Chapter 4
Managing in a Global Environment

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Annotated Learning Objectives

After studying this chapter, students should be able to:

1. *Describe the emerging borderless world.*
   
   How important is international business to the study of management? If you are not thinking international, you are not thinking business management.

   The international dimension of management is becoming an increasingly important part of the external environment and its impact on the business world grows with the rapid advances in technology and communications. Companies find that thinking globally can provide a competitive edge.

   The reality of today’s borderless companies also means consumers can no longer tell from which country they’re buying.

2. *Define international management and explain how it differs from the management of domestic business operations.*

   International management is the management of business operations conducted in more than one country. The fundamental tasks of business management, including the financing, production, and distribution of products and services, do not change in any substantial way when a firm is transacting business across international borders.

   The basic management functions of planning, organizing, leading, and controlling are the same whether a company operates domestically or internationally. The difference between domestic and international operations is that managers will experience greater difficulties and risks when performing these management functions on an international scale.

3. *Indicate how dissimilarities in the economic, sociocultural, and legal-political environments throughout the world can affect business operations.*

   Environmental factors that affect international business are similar to the task and general environmental sectors described in Chapter 3. However, when comparing one country with another, the economic, legal-political, and sociocultural sectors present the greatest difficulties.

   The economic environment represents the economic conditions in the country where the international organization operates. This part of the environment includes such factors as economic development, infrastructure, resource and product markets, exchange rates, inflation, interest rates, and economic growth.

   Businesses must deal with unfamiliar legal-political systems when they go international, as well as with more government supervision and regulation. Some of the major legal-political concerns affecting international business are political risk, political instability, and laws and restrictions.

   A sociocultural environment includes a nation’s culture and social values. Culture includes the shared knowledge, beliefs, and values, as well as the common modes of
behavior and ways of thinking, among members of a society. Cultural factors are more perplexing than political and economic factors in foreign countries. Culture is intangible, pervasive, and difficult to learn. It is absolutely imperative that international businesses comprehend the significance of local cultures and deal with them effectively.

4. Describe market entry strategies that businesses use to develop foreign markets.

Market entry strategies represent alternative ways to sell products and services in foreign markets such as:

a. Outsourcing (sometimes called global sourcing) refers to engaging in the international division of labor so as to obtain the cheapest sources of labor and supplies regardless of country.

b. Exporting. The organization maintains its production facilities within the home country and transfers its products for sale in foreign countries. A form of exporting to less-developed countries is called countertrade, which is the barter of products for products rather than the sale of products for currency.

c. Licensing. An entry strategy in which an organization in one country makes certain resources available to companies in another in order to participate in the production and sale of its products abroad.

d. Franchising is a form of licensing in which an organization provides its foreign franchisees with a complete assortment of materials and services.

e. Direct investing is an entry strategy in which the organization is involved in managing its production facilities in a foreign country.

f. Joint venture is a variation of direct investment in which an organization shares costs and risks with another firm to build a manufacturing facility, develop new products, or set up a sales and distribution network. Another type of direct investment is the wholly owned foreign affiliate, which is a foreign subsidiary over which an organization has complete control. A greenfield venture is the most risky type of direct investment in that a company builds a subsidiary from scratch in a foreign country.

5. Describe the characteristics of a multinational corporation.

A multinational corporation typically receives more than 25 percent of its total sales revenues from operations outside the parent’s home country. MNC’s have the following distinctive managerial characteristics: Managed as an integrated worldwide business system; are ultimately controlled by a single management authority that makes key, strategic decisions relating to the parent and all affiliates; and top managers are presumed to exercise a global perspective. In a few cases, the MNC management philosophies may differ from that just described. Additional generic strategies available are: to be an ethnocentric company which places emphasis on their home country, a polycentric company which is oriented toward the markets of individual foreign host countries, or a geocentric company which is truly world oriented and favors no specific country. In general, a multinational corporation can be thought of as a business enterprise that is composed of affiliates located in different countries and whose top managers make decisions primarily on the basis of global business opportunities and objectives.
6. **Explain the challenges of managing in a global environment.**

Managing in a foreign country is particularly challenging. Before undertaking a foreign assignment, managers must understand that they will face great personal challenges. Managers working in foreign countries must be sensitive to cultural subtleties and understand that the ways to provide proper leadership, decision-making, motivation, and control vary in different cultures. When companies operate internationally, the need for personal learning and growth is critical.

Managers will be most successful in foreign assignments if they are culturally flexible and easily adapt to new situations and ways of doing things. Preparing managers to work in foreign cultures is essential.

To be effective on an international level, managers can first understand their own cultural values and assumptions, then they can interpret the culture of the country and organization in which they are working and develop the sensitivity required to avoid making costly cultural blunders.

The following guidelines illustrate how cultural differences can be significant for foreign managers: Leading, Decision-making, Motivating, and Controlling. Management across borders calls for organizations to learn across borders.

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**Lecture Outline**

**Suggested Opening Remarks**

International markets provide many opportunities but are also fraught with difficulty, as Wal-Mart discovered. The company first began expanding internationally nearly 15 years ago and has learned a great deal about doing business in foreign countries. However, its success in some markets led it to underestimate the potential difficulties it would face when entering Germany. Managers have to step back and reevaluate the competition, the cultural clashes, and the regulatory hurdles they face. They believe the company’s troubles can be overcome with time and experience.

The German situation may have taught Wal-Mart executives to take a more cautious approach as the company moves into Japan. In that country Wal-Mart chose to work with a local partner whose name still remains on stores. The American giant is staying in the shadows for now, focusing on getting all its systems in place and training local managers. It goofed in Germany by rushing to overhaul stores and lower prices before basic operational systems were ready. The Japanese managers are helping Wal-Mart understand and respond to local needs, and the subtle, patient approach is also enabling executives to learn through trial and error. For a large, rich company like Wal-Mart, managers can afford to lose money internationally as the price of learning. Smaller organizations have to be even more cautious and well-prepared when entering the global marketplace.
I. A BORDERLESS WORLD  

Exhibit 4.1  

How important is international business to the study of management?

If you are not thinking international, you are not thinking business management.

Globalization provides a competitive edge at all stages of developing, manufacturing, and marketing products, and domestic markets are saturated for many firms.

The reality of today’s borderless companies means consumers can no longer tell from which country they’re buying (e.g., U.S.-based Ford owns Sweden’s Volvo).

The process of globalization typically passes through four distinct stages:

- **Domestic.** Market potential is limited to the home country with all production and marketing facilities located at home.

- **International.** Exports increase and the company adopts a multidomestic approach with marketing in several countries individually.

- **Multinational.** Company has marketing and production facilities located in many countries, with more than one-third of its sales outside the home country.

- **Global (or stateless).** International development transcends any single home country.

The worldwide expansion of cable and satellite television has combined with movies and the Internet to create global kids. Mattel found that Barbies sold well worldwide.

The need for global managers is intense; young managers should recognize the importance of global experience.

**Discussion Question #7:** What does it mean to say that the world is becoming borderless”? that large companies are “stateless”?

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II. THE INTERNATIONAL BUSINESS ENVIRONMENT  

Exhibit 4.2

International management is the management of business operations in more than one country.

The fundamental tasks of business management do not change in any substantive way when a firm is transacting business across international borders.

The basic management functions of planning, organizing, leading, and controlling are the same whether a company operates domestically or internationally.

Managers will experience greater difficulties and risks when performing these management functions on an international scale.
What should managers of emerging global companies look for to avoid obvious international mistakes?

Key factors to understand in the international market are economic, legal-political, and sociocultural.

III. THE ECONOMIC ENVIRONMENT

The economic environment represents the economic conditions in the country where the international organization operates and includes:

A. Economic Development

Economic development differs widely among the countries and regions of the world, and countries can be categorized as developing or developed countries. The developing countries are referred to as less-developed countries (LDCs).

The criterion traditionally used to classify countries is per capita income, which is the income generated by the nation’s production of goods and services divided by total population.

Developing countries have low per capita incomes and are generally located in Asia, Africa, and South America.

Developed countries are generally located in North America, Europe, and Japan.

Most international firms are headquartered in economically advanced countries; however, smart companies are investing in Asia, Eastern Europe, and Latin America.

Discussion Question #1: Why do you think international businesses traditionally prefer to operate in industrialized countries? Discuss.

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B. Infrastructure

Infrastructure refers to a country’s physical facilities support economic activities such as transportation, energy producing facilities, and communications.

Companies operating in LDCs must contend with lower levels of technology and perplexing logistical, distribution, and communication problems.

For example, cell phone companies have found opportunities in LDCs, where land lines are limited; in Latin America, cell phones will reach 170 million by 2008.
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UNLOCKING CREATIVE SOLUTIONS THROUGH TECHNOLOGY

Virtual Reality: Negotiating the Cross-Cultural Web

Technological and cultural issues are so tightly interwoven that there are a multitude of new ways to offend or alienate customers. For example, purple is a sign of royalty in some parts of the world, but in others it is associated with death. Credit cards are the backbone of e-commerce in the United States, but they are still a rarity in many countries. Managers should also consider that many online shoppers want to buy from sites that cater to their native languages. The virtual reality for managers is that they have to shape their Web sites if they want to reach this growing international market.

C. Resource and Product Markets

When operating in another country, company managers must evaluate the market demand for their products.

If market demand is high in a country, a firm may choose to export products to that country.

To develop manufacturing plants, resource markets for providing needed raw materials and labor must be available.

For example, at McDonalds in Crakow, the burgers come from Poland, the buns from Moscow, the potatoes from Germany, and the onions from California.

D. Exchange Rates

Exchange rates are the rate at which one country’s currency is exchanged for another country’s currency.

Volatility in exchange rates has become a major concern for companies doing business internationally.

Changes in the exchange rate can have major implications for the profitability of international operations.

Assume the U.S. dollar is exchanged for 0.8 euros; if the dollar increases to 0.9 euros, U.S. goods will be more expensive in France where it will take more euros to buy a dollar’s worth of U.S. goods.

It will be more difficult to export U.S. goods to France, and profits will be slim; if the dollar drops to 0.7 euros, U.S. goods will be cheaper and can be exported at a profit.

Discussion Question #3: What policies or actions would you recommend to an e-commerce company wanting to do business internationally?
IV. THE LEGAL-POLITICAL ENVIRONMENT

Businesses must deal with unfamiliar political systems and more government supervision and regulation in international operations.

Government officials often view foreign companies as outsiders and are suspicious of their impact on economic independence and political sovereignty.

Some of the major legal-political concerns include political risk, political instability and laws and regulations.

A. Political Risk and Instability

Political risk is a company’s risk of loss of assets, earning power, or managerial control due to politically motivated events or actions by host governments.

It includes government takeovers of property and acts of violence directed against a firm’s properties or employees; in Mexico, executives are targets for kidnapping.

Some companies buy political risk insurance, and political risk analysis has emerged as a critical component of environmental assessment for global firms.

The Index of Economic Freedom ranks countries according to the impact political intervention has on business decisions.

The Corruption Perception Index assesses 91 countries according to perceived level of corruption in government and public administration.

Political Instability refers to events such as riots, revolutions, civil disorders or government upheavals which affect the operations of an international company.

Although most companies would prefer to do business in stable countries, some of the greatest growth opportunities lie in areas characterized by instability.

The greatest threat of violence is in countries experiencing political, ethnic, or religious upheaval; in China the political winds have shifted rapidly, but China is a huge market.

B. Laws and Regulations.

Government laws and regulations differ from country to country and present a challenge for international firms.

Host government laws cover many different items such as libel, consumer protection, information and labeling, employment and safety, wages.

International companies must learn these rules and abide by them.

The Internet has increased the impact of foreign laws on U.S. companies because it expands the potential for doing business on a global basis.

For example, First Net Card provided credit for online transactions worldwide and found the complication of dealing with international banking laws overwhelming.
Discussion Question #2: What might be some long-term ramifications of the war in Iraq for U.S. managers and companies operating internationally?

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V. THE SOCIOCULTURAL ENVIRONMENT

Exhibit 4.3

A nation’s culture includes the shared knowledge, beliefs, and values, as well as the common modes of behavior and ways of thinking, among members of a society.

Cultural factors are more complex than political and economic factors in foreign countries.

A. Social Values

Culture is intangible, pervasive, and difficult to learn; one way managers can comprehend local cultures is to understand differences in social values.

There are four dimensions of national social value systems as well as other cultural characteristics that influence organizational and employee working relationships.

1. Hofstede’s Value Dimensions

- **Power Distance.** High power distance means people accept inequality in power among institutions, organizations, and people.

  Countries that value high power distance include Malaysia, the Philippines, and Panama.

  Low power distance means people expect equality in power. Countries that value low power distance include Denmark, Austria, and Israel.

- **Uncertainty Avoidance.** High uncertainty avoidance means that members of a society feel uncomfortable with uncertainty and ambiguity and thus support beliefs that promise certainty and conformity.

  Countries that value high uncertainty avoidance include Greece, Portugal, and Uruguay.

  Low uncertainty avoidance means people have high tolerance for the unstructured and unpredictable. Countries that value low uncertainty avoidance include Singapore and Jamaica.

- **Individualism and Collectivism.** Individualism reflects a value for a loosely knit social framework in which individuals are expected to take care of themselves.

  Countries with individualist values include the United States, Canada, and Australia.

  Collectivism is a preference for a tightly knit social framework in which individuals look after one another and organizations protect their members’ interests.
Countries with collectivist values are Guatemala, Ecuador, and Panama.

- **Masculinity.** Masculinity stands for preference for achievement, heroism, assertiveness, work centrality (with resultant high stress), and material success.

Societies with strong masculine values are Japan, Austria, Mexico, and Germany.

  Femininity. Femininity reflects the values of relationships, modesty, caring for the weak, and quality of life.

  Countries with feminine values include Sweden, Norway, Denmark and Yugoslavia.

  Both men and women subscribe to the dominant value in masculine and feminine cultures.

Hofstede and his colleagues later identified a fifth dimension:

- **Long-term orientation versus short-term orientation.**

  Long-term orientation includes a greater concern for the future and highly values thrift and perseverance.

  Short-term orientation is more concerned with the past and the present and places a high value on tradition and meeting social obligations.

2. **Globe Project Value Dimensions**

Research by the GLOBE Project (Global Leadership and Organizational Behavior Effectiveness) used data collected from 18,000 managers in 62 countries.

Nine dimensions that explain cultural differences, including those used by Hofstede, were identified.

- **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 refers to the extent to which a society encourages planning for the future over short-term results.

- **Uncertainty avoidance.** As with Hofstede, this is the degree to which a society is uncomfortable with uncertainty and ambiguity.

- **Gender differentiation.** This dimension refers to the extent to which a society maximizes gender role differences.

  Low gender differentiation means that women have a higher status and stronger role in decision making.

  High gender differentiation means that men have higher social, political, and economic status.
• **Power distance.** As with Hofstede, this dimension refers to the degree to which people expect equality or inequality in relationships and institutions.

• **Societal collectivism.** This term is defined as the degree to which practices in institutions encourage a collectivist or individualistic society.

• **Individual collectivism.** This dimension looks at the degree to which individuals take pride in being members of a family, team, or organization.

• **Performance orientation.** A society with a high performance orientation places emphasis on performance and rewards people for improvement. A low performance orientation means people pay less attention to performance and more attention to loyalty, belonging, and background.

• **Humane orientation.** This refers to the degree to which a society encourages and rewards people for being fair, altruistic, generous, and caring.

A country low on this dimension expects people to take care of themselves; self-enhancement and gratification are of high importance.

GLOBE research provides a more comprehensive view of cultural similarities and differences than Hofstede’s.

Social values have great influence on organizational functioning and management styles.

Mexico, high in power distance, has difficulty with the American concept of teamwork, which emphasizes shared power and authority.

**Discussion Question # 9:** What is meant by the cultural values of individualism and power distance? How might these values affect organization design and management processes?

**Notes**

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**B. Other cultural characteristics**

Other cultural characteristics that influence international organizations are language, religion, attitudes, social organization, and education.

Some countries are characterized by several languages; others rely on spoken versus written language. Attitudes toward work and people affect productivity.

The American attitude to treat employees as a resource can impede business success in countries where people are valued as an end in themselves.

U.S. companies use instrumental human resource policies that conflict with local humanistic values.

An attitude called *ethnocentrism* means that people have a tendency to regard their own culture as superior and to downgrade other cultures.
Strong ethnocentric attitudes within a country make it difficult for foreign firms to operate there.

Other factors include social organization, such as status systems, kinship and families, social institutions, and opportunities for social mobility.

American managers are regularly accused of an ethnocentric attitude that assumes that the American way is the best way.

As business grows global, U.S. managers are learning that cultural differences cannot be ignored if international operations are to succeed.

For example, McDonald’s French subsidiary is booming because managers responded to cultural and social differences rather than transferring the American fast-food concept.

**Discussion Question #4:** *What steps could a company take to avoid making product design and marketing mistakes when introducing new products into a foreign country?*

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**VII. INTERNATIONAL TRADE ALLIANCES**

The most visible changes in the international business environment have been the development of regional trade alliances and international trade agreements.

These developments are shaping global trade.

A. GATT and the World Trade Organization

GATT, signed by 23 nations in 1947, started as a set of rules to ensure nondiscrimination, provide clear procedures, settle disputes, and encourage participation of LDCs in international trade.

GATT and its successor, the World Trade Organization (WTO), primarily use tariff concessions as a tool to increase trade.

Members agree to limit the level of tariffs they will impose on imports from other members.

*MOST FAVORED NATION* is a term describing a GATT clause that calls for member countries to grant other member countries the most favorable treatment they accord any country concerning imports and exports.

GATT sponsored eight rounds of international trade negotiations aimed at reducing trade restrictions.

The Uruguay Round moved the world closer to global free trade by calling for the establishment of the WTO; as of 2004, 147 countries were members of the WTO.

As a permanent membership organization, the WTO is bringing greater trade liberalization in goods, information, technological developments, and services.
However, the WTO is partly responsible for a growing backlash against global trade; groups protest trade that locks poor people into poverty and harms wages.

B. European Union

Exhibit 4.5

Formed in 1957 to improve economic and social conditions among its members, the European Economic Community, now called the European Union (EU), has expanded to a 25-nation alliance.

The biggest expansion came in 2004 when ten new members from southern and eastern Europe joined; Bulgaria, Romania, and Turkey have opened negotiations.

In the early 1980s, Europeans initiated steps to create a single market system called Europe ‘92.; this alliance is an open market. For millions of consumers.

Europe ‘92 consisted of reform and deregulation in such areas as: banking, insurance, health safety standards, airlines, telecommunications, auto sales, social policy, and monetary union.

Common policies continue to evolve such as citizens’ rights, job creation, environmental protection, and how to make globalization work for everyone.

Some observers fear that the EU will become a trade barrier, creating a fortress Europe that will be difficult to penetrate by companies in other nations.

The EU has enacted laws that dramatically broaden its power concerning mergers and antitrust issues.

The most significant aspect is the EU’s monetary revolution and the introduction of the euro, the single European currency that replaced 12 European currencies.

C. North American Free Trade Agreement (NAFTA)

NAFTA went into effect on January 1, 1994, and merged the U.S., Canada, and Mexico into a mega market with more than 421 million consumers.

The agreement breaks down tariffs and trade restrictions on most agricultural and manufactured products over a 15-year period.

NAFTA has agreements in several key areas: agriculture, autos, transport, intellectual property; NAFTA has spurred the entry of small businesses into the global arena.

As of 2004, opinions remain divided over the benefits of NAFTA; some call it a success and others refer to it as a dismal failure.

Experts say that it has increased trade, investment, and income and continues to enable all three countries to compete more effectively with rival Asian and European firms.

D. Other Trade Alliances

Exhibit 4.6

The creation of trading blocs is an increasingly important aspect of international business.

The Association of Southeast Asian Nations (ASEAN) is a trading alliance of 10 nations, including Cambodia, Vietnam, Singapore, Malaysia, and the Philippines.

This region will likely be one of the fastest-growing economic regions of the world.
A free trade bloc known as Mercosur encompasses Argentina, Brazil, Bolivia, Chile, Paraguay, and Uruguay.

More than 30 countries in Central and South American and the Caribbean region wish to establish a Free Trade Area of the Americas (FTAA) by 2005. These agreements entail a new future for international companies, and both corporations and managers will be affected by these important trends.

E. The Globalization Backlash

As the world becomes increasingly interconnected, a backlash over globalization is occurring.

The World Trade Organization, the International Monetary Fund, and the World Bank are the targets of protesters and referred to as The Iron Triangle of globalization.

A primary concern is the loss of jobs as companies export work to countries with lower wages; outsourcing of white-collar jobs to India rose by 60 percent in 2003. Activists charge that globalization not only hurts Americans who lose their jobs but contributes to worldwide environmental destruction and locks people into poverty.

In the end, it is not whether globalization is good or bad, but how business and government can work together to ensure that global advantages are shared fairly.

Discussion Question #10: How do you think trade alliances such as NAFTA and the EU may affect you as a future manager?

VI. GETTING STARTED INTERNATIONALLY

Small and medium-size companies can use some of the following market entry strategies, an organized strategy for entering a foreign market.

A. Outsourcing.

Global outsourcing means engaging in the international division of labor to obtain the cheapest sources of labor and supplies regardless of country (also called global sourcing).

A company may take away a contract from a domestic supplier and place it with a company in the Far East, 8,000 miles away.

Many manufacturers in Asia and Latin America are now wired in to the Internet to help them compete in an e-business world.

A unique variation of global outsourcing is the maquiladora industry along the Texas-Mexico border; new high-tech factories are now being built farther south in Mexico.
Service companies are taking advantage of the *maquiladora* concept as well; U.S. companies outsource to Mexico and India for processing airline tickets or screening credit card applications.

B. Exporting.

*Exporting* is an entry strategy in which the organization maintains its production facilities within its home country and transfers its products for sale to foreign markets.

Exporting enables a company to market its products in other countries at small expense and limited risk.

Exporting does entail numerous problems based on physical distances, government regulations, foreign currencies, and cultural differences.

However, exporting is less expensive than committing the firm’s own capital to building plants in host countries.

A form of exporting to less-developed countries is *countertrade*, which is the barter of products for products rather than the sale of products for currency.

C. Licensing.

With *licensing*, a corporation (the licensor) in one country makes resources available to a company in another country (the licensee) to produce and sell products abroad.

Resources can include technology, managerial skills, and/or patent and trademark rights.

This allows the licensee to produce and market a product similar to what the licensor has been producing.

*Franchising* is a form of licensing in which an organization provides its foreign franchisees with a complete package of materials and services.

Some of the best-known international franchisers are the fast-food chains; KFC, Burger King, Wendy’s, and McDonald’s are found in every large city in the world.

D. Direct Investing.

*Direct investment* means the company is involved in managing the production facilities in a foreign country.

In a *joint venture* or partnership, a company shares costs and risks with a firm in the host country to develop new products, build a manufacturing plant, or set up a distribution network.

A partnership is often the fastest, cheapest, and least risky way to enter the international market.

A *wholly owned foreign affiliate* is a foreign subsidiary over which an organization has complete control.

A *greenfield venture* is the most risky type of direct investment, whereby a company builds a subsidiary from scratch in a foreign country.

The advantage is that the subsidiary is exactly what the company wants and has the potential to be highly profitable.
The disadvantage is that the company has to acquire all market knowledge, materials, people and know-how in a different culture, and mistakes are possible.

Discussion Question #5: Compare the advantages associated with the foreign market entry strategies of exporting, licensing, and wholly owned subsidiaries.

Notes

VII. MULTINATIONAL CORPORATIONS (MNC)

The size and volume of international business are so large they are hard to comprehend.

The revenue of GM is comparable to the gross domestic product (GDP) of Finland, revenue of General Electric is equal to the GDP of Israel, and revenue of Toyota is similar to the GDP of Hong Kong.

These very large firms are called multinational corporations (MNCs).

MNCs can move assets from country to country and influence national economies, politics, and cultures.

The sales revenues of a large MNC are often more than a host country’s GNP.

Characteristics of Multinational Corporations

An MNC typically receives more than 25 percent of its total sales revenues from outside the parent’s home country.

MNCs have the following managerial characteristics:

- An MNC is managed as an integrated worldwide business system. Foreign affiliates act in close cooperation with one another. Capital, technology, and people are transferred among country affiliates; The MNC buys and sells wherever in the world is most advantageous.

- An MNC is controlled by a single management authority that makes strategic decisions relating to the parent and all affiliates. Centralization of management maintains worldwide integration and profit maximization for the enterprise as a whole.

- MNC top managers are presumed to have a global perspective. They regard the entire world as one market for strategic decisions on producing, resource acquisition, location of production, advertising and marketing efficiency.
MNC management philosophy may differ from that described above:

- **Ethnocentric companies** place emphasis on their home country.
- **Polycentric companies** are oriented toward the markets of individual host countries.
- **Geocentric companies** are world-oriented and favor no specific country.

**Discussion Question #6:** Should a multinational corporation operate as an integrated, worldwide business system, or would it be more effective to let each national subsidiary operate autonomously?

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**VIII. MANAGING IN A GLOBAL ENVIRONMENT**

- **Why is managing in a foreign country so challenging?**

  Managers working in foreign countries must be sensitive to cultural subtleties and understand that the ways to provide leadership, decision-making, motivation, and control vary in different cultures.

  Researchers found that personal traits, the specific cultural context, or management mistakes made by the organization could lead to failure in an international assignment.

  **A. Personal Challenges for Global Managers**

  Managers will be most successful in foreign assignments if they are culturally flexible and easily adapt to new situations and ways of doing things.

  A tendency to be ethnocentric, or to believe that your own country’s cultural values and ways of doing things are superior, is a natural human condition.

  One study found that best global managers come from countries where people learn how to understand, empathize, and work with others who are different.

  People who have grown up without this kind of diversity have more difficulty with foreign assignments.

  The key is to be sensitive to cultural differences and understand that other ways of thinking and doing are also valid.

  *Culture shock* refers to the frustration and anxiety that result from constantly being subjected to strange and unfamiliar cues about what to do and how to do it.

  Preparing managers to work in foreign cultures is essential; some companies try to give future managers exposure to foreign cultures early in their careers.

  **B. Managing Cross-Culturally**

  There are cultural differences in how people see the world, and these differences affect working relationships.
To be effective on an international level, managers need to interpret the culture of the country and organization in which they are working and develop sensitivity.

One way managers prepare for foreign assignments is to understand how the country differs in terms of the Hofstede and GLOBE project.

These values influence how a manager should interact with subordinates and colleagues in a new assignment.

1. Leading.

   In relationship-oriented societies, develop a strong personal relationship with the employees.

   In China, U.S. managers have failed to realize that any relationship is a personal relationship.

   Be especially careful about criticizing others, as public criticism is intolerable to Asians, Africans, Arabs, and Latin Americans.

   The principle of saving face is highly important in some cultures.

2. Decision-making.

   In the U.S., mid-level managers may discuss a problem and give the boss a recommendation; in South Asia, managers are expected to make a decision.

   In Mexico, employees don’t understand participatory decision making; Mexico ranks extremely high on power distance.

   In contrast, managers in Arab and African nations are expected to use consultative decision making in the extreme.

3. Motivating.

   Motivation must fit the incentives within the culture; intrinsic factors such as challenge, recognition, and the work itself are less effective in countries with high power distance.

   In Japan, which highly values collectivism, employees are motivated to satisfy the company.

   Managers in Latin America, Africa, and the Middle East improve motivation by showing respect for employees as individuals with needs and interests outside of work.

**UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE**

At Microsoft Work-Life Balance Pays Off

How does a company where people work long, hard hours win an award for work-life balance? It seems a paradox, but employees voted Microsoft UK the best company to work for in the UK partly because of its attention to work-life balance issues. Microsoft UK’s director of people and culture, says employees choose to work long and hard because they love technology. However, they have the flexibility to work when and where they need to. If employees want to work
on Sunday and go golfing on Monday, they’re empowered to do so. Microsoft’s attention to people and culture pays off. The attrition rate of hard-to-find technical employees is at 2 percent. An astounding 93 percent of employees say they “feel proud to work for the company.”


When things go wrong, managers in foreign countries often are unable to get rid of employees who do not work out.

In Europe, Mexico, and Indonesia, to hire and fire based on performance seems unnaturally brutal; workers in some countries are protected by labor laws and unions.

In foreign cultures, managers should not control the wrong things; at Sears in Hong Kong, when employees were told to come on time, they left on time instead of working into the evening as they had done previously.

Discussion Question #8: What might managers do to avoid making mistakes concerning control and decision-making when operating in a foreign culture?

Notes

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Lecture Example File

One of Russia's leading oil companies pays for thousands of school children every year to attend a program that teaches them pride in their nation, confidence in their own abilities - and how the market economy works.

Yukos Oil's interest in grooming future capitalists reveals more than how the Russian industry has changed its priorities since the Soviet Union's collapse. It is also a declaration of how Russian oil companies perceive themselves. And OPEC, their main rival, should have seen the changes coming before engaging in a battle of wills with Russia in a bid to prop up the plunging oil price, analysts say. OPEC is pitted against a really revived Russia, which has some of the most efficient oil companies in the world. On the other side are really quite fat and inefficient OPEC states. The Organization of Petroleum Exporting Countries, which pumps about 40 percent of the world's oil through primarily state-run industries, has complained that whenever it curtails output to boost the price of crude, Russia steps in and increases its market share.

OPEC agreed on a 1.5 million-barrel-a-day cut in output after independent crude suppliers also lowered production by 500,000 barrels a day. Russia agreed to a 150,000 barrel-a-day cut, but that was significantly less than OPEC had in mind. More important, the cartel is not entirely convinced Russia's pledge is genuine. Russia did not address key OPEC questions such as how long its promised cuts would last and whether it had the full commitment of the nation's privately run oil companies, the strongest of which can break even on crude prices of $8 per barrel. The oil giant will,
like any other Russian oil company, abide by the Russian government, without even pausing for breath.

A 150,000 barrel-a-day cut during the winter is normal for Russia, a result of difficult drilling conditions in its Siberian oil fields and the desire to funnel more crude into the domestic market to help the nation cope with frigid winter temperatures. OPEC mulls what to do about Russia's pledges, along with those of other non-OPEC members such as Mexico and Norway, and threatens a price war if the cartel doesn't ultimately get what it wants.

The role of power broker in the international marketplace is new for Russia, but analysts say Moscow should get used to it. Russia's privatized oil companies have gradually clawed back the market share the industry lost after the collapse of the Soviet Union, when a lack of investment and political chaos caused production to fall by half. They have stepped in where the government has fallen away, funding after-school and summer programs such as Yukos' New Civilization program, a sort of scouting course for young, would-be business executives. In some regions, it's replaced the Soviet-era Young Pioneers.

Unlike the Soviet oil industry, which played only a marginal role in the international marketplace, the new private companies are profit-driven and aggressively pursuing new export markets. Russia pumps 7.2 million barrels a day now and has increased output this year by 520,000 barrels a day, an ideal position for the Russian government, which has steadily watched its influence in world affairs slip since the fall of the Soviet Union. Suddenly oil-importing nations like the United States might be willing to cut deals to keep the oil flowing and prices low. Russia is also perfectly positioned to entice Western nations, fearful of instability in the Middle East, to view its oil reserves as an alternative source.

The Kremlin does have some leverage because it controls the pipeline system through which the oil flows. Additionally, the Russian government imposes export quotas on oil products, something it has hinted it might increase if the oil companies agree to carry out the necessary production cuts.

### Answers to End-of-Chapter Discussion Questions

1. **Why do you think international businesses traditionally prefer to operate in industrialized countries? Discuss.**

   Incomes and purchasing power are higher in industrialized, which creates a strong demand for a variety of products. Developed countries offer a more highly trained and skilled labor force, better infrastructure facilities, and more advanced technology than the developing countries. More data and information are available about developed countries for use in strategic planning. It is easier for managers to calculate political risk and to interpret government laws and regulations.
2. What considerations in recent years have led international businesses to expand their activities into less developed countries?

A major factor is the large and rapidly expanding populations of developing countries that promise big potential markets for international firms. For example, in Asian countries, there are millions of consumers. In addition, intense international competition leads many businesses to take advantage of lower labor costs in less developed countries. The labor supply represents a good source of active workers at reasonable cost. Because of low-cost labor supplies and potentially huge markets, many companies are willing to take a chance on expanding their activities into less developed countries.

3. What policies or actions would you recommend to an entrepreneurial business wanting to do business in Europe?

The first thing a business should do is analyze the environment into which it is entering. It should look at the economic environment, especially the EEC and the effects of the 1992 process. The legal and political environment should be considered in deciding which country to enter first. This decision will also be influenced by the sociocultural environment. Next, the company must determine its entry strategy. Exporting is the most likely strategy for a small entrepreneurial business. It requires the smallest investment and the least amount of risk, but it also returns the least amount of profits. Licensing and direct investment should also be considered. Other factors such as the correct organizational structure and type of marketing strategy must also be determined.

4. What steps could a company take to avoid making product design and marketing mistakes when introducing new products into a foreign country?

The basic need is an understanding of the foreign culture and how the product will relate to it. One technique for adapting to foreign cultures is to use foreign nationals in the design and implementation of new products. This can be accomplished through decentralization of product design decisions to the foreign country, so that managers of foreign affiliates have control over operations. Another technique is to use foreign nationals in a consulting capacity to give advice on the design and marketing of new products. Yet another technique is to provide cultural training and indoctrination to managers and their families who are assigned to foreign posts. Cultural sensitivity can also be used as a criterion for selecting individuals to be given foreign managerial assignments. Each aspect of product design—including labeling, color, and function—should be checked with people who are intimately familiar with the foreign culture in order to determine the kind of impact and acceptance the product will have.

5. Compare the advantages associated with the foreign market entry strategies of exporting licensing, and wholly owned subsidiaries.

Of these three entry strategies, exporting is considered to be low risk and low cost. The reason is that the firm keeps its production facilities in its home country and
uses middlemen or foreign distributors to market its products abroad, thereby avoiding the costs of setting up its own marketing channels. The problem with exporting is that the firm has little control over the marketing of its product and no direct contact with foreign customers. Foreign licensing requires a somewhat greater capital investment, and licensees are apt to have better contacts and greater experience with marketing in their own countries. The international firm also maintains some control over foreign production and marketing, and will have some opportunity for direct contact with foreign producers and customers. The problem with licensing is that licensees may eventually become competitors, and they also may fail to maintain rigid quality standards in production or marketing, thereby damaging the reputation of the international firm. A wholly owned subsidiary represents the greatest costs and the greatest risks, but also the greatest potential return. Owning a subsidiary gives the firm more control over production and marketing than either exporting or licensing. The firm and its managers are close to the market and may actually send managers to the foreign countries to run the business in the host country. If the business is successful, the international firm will get to keep the profits. The problem with wholly owned subsidiaries is that establishing operating production facilities in foreign countries is costly and directly exposes the firm’s assets and personnel to economic and political risks.

6. *Should a multinational corporation operate as an integrated, worldwide business system, or would it be more effective to let each subsidiary operate autonomously?*

There is no single correct answer to this question because arguments can be made both ways. The answer partly depends on the goals and strategy of the multinational corporation. For example, operating as an integrated, worldwide system means that the parent company and its foreign affiliates work together to fulfill common business objectives. Such global integration allows a multinational corporation to attain economies of scale in production and also to acquire resources and component parts wherever in the world it is most advantageous to do so. Operating as an integrated system is often associated with a globalization strategy and with a decentralized decision-making process. The reason for going multinational is to gain the advantage of operating in several countries simultaneously, which is often facilitated through uniform policies as well as standard products and business practices. This approach can produce cost savings and uniformly high-quality performance throughout the firm.

Letting each subsidiary operate autonomously means that subsidiaries are free to respond to economic, political, and cultural conditions of the nation in which they are located. Headquarters personnel are not likely to be familiar with conditions in each country or be capable of quickly responding to changes in local conditions. The strongest argument in favor of a decentralized organization that lets subsidiaries operate autonomously is the diversity of environments that exist around the world. Autonomy also may reduce political risk by overcoming the image of outside control.

7. *What does it mean to say the world is becoming “borderless”? That large companies are “stateless”?*
The opening years of the 1990s marked some of history’s most dramatic changes—the fall of communism in the Soviet Union and Eastern Europe, the tumbling of the Berlin Wall, the EC’s long-awaited “Europe ‘92,” North American strides toward a NAFTA agreement, and even initial steps toward majority rule and the end of apartheid in South Africa. Business and industry world-wide have been especially impacted by the rapid change and dissolving borders brought about by political upheaval and government de-regulation in areas such a transportation, communication, and financial services. Corporations rush to seize opportunities throughout these expanding markets, and both corporations and governments must maintain flexibility and react quickly to the speed of change in an increasingly borderless world.

The changing business and political environment can be seen in the dramatic rise of the “stateless” corporation. These corporations transcend the home country and maintain a world view with regard to marketing and manufacturing opportunities. A large percentage of sales for these companies are generated outside their home countries. Thus, decisions regarding joint ventures, sales, plant construction, acquisition of resources and workers are made with regard to which country offers the best opportunity with the lowest price. Nestle’s home country is Switzerland, but the CEO is German, more than half of its general managers are non-Swiss, and 96 percent of Nestle’s employees are employed in other countries. Sales figures likewise reflect the company’s global impact as 98 percent of sales come from outside the home country. As trade barriers and national boundaries dissolve, more and more companies will move into the global realm and operate as “stateless corporations.”

8. What might managers do to avoid making mistakes concerning control and decision-making when operating in a foreign culture?

This question is designed to stimulate student thinking and discussion, so there is no single correct answer. A first, most important step is to develop sensitivity to foreign cultures. To the extent possible, managers should try to understand the important attitudes and cultural values that are associated with the organization-employee relationship. In this way they can avoid such major mistakes as criticizing others in a country where loss of self-respect brings dishonor to employees and their families. Another important step is to learn the local language. This requires extensive study, but language contains within it many clues to cultural values. In addition, studying language often entails the study of culture. Thus, managers will become more familiar with and sensitive to the culture through learning the language and by being able to discuss issues with foreign employees. At the same time, they should be prepared to study the local culture and to learn from people within the culture. They might even have advisors and subordinates from the foreign country to advise them on how to act in certain situations. In short, managers should avoid acting like the “ugly American” who believes that the American way of doing business is the only correct way.
9. **What is meant by the cultural values of individualism and masculinity/femininity? How might these values affect organization design and management processes?**

By a cultural value of individualism is meant a value for a loosely knit social framework in which individuals are expected to take care of themselves. This is the opposite of collectivism, which is a cultural value for a tightly knit social framework in which individuals look after one another and organizations are expected to protect their members’ interests. The United States is an individualistic society, in which the organization and society do not make undue efforts to protect the social and economic interests of individuals. People are left on their own, which gives them great freedom of opportunity, but also freedom to fail. Collectivism is a concern for the collective welfare and occurs in countries such as Guatemala and Denmark. People are not competitive with one another, and the primary value is that organizations should take care of all employees equally. Employees will not compete with one another and will expect to receive benefits even if they do not work hard. In an individualistic country, incentives and rewards can be designed for the individual as away to induce high performance. In a collective society, individualistic rewards will have less impact. Employees will be motivated more by the collective welfare of organization employees.

Masculinity represents a value for achievement, heroism, assertiveness, and material success. Femininity reflects high values for relationships, modesty, caring for the weak, and quality of life. In some ways these values are similar to individualism and collectivism. Societies with strong masculine values are Japan, Mexico, and Germany. Feminine values are significant in Sweden, Norway, and Denmark. Management processes in a masculine society often must be biased toward males and give individuals opportunities for achievement and assertiveness. In a feminine society, equality will be much more important, and the organization must be concerned with quality of life rather than heroic achievements of individuals.

10. **How do you think trade alliances such as NAFTA and the EU may affect you as a future manager?**

As a manager in the future trade alliances such as NAFTA and the EU will benefit me because of international trade opportunities. Expansion of trade presents a real opportunity assuming one is willing to relocate. One could work as a foreign national in a host country or an expatriate manager in foreign countries. Expansion of trade alliances especially with NAFTA into Latin America will create the opportunity for an international manager. The economic integration of trade alliances among NAFTA and the EU will benefit one that is looking for this type of challenge. One must be prepared, trained, and oriented to work in a foreign culture because of language, legal, and political trade barriers.

**Teaching Note for Experiential Exercise**

**Test Your Global Potential**
The world is truly shrinking and the number of companies doing business abroad increases each year. In coming years it will become harder and harder to find medium- and large-sized companies which do not have some international interactions, whether that be importing or exporting parts and supplies, needs for assembling abroad, or international subsidiaries, joint ventures or strategic alliances.

Professionals incapable of being flexible in their work and interpersonal approaches will have a difficult time adapting in this new environment and can therefore be the cause of loss of millions of dollars for their companies.

Other cultures may value things differently than Americans. These sometime include socializing before deal-making rather than rushing right into the business negotiations. This is because in some other cultures relationships are more important than contracts (which are more important here), and therefore the relationships must be solid. Trustworthiness is determined there by knowing the person rather than relying on words written in papers. Some other cultures are more patient and introspective than the American one. Therefore, they see American as too pushy and impatient. If you want to work in such an environment, you must learn to be more patient and to allow for silence at times.

One of the best ways to begin to prepare yourself for this world of globalized business is to begin reading about events in other parts of the world, studying other cultures, learning a language, traveling without being merely a “tourist,” and seeking out foreign restaurants, as well as foreign students. Look on the differences as something new and fascinating. The people who fail in international assignments are often those who are “ethnocentric” and cannot see the beauty in other cultures, but tend to constantly compare them in terms of how deficient they are compared to the U.S. Successful American expatriates, though, see new cultures with an attitude of curiosity and a sense of wonder.

Teaching Note for Ethical Dilemma

Quality or Closing?

Donald Fields faces a tough decision, as any choice he makes is risky. The most risky is Option 2--Donald is jeopardizing the trust his team has developed with the Asian company, and if the products do fail, Plaxcor’s efforts to go international will be set back immeasurably. The best option from an ethical standpoint is Number 3—be honest. Tell the customer about the problem. Donald’s team should also ask for more studies so they will be able to tell the customer just how serious the problems are, how likely they are to cause problems in performance, and how the product compares to the competition. A company’s “good name” is hard to replace once it is lost, and being forthright with Asian Business Machine signals that Plaxcor is dealing with their international partners openly and honestly.

Surf the Net
1. **Languages on the Web.**

   **HP** lists a server in America and one in Europe. It highlights that if you live in Africa, one should use the European server.

   **IBM’s** home page is extensive, pertaining to various countries. It includes different languages providing linkage all around the globe for IBM customers. The link provided by this company includes Africa, Americas, Asia Pacific, Europe, and the Middle East.

   **Fujitsu** has extensive links to many countries around the globe. From this PC each site appears in English, although in the home country, the sites would be communicated in the native language. Information to Fujitsu product line and customer service is made available in a multitude of diversified countries at the five available servers. This would be the choice recommended because of the multitude of languages available to serve their customer mix.

2. **Exchange Rates.** Go to [www.money.cnn.com](http://www.money.cnn.com) and select “Markets” to find the most up-to-date exchange rates for the Chilean peso, Japanese yen, euro, and pound.

3. **The Multinational Corporation.** The top ten fortune 500 companies according to the most recent sales revenues are as follows:

   Global 500 Ranking for 2000

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company</th>
<th>Headquarters (Country)</th>
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<tbody>
<tr>
<td>1</td>
<td>Exxon Mobil</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>Wal-Mart Stores</td>
<td>USA</td>
</tr>
<tr>
<td>3</td>
<td>General Motors</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>Ford Motor Company</td>
<td>USA</td>
</tr>
<tr>
<td>5</td>
<td>Daimler Chrysler</td>
<td>Germany</td>
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<td>6</td>
<td>Royal Dutch/Shell Group</td>
<td>The Netherlands</td>
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<td>7</td>
<td>BP</td>
<td>United Kingdom</td>
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<tr>
<td>8</td>
<td>General Electric</td>
<td>USA</td>
</tr>
<tr>
<td>9</td>
<td>Mitsubishi</td>
<td>Japan</td>
</tr>
<tr>
<td>10</td>
<td>Toyota Motor Corp.</td>
<td>Japan</td>
</tr>
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   The countries representing the top ten are Germany, Japan, The Netherlands, United Kingdom, and the USA. The United States has five companies in the top ten.

   Student responses may vary; however, if automotive, electronics/electrical equipment, and petroleum are selected the following information can be provided:
**Automotive:** General Motor Corporation (USA), Ford Motor Corporation (USA), and Toyota Motor Corporation (Japan).

**Electronic/Electrical Equipment:** General Electric Company (USA), Hitachi, Ltd. (Japan), and Matsushita Electric Industrial Co., Ltd. (Japan).

**Petroleum:** Royal Dutch/Shell Group (Holland), Exxon Corporation (USA), and The British Petroleum p.l.c. (UK)

Information available is endless, and depending on one’s interests, the answers could be diversified.

**Case for Critical Analysis Solution.**

**Unocal Corporation**

1. *What market entry strategies has Unocal used, based on the activities described in the case? Would you classify Unocal as a multinational corporation (MNC)? Why or why not?*

The market entry strategies utilized by Unocal are diversified in practice. The market entry for third world countries is a strategy of growth from exploration, refining and distribution of energy related products. The market plan is to be a full energy explorer, refiner, and distributor of these products. A marketing strategy of capital investment into these markets is one of direct investment. Unocal has a competitive edge because competition is not intense in these foreign markets. A domestic market plan is more intense nationwide, and management is attempting to penetrate oil, gas, and electric power generation. In domestic markets, brand awareness, advertising, and sales promotion are important strategies for this management application. Unocal is a multinational corporation, because it operates and is invested in two or more countries. An MNC has a direct investment in the Pacific Rim and the Asiatic Basin to develop an increased market share. An MNC typically receives more than 25 percent of its total sales revenues from operations outside the parent’s home country. It is characterized by an integrated worldwide business system. An MNC is ultimately controlled by a single management authority that makes key strategic decisions relating to the parent and all affiliates. MNC top managers are presumed to exercise a global perspective.

2. *Identify and discuss the various types of risks faced by Unocal in emerging markets (consider the economic, legal-political, and sociocultural environment). Which risks seem most threatening to the company?*

The types of risks Unocal would be challenged by in emerging markets are several. The condition of uncertainty due to the presence of a third world market and foreign exchange of currency and unstable governments must be considered. Once there has been success in a given foreign market, the condition of uncertainty may shift to one of risk. Uncertainty is one of very little information to analyze and having no idea of the outcome of the decision being made. A condition of risk is one of knowing the
probability of the occurrence as to the outcome of the decision being made. The risk most threatening to Unocal is unstable governments, currency fluctuations, and regulatory agencies and commissions of foreign governments. Finally, a threat of change and chaos of ministries competition, product development and distribution could be a challenge of management in the future. Government bureaucracies can be a major challenge of Unocal’s management.

3. What do you think of the Unocal representative’s statement that “to withdraw and isolate Myanmar would have no effect” regarding that country’s poor human-rights record? Do you believe U.S. companies should stay in such countries in the hope of improving the ethical climate? Discuss.

To withdraw and isolate Myanmar would have an effect on Unocal’s market share. Multinational corporations encounter risks when investing into third world countries such as Myanmar. The U.S. government has a major concern over countries denying human rights. If this government remains unstable, Unocal may be at risk because a trade alliance of the U.S. with this country will be at risk. Management of Unocal must consider this before any investment is made in the third world country. It is a challenge of management to impose ethical codes upon another country. The risk is overwhelming if management is to succeed in changing the ethical climate of Myanmar.