

An aerial photograph of a large, colorful geometric plaza. The plaza is composed of various colored rectangular sections in shades of light blue, dark blue, red, and green. A large green square is the central focus, with several people walking on it. Other people are scattered across the other colored sections. The overall design is reminiscent of Piet Mondrian's abstract art style.

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MANAGEMENT

DANNY SAMSON

TIMOTHY DONNET

RICHARD L. DAFT

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Managing in a global environment

CHAPTER 4



CHAPTER 04

Managing in a global environment

1

Define globalisation and explain how it is creating a borderless world for today's managers

2

Describe a global mindset and why it has become imperative for companies operating internationally

3

Understand how to interpret the economic environment and its impact on organisations

4

Indicate how dissimilarities in the political environments throughout the world can affect business operations

5

Understand how different sociocultural conditions in various markets and countries impact on our organisations

6

Describe how regional trading alliances are reshaping the international business environment



NEW MANAGER SELF-ASSESSMENT

Are you ready to work internationally?

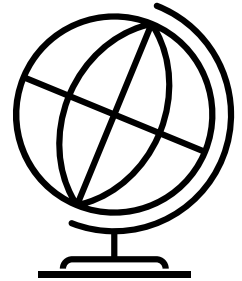
Are you ready to negotiate a sales contract with someone from another country? Companies large and small deal on a global basis. To what extent are you guilty of the behaviour below? Please answer each item as Mostly true or Mostly false for you.

Are you typically...	Mostly true	Mostly false
1 impatient? Do you have a short attention span? Do you want to keep moving to the next topic?		
2 a poor listener? Are you uncomfortable with silence? Does your mind think about what you want to say next?		
3 argumentative? Do you enjoy arguing for its own sake?		
4 unfamiliar with cultural specifics in other countries? Do you have limited experience in other countries?		
5 short-term oriented? Do you place more emphasis on the short term than on the long term in your thinking and planning?		
6 'all business'? Do you think that it is a waste of time getting to know someone personally before discussing business?		
7 legalistic to win your point? Do you hold others to an agreement regardless of changing circumstances?		
8 thinking 'win/lose' when negotiating? Do you usually try to win a negotiation at the other's expense?		



A BORDERLESS WORLD: GLOBALISATION, MULTINATIONAL CORPORATIONS AND THE INTERNATIONAL LANDSCAPE

- Organisations in all fields are being reordered around the goal of addressing needs and desires that transcend national boundaries
 - Globalisation
 - Developing a global mindset
 - The changing international landscape
 - Multinational corporations
 - Serving the bottom of the pyramid



GLOBALISATION

- Consumers can no longer tell which country they are buying from
- Organisations participate in the international arena on a variety of levels
- Globalisation typically passes through four distinct stages

	1. Domestic	2. International	3. Multinational	4. Global
Strategic orientation	Domestically oriented	Export-oriented, multidomestic	Multinational	Global
Stage of development	Initial foreign involvement	Competitive positioning	Explosion of international operations	Global
Cultural sensitivity	Of little importance	Very important	Very important	Critically important
Manager assumptions	'One best way'	'Many good ways'	'The least-cost way'	'Many good ways'

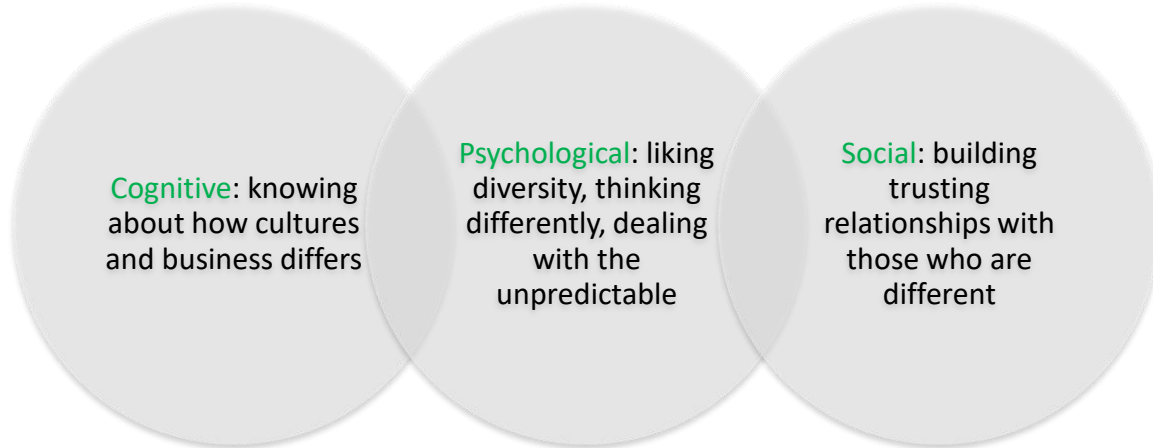
Exhibit 4.1 Four stages of globalisation

Source: Based on Adler, N. J. (2002). *International Dimensions of Organizational Behavior*, 4th edn (Cincinnati, OH: South-Western), pp. 8–9.



DEVELOPING A GLOBAL MINDSET

- Ability to appreciate and influence individuals, groups, organisations and systems that represent different **social, cultural, political, institutional, intellectual and psychological** characteristics
- Requires skills, understanding and competencies in three dimensions:



THE CHANGING INTERNATIONAL LANDSCAPE

- Many companies today are going straight to China or India as a first step into international business
- Companies in these countries are growing rapidly as providers of both products and services to the United States, Canada, Europe, etc
- China
 - increasingly blending quality process and best of Eastern and Western philosophy into business
 - focus on manufacturing
- India
 - Service industry: source of technological and scientific brainpower
 - Rising power in software, design, services, and precision engineering



MULTINATIONAL CORPORATIONS

- An organisation that receives more than 25 per cent of its total sales revenue from outside the parent company's home country
- Can also be called a global company or transnational company
- Managed as an integrated worldwide business system in which foreign affiliates act in close alliance and cooperation
- Ultimately controlled by a single management authority that makes key strategic decisions
- They regard the entire world as one market for strategic decisions, resource acquisition and location of production



SERVING THE BOTTOM OF THE PYRAMID (BOP)

- MNCs have power and resources to do good in the world
- **Bottom of the pyramid** (BOP) refers to the more than 4 billion people who make up the lowest level of the world's economic 'pyramid'
- Organisations can help to alleviate poverty by selling to the poorest people – product design, and price structure to enable poorer to access



GETTING STARTED INTERNATIONALLY

Various tactics to starting international business

- Outsourcing
 - seeking cheaper resources, such as materials or labour offshore
- Market entry strategies:
 - Exporting
 - Licensing
 - Direct investing



STRATEGIES FOR ENTERING THE INTERNATIONAL ARENA

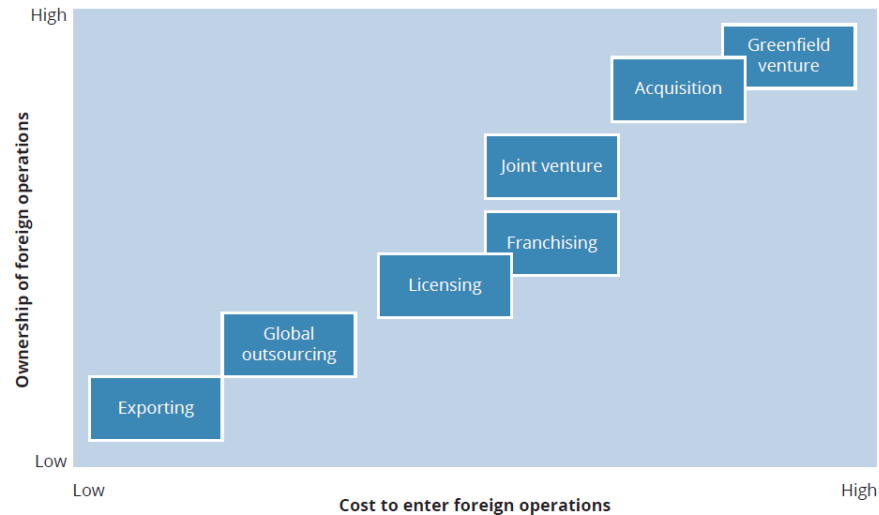


Exhibit 4.2 Strategies for entering the international arena



THE INTERNATIONAL BUSINESS ENVIRONMENT

Exporting

- company maintains production facilities within the home nation
- transfers its products for sale in foreign countries
- challenges based on physical distances, government regulations, foreign currencies and cultural differences
- less expensive than establishing building plants in multiple countries

Outsourcing

- international division of labour
- work done in countries with the cheapest sources of labour and supplies
- growth of the internet and plunging telecommunications costs have enabled companies to outsource more

Licensing

- a corporation (the licensor) in one country makes certain resources available to companies in another country (the licensee)
- enables the licensee to produce and market a product or service similar to what the licensor has been producing
- special form of licensing is franchising – franchisee buys complete package of materials and services, e.g. equipment, products, ingredients, trademark and a standardised operating system

Direct investing

- direct investment in facilities in a foreign country
- popular type of direct investment is to engage in strategic alliances and partnerships
- other choice is to have a wholly owned foreign affiliate
- most costly and risky direct investment is called a greenfield venture, which means a company builds a subsidiary from scratch in a foreign country

THE INTERNATIONAL ENVIRONMENT



Exhibit 4.3 Key factors in the international environment



THE ECONOMIC ENVIRONMENT

Economic development	Infrastructure	Economic interdependence	Resource and product markets	Exchange rates	Inflation, interest rates and economic growth
<ul style="list-style-type: none">• economic development differs widely among the countries and regions of the world• categorised as either 'developing' or 'developed'• most international business is headquartered in economically advanced countries• developing countries constitute an immense market that many organisations are beginning to tap	<ul style="list-style-type: none">• includes transportation facilities such as airports, highways and railways; energy-producing facilities such as utilities and power stations; and communication facilities such as telephone lines and radio stations	<ul style="list-style-type: none">• how economically interconnected the world is• e.g. Global Financial Crisis, COVID-19	<ul style="list-style-type: none">• managers must evaluate the market demand for their products• if market demand is high, managers may choose to export products to that country• To develop plants, however, resource needed raw materials and labour also must be available	<ul style="list-style-type: none">• is the rate at which one country's currency is exchanged for that of another country• exchange rate can have major implications for the profitability of international operations that exchange millions of dollars into other currencies every day	<ul style="list-style-type: none">• inflation rates measure the annual rate of growth of prices in the economy• interest rates measure the cost of borrowing money



THE LEGAL–POLITICAL ENVIRONMENT

Major concerns for organisations

- Political risk
 - risk of loss of assets, earning power or managerial control due to politically-based events or actions by host governments
 - includes government takeovers of property and acts of violence directed against a firm's properties or employees
- Political instability
 - riots, revolutions, civil disorder and frequent changes in government
 - increases uncertainty



THE SOCIOCULTURAL ENVIRONMENT

- Culture is intangible, pervasive and difficult to learn
- Imperative for international businesses to comprehend the significance of local cultures and deal with them effectively



SOCIAL VALUES

Key Concept

Hofstede's social values:

Power distance

- high power distance means that people accept inequality in power among institutions, organisations and people
- low power distance means that people expect equality in power

Uncertainty avoidance

- high uncertainty avoidance means that being uncomfortable with uncertainty and ambiguity, support beliefs that promise certainty and conformity
- low uncertainty avoidance means high tolerance for the unstructured, the unclear and the unpredictable

Individualism and collectivism

- individualism values loosely knit social framework in which individuals are expected to take care of themselves
- collectivism means a preference for a tightly knit social framework in which individuals look after one another and organisations protect their members' interests

Masculinity/femininity

- 'masculinity' stands for a preference for achievement, heroism, assertiveness, work centrality (with resultant high stress) and material success
- 'femininity', reflects the values of relationships, cooperation, group decision making and quality of life



Country	Power distance ^a	Uncertainty avoidance ^b	Individualism ^c	Masculinity ^d
Australia	7	7	2	5
Costa Rica	8 (tie)	2 (tie)	10	9
France	3	2 (tie)	4	7
West Germany	8 (tie)	5	5	3
India	2	9	6	6
Japan	5	1	7	1
Mexico	1	4	8	2
Sweden	10	10	3	10
Thailand	4	6	9	8
United States	6	8	1	4

a 1 = Highest power distance, 10 = Lowest power distance

b 1 = Highest uncertainty avoidance, 10 = Lowest uncertainty avoidance

c 1 = Highest individualism, 10 = Lowest individualism

d 1 = Highest masculinity, 10 = Lowest masculinity

Exhibit 4.4 Rank orderings of 10 countries along four dimensions of national value systems

Sources: Marcic, D. (1995). *Organizational Behavior and Cases*, 4th edn (St Paul, MN: West). Based on two books by Hofstede, G.: *Culture's Consequences* (London: Sage Publications, 1984) and *Cultures and Organizations: Software of the Mind* (New York: McGraw-Hill, 1991).



GLOBE PROJECT VALUE DIMENSIONS

Key Concept

Research by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) used data collected from 18 000 managers in 62 countries to identify **nine dimensions that explain cultural differences**.

Assertiveness.

- a high value on assertiveness means a society encourages toughness, assertiveness and competitiveness. Low assertiveness means that people value tenderness and concern for others over being competitive.

Future orientation.

- similar to Hofstede's time orientation, this dimension refers to the extent to which a society encourages and rewards planning for the future over short-term results and quick gratification.

Gender differentiation.

- extent to which a society maximises gender role differences. In countries with low gender differentiation, such as Denmark, women typically have a higher status and play a stronger role in decision making.

Performance orientation.

- high performance orientation places high emphasis on performance and rewards people for performance improvements and excellence. A low performance orientation means more attention to loyalty, belonging and background.

Humane orientation.

- encourages and rewards people for being fair, altruistic, generous and caring. A country high on humane orientation places a great value on helping others and being kind. A country low on this orientation expects people to take care of themselves.

Dimension	Low	Medium	High
Assertiveness	Sweden Switzerland Japan	Egypt Iceland France	Spain United States Germany
Future orientation	Russia Italy Kuwait	Slovenia Australia India	Denmark Canada Singapore
Gender differentiation	Sweden Denmark Poland	Italy Brazil Netherlands	South Korea Egypt China
Performance orientation	Russia Greece Venezuela	Israel England Japan	United States Taiwan Hong Kong
Humane orientation	Germany France Singapore	New Zealand Sweden United States	Indonesia Egypt Iceland

Exhibit 4.5 Examples of country rankings on selected GLOBE value

Source: Javidan, M. and House, R. J. (2001). 'Cultural Acumen for the Global Manager: Lessons from Project GLOBE'. *Organizational Dynamics*, 29:4, 289–305, with permission from Elsevier



COMMUNICATION DIFFERENCES

- Communication differences reflect differences in cultural values
- Important to recognise differences and respond appropriately for business success
- Culture can be:
 - High-context
 - Low-context

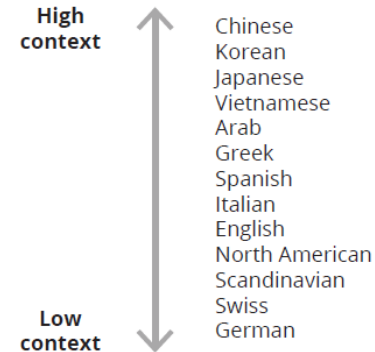


Exhibit 4.6 High-context and low-context cultures

Sources: Hall, E. T. (1976). *Beyond Culture* (Garden City, NY: Anchor Press/Doubleday); and Kennedy, J. and Everest, A. (September 1991). 'Put Diversity in Context'. *Personnel Journal*, 50–4.



INTERNATIONAL TRADE ALLIANCES

- **GATT and the World Trade Organization**
 - can monitor international trade and has legal authority to arbitrate disputes on approx. 400 trade issues
- **European Union**
 - allowing people, goods, and services to move freely within member countries
- **North American Free Trade Agreement (NAFTA)**
 - merged the United States, Canada, and Mexico into a single market
- **Association of South East Asian Nations (ASEAN)**
 - Indonesia, Malaysia, the Philippines, Singapore and Thailand – joined together to pursue three mutual purposes: jointly accelerating economic growth, social progress and cultural development
 - new agreements with Australia and New Zealand, China, India, Korea and Japan



INTERNATIONAL TRADE ALLIANCES CONTD.

- Can be beneficial
- But also pose new challenges:
 - Questions around economic welfare
 - Balance of power



SUSTAINABLE DEVELOPMENT: A GLOBAL ISSUE AND OPPORTUNITY

- Consumers increasingly buy from companies who promote 'doing good'
- However some companies turn a blind eye to substandard approaches:
 - e.g. Nike using sweatshops in its production lines
 - e.g. child and slave labour in the production of cocoa



CHAPTER 4 – BRIEF SUMMARY

4.1 To succeed on a global level requires managers at all levels to have a global mindset, which is the ability to appreciate and influence individuals, groups, organisations and systems that represent different social, cultural, political, institutional, intellectual and psychological characteristics.

4.2 Two major alternatives for engaging in the international arena are to seek cheaper resources via outsourcing and to develop markets outside the home country.

4.3 Countries vary widely in terms of economic development and are classified as either developed countries or less-developed countries (LDCs).

4.4 Complicated legal and political forces can create huge risks for international managers and organisations.

4.5 Managers working internationally should guard against ethnocentrism, which is the natural tendency among people to regard their own culture as superior to others.

4.6 Regional trade alliances and international trade agreements aim to benefit economies by making efficient trading, but these aren't always successful.

