

# Global Management Managing across Borders

PPT12  
Chapter Four

# Major Questions You Should Be Able to Answer

- 4.1** What three important developments of globalization will probably affect me?
- 4.2** Why learn about international management, and what characterizes the successful international manager?
- 4.3** Why do companies expand internationally, and how do they do it?

# Major Questions You Should Be Able to Answer

- 4.4** What are barriers to free trade, and what major organizations and trading blocs promote trade?
- 4.5** What are the principal areas of cultural differences?

# Competition & Globalization: Who Will Be No. 1 Tomorrow?

## ✦ Globalization

↳ the trend of the world economy toward becoming a more interdependent system



# The Rise of the “Global Village” & Electronic Commerce

## Global village

↪ the “shrinking” of time and space as air travel and the electronic media have made it much easier for the people of the globe to communicate with one another

# The Rise of the “Global Village” & Electronic Commerce


## ★ E-commerce

↪ the buying and selling of products and services through computer networks

★ U.S. retail e-commerce sales were estimated at **\$263.3 billion** for 2013, up 16.9% over the previous year

# One Big World Market: The Global Economy

## **Global economy**

-  the increasing tendency of the economies of the world to interact with one another as one market instead of many national markets

# One Big World Market: The Global Economy

## ★ Positive effects

- ↪ world will be far more interconnected leading to better and more affordable products, as well as ever better communication among nations

## ★ Negative effects

- ↪ the movement, or outsourcing, of formerly well-paying jobs overseas as companies seek cheaper labor costs, particularly in manufacturing



# One Big World Market: The Global Economy

**Minifirms** operating worldwide

- ★ Small companies can get started more easily
- ★ Small companies can maneuver faster

# Question

Jelene sells her art through her own web site and her etsy store. She receives questions from many different countries. Jelene is engaged in \_\_\_\_\_.

- A. E-commerce
- B. Global trading
- C. Counter-trading
- D. Embargo



# Why Learn About International Management?

## ✦ **Multinational corporation**

↳ business firm with operations in several countries

## ✦ **Multinational organization**

↳ nonprofit organization with operations in several countries

# Why Learn About International Management?

- ★ You may deal with **foreign** customers or partners
- ★ You may deal with foreign employees or **suppliers**
- ★ You may work for a foreign firm in the United States
- ★ You may work for an American firm **outside** the United States – or for a foreign one

# The Successful International Manager

## ★ Ethnocentric managers


- ↪ believe that their native country, culture, language, and behavior are superior to all others

## ★ Parochialism

- ↪ narrow view in which people see things solely through their own perspective

# The Successful International Manager

## **Polycentric managers**

-  take the view that native managers in the foreign offices best understand native personnel and practices, and so the home office should leave them alone

# The Successful International Manager

## ★ Geocentric managers

- ↪ accept that there are differences and similarities between home and foreign personnel and practices and that they should use whatever techniques are most effective



# Question

Alvin accepts that differences and similarities exist between home and foreign personnel and practices, and that the company should use whatever techniques are most effective. Alvin can be described as:

- A. Ethnocentric
- B. Polycentric
- C. Geocentric
- D. Expatriate



# Being a Star Road Warrior

**Lesson 1:** Frequent travel may be needed because personal encounters are essential

**Lesson 2:** Travel may be global, but understanding must be local

**Lesson 3:** Travel downtime can be used to expand business contacts

# Why Companies Expand Internationally

1. Availability of supplies
2. New markets
3. Lower labor costs
4. Access to finance capital
5. Avoidance of tariffs & import quotas

# Five Ways of Expanding Internationally

Figure 4.1



# How Companies Expand Internationally

## ✦ Global outsourcing

- ↳ using suppliers outside the United States to provide labor, goods, or services
- ↳ Also called offshoring



# How Companies Expand Internationally

## ★ Importing

↪ a company buys goods outside the country and resells them domestically

## ★ Exporting

↪ a company produces goods domestically and sells them outside the country

## ★ Countertrading

↪ bartering goods for goods

# Top 10 exporting countries, 1999 and 2013

Table 4.2

RANK IN 1999	RANK IN 2013
1. U.S	China
2. Germany	Germany
3. Japan	U.S.
4. France	Japan
5. Britain	France
6. Canada	South Korea
7. Italy	Netherlands
8. Netherlands	Italy
9. China	Russia
10. Belgium	United Kingdom

# How Companies Expand Internationally

## ★ Licensing



- ↪ a company allows a foreign company to pay it a fee to make or distribute the firm's product or service

## ★ Franchising

- ↪ a company allows a foreign company to pay it a fee and a share of the profit in return for using the company's brand name and a package of materials and services

# How Companies Expand Internationally

## **Joint ventures**

-  formed with a foreign company to share the risks and rewards of starting a new enterprise together in a foreign country
-  also known as a strategic alliance



# How Companies Expand Internationally

## ★ **Wholly-owned subsidiary**

↪ foreign subsidiary that is totally owned and controlled by an organization

## ★ **Greenfield venture**

↪ a foreign subsidiary that the owning organization has built from scratch.

# Question

XYZ Corporation builds a **manufacturing plant** in Mexico, employs Mexican citizens and receives favorable tax treatment by the Mexican government. XYZ is:

- A. Using a *maquiladora*
- B. Countertrading
- C. Outsourcing
- D. Franchising

# Barriers to International Trade

## ★ Tariffs

↪ customs duty, or tax, levied mainly on imports

## ★ Import quotas

↪ limits on the numbers of a product that can be imported

## ★ Embargoes

↪ complete ban on the import or export of certain products

# Organizations Promoting International Trade

## ★ World Trade Organization (WTO)

- ↪ designed to monitor and enforce trade agreements
- ↪ Agreements are based on the *General Agreement on Tariffs and Trade (GATT)*
- ↪ Consist of 159 countries

# Organizations Promoting International Trade

## ★ World Bank

- ↪ purpose is to provide low-interest loans to developing nations for improving transportation, education, health, and telecommunications

## ★ International Money Fund (IMF)

- ↪ designed to assist in smoothing the flow of money between nations

# Major Trading Blocs

## ★ Trading bloc

- ↪ group of nations within a geographic region that have agreed to remove trade barriers with one another
- ↪ also known as an economic community



# Major Trading Blocs

- ★ **NAFTA** – U.S., Canada, Mexico
- ★ **European Union** – 28 trading partners in Europe
- ★ **APEC** – group of 21 Pacific Rim countries
- ★ **ASEAN** - trading bloc of 10 countries in Asia
- ★ **Mercosur** – trading bloc in Latin America
- ★ **CAFTA** – Central America

# Question


The U.S. does not allow the import of Cuban sugar and cigars. This is an example of a(n):

- A. Embargo
- B. Tariff
- C. Quota
- D. Maquiladora



# Most Favored Nation Trading Status

## **Most favored nation trading status**

 describes a condition in which a country grants other countries favorable trading treatment such as the reduction of import duties.

# The Importance of National Culture

## ✦ Culture

↳ shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people



# Cultural Dimensions: The GLOBE Project

## ✦ Low-context culture

↳ shared meanings are primarily derived from written and spoken words

## ✦ High-context culture

↳ people rely heavily on situational cues for meaning when communicating with others

# The Globe Project's Nine Cultural Dimensions

## ★ **Power distance**

↪ how much unequal distribution of power should there be in organizations and society

## ★ **Uncertainty avoidance**

↪ how much should people rely on social norms and rules to avoid uncertainty

## ★ **Institutional collectivism**

↪ how much should leaders encourage and reward loyalty to the social unit

# The Globe Project's Nine Cultural Dimensions

## ★ **In-group collectivism**

↪ how much pride and loyalty should people have for their family or organization

## ★ **Gender egalitarianism**

↪ how much should society maximize gender role differences

## ★ **Assertiveness**

↪ how confrontational and dominant should individuals be in social relationships

# The Globe Project's Nine Cultural Dimensions

## ★ **Future orientation**

↪ how much should people delay gratification by planning and saving for the future

## ★ **Performance orientation**

↪ how much should individuals be rewarded for improvement and excellence

## ★ **Humane orientation**

↪ how much should society encourage and reward people for being kind, fair, friendly, and generous

# Other Cultural Variations

1. Language
2. Interpersonal space
3. Communication
4. Time orientation
  - Monochronic, Polychronic
5. Religion
6. Law and political stability

# U.S. Managers on Foreign Assignments: Why Do They Fail?

## ★ Expatriates

↪ people living or working in a foreign country

★ 10%–20% of all U.S. managers sent abroad returned early because of job dissatisfaction or adjustment difficulties