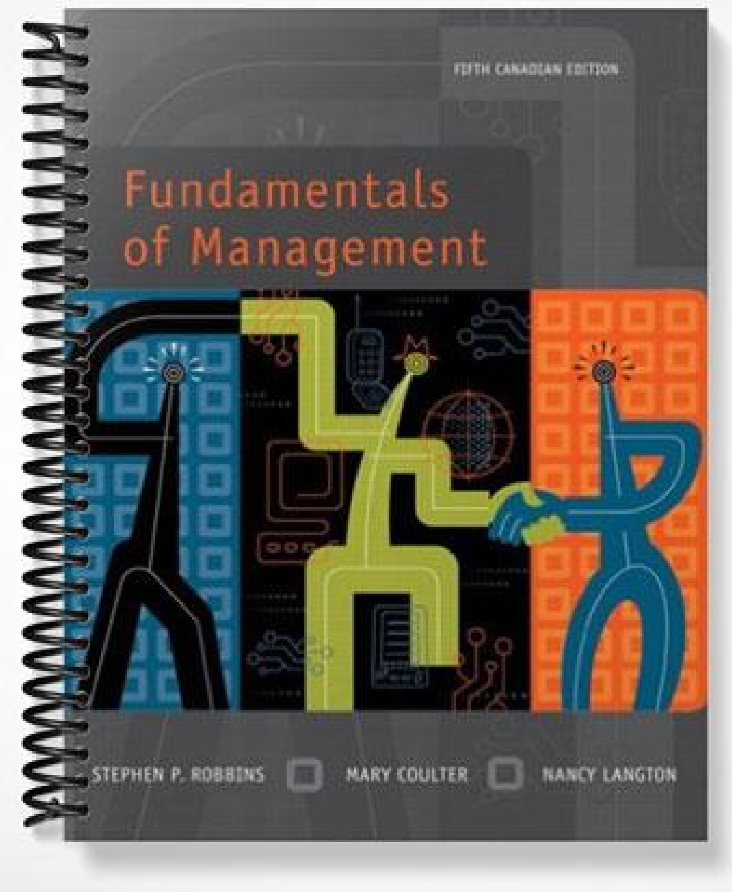
SOLUTIONS MANUAL



Chapter 2

Environmental Constraints on Managers

Lecture Outline

Introduction
The Manager: How Much Control?
The External Environment
- The Specific Environment
    - Customers
    - Suppliers
    - Competitors
    - Public Pressure Groups
- The General Environment
    - Economic Conditions
    - Legal-Political Conditions
    - Socio-cultural Conditions
    - Demographic Conditions
    - Technological Conditions

Understanding the Global Environment
- Global Trade
    - Regional Trading Alliances
    - The World Trade Organization
- The Legal-Political Environment
- The Economic Environment
- The Cultural Environment

Doing Business Globally
- Different Types of Global Organizations
    - Multinational Corporations
    - Transnational Corporations
    - Borderless Organizations
- How Organizations Go Global
    - Importing and Exporting
    - Internal Sales or Manufacturing
    - Licensing / Franchising
    - Strategic Alliance
    - Foreign Subsidiary

How the Environment Affects Managers
- Assessing Environmental Uncertainty
- Managing Stakeholder Relationships
- The Challenge of Global Management

This chapter discusses the components and complexities of the external environment and how these may constrain managers. The chapter also explores the opportunities and challenges managers face in managing in a global environment. Managers in all types and sizes of organizations must be prepared to monitor changes in the global environment.

Learning Outcomes

What constraints do managers face?

1. How much control do managers have?
2. What is the external environment for managers?
3. What challenges do managers face in a global environment?
4. How do organizations do business globally?
5. How does the environment affect managers?

SUGGESTED TEACHING PLAN

The External Environment: You could work through the topics of the external environment, by asking students to describe the environment of different organizations. Some possibilities might include Starbucks, Second Cup, Hudson’s Bay, Zellers, and one of the big five banks vs. a credit union.

For the organization of your choice (or let students choose other examples), have students describe customers, suppliers, competitors, pressure groups, economic conditions, political/legal conditions, socio-cultural conditions, and demographic conditions.

(You might want students to work in small groups for 20-30 minutes so that they can cover these issues in more depth among themselves, and then have them report back.)

After students have done their analysis, ask them to identify some of the challenges managers face, given the environments of their particular organization.

Understanding the Global Environment: You could use a debate format to introduce this topic, having students work on the ethical dilemma exercise on page 60.

CHAPTER OVERVIEW

1. INTRODUCTION

   Managers must be aware that organizational environments will influence both the way an organization is managed and its effectiveness. In this chapter, organizational environments as well as the global environment are explored in order to understand the complexities involved in each. Managers who don’t closely monitor changes in the global environment, or who don’t take the specific characteristics of their location into consideration as they plan, organize, lead, and control are likely to find limited global success.

2. THE MANAGER: HOW MUCH CONTROL?

Two positions on the role that managers play in an organization’s success or failure have been proposed:

A. The **omnipotent view of management** says that managers are directly responsible for the success or failure of an organization.
   1. This view of managers as omnipotent is consistent with the stereotypical picture of the take-charge executive who can overcome any obstacle in carrying out the organization’s objectives.
   2. When organizations perform poorly, someone must be held accountable. According to this view, that “someone” is management.

B. The **symbolic view of management** takes the view that much of an organization’s success or failure is due to external forces outside managers’ control.
   1. What managers do affect greatly are symbolic outcomes.
   2. Organizational results are influenced by factors outside the control of managers: the economy, market changes, government policies, competitors’ actions, the state of the particular industry, the control of proprietary technology, and decisions made by previous manager in the organization.
   3. The manager’s role is seen as creating meaning out of randomness, confusion, and ambiguity.
   4. According to the symbolic view, the actual part that management plays in the success or failure of an organization is minimal.

C. Reality suggests a synthesis, as managers are neither helpless nor all powerful. Instead, it’s more logical to look at the manager operating within constraints imposed by the organization’s culture and environment (see **Exhibit 2-1**).

3. THE EXTERNAL ENVIRONMENT

The impact of the **external environment** (see **Exhibit 2-2**) on a manager’s actions and behaviour cannot be overemphasized. There are forces in the environment that play a major role in shaping managers’ endeavours.

A. The Specific Environment

   The **specific environment** is that part of the environment that includes the constituencies that are directly relevant to the achievement of an organization’s goals. The main forces that make up the specific environment include customers, suppliers, competitors, and public pressure groups.
   1. Customers are the reason that organizations exist, as they absorb the outputs. They obviously represent potential uncertainty, particularly if their tastes and desires change.
   2. Suppliers include firms that provide materials and equipment as well as providers of financial and labour inputs. Managers seek to ensure a steady flow of the needed materials, equipment, financial, and labour inputs at the lowest possible prices.
   3. Competitors cannot be ignored. They’re an important environmental force to monitor and respond to. Most organizations have one or more competitors.
   4. Managers also cannot ignore public pressure groups. Changes in social and political movements influence the power that these pressure groups have on organizations.

B. The General Environment

The **general environment** includes the broad economic, legal-political, socio-cultural, demographic, and technological conditions.

1. Economic conditions include interest and inflation rates, disposable income, stock market fluctuations, and the general business cycle, among other things.
2. Legal-political conditions include the general political stability of the countries in which an organization operates, and the specific attitudes that elected officials have toward business. Federal and provincial governments can influence what organizations can and cannot do. Some examples of legislation that affect what organizations can do include the following:
   a. The *Canadian Human Rights Act* makes it illegal for any employer or provider of service that falls within federal jurisdiction to discriminate on the following grounds: race, national or ethnic origin, colour, religion, age, sex (including pregnancy and childbirth), marital status, family status, mental or physical disability (including previous or present drug or alcohol dependence), pardoned conviction, or sexual orientation.
   b. *Canada's Employment Equity Act* of 1995 protects several categories of employees from employment barriers: Aboriginal peoples (whether First Nation, Inuit, or Metis); persons with disabilities; members of visible minorities (non-Caucasian in race or nonwhite in colour); and women. This legislation aims to ensure that members of these four groups are treated equitably.
   c. *The Competition Act* of 1986 created the Bureau of Competition Policy to maintain and encourage competition in Canada.
   d. To protect farmers, the Canadian government has created marketing boards that regulate the pricing and production of such things as dairy and eggs.
3. Socio-cultural conditions include the changing expectations of society. Societal values, customs, and tastes can change, and managers must be aware of these changes.
4. Demographic conditions (including various characteristics of a population, such as gender, age, level of education, geographic location, income, and family composition), can change, and managers must adapt to these changes.
5. Technological conditions can vary with locale and include the changes that are occurring in technology.

4. UNDERSTANDING THE GLOBAL ENVIRONMENT

The global environment presents managers with opportunities to expand and treat the entire world as a market. There are also substantial challenges associated with managing in a global environment, including the fact that managers must continually monitor the global market.

A. Global Trade

Two significant forces that are reshaping the global environment are regional trading alliances and the agreements negotiated with the World Trade Organization.

1. The **European Union (EU)** is a union of 27 European nations created to eliminate national barriers to travel, employment, investment, and trade.
   a. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan.

   b. The EU took an enormous step towards full unification in 1999 when 12 of the 15 countries became part of the EMU—the economic and monetary union, the formal name for the system where participating countries share the same currency, the Euro.
2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated.
   a. NAFTA went into effect on January 1, 1994.
   b. Exports to the United States are equivalent to nearly one-third of Canada's GDP.
3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations.
   a. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world.
   b. ASEAN economic impact could eventually rival that of both NAFTA and the EU.
4. The **World Trade Organization (WTO)** was formed in 1995 evolving from the General Agreement on Tariffs and Trade (GATT). The WTO is a global organization that sets rules for trade among nations and also helps to negotiate trade problems and settle trade disputes.

B. The Legal-Political Environment

Managers in a global organization must stay informed of the specific laws in countries where they do business in order to understand the constraints in which they operate and the opportunities that may exist.

C. The Economic Environment

The economic environment of a nation has the potential to constrain management decisions and actions, which is why a global manager must be aware of economic issues.

1. A **market economy** is one in which resources are primarily owned and controlled by the private sector.
2. A **command economy**, on the other hand, is one in which all economic decisions are controlled by a central government.

D. The Cultural Environment

Research by Geert Hofstede, a Maastricht University professor, indicates that national culture has a greater impact on employees than does the organization's culture (see **Exhibit 2-3**). He identified the following five value dimensions of national culture:

1. power distance (the degree to which people accept that power in organizations is distributed unequally),
2. individualism vs. collectivism (the degree to which people prefer to act as individuals vs. members of a group),
3. quantity of life vs. quality of life (the degree to which people value assertiveness and the desire to acquire money vs. relationships and showing concern for others),
4. uncertainty avoidance (the degree to which people prefer structured over unstructured situations), and
5. long-term vs. short-term orientation (the degree to which people look to the future vs. value the present and the past).

5. DOING BUSINESS GLOBALLY

In today's business environment, there are many organizations in different industries and from different countries that are pursuing global opportunities.

A. Different Types of Global Organizations

1. A **multinational corporation (MNC)** is a company that maintains significant operations in multiple countries simultaneously, but manages them all from one base in a home country.
2. A **transnational corporation (TNC)** is a company that maintains significant operations in more than one country simultaneously, but decentralizes management to the local country.
3. Another type of global organization is the **borderless organization** in which artificial geographical barriers to management are eliminated.

B. How Organizations Go Global

Organizations have various global options, depending upon the level of investment and risk the company is willing to take (see **Exhibit 2-4**):

1. Importing and Exporting. A relatively low-investment strategy is to go global by **exporting** the organization's products to other countries—that is, by making products at home and selling them overseas. In addition, an organization can go global by **importing** products, selling products at home that are made overseas. Both exporting and importing are small steps toward being a global business and involve minimal investment and minimal risk.
2. Internal Sales or Manufacturing. This involves managers making more of an investment, by committing to sell products in foreign countries or to having them made in foreign factories. However, there is still no physical presence of company employees outside the company's home country.
3. Licensing and Franchising. An organization can give another organization the right to use its brand name, technology, or product specifications in return for a lump-sum payment or a fee usually based on sales through licensing or franchising. The only difference is that **licensing** is used primarily by manufacturing organizations and **franchising** is used by service organizations.
4. Strategic Alliances. **Strategic alliances** are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance.
    a. A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose is called a **joint venture**.
5. Foreign Subsidiary. Managers can make a direct investment in a foreign country by setting up a **foreign subsidiary**, a separate and independent production facility or office.
    a. This subsidiary can be managed as an MNC (domestic control), a TNC (foreign control), or as a borderless organization (global control).
    b. This arrangement involves the greatest commitment of resources and poses the greatest amount of risk.

6. HOW THE ENVIRONMENT AFFECTS MANAGERS

The environment affects managers through the degree of environmental uncertainty that is present, through stakeholder relationships, and through the challenges that occur as a result of managing in a global environment.

A. Assessing Environmental Uncertainty

Environments are not all the same in that they in the amount of **environmental uncertainty**, which is defined as the degree of change and complexity in an organization's environment (see **Exhibit 2-5**).

1. Degree of change is measured as dynamic or complex. If the components in an organization's environment change frequently, it's a dynamic environment. If change is minimal, the environment is called a stable one.
2. The other dimension of uncertainty relates to the degree of **environmental complexity**, which is defined as the number of components in an organization's environment and the extent of an organization's knowledge of these components.
3. If the number of components is minimal and there's little need for sophisticated knowledge, the environment is classified as simple. If there are a number of dissimilar components and there is a great need for sophisticated knowledge, the environment is complex.
4. Because uncertainty is a threat to organizational effectiveness, managers must try to minimize it.

B. Managing Stakeholder Relationships

The more obvious and secure an organization's relationships become with external stakeholders, the more influence managers will have over organizational controls.

1. **Stakeholders** are groups in the organization's external environment that are affected by, or have a vested interest in, the organization's decisions and actions. **Exhibit 2-6** identifies some of the most common types of stakeholders.
2. **Shareholders** (also known as stockholders) own shares of stock in the company and as such, are also stakeholders.
3. Stakeholder relationship management is important for two reasons:
   - a. It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organizational flexibility in reducing the impact of change.
   - b. It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.
   - c. There are four steps in managing external stakeholder relationships:
     - 1) Identify the organization's stakeholders.
     - 2) Determine the particular interests or concerns that stakeholders might have.
     - 3) Decide how critical each stakeholder is to the organization's decisions and actions.
     - 4) Determine how to manage the different stakeholder relationships.
   - c. The more complex and the more uncertain the environment, the more important it is to work toward establishing stakeholder partnerships rather than just acknowledging their existence.

C. The Challenge of Global Management

1. There are economic and social benefits from globalization, however, there are challenges that stem from the openness that is necessary for it to work. For example, if one country's economy falters, it may have a negative effect on the countries with which it does business.
2. Some have claimed that globalization is no longer a force, while others believe that even though there has been a slowdown in the amount of activity in the aftermath of the September 11, 2001 terrorist attacks, globalization still remains a strong force.
3. The United States is sometimes criticized for wanting to "Americanize" other parts of the world through its increased interest in globalization.
4. Canadian managers may have an advantage over their American counterparts in doing business internationally due to the fact that Canada is not seen as being intent on promoting Canadian values and culture to other parts of the world.

ANNOTATED LECTURE OUTLINE WITH POWERPOINT SLIDES

Slide 1	Chapter 2 Environmental Constraints on Managers	
Slide 2	LEARNING OUTLINE *Follow this Learning Outline as you read and study this chapter* • The Manager: How Much Control? –Explain how managers differ from nonmanagerial employees –Contrast the actions of the manager according to the omnipotent and symbolic views –Explain the parameters of managerial discretion	
Slide 3	LEARNING OUTLINE (cont'd) *Follow this Learning Outline as you read and study this chapter* • The External Environment – Describe the components of the specific environment and their effects on the organization – Describe the components of the general environment and their effects on the organization	

Slide 4	LEARNING OUTLINE (cont’d) *Follow this Learning Outline as you read and study this chapter* • Doing Business Globally – Explain why organizations go global – Describe the different types of global organizations – Discuss the different ways organizations go global	
Slide 5	LEARNING OUTLINE (cont’d) *Follow this Learning Outline as you read and study this chapter* • How the Environment Affects Managers – Discuss the two dimensions of environmental uncertainty – Identify the most common organizational stakeholders – Explain the four steps in managing external stakeholder relationships – Discuss the challenge of global management	
Slide 6	The Manager: How Much Control? • Omnipotent View – Managers are directly responsible for an organization’s success or failure – The quality of the organization is determined by the quality of its managers	Two positions on the role that managers play in an organization’s success or failure have been proposed. A. The **omnipotent view of management** says that managers are directly responsible for the success or failure of an organization. 1. This view of managers as omnipotent is consistent with the stereotypical picture of the take-charge executive who can overcome any obstacle in carrying out the organization’s objectives. 2. When organizations perform poorly, someone must be held accountable. According to this view, that “someone” has been management.

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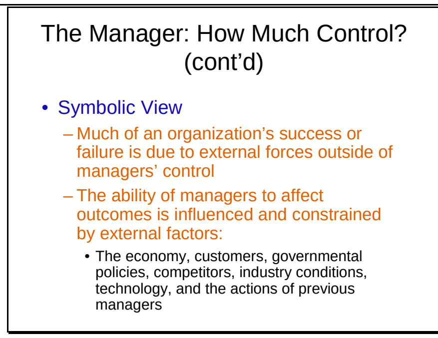
<td>
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<td>B. The symbolic view of management takes the view that much of an organization's success or failure is due to external forces outside managers' control.
1. What managers do affect greatly are symbolic outcomes.
2. Organizational results are influenced by factors outside the control of managers: economy, market changes, governmental policies, competitors' actions, the state of the particular industry, the control of proprietary technology, and decisions made by a previous manager in the organization.
3. The manager's role is seen as creating meaning out of randomness, confusion, and ambiguity.
4. According to the symbolic view, the actual part that management plays in the success or failure of an organization is minimal.</td>
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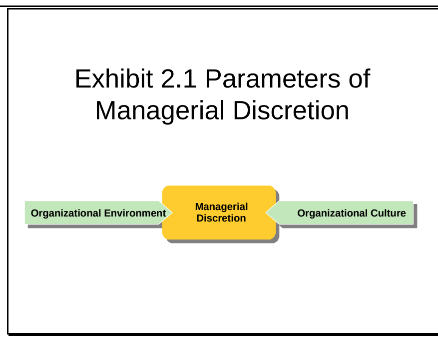
<td>
</td>
<td>C. Reality suggests a synthesis. In reality, managers are neither helpless nor all powerful. Instead, it's more logical to look at the manager operating within constraints imposed by the organization's culture and environment (see Exhibit 2.1 on page 39).</td>
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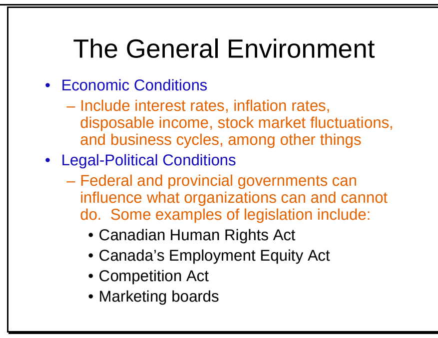
Slide 9	The External Environment • External Environment – The forces and institutions outside the organization that potentially can affect the organization’s performance • Components of the External Environment – **Specific environment** – **General environment** – **Global environment**	The impact of the **external environment** (see **Exhibit 2.2** on page 40) on a manager’s actions and behaviours cannot be overemphasized. There are forces in the environment that play a major role in shaping managers’ endeavours. The environment is defined as institutions and forces outside the organization that potentially affect an organization’s performance. 1. The **specific environment** is that part of the environment that includes the constituencies that are directly relevant to the achievement of an organization’s goals. a. The specific environment is unique and changes with conditions. b. It also varies depending on the niche the organization serves with respect to the range of products or services it offers and the markets it serves. 2. The **general environment** includes the broad economic, political/legal, socio-cultural, demographic, technological, and legal-political conditions. 3. The **global environment** includes the broad economic, global trade, cultural, and legal-political conditions.
Slide 10	Exhibit 2.2 The External Environment 	**Exhibit 2.2** on page 40. All three components of the external environment, **the specific environment**, **the general environment** and **the global environment** may have a significant effect on the organization.
Slide 11	The Specific Environment • Customers – Organizations exist to meet the needs of the customers • Suppliers – Include firms that provide materials and equipment as well as providers of financial and labour inputs • Competitors – Most organizations have one or more competitors that must be monitored and to which they must be prepared to respond • Public Pressure Groups – Special interest groups that attempt to influence the actions of organizations	The specific environment includes those external forces that have a direct and immediate impact on managers’ decisions and actions and are directly relevant to the achievement of the organization’s goals. Each organization’s specific environment is unique and changes with conditions.

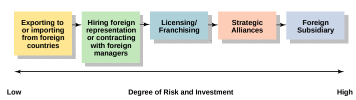
Slide 12	 	A. **Economic conditions** include interest rates, inflation rates, changes in disposable income, stock market fluctuations, and the general business cycle, among other things. B. **Legal-political conditions** include the general political stability of countries in which an organization does business and the specific attitudes that elected officials have toward business. Federal and provincial governments can influence what organizations can and cannot do. Some examples of legislation that affects what organizations can do include: 1. The Canadian Human Rights Act makes it illegal for any employer or provider of service that falls within federal jurisdiction to discriminate on the following grounds: race, national or ethnic origin, colour, religion, age, sex (including pregnancy and childbirth), marital status, family status, mental or physical disability (including previous or present drug or alcohol dependence), pardoned conviction, or sexual orientation. 2. Canada’s Employment Equity Act of 1995 protects several categories of employees from employment barriers: Aboriginal peoples (whether First Nation, Inuit, or Metis); persons with disabilities; members of visible minorities (non-Caucasian in race or nonwhite in colour); and women. This legislation aims to ensure that members of these four groups are treated equitably. 3. The Competition Act of 1986 created the Bureau of Competition Policy to maintain and encourage competition in Canada. 4. To protect farmers, the Canadian government has created marketing boards that regulate the pricing and production of such things as dairy and eggs.

Slide 13	The General Environment (cont'd) • Socio-Cultural Conditions – Include the changing expectations of society • Demographic Conditions – Include physical characteristics of a population (gender, age, level of education, geographic location, income and family composition) • Technological Conditions – Include the changes that are occurring in technology	**Socio-cultural conditions** include the changing expectations of society. Societal values, customs, and tastes can change, and managers must be aware of these changes. **D**. **Demographic conditions**, including physical characteristics of a population, such as gender, age, level of education, geographic location, income and family composition, can change, and managers must adapt to these changes. E. **Technological conditions** include the changes that are occurring in technology.
Slide 14	The Global Environment • Global Trade – Regional Trading Alliances – The World Trade Organization (WTO) • Legal-Political • Economic • Cultural	**Global trade** is being shaped by two forces: a. Regional Trading Alliances b. The World Trade Organization (WTO)

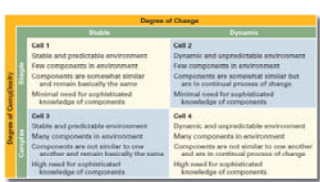
Slide 15	Global Trade Regional Trading Alliances • The European Union (EU) – A unified economic and trade entity • A union of 27 European countries • North American Free Trade Agreement (NAFTA) – Eliminated barriers to free trade (tariffs, import licensing requirements, and customs user fees) • United States, Canada, and Mexico • Association of Southeast Asian Nations (ASEAN) – Trading alliance of 10 Southeast Asian countries	Several significant forces are reshaping the global environment that managers face. Two important features of the global environment are **Regional Trading Alliances** and the **World Trade Organization**. A. **Regional Trading Alliances**. Regional trading alliances are reshaping global competition. It's no longer country versus country, but region against region. 1. The **European Union (EU)** is a union of 25 European nations created to eliminate national barriers to travel, employment, investment, and trade. a. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan. b. In 2004, the EU added 10 new members (Cyprus, Malta, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia). 2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated. a. NAFTA went into effect on January 1, 1994. b. The signing of NAFTA had both critics and champions. c. Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries. 3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations. a. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world. b. The economic impact could eventually rival that of both NAFTA and the EU.

Slide 16	**Global Trade (cont’d)** • The World Trade Organization (WTO) – Evolved from the General Agreement on Tariffs and Trade (GATT) in 1995 – Functions as the only *global* organization dealing with the rules of trade among nations – Has 149 member nations – Monitors and promotes world trade	
Slide 17	**The Global Environment (cont’d)** • Legal-Political – Stability or instability of legal and political systems • Legal procedures are established and followed • Fair and honest elections held on a regular basis – Differences in the laws of various nations • Effects on business activities • Effects on delivery of products and services	**The Legal-Political Environment**. The legal-political environment doesn’t have to be unstable or revolutionary to be a challenge to managers. It is important to recognize that a country’s political system differs from Canada’s.
Slide 18	**The Global Environment (cont’d)** • Economic – Economic Systems • Market economy – An economy in which resources are primarily owned and controlled by the private sector • Command economy – An economy in which all economic decisions are planned by a central government – Monetary and Financial Factors • Currency exchange rates • Inflation rates • Diverse tax policies	**The Economic Environment**. Also presents many challenges to foreign-based managers. Obviously, currency rate fluctuations, inflation, and diverse tax policies are economic challenges to managers. **Market economy** — resources are primarily owned by the private sector **Command economy** — where all economic decisions are planned by a central government

Slide 19	The Global Environment (cont’d) • Cultural – National Culture • Power distance • Individualism vs. collectivism • Quantity of life (masculinity) vs. quality of life (femininity) • Uncertainty avoidance • Long-term vs. short-term orientation	**The Cultural Environment**. The cultural environment involves cultural differences between nations. **National culture** is the values and attitudes shared by individuals from a specific country that shape their behaviour and their beliefs about what is important. Hofstede found that managers and employees vary on five value dimensions of national culture: *Power distance*. The degree to which members of a society expect power to be unequally shared. *Individualism versus collectivism*. The degree to which individuals are encouraged by societal institutions to be integrated into groups within organizations and society. *Quantity of life (masculinity) vs. quality of life (femininity).* The degree to which values such as assertiveness, competitiveness, and the desire to acquire money and material goods prevail (quantity of life) vs. the degree to which people value relationships and show sensitivity and concern for the welfare of others (quality of life). *Uncertainty avoidance*. The degree to which a society relies on social norms and procedures to alleviate the unpredictability of future events. *Long-term vs. short-term orientation.* The degree to which people look into the future and value thrift and persistence or look to the past and present, emphasizing respect for tradition and fulfilling social obligations.

Slide 20	Different Types of Global Organizations • Multinational Corporation (MNC) – A firm that maintains operations in multiple countries but manages from the home country • Transnational Corporation (TNC) – A firm that maintains operations in several countries but decentralizes management to the local country • Borderless Organization – A firm that organizes along business lines without consideration to artificial geographic barriers	Although international business has been around a long time (DuPont did business in China in 1863; Ford set up its first overseas sales branch in France in 1908), the popularity of multinational corporations really didn’t occur until the mid-1960s. What are the various types of global organizations? 1. A **multinational corporation (MNC)** is a company that maintains significant operations in multiple countries simultaneously, but manages them all from one base in a home country. It reflects the ethnocentric attitude. 2. A **transnational corporation (TNC)** is a company that maintains significant operations in more than one country simultaneously, but decentralizes management to the local country. It reflects the polycentric attitude. 3. Another type of global organization is the **borderless organization** that is a global type of organization in which artificial geographical barriers are eliminated so that the management structure can be more effectively globalized. It reflects the geocentric attitude. Keep in mind, however, that a company’s national origin is no longer a good measure of where it does business or of the national origin of its employees.
Slide 21	Exhibit 2.4 How Organizations Go Global 	Organizations have different ways of going global, as illustrated in **Exhibit 2.4** on page 49.

Slide 22	How Organizations Go Global (cont’d) • Exporting – Making products at home and selling them overseas • Importing – Selling products at home that are made overseas	Organizations have different ways of going global, as illustrated in **Exhibit 2.4** on page 49. **Importing and Exporting**. A relatively low-investment strategy is to go global by **exporting** the organization’s products to other countries—that is, by making products at home and selling them overseas. In addition, an organization can go global by **importing** products, selling products at home that are made overseas. Both exporting and importing are small steps toward being a global business and involve minimal investment and minimal risk.
Slide 23	How Organizations Go Global (cont’d) • Internal Sales or Manufacturing – Selling or having products made in foreign factories with no physical presence • Licensing and Franchising – Giving another organization the right to use brand name, technology, or product specifications • Licensing (manufacturing organizations) • Franchising (service organizations)	**Internal Sales or Manufacturing**. This involves managers making more of an investment by committing to sell products in foreign countries or to having them made in foreign factories. However, there is still no physical presence of company employees outside the company’s home country. **Licensing and Franchising**. An organization can give another organization the right to use its brand name, technology, or product specifications in return for a lump-sum payment or a fee usually based on sales through licensing or franchising. The only difference is that **licensing** is primarily used by manufacturing organizations and **franchising** is used by service organizations.
Slide 24	How Organizations Go Global (cont’d) • Strategic Alliance – Partnership between an organization and a foreign company in which both share resources and knowledge in developing new products or building new production facilities • Joint Venture – A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose	**Strategic Alliance**. Strategic alliances are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance. 1. A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose is called a **joint venture**.

Slide 25	How Organizations Go Global (cont'd) • Foreign Subsidiary – A direct investment by an organization in a foreign country by creating a separate and independent production facility or office	**Foreign Subsidiaries**. Managers can make a direct investment in a foreign country by setting up a **foreign subsidiary**, a separate and independent production facility or office. 1. This subsidiary can be managed as an MNC (domestic control), a TNC (foreign control), or as a borderless organization (global control). 2. This arrangement involves the greatest commitment of resources and poses the greatest amount of risk.
Slide 26	How the Environment Affects Managers • Environmental Uncertainty – The extent to which managers have knowledge of and are able to predict change. Their organization's external environment is affected by: • **Complexity of the environment:** the number of components in an organization’s external environment • **Degree of change in environmental components:** how dynamic or stable the external environment is	Environments are not all the same. They differ in the amount of **environmental uncertainty**, which is defined as the degree of change and complexity in an organization’s environment (see **Exhibit 2.5** on page 52). 1. Degree of change is measured as dynamic or complex. If the components in an organization’s environment change frequently, it’s a dynamic environment. If change is minimal, the environment is called a stable one. 2. The other dimension of uncertainty relates to the degree of **environmental complexity**, which is defined as the number of components in an organization’s environment and the extent of an organization’s knowledge about its environmental components.
Slide 27	Exhibit 2.5 Environmental Uncertainty Matrix 	(**Exhibit 2-5** on page 52) 3. If the number of components is minimal and there’s minimal need for sophisticated knowledge, the environment is classified as simple. If there are a number of components, if they are not similar, and if there is a high need for sophisticated knowledge, the environment is complex. 4. Because uncertainty is a threat to organizational effectiveness, managers try to minimize it

Slide 28	**Stakeholder Relationships** • Stakeholders – Any constituencies in the organization's external environment that are affected by the organization's decisions and actions • Why Manage Stakeholder Relationships? – Can lead to improved organizational performance – It's the "right" thing to do given the interdependence of the organization and its external stakeholders	The more obvious and secure an organization's relationships become with external stakeholders, the more influence managers will have over organizational controls. A. **Stakeholders** are any constituencies in the organization's external environment that are affected by, or have a vested interest in, the organization's decisions and actions. (See **Exhibit 2.6** on page 54 for an identification of some of the most common ones.) B. Stakeholder relationship management is important for two reasons: 1) It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organizational flexibility to reduce the impact of change. 2) It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.
Slide 29	**Exhibit 2.6 Organizational Stakeholders** 	**Exhibit 2.6** on page 54 identifying various organizational stakeholders.
Slide 30	**Managing Stakeholder Relationships** • Identify the organization's external stakeholders • Determine the particular interests and concerns of the external stakeholders • Decide how critical each external stakeholder is to the organization • Determine how to manage each individual external stakeholder relationship	Stakeholder relationships are managed using four steps: 1. Identify external stakeholders. 2. Determine the specific interests of each stakeholder group. 3. Decide how critical these interests are to the organization. 4. Determine what specific approach managers should use to manage each relationship based on criticalness of stakeholder and environmental uncertainty.

Slide 31	The Challenge of Global Management • Economic interdependence of trading countries • Increased threat of terrorism • Dealing with increased uncertainty, fear, and anxiety • Sensitivity and understanding required with respect to cultural, political, and economic differences	Some have predicted that globalization is dead, including philosopher John Ralston Saul. a. However, Joel Bakan, a University of British Columbia law professor who wrote *The Corporation* and coproduced the documentary of the same name, claims "It's overly optimistic to say globalization is dead." *(J. Bakan, The Corporation (Toronto: Big Picture Media Corporation, 2003))* b. In support of Bakan's view, consulting firm A.T. Kearney concluded, based on a 2002 survey of the situation, that overall, globalization remained a strong force, even if there has been some slowdown.

Answers to Reading for Comprehension Questions

1. *Describe the components of the specific and general environments.*
The specific environment includes the following components: customers, suppliers, competitors, and public pressure groups. The general environment consists of the following conditions: economic, legal-political, socio-cultural, demographic, and technological.

2. *Describe the role of the World Trade Organization (WTO).*
The WTO was designed to help businesses conduct trade between countries without undesired side effects and as such, plays an important role in monitoring and promoting global trade. This global organization sets rules for national trade and helps negotiate and settle trade problems and disputes.

3. *Contrast multinational corporations, transnational corporations, and borderless organizations.*
Multinational corporations maintain operations in multiple countries, however, manage their operations from headquarters in their home country whereas transnational corporations choose to decentralize management to the local country. Borderless organizations, on the other hand, elect to remove geographical barriers of any kind in terms of managing their global organization.

4. *Define exporting, importing, licensing, and franchising.*
Exporting is making products at home and selling them in other countries. *Importing* involves selling products at home that are made in other countries. *Licensing* occurs when a manufacturer gives another organization the right to use its brand name, technology, or product specifications. *Franchising* is a business arrangement whereby an organization gives a person or group the right to sell a product, using specific business methods and practices that are standardized.

5. *Define global strategic alliances, joint ventures, and foreign subsidiaries.*
A *strategic alliance* is a partnership between a domestic and a foreign company in which both share resources and knowledge in developing new products or building production facilities. A *joint venture* is a business arrangement whereby partners agree to form a separate, independent organization for a specific business purpose. *Foreign subsidiaries* are a form of direct investment in a foreign country where independent production facilities or offices are set up.

6. *Discuss the two dimensions of environmental uncertainty.*
The two dimensions of environmental uncertainty are the degree of change and the degree of complexity (see **Exhibit 2-5**).

The degree of change in an environment has an impact on management strategy and decision-making. For example, if an organization finds that their environment changes frequently, it is considered dynamic and as such may be counted as uncertain and unpredictable at times. An environment that is more stable with minimal changes will experience less environmental uncertainty.

The degree of complexity refers to the number of components in an organization’s environment and the extent of knowledge that the organization has about those components. The greater the complexity, the more uncertain the environment is.

7. *Identify the most common organizational stakeholders.*
The most common organizational stakeholders include customers, social and political action groups, competitors, trade and industry associations, governments, media, suppliers, communities, shareholders, unions, and employees (see **Exhibit 2-6**).

8. *Explain the four steps in managing external stakeholder relationships.*
   1. Identify the organization’s stakeholders. (Which groups might be affected by management decisions and which might influence those decisions?)
   2. Determine what particular interests or concerns stakeholders might have. (What factors are the interests or concerns of stakeholders related to?)
   3. Determine how critical each stakeholder is to the organization’s decisions and actions. (How much control or level of importance does the stakeholder or group have?)
   4. Determine how to manage the different stakeholder relationships (How critical is the stakeholder to the organization and/or how uncertain is the environment?)

Answers to Linking Concepts to Practice Questions

1. *Why is it important for managers to understand the external forces that are acting on them and their organization?*
The external environment consists of many factors that have an impact on the organization. Political and legal factors (government regulations), demographics (that can affect labour supply), technological improvements, and other factors directly affect the management of the organization including planning and decision-making.

2. *“Businesses are built on relationships.” What do you think this statement means? What are the implications for managing the external environment?*
Organizations depend on their environment and their stakeholders as a source of inputs and a recipient of outputs. Good relationships can lead to organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degrees of trust among stakeholders, and greater flexibility in acting to reduce the impact of change. Also, relationship management and the maintaining of good relationships have been proven by many researchers to have an effect on organizational performance. The high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.

3. *What would be the drawbacks in <u>not</u> managing stakeholder relationships?*
The term *boundary spanner* refers to the fact that managers must span (bridge) the boundary between the organization and its environment. When managers are being boundary spanners, or are utilizing stakeholder management or stakeholder partnering, the boundaries of the organization become more flexible and permeable. This could lead to organizational information being "leaked" or known outside of the organization. In addition, these relationship management techniques all require mangers' time, which can be very limited to begin with.

4. *What are the managerial implications of a borderless organization?*
In a borderless organization, artificial geographic borders do not separate functions, divisions, or activities. The managerial implications are that this type of organization is far more flexible in responding to changing marketplace conditions, however, it is also much more difficult to control.

5. *Compare the advantages and drawbacks of the various approaches to going global.*
Importing and Exporting: Both exporting and importing are small steps toward being a global business and involve minimal investment and minimal risk. Many organizations start doing business globally this way.

Internal Sales or Manufacturing: Managers make more of an investment by committing to sell products in foreign markets, or to have them made in foreign factories, but still with no physical presence of its employees outside the company's home country.

Licensing and Franchising: Licensing and franchising involve more investment and risk than exporting and importing because the company's brand is more at stake.

Strategic Alliances: Strategic alliances are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance. However, it is not always easy to find a partner.

Foreign Subsidiaries: Managers can make a direct investment in a foreign country by setting up a foreign subsidiary, a separate and independent production facility or office. This arrangement involves the greatest commitment of resources and poses the greatest risk.

As we move down the list, the risks increase, and the involvement in the country becomes greater.

6. *What challenges might confront a Mexican manager transferred to Canada to manage a manufacturing plant in Winnipeg? Will these be the same for a Canadian manager transferred to Guadalajara, Mexico? Explain.*
The Mexican manager would have to become familiar with the legal-political, economic, and cultural environments of Canada. The cultural environment would be particularly challenging, as the national culture of Mexico is very different from the national culture of Canada in terms of some of the value dimensions associated with Hofstede's research. On the individualism-collectivism dimension, Mexico is more of a collective society whereas Canada is somewhat more individualistic. On the power distance dimension, Mexico rates large whereas Canada rates

small. On the uncertainty avoidance dimension, Mexico rates high while Canada rates low. Only in the quality of life dimension are the two countries similar.

The adjustments required of the Mexican manager would also be required of the Canadian manager, however, simply in reverse.

WORKING TOGETHER—Team-Based Exercise

Assessing Employees' Global Attitudes

This exercise asks students to consider the characteristics, skills, and attitudes for someone to be a successful global employee.

Teaching Suggestions

Students should work in groups of three to five, to act as Global Human Resource specialists in developing a rough draft of an aptitude assessment form for individual employees being considered by Zara for global assignments. The teams' drafts should cover only personal (not organizational) criteria and should be at least one-half page, but no longer than one page. These drafts should then be presented to Zara's top-management team—classmates and faculty member.

Option: Some groups might be assigned an assessment form for (a) individual employee characteristics, and other groups for (b) spouses' characteristics, or (c) dependents' (children) characteristics.

Research indicates that not only is the adjustment of the employee important for the successful completion of a global assignment, but the adjustment of spouse and dependents is quite important for executive assignment success. Each character—employee, spouse, or dependent—has a different set of criteria to be addressed for adjustment to a global assignment. The student groups should approach the global assignment from the perspective of their assigned character, and attempt to think about the specific issues that are important to that individual and will require cultural adjustment when being assigned to a global opportunity.

ETHICAL DILEMMA EXERCISE

Alcan Goes to India

Does it make sense to simply abandon the mining plans in the face of protests? What should he tell shareholders at the meeting about Alcan's future plans for the region?

Teaching Suggestions

You could use this exercise in class as a debate format. Divide the class in half, with students assigned to (or volunteering for) opposing positions:

Alcan should abandon mining plans vs. Alcan should move forward with plans

You might subdivide the students into smaller groups to formulate their positions, and then have everyone report back after 15 minutes. Remind students to consider the opposition of the Adivasis, and what should be done about this, if anything. After the students report back on what they think should be done and why, you could finish up by reviewing with them the different types of global organizations and how each makes different impacts on host countries.

CASE APPLICATION

National Basketball Association
Case Problem: *What strategies can Stern take to increase consumer familiarity with basketball both domestically and globally? How can he develop a greater basketball presence in Canada?*

Answer: (***Suggestion only, and should be developed by the instructor.***)
Have students brainstorm suggestions, and then help them evaluate them.

Sterm's actual strategy: One of the actions that Stern took was to expand its network of offices globally. Why? The league hoped to ignite the NBA's popularity with global consumers by becoming more visible. He explained, "The model is the rock concert. Sell lots of records. Tour occasionally."

Another thing that Stern did was enhance the league's Internet presence through its website. Today, some 40 percent of the visitors to the website (which includes sites in Spanish, Japanese, and Chinese) log on from outside the United States. The NBA pushes its games and merchandise to fans around the world via their computers.

The global appeal is filling the league's coffers. About 20 percent of all NBA merchandise is now sold outside the United States—an extra $430 million in annual revenue. Almost one million fans pay $10 a month to listen to streaming English or Spanish audio of almost any game on the league's website. The NBA is building an NBA City theme restaurant in the Dominican Republic, and is thinking of opening NBA stores in Asia and Europe. Separate NBA boutiques can be found in big department stores such as El Corte Ingles in Spain. Then there's the television revenue: nearly 15 percent of its $900 million in annual TV revenue comes from partners in 212 countries and territories outside the United States.

Further information about basketball in Canada is available at www.nba.com/canada/

Additional Discussion Questions

1. *What global attitude do you think the NBA and its member teams exhibit? Explain why this attitude has or hasn't contributed to the NBA's global success.*
   The NBA and its member teams appear to exhibit the geocentric attitude, a world-oriented view that focuses on using the best approaches and people from around the globe. Major issues and decisions are viewed globally utilizing best practices and people, regardless of country origin. This attitude has contributed to the NBA's success because the decision makers recognized that in order to successfully transplant the NBA, they would have to tailor their product to best suit the needs of the various markets they were looking at.

2. *What legal-political, economic, and cultural differences might be significant to an NBA team recruiting a player from a foreign country? How would you deal with these differences? As NBA teams start playing in other countries, would these differences change? Explain.*
   Legal-political differences could arise in contractual terms and conditions. Economic differences wouldn't be as significant because a player from a foreign country would probably want to be paid in US dollars. However, currency exchange rates might present a challenge. Cultural differences could arise in how a player adapts to the realities and expectations of team members, coaches, and audiences, and this is most likely as each country has a different set of norms and cultural values.

3. *How has the NBA exhibited effective and efficient managing in the global environment?*
The NBA has capitalized on its inherent popularity around the world. In addition, NBA commissioner David J. Stern has been instrumental in marketing both the game of basketball and Michael Jordan (one of the game’s most influential players) globally. He understood the similarities and differences between the domestic (US) and foreign markets. In addition, the league itself reflects a geocentric attitude in that it has been willing to showcase talent from around the globe. (For another assessment of the NBA’s success in global markets, see: William Echikson, “Michael, the NBA, and the Slam-Dunking of Paris,” *Business Week,* November 3, 1997, p. 82.)

4. *What could other organizations learn from the NBA’s global experience?*
Physical presence of the corporation is necessary. It is not sufficient to just “sell” the product (or play games as in the NBA). It is necessary to develop a “relationship” with consumers in the different countries in which you are doing business. Developing a truly international web presence can also be effective. Understanding and being sensitive to different cultural values is a key to success as well.

DEVELOPING YOUR INTERPERSONAL SKILLS

Becoming More Culturally Aware
Students are asked to read four descriptions of employees working for the same organization and then write a short paragraph describing what the goals and priorities of each employee might be. *With what types of employee issues might the manager of each employee have to deal with? How could these managers exhibit the value of diversity?*

Teaching Suggestions
1. Assign students to various small groups to come up with a group consensus to the questions posed above. Encourage students to share any insight they may have regarding the cultures described in the scenarios.
2. Ask each group to elect a spokesperson to share the group’s thoughts and opinions with the rest of the class regarding the employee issues. Each group should also offer suggestions as to how the value of diversity could be demonstrated by each of these managers.
3. After the groups have all presented, take the opportunity to review the ways that managers can improve their handling of diversity issues by referring to the eight behaviours identified in this exercise.

