Cultures

- Power distance
- Uncertainty avoidance
- Assertiveness
- Humane orientation
- Future orientation
- Institutional/collectivism
- Gender differentiation
- In-group collectivism
- Performance orientation

Global Leadership and Organizational Behaviour Effectiveness



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Managing in a Global Environment (8 of 10)

- Openness challenges
 - Terrorism
 - economic interdependence
- Workforce challenges
 - Work experience, pay levels & communication
 - Multicultural work teams

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Exhibit 4-6 A Global Mind-Set

Exhibit 4-6

A Global Mind-Set

Intellectual capital: Knowledge of international business and the capacity to understand how business works on a global scale



imago46/Pixata

Psychological capital: Openness to new ideas and experiences



Alen White/Pixata

Social capital: Ability to form connections and build trusting relationships with people who are different from you



target046/Pixata

Source: Based on "Making It Overseas," by M. Javidan, M. Taggar, and D. Bowen, from Harvard Business Review, April 2010; and "Testing Managers' Global IQ," by J. McGinger (ed.), from Bloomberg Businessweek, September 28, 2009.

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Managing in a Global Environment (9 of 10)

What do managers need?

- Cultural intelligence
 1. knowledge of culture as a concept—how cultures vary and how they affect behaviour;
 2. mindfulness—the ability to pay attention to signals and reactions in different cross-cultural situations
 3. behavioural skills—using one's knowledge and mindfulness to choose appropriate behaviours in those situations.

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Managing in a Global Environment (10 of 10)

What do managers need?

- Global mind set
 - attributes that allow a leader to be effective in cross-cultural environments.



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