



Global Management: Managing Across Borders

Chapter Four

Major Questions You Should Be Able to Answer

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

Major Questions You Should Be Able to Answer

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

Globalization: The Collapse of Time & Distance

★ Globalization

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



Globalization: The Collapse of Time & Distance

★ **Global village**

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

Globalization: The Collapse of Time & Distance

★ E-commerce

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

★ U.S. retail e-commerce sales were estimated at **\$48.2 billion** in the third quarter of 2011

Example: Worldwide E-Commerce – Amazon.com

- ★ Jeffrey Bezos left Wall Street in 1994 to launch an online bookstore called Amazon.com
- ★ Believed there could be a great deal of interaction
- ★ It reported 2011 net sales of \$48.07 billion,

One Big World Market: The Global Economy

★ **Global economy**

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

One Big World Market: The Global Economy

★ **Positive effects**

↳ more markets for American exports

★ **Negative effects**

↳ vast surplus funds from global investments flowed into U.S. that were invested badly in subprime mortgages

One Big World Market: The Global Economy

Minifirms operating worldwide

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

Question?

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

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



Why Learn About International Management?

★ **Multinational corporation**

↳ business firm with operations in several countries

★ **Multinational organization**

↳ nonprofit organization with operations in several countries

Why Learn About International Management?

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

The Successful International Manager

★ **Ethnocentric managers**

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

★ **Parochialism**

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

The Successful International Manager

★ **Polycentric managers**

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

The Successful International Manager

★ **Geocentric managers**

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



Question?

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

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

Being an Effective Road Warrior

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

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

Lesson 3: Frequent travel requires frequent adjustments

Why Companies Expand Internationally

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

Five Ways of Expanding Internationally

Figure 4.1



How Companies Expand Internationally

✦ **Global outsourcing**

↳ using suppliers outside the U.S. to provide labor, goods, or services



How Companies Expand Internationally

★ **Importing**

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

★ **Exporting**

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

★ **Countertrading**

↳ bartering goods for goods

How Companies Expand Internationally

★ **Licensing**

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

★ **Franchising**

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

How Companies Expand Internationally

★ **Joint ventures**

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

How Companies Expand Internationally

★ **Wholly-owned subsidiary**

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

★ **Greenfield venture**

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

Question?

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

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

Barriers to International Trade

★ **Tariffs**

↳ customs duty, or tax, levied mainly on imports

★ **Import quotas**

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

★ **Embargoes**

↳ complete ban on the import or export of certain products

Organizations Promoting International Trade

★ **World Trade Organization (WTO)**

- ↳ designed to monitor and enforce trade agreements
- ↳ Agreements are based on the *General Agreement on Tariffs and Trade (GATT)*
- ↳ Consist of 153 countries

Organizations Promoting International Trade

★ **World Bank**

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

★ **International Money Fund (IMF)**

↳ designed to assist in smoothing the flow of money between nations

Major Trading Blocs

★ Trading bloc

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



Major Trading Blocs

- ✦ **NAFTA** – U.S., Canada, Mexico
- ✦ **European Union** – 27 trading partners in Europe
- ✦ **APEC** – group of 21 Pacific Rim countries
- ✦ **ASEAN** - trading bloc of 11 countries in Asia
- ✦ **Mercosur** – trading bloc in Latin America
- ✦ **CAFTA** – Central America

Question?

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

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

The Importance of National Culture

★ Culture

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



Cultural Dimensions

★ **Low-context culture**

↳ shared meanings are primarily derived from written and spoken words

★ **High-context culture**

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

The Globe Project's Nine Cultural Dimensions

★ **Power distance**

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

★ **Uncertainty avoidance**

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

★ **Institutional collectivism**

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

The Globe Project's Nine Cultural Dimensions

★ **In-group collectivism**

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

★ **Gender egalitarianism**

↳ how much should society maximize gender role differences

★ **Assertiveness**

↳ how confrontational and dominant should individuals be in social relationships

The Globe Project's Nine Cultural Dimensions

★ **Future orientation**

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

★ **Performance orientation**

↳ how much should individuals be rewarded for improvement and excellence

★ **Humane orientation**

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

Other Cultural Variations

1. Language
2. Interpersonal space
3. Communication
4. Time orientation
 - Monochronic, Polychronic
5. Religion

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

★ **Expatriates**

↳ people living or working in a foreign country

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

Question?

People of different cultures have different ideas of what is an acceptable distance between people when having a business discussion. This nonverbal element is called:

- A. Monochronic time
- B. Polychronic time
- C. Interpersonal space
- D. Type A behavior