



# **Managing in a Global Environment**

## **Chapter 4**

**3.1**

**Contrast** ethnocentric, polycentric, and geocentric attitudes toward global business.

**3.2**

**Discuss** the importance of regional trading alliances and global trade mechanisms.

**3.3**

**Describe** the structures and techniques organizations use as they go international.

**3.4**

**Explain** the relevance of the political/legal, economic, and cultural environments to global business.

## LEARNING OUTCOMES

## WHAT'S YOUR GLOBAL PERSPECTIVE?

- **Parochialism** – viewing the world solely through your own perspectives, leading to an inability to recognize differences between people.
- **Ethnocentric Attitude** – the parochialistic belief that the best work approaches and practices are those of the home country.

## OTHER GLOBAL PERSPECTIVES

- **Polycentric attitude** – the view that the managers in the host country know the best work approaches and practices for running their business.
- **Geocentric Attitude** – a world-oriented view that focuses on using the best approaches and people from around the globe.

## UNDERSTANDING THE GLOBAL ENVIRONMENT – TRADING ALLIANCES

- **European Union (EU)** – a union of 28 democratic European nations created as a unified economic and trade entity with the **Euro** as a single common currency.



**EXHIBIT 3-1**

European Union  
Map



## TRADING ALLIANCES (CONT.)

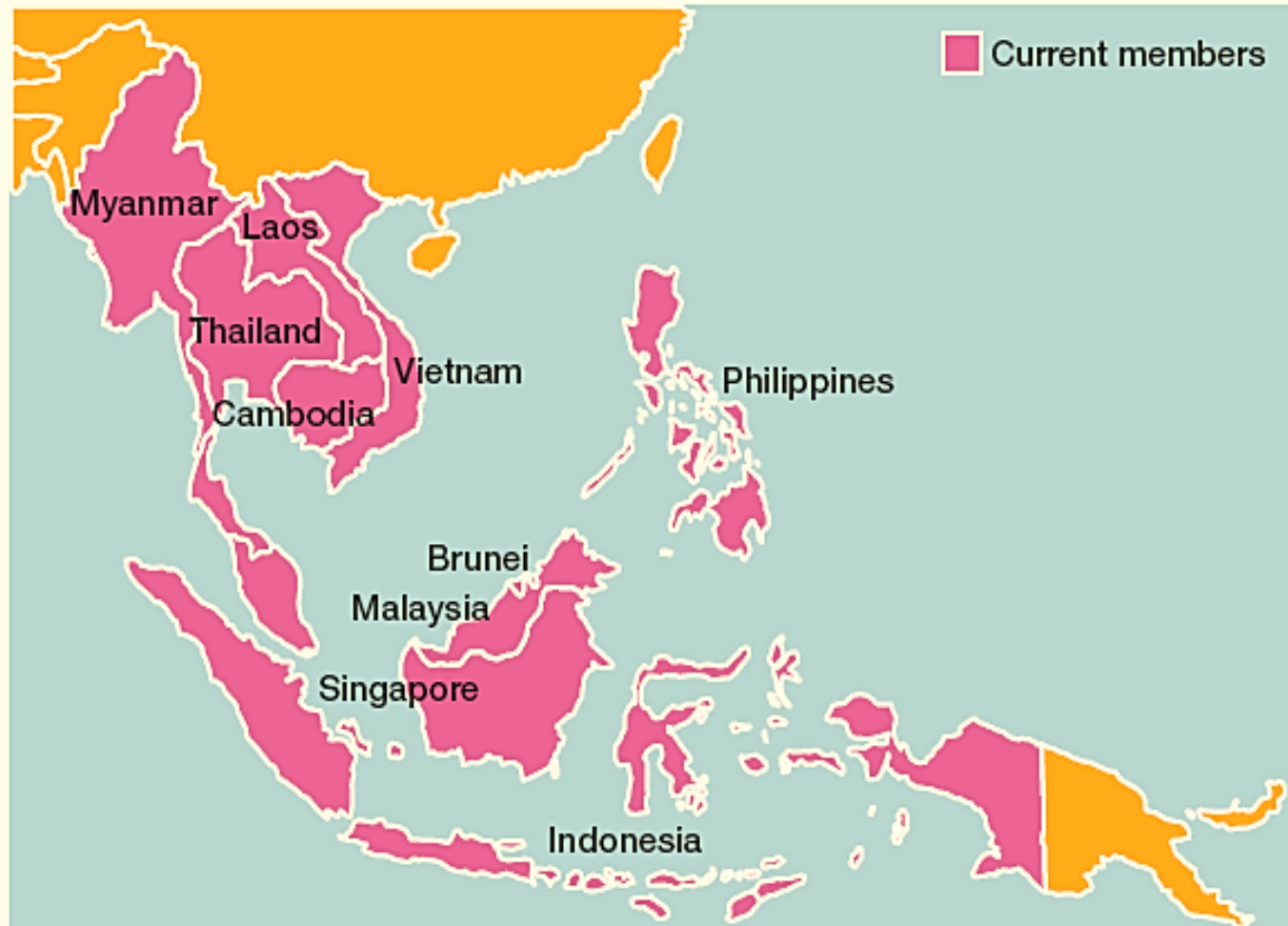
- **North American Free Trade Agreement (NAFTA)** – an agreement among the Mexican, Canadian, and U.S. governments in which certain barriers to trade have been eliminated.



## TRADING ALLOWANCES (CONT.)

- **Association of Southeast Asian Nations (ASEAN)** – a trading alliance of 10 Southeast Asian nations.





### EXHIBIT 3-2

#### ASEAN Map

Source: Based on J. McClenahan and T. Clark, "ASEAN at Work," *IW*, May 19, 1997, p. 42.

## GLOBAL TRADE MECHANISMS

- **World Trade Organization (WTO)** – a global organization of 153 countries that deals with the rules of trade among nations.
- **International Monetary Fund (IMF)** – an organization of 185 countries that promotes international monetary cooperation and provides advice, loans, and technical assistance.

## GLOBAL TRADE MECHANISMS (CONT.)

- **World Bank Group** – a group of five closely associated institutions that provides financial and technical assistance to developing countries.
- **Organization for Economic Cooperation and Development (OECD)** – an international economic organization that helps its 30 member countries achieve sustainable economic growth and employment.



## TYPES OF INTERNATIONAL ORGANIZATIONS

- **Multinational Corporation (MNC)** – a broad term that refers to any and all types of international companies that maintain operations in multiple countries.
- **Multidomestic Corporation** – an MNC that decentralizes management and other decisions to the local country.

## TYPES OF INTERNATIONAL ORGANIZATIONS (CONT.)

- **Global Company** – an MNC that centralizes management and other decisions in the home country.
- **Transnational or Borderless Organization** – an MNC in which artificial geographical barriers are eliminated.

# HOW ORGANIZATIONS GO GLOBAL

- **Global Sourcing** – purchasing materials or labor from around the world wherever it is cheapest.
- **Exporting** – making products domestically and selling them abroad.



## GOING GLOBAL (CONT.)

- **Importing** – acquiring products made abroad and selling them domestically.
- **Licensing** – an organization gives another organization the right to make or sell its products using its technology or product specifications.
- **Franchising** – an organization gives another organization the right to use its name and operating methods.

## GOING GLOBAL (CONT.)

- **Strategic Alliance** – a partnership between an organization and one or more foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities.
- **Joint Venture** – a specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose.

## GOING GLOBAL (CONT.)

- **Foreign Subsidiary** – directly investing in a foreign country by setting up a separate and independent production facility or office.



# EXHIBIT 3-3

## HOW ORGANIZATIONS GO GLOBAL



# MANAGING IN A GLOBAL ENVIRONMENT

## ► **The Political/Legal Environment**

- U.S. managers are accustomed to a stable legal and political system
- Managers must stay informed of the specific laws in countries where they do business
- Some countries have risky political climates

# THE ECONOMIC ENVIRONMENT

- **Free Market Economy** – an economic system in which resources are primarily owned and controlled by the private sector.
- **Planned Economy** – an economic system in which economic decisions are planned by a central government.



# THE CULTURAL ENVIRONMENT

- **National Culture** – the values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important.
- **Hofstede's framework for assessing cultures** – one of the most widely referenced approaches to helping managers better understand differences between national cultures.

## EXHIBIT 3-4

### What Are Americans Like?

- Americans are *very informal*. They tend to treat people alike even when great differences in age or social standing are evident.
- Americans are *direct*. They don't talk around things. To some foreigners, this may appear as abrupt or even rude behavior.
- Americans are *competitive*. Some foreigners may find Americans assertive or overbearing.
- Americans are *achievers*. They like to keep score, whether at work or at play. They emphasize accomplishments.
- Americans are *independent and individualistic*. They place a high value on freedom and believe that individuals can shape and control their own destiny.
- Americans are *questioners*. They ask a lot of questions, even of someone they have just met. Many may seem pointless ("How ya' doin'?") or personal ("What kind of work do you do?").
- Americans *dislike silence*. They would rather talk about the weather than deal with silence in a conversation.
- Americans *value punctuality*. They keep appointment calendars and live according to schedules and clocks.
- Americans *value cleanliness*. They often seem obsessed with bathing, eliminating body odors, and wearing clean clothes.

Sources: Based on M. Ernest (ed.), *Predeparture Orientation Handbook: For Foreign Students and Scholars Planning to Study in the United States* (Washington, DC: U.S. Information Agency, Bureau of Cultural Affairs, 1984), pp. 103–105; A. Bennett, "American Culture Is Often a Puzzle for Foreign Managers in the U.S.," *Wall Street Journal*, February 12, 1986, p. 29; "Don't Think Our Way's the Only Way," *The Pryor Report*, February 1988, p. 9; and B. J. Wattenberg, "The Attitudes Behind American Exceptionalism," *U.S. News & World Report*, August 7, 1989, p. 25.



EXHIBIT 3-5

Hofstede's Five Dimensions of National Culture

- 1. Individualistic**—People look after their own and family interests  
**Collectivistic**—People expect the group to look after and protect them

*Individualistic* ←————→ *Collectivistic*  
United States, Canada, Australia      Japan      Mexico, Thailand
- 2. High power distance**—Accepts wide differences in power; great deal of respect for those in authority  
**Low power distance**—Plays down inequalities: employees are not afraid to approach nor are in awe of the boss

*High power distance* ←————→ *Low power distance*  
Mexico, Singapore, France      Italy, Japan      United States, Sweden
- 3. High uncertainty avoidance**—Threatened with ambiguity and experience high levels of anxiety  
**Low uncertainty avoidance**—Comfortable with risks; tolerant of different behavior and opinions

*High uncertainty avoidance* ←————→ *Low uncertainty avoidance*  
Italy, Mexico, France      United Kingdom      Canada, United States, Singapore
- 4. Achievement**—Values such as assertiveness, acquiring money and goods, and competition prevail  
**Nurturing**—Values such as relationships and concern for others prevail

*Achievement* ←————→ *Nurturing*  
United States, Japan, Mexico      Canada, Greece      France, Sweden
- 5. Long-term orientation**—People look to the future and value thrift and persistence  
**Short-term orientation**—People value tradition and the past

*Short-term orientation* ←————→ *Long-term orientation*  
Germany, Australia, United States, Canada      China, Taiwan, Japan

**EXHIBIT 3-6**  
**GLOBE Highlights**

Dimension	Countries Rating Low	Countries Rating Moderate	Countries Rating High
Assertiveness	Sweden New Zealand Switzerland	Egypt Ireland Philippines	Spain United States Greece
Future orientation	Russia Argentina Poland	Slovenia Egypt Ireland	Denmark Canada Netherlands
Gender differentiation	Sweden Denmark Slovenia	Italy Brazil Argentina	South Korea Egypt Morocco
Uncertainty avoidance	Russia Hungary Bolivia	Israel United States Mexico	Austria Denmark Germany
Power distance	Denmark Netherlands South Africa	England France Brazil	Russia Spain Thailand
Individualism/collectivism*	Denmark Singapore Japan	Hong Kong United States Egypt	Greece Hungary Germany
In-group collectivism	Denmark Sweden New Zealand	Japan Israel Qatar	Egypt China Morocco
Performance orientation	Russia Argentina Greece	Sweden Israel Spain	United States Taiwan New Zealand
Humane orientation	Germany Spain France	Hong Kong Sweden Taiwan	Indonesia Egypt Malaysia

\*A low score is synonymous with collectivism.

Source: M. Javidan and R. J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," *Organizational Dynamics*, Spring 2001, pp. 289–305. Copyright © 2001. Reprinted with permission from Elsevier.



# GLOBAL MANAGEMENT IN TODAY'S WORLD

- **Global Leadership and Organizational Behavior Effectiveness (GLOBE) program** – a research program that studies cross-cultural leadership behaviors.

# GLOBAL MANAGEMENT IN TODAY'S WORLD

- The Challenge of Openness
  - The increased threat of terrorism by a truly global terror network
  - Economic interdependence of trading countries
  - intense underlying and fundamental cultural differences—differences that encompass traditions, history, religious beliefs, and deep-seated values.

## GLOBAL MANAGEMENT IN TODAY'S WORLD (CONT.)

- **Cultural Intelligence** – cultural awareness and sensitivity skills.
- **Global Mind-Set** – attributes that allow a leader to be effective in cross-cultural environments.

## EXHIBIT 3-7

### A Global Mind-Set

#### Intellectual capital:

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



#### Psychological capital:

Openness to new ideas and experiences



#### Social capital:

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



Source: Based on M. Javidan, M. Teagarden, and D. Bowen, "Making It Overseas," *Harvard Business Review*, April 2010, pp. 109–113; and J. McGregor (ed.), "Testing Managers' Global IQ," *Bloomberg BusinessWeek*, September 28, 2009, p. 68.



## REVIEW LEARNING OBJECTIVE 3.1

- ▶ **Contrast ethnocentric, polycentric, and geocentric attitudes toward global business.**
  - **Parochialism** – viewing the world solely through your own eyes and perspectives.
  - **Polycentric attitude** – managers in the host country know the best work approaches and practices for running their business.
  - **Geocentric attitude** – a world-oriented view that focuses on using the best approaches and people from around the globe.

## REVIEW LEARNING OBJECTIVE 3.2

- ▶ **Discuss the importance of regional trading alliances and global trade mechanisms.**
  - The European Union consists of 28 democratic countries.
  - NAFTA helps Canada, Mexico, and the United States strengthen their global economic power.
  - ASEAN is a trading alliance of 10 Southeast Asian nations.

## REVIEW LEARNING OBJECTIVE 3.2 (CONT.)

- World Trade Organization (WTO) monitors and promotes trade relationships.
- The International Monetary Fund (IMF) and the World Bank Group provide monetary support.
- The Organization for Economic Cooperation and Development assists its member countries with financial support.



## REVIEW LEARNING OBJECTIVE 3.3

- **Describe the structures and techniques organizations use as they go international.**
  - A multinational corporation – an international company that maintains operations in multiple countries.
  - A multidomestic organization – an MNC that decentralizes management and other decisions to the local country.
  - A global organization – an MNC that centralizes management and other decisions in the home country.
  - A transnational organization – an MNC that has eliminated artificial geographical barriers.



## REVIEW LEARNING OBJECTIVE 3.3 (CONT.)

- Global sourcing – purchasing materials or labor from around the world wherever it is cheapest.
- Exporting – making products domestically and selling them abroad.
- Importing – acquiring products made abroad and selling them domestically.

## REVIEW LEARNING OBJECTIVE 3.3 (CONT.)

- Licensing – gives that organization the right to use the company's brand name, technology, or product specifications.
- Franchising – use another company's name and operating methods.
- Global strategic alliance – partnership between an organization and foreign company partners.

## REVIEW LEARNING OBJECTIVE 3.3 (CONT.)

- Joint venture – a strategic alliance in which the partners agree to form a separate, independent organization for some business purpose.
- Foreign subsidiary is a direct investment in a foreign country that a company creates by establishing a separate and independent facility or office.

## REVIEW LEARNING OBJECTIVE 3.4

- **Explain the relevance of the political/legal, economic, and cultural environments to global business.**
  - The laws and political stability of a country are issues in the global political/legal environment with which managers must be familiar
  - Managers must be aware of a country's economic issues such as currency exchange rates, inflation rates, and tax policies.



## REVIEW LEARNING OBJECTIVE 3.4 (CONT.)

- Geert Hofstede identified five dimensions for assessing a country's culture: individualism-collectivism, power distance, uncertainty avoidance, achievement-nurturing, and long-term/short-term orientation.
- The GLOBE studies identified nine dimensions for assessing country cultures.

*Thank You!*