CHAPTER FOUR
The International Environment

DETAILED LECTURE OUTLINE
I. Mainstream management and the international environment
   A. The international environment provides opportunities for cheap inputs, labor costs, and a larger market for outputs
   B. Multinational corporations (MNCs)
      1. Definition = an organization that receives more than 25 percent of its total sales revenue from outside its home country
      2. MNCs are increasingly common (7,000 in 1970s to 50,000 today) and powerful (half of the world’s 100 largest economic entities are MNCs instead of countries)
   C. Globalization
      1. Definition = changes in the four dimensions of the external environment that have resulted in increased interdependence and integration among people and organizations around the world
      2. Mainstream view is that increased global trade improves economic condition of everyone because each region can specialize in its strengths
   D. How to internationalize an organization
      1. Four levels of engagement with internationalization from lowest to highest
         a) Exporting and importing
            (1) Investment is minimal and decision can be reversed quickly and inexpensively
            (2) Exporting = an organization manufactures products in its home country and transports them to other countries for sale there
               (a) Exports from U.S. increased from $1 trillion in 1995 to $1.75 trillion in 2005
            (3) Importing = a finished product is brought in from another country for resale domestically
               (a) Imports to U.S. increased from $1.1 trillion in 1995 to $2.5 trillion in 2005
            (4) Global outsourcing = one or more components for an organization’s products or services are imported from another country
            (5) Counter-trade = products or services from one country are traded for products or services from another country
               (a) Accounts for 25-30 percent of world trade
         b) Licensing and franchising
            (1) Licensing = an organization in one country sells specific resources, like a patent or trademark rights, to an organization in another country
            (2) Franchising = variation of licensing in which the franchisor in one country sells to the franchisee in another country a complete package required to set up an organization, including its trademark, trade name, products and services, technology, etc.
         c) Strategic alliances and joint ventures
(1) Strategic alliance = organizations in two or more countries pool their resources to share the risks and rewards of developing a new market or product

(2) Joint venture = variation of a strategic alliance in which the partnering organizations agree to form a separate, independent, jointly owned organization

d) Foreign subsidiaries

(1) Definition: an organization purchases factories or companies in another country to produce goods and services

(a) Greenfield venture = an organization builds a new plant overseas

(b) Maquiladora = factories in regions of Mexico along the U.S. border where international corporations enjoy low labor costs, duties, and tariffs to import to U.S.

(2) Typically require higher commitment, risk, and knowledge of the foreign culture and environment than the other levels of internationalization

E. Four dimensions of the international environment (same as dimensions of macro environment presented in Chapter 3)

1. Sociocultural environment

a) Basic purpose of international trade is to improve everyone’s financial self-interests

b) Two basic approaches to managing international sociocultural environment

(1) Polycentrism = belief that managers in a host country know the best way to manage an organization in their country

(2) Ethnocentrism = belief that the management style and approach of the parent company are the best way to manage in a foreign country

c) National culture = the shared values, beliefs, knowledge, and general patterns of behavior of citizens of a country

d) Hofstede’s 5 dimensions of culture

(1) Individualism versus collectivism = the extent to which the cultural emphasis is on the individual’s self-interests versus the interests of the group

(2) Materialism versus quality of life = the extent to which the cultural emphasis is on acquiring material possessions, money, and extrinsic rewards versus relationships, social welfare, and intrinsic enjoyment and meaningful work

(3) Time orientation (short-term versus long-term) = the extent to which the cultural emphasis is on the immediate present and immediate gratification versus on the more distant future

(4) Deference to authority versus challenge authority = the extent to which power is arranged unequally and hierarchically in a society versus equally in an egalitarian fashion

(5) Uncertainty avoidance = the extent to which the cultural emphasis is on predictable rules and regulation versus ambiguity and risk

(6) Relationships between the cultural dimensions:

(a) Mainstream management emerged, and is most developed, in countries that rank high in materialism and individualism (e.g., U.S., U.K., Germany, Australia)

(b) Multistream management is more prevalent in countries that rank low in materialism and individualism (e.g., Costa Rica, Peru).

(c) Countries high in materialism and individualism also tend to challenge authority, be comfortable with uncertainty, and have a short-term time orientation
2. Natural environment
   a) Mainstream management has historically looked to international environment to
      maximize physical resources and ability to dispose of unwanted outputs (e.g.,
      pollution)

3. Political-legal environment
   a) National regulations
      (1) Managers must be aware of different laws and regulations when entering other
          countries (e.g., environment, consumer protection, compensation, worker
          safety)
      (2) Tariffs = government-imposed taxes on goods or services brought into a country
          in order to protect domestic companies from competition
      (3) Quotas = restrictions on the quantity of certain goods or services that can be
          imported or exported
      (4) Government subsidies = direct or indirect payments to domestic businesses to
          help them compete with foreign companies
   b) General trade agreements
      (1) World Trade Organization (WTO) = organization that urges countries to lower
          tariffs and work toward free trade and open markets
          (a) Free trade = international trade that is free from national constraints
              such as tariffs, quotas, and subsidies.
      (2) North American Free Trade Agreement (NAFTA) = eliminates numerous tariffs
          and trade barriers between the U.S., Mexico, and Canada.
      (3) European Union (EU) = coalition of approximately 30 European countries that
          encourages trade among members by reducing tariffs, lowering barriers, and
          using a common currency (the euro)
      (4) Association of South-East Asian Nations (ASEAN) = trade group of ten nations
          in one of the fastest-growing economic regions in the world
   c) Other institutions
      (1) World Bank: owned by almost 200 countries, this organization provides
          financial and technical assistance to reduce poverty in low-income countries

4. Economic-technological environment
   a) Flow of jobs: Advanced transportation and communication has allowed for factories to
      be located wherever labor costs are lowest
   b) Flow of know-how: knowledge and documents can be transferred quickly all over the
      world
   c) Flow of money: technology that eases the flow of money has been important to
      Mainstream globalization
      (1) International Monetary Fund (IMF): organization of about 200 member
          countries that monitors and assists international commerce

II. Multistream management and the international environment
   A. Multistream managers are interested in internationalizing not only for financial reasons but also
      to address world problems such as poverty, disease, and the environment
      1. Multistream managers may work with Non-Government Organizations (NGOs), which are
         nonprofit organizations whose primary missions involve positive social, cultural, legal, or
         environmental change
   B. How to internationalize an organization
      1. Similar to Mainstream four levels of engagement (with internationalization from lowest to
         highest) but with two differences
         a) Multistream managers are more likely than Mainstream managers to develop
            international “partnerships” and “networks” with various stakeholders
b) High consideration of the implications for the people in the other countries involved

2. Exporting and importing
   a) Multistream managers choose to import based on financial and other considerations (e.g., Fair Trade coffee)

3. Licensing and franchising
   a) Multistream approach tends to favor locally owned and operated organizations
   b) Companies that do license and franchise abroad consider nonfinancial factors such as Fair Trade or organic products

4. Strategic alliances and joint ventures
   a) Similar to mainstream counterparts but with different (nonmonetary) criteria for effectiveness
   b) Example: Mennonite Economic Development Associates (MEDA) partnering with Bolivian financial institutions to provide micro-financing
      (1) Micro-financing = financial institutions provide loans and banking services to entrepreneurs who have no access to financial services in conventional banks.

5. Foreign subsidiaries
   a) Recognition that foreign subsidiaries can do more harm than good for the sustenance economics of the host country if:
      (1) The host country receives less for its natural resources than the going rate elsewhere
      (2) The host’s domestic organizations cease to be viable because of the size or tax incentives offered to the foreign organizations
      (3) Tax breaks to businesses reduce tax revenue for the government to provide services to the people

C. Four dimensions of the international environment

1. Sociocultural dimension
   a) Multistream managers believe that the basic purpose of international trade is to improve everyone's well-being
   b) Adopt an egali-centric approach
      (1) Occurs when people from different cultures work together and learn from each other, fostering deeper mutual understanding, community, and insights
      (2) Rejects the “one-size-fits-all” approach of polycentrism and ethnocentrism

2. Natural environment
   a) Multistream view is that internationalization can hasten ecological damage in the short term because it encourages the Western consumerist lifestyle that is not ecologically sustainable
   b) Green taxes = a Multistream idea to increase taxes on things that degrade the environment and reduce taxes on environmentally friendly products and services

3. Political-legal environment
   a) Postmaterialism = people decrease their emphasis on material well-being and increase their emphasis on values like the free expression of ideas, improved democratization, and the humane treatment of others
      (1) In a study of 63 countries, postmaterialism was a better predictor of life satisfaction than GDP
   b) National regulations
      (1) More likely to favor subsidies for countries that are developing their economies than for wealthy nations
   c) General trade agreements
      (1) Multistream managers are concerned with adverse effects of international trade agreements
(a) Example: U.S. trade representative threatening Taiwan with trade sanctions when Taiwan wanted to create laws to reduce cigarette smoking

(b) Many trade agreements benefit the rich more than the poor, increasing the disparity between rich and poor nations

(2) Rather than free trade, Multistream managers are likely to support Fair Trade, the principles of which include paying a fair price, gender equity, healthy working conditions, and environmentally friendly practices

d) Other institutions

(1) The United Nations (U.N.)

   (a) Promotes human rights and seeks to solve global economic, social, cultural, and humanitarian problems
   (b) Seeks to maintain international peace and security
   (c) Strives to develop friendly international relations
   (d) Global Compact = initiative launched by U.N. in 2000 to make process of globalization more inclusive

(2) Civil society movement = a growing movement trying to address shortcomings associated with Mainstream internationalization

4. Economic-technological environment

   a) Flow of jobs: Multistream managers attempt to provide meaningful jobs, healthy working conditions, and fair compensation for people in poor countries

   b) Flow of know-how: develop technology and transfer know-how to poor countries where companies operate, in order to help the poor rather than using them

   c) Flow of money: unintended consequences of money flowing freely across nations

      (1) Vast majority of money being traded and profit being generated is more than the value of “real” goods and services being traded

         (a) Derivatives dealers bet on other people’s expectations about prices of shares, bonds, or currencies in the future

      (2) Growing influence of tax havens like the Cayman Islands where corporations and other groups can hide money and avoid taxes, thus diverting funds from the governments

      (3) Suggested remedies to reform flow of money

         (a) Tobin tax proposed by Nobel prize winner James Tobin that would charge a 1 percent tax on all foreign currency transactions to ensure that transfers are made on “real” changes in production or market opportunities rather than bets

         (b) Micro-financing to poor micro-entrepreneurs even if doing so is more expensive than financing traditional loans