Mainstream Management and the International Environment

• Multinational Corporation (MNC)
  – As an organization that receives more than 25 percent of its total sales revenue from outside its home country.

• Globalization
  – The changes in the four dimensions of the external environment that result in increased interdependence and integration among people and organizations around the world.
Figure 4.1: Ways to Internationalize an Organization

- Exporting
  - When an organization manufactures products in its home country and transports them to other countries for sale there.
- Importing
  - When a finished product is brought in from another country for resale domestically.

How to Internationalize an Organization (cont’d)

- Global Outsourcing
  - When one or more sub-components for an organization’s products or services are imported from another country.
- Counter-Trade
  - When products or services from one country are traded (rather than bought and sold for currency) for products or services from another country.
How to Internationalize an Organization (cont’d)

• Licensing
  – When an organization in one country sells specific resources to an organization in another country.

• Franchising
  – When a franchisor in one country sells to a franchisee in another country a complete package required to set up an organization.

How to Internationalize an Organization (cont’d)

• Strategic Alliance
  – When managers from organizations in at least two countries agree to pool their organizations’ resources and “know-how” in order to share the risks and rewards for developing a new market or product.

• Joint Venture
  – When partnering organizations agree to form a separate, independent, jointly-owned organization.

How to Internationalize an Organization (cont’d)

• Foreign Subsidiaries
  – Maquiladoras
    • Are assembly plants and factories in special regions in Mexico along the U.S. border where international corporations can take advantage of low wages and also enjoy low duties and tariffs when their products are exported to the U.S.
Four Dimensions of The International Environment

- The Socio-Cultural Dimension
- The Economic-Technological Dimension
- Natural Dimension
- Political-Legal Dimension

Figure 4.2: Mainstream View of Relationships Between the Four Dimensions of the International Environment

Table 4.1: Data on Sociocultural, Natural, Political, and Economic Environments of Selected Countries
Four Dimensions of The International Environment (cont’d)

• The Socio-Cultural Environment
  – Polycentrism
    • An assumption that managers in a host country know the best way to manage an organization in their country.
  – Ethnocentrism
    • When managers enter a foreign country with the belief that their own home country offers the best way to manage in a foreign country.

• National Culture
  – The shared values, beliefs, knowledge, and general patterns of behavior that characterize its citizens.

• Self-Reference Criterion
  – What people exhibit when they use the assumptions and terms of their own culture try to understand and relate to people from other cultures.

What Do You Think?
When in doubt, whose customs should you follow?

• How should cross-cultural misunderstandings and differences be managed when going overseas?
• Should the people with the most power be able to set the tone? Or should everybody follow the traditions of the people who are already there (e.g., “When in Rome, do as the Romans do”)?
• What if traditional practices in the overseas country violate basic human rights? Who gets to determine “basic human rights”?
Hofstede’s Dimensions of National Culture (cont’d)

- **Materialism**
  - Is placing a high value on things like getting better jobs, material possessions, money and assertiveness.

- **Quality of Life**
  - Is emphasized in cultures that overall tend to value relationships, the welfare of others, and the intrinsic satisfaction that comes from performing meaningful work.

Figure 4.3: Overview of Hofstede’s Five Dimensions of National Culture

<table>
<thead>
<tr>
<th>Individualism</th>
<th>Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on individual well-being</td>
<td>Emphasis on interests of group</td>
</tr>
<tr>
<td>Materialism</td>
<td>Quality of Life</td>
</tr>
<tr>
<td>Possessions and money</td>
<td>Happiness and social wellbeing</td>
</tr>
<tr>
<td>Short-Term Orientation</td>
<td>Long-Term Orientation</td>
</tr>
<tr>
<td>Emphasis on immediate gratification</td>
<td>Emphasis on delayed gratification</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Figure 4.4: Relative Emphasis of Countries on Hofstede’s Materialism/Individualism Scores

- Sweden, Norway, Denmark, France, Netherlands, Poland, Spain, Portugal, Uruguay, China, Taiwan, Hong Kong, Korea, Malaysia, Philippines, Indonesia, Singapore, Costa Rica, Peru, Indonesia, South Korea, Chile, South Africa, Guatemala,

- Germany, Ireland, Switzerland, Italy, United Kingdom, South Africa, United States of America, Australia,

- Low

- High
Hofstede's Dimensions of National Culture (cont'd)

• Time Orientation
  – Short-term cultures live in the present.
  – Long-term cultures have a greater concern for the future.

• Deference to Authority
  – The relative emphasis that a culture places on power differences

Hofstede's Dimensions of National Culture (cont'd)

• Uncertainty Avoidance
  – High uncertainty avoidance cultures prefer predictable rules and regulation over ambiguity and risk.
  – Low uncertainty avoidance cultures value risk-taking and innovativeness.

Four Dimensions of the International Environment (cont'd)

• The Natural Environment
  – Mainstream: a collection of physical resources required to produce products and services, and as a place to dispose of unwanted outputs.
  – Multistream view: valuable resources that can be managed and exploited.
Four Dimensions of the International Environment (cont’d)

• The Political-Legal Environment
  – National laws and regulations
    • Tariffs
    • Quotas
    • Subsidies
  – General trade agreements
    • World Trade Organization (WTO)
    • North America Free Trade Agreement (NAFTA)
    • European Union (EU)
    • Association of South-East Asian Nations (ASEAN)

        Four Dimensions of the International Environment (cont’d)

• The Political-Legal Environment (cont’d)
  – Other institutions: World Bank
    • Provides financial and technical assistance to reduce poverty in low-income countries.
    • Provides interest-free credit, low-interest loans, and grants to low-income countries for purposes such as healthcare, education and infrastructure.

Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment
  – Technology:
    1. Improves our ability to transport jobs, people and goods around the world
    2. Increases the rate at which knowledge is being created and disseminated
    3. Enables money to be transferred with a few keyboard strokes
Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment (cont’d)
  – Flow of jobs
    • Factories can be located wherever labor costs are the lowest.
    • Jobs are created in economically-depressed regions of the world.

Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment (cont’d)
  – Flow of know-how
    • International teams of workers can now work on a project around-the-clock.
    • Service sector “smart jobs” can be located anywhere in the world, and exported to countries where labor is less expensive.

Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment (cont’d)
  – Flow of money
    • International Monetary Fund (IMF)
      1. Promotes orderly and stable international monetary exchange.
      2. Fosters international economic growth and high levels of employment.
      3. Provides temporary financial assistance to countries to help ease balance of payments.
Multistream Management and the International Environment

• How to Internationalize an Organization
  – Exporting and importing
    • Focuses on building relationships and networking with suppliers and buyers.
  – Licensing and franchising
    • Favors fair trade and organic labeling.
    • Favors locally-owned and operated firms.
  – Strategic alliances and joint ventures
    • Micro-financing movement

Multistream Management and the International Environment (cont'd)

• How to Internationalize an Organization (cont'd)
  – Foreign subsidiaries
    Mainstream problems for host countries:
    – Host country receives less for its natural resources than the going rate elsewhere.
    – Domestic firms lose out due to incentives offered to incoming foreign firms.
    – Tax breaks reduce tax revenues available pay for host country educational and healthcare services.

Figure 4.5: Multistream View of Relationships Between the Four Dimensions of the International Environment
Four Dimensions of the International Environment

• The Socio-Cultural Environment
  – Egali-centrism
    • Is characterized by two-way, give-and-take communication that fosters mutual understanding and community.
    • Tries to overcome shortcomings related to the self-reference criterion by seeking to learn from people in other countries.

Four Dimensions of the International Environment (cont’d)

• The Natural Environment
  – Emphasizes the need for sustainable management, bio-regions and regional autonomy.
  – Favors a system of “green taxes” on things that degrade the environment.

Four Dimensions of the International Environment (cont’d)

• The Political-Legal Environment
  – Postmaterialism
    • A decreased emphasis on material well-being, and increased emphasis on human values.
  – National regulations
    • Multistream approach favors subsidies for developing countries.
Four Dimensions of the International Environment (cont’d)

• The Political-Legal Environment (cont’d)
  – General trade agreements
    • Agreements should neither undermine national sovereignty nor benefit richer nations.
    • Multistream view supports fair trade through:
      – Paying a fair price
      – Gender equity in pay
      – Healthy working conditions
      – Mutual respect
      – Environmentally-friendly practices

Four Dimensions of the International Environment (cont’d)

• The Political-Legal Environment (cont’d)
  – Other Institutions
    • United Nations (UN)
      – Cooperate in solving international problems and promote respect for human rights and fundamental freedoms
      – Maintain international peace and security
      – Develop friendly relations among nations and harmonize the actions of nations.
    • Voluntary networks
      – Global Compact
      – Fair Trade

Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment
  – Flow of jobs
    • Seek creative ways to offer jobs that treat people with dignity and respect.
  – Flow of knowledge
    • Develop technology and transfer know-how that also benefits others.
Four Dimensions of the International Environment (cont’d)

• The Economic-Technological Environment (cont’d)
  – Flow of money
    • Support the needy
    • Control financial transactions (Tobin tax)
    • Provide micro-financing