

# Globalisation and Business

# Module Learning Outcomes

Describe current trends and challenges in global business management

1.1: Describe current trends in global business

1.2: Explain the risk tradeoffs in typical forms of global business

1.3: Explain the dimensions of cultural difference and their effect on global business

1.4: Explain the strategies managers can use to respond to cultural differences

1.5: Explain how managers can effectively train employees for international assignments

# Learning Outcomes: Current Trends in Global Business

1.1: Describe current trends in global business

1.1.1: Describe key characteristics of business globalization

1.1.2: Explain global competition

1.1.3: Explain global supply chains

1.1.4: Give examples of the global nature of innovation

# What Is Globalization?

- Globalization is the process by which the exchange of goods, services, capital, technology, and knowledge across international borders becomes increasingly interconnected
- Creates new opportunities for businesses to increase profits by expanding markets and by allowing wider access to resources
- Domestic markets to new competitors, decreased demand for products



# Important Global Trade Agreements and Organizations?

- After World War II (1941–1945) many countries wanted to expand global cooperation politically, economically, and socially
- Nations agreed to work together to promote free trade and increase global cooperation
- Also created regional custom and trade agreements and unions to facilitate economic interdependence

# The World Trade Organization

- Formed in 1995 and grew out of General Agreement on Tariffs and Trade
- Oversees implementation and administration of agreements between member nations
- Provides forum for negotiations and for settling disputes among nations
- Also helps developing nations get experience and technical expertise needed to deal with comprehensive trade agreements
- Accounts for 97% of global trade and 98% of global gross domestic product

WORLD TRADE  
ORGANIZATION



# The World Bank

- International financial institution that provides loans for capital programs to developing countries
- Part of World Bank Group which is part of United Nations system
- Two goals:
  - End extreme poverty by decreasing percentage of world's population that live on less than U.S. \$1.90 per day to no more than 3%
  - Promote shared prosperity by fostering the income growth of bottom 40% in every country
- Previous projects include building and maintaining safe water supplies and sanitary sewer systems in Africa and Asia
- Come under fire in past for budget overruns and poor project oversight

# The International Monetary Fund

- Works to foster global growth and economic stability by providing policy, advice, and financing to members
- Works with developing nations to help reduce poverty and achieve macroeconomic stability
- Also plays role in management of balance-of-payments difficulties
- Primary functions were to provide short-term capital to aid balance of payments



# Global Trade Policies

- Regional trade agreements establish reciprocal treaties addressing tariffs and trade barriers with member countries (NAFTA, ASEAN)
- Customs unions are arrangements in which countries agree to allow free trade on products within the customs union (CET)
- Common markets eliminate internal barriers between members and adopt common external barriers against nonmembers (ECOWAS)
- Economic unions eliminate internal barriers, adopt common external barriers, and permit free movement of resources (EU)

# Key Characteristics of Globalization

- Political: UN and WTO exist because of increasing need for political cooperation at global level. Impossible for country to remain isolated from events around the world
- Economic: nations with limited resources can access goods and knowledge that help to raise their standards of living- NAFTA and EU
- Culture: globalization has heightened awareness of many languages, religions, cuisines, arts, literature, and dress



# Global Competition

- Competing organizations that serve international customers through enhanced communications, improved shipping channels, reduction of trade barriers, and centralized financial institutions
- Increased profits- wider market means opportunity to sell more goods
- Greater access to suppliers for materials and at lower costs
- Reduced manufacturing costs through access to cheaper labor
- Social and environmental concerns- businesspeople are committed to improving lives of people around world
- World Economic Forum has developed Global Competitiveness Report- ranks countries on global competitiveness
- Ease of Doing Business Index- lists “friendliest” countries- Singapore, United States, and United Kingdom appear in top ten of both lists

# Global Supply Chains

- Network of suppliers and contractors that provide needed materials and services to a business
- Includes all of businesses involved with taking product from raw material to manufacturing to transporting and storage of merchandise
- Sometimes include delivery to consumer
- Requires dealing with trade and tariff controls, quality regulations, and international relationships



# The Global Nature of Innovation

- Developing idea or invention that increases efficiency, raises productivity, or creates value for which customers will pay
- Applies information to further goals of organization
- Technology can be used to leverage and produce new innovations
- Nestle is largest food and beverage company in world—developing “shared economy” technologies that rely on crowdsourcing to alert company to potential problems

# Learning Outcomes: Tradeoffs in Global Business

1.2: Explain the risk tradeoffs in typical forms of global business

1.2.1: Differentiate among the risk tradeoffs for exporting, licensing, alliances, wholly owned affiliates, and global ventures

# Franchising, Licensing, and Export/Import Businesses

- Export/Import Business
- Licensing
- Franchising
- Strategic Alliances
- Joint Venture
- Wholly Owned Foreign Affiliates
- Greenfield Venture

# Practice Question 1

Nike markets its sports apparel products world-wide. This would be an example of:

1. Franchising.
2. Exporting.
3. Licensing.



# Practice Question 2

Subway is the largest fast-food company in the world. Its global business utilizes:

1. Franchising.
2. Exporting.
3. Joint Venture.

# Learning Outcomes: Dimensions of Cultural Difference

1.3: Explain the dimensions of cultural difference and their effect on global business

1.3.1: Explain the dimensions of cultural differences

1.3.2: Identify effects of cultural differences on global business

# Cultural Differences and Global Business

- Power Distance
- Uncertainty Avoidance
- Performance Orientation
- Assertiveness
- Future Orientation
- Humane Orientation
- Institutional Collectivism
- In-Group Collectivism
- Gender Egalitarianism

# Effects of Cultural Differences on Global Business

- Managers must consider different communication practices
- Different cultures have different ideas about time
- Planning
- Organizing
- Leading
- Controlling



# Practice Question 3

A country with both high Institutional Collectivism and high Uncertainty Avoidance would have the following cultural characteristics:

1. Group loyalty and resistance to change.
2. Aggressiveness and high standards.
3. Short-term gain oriented and generosity.
4. Male/female equality and family orientation.

# Learning Outcomes: Responding to Cultural Differences

1.4: Explain the strategies managers can use to respond to cultural differences

1.4.1: Explain export strategies for global management

1.4.2: Explain standardization strategies for global management

1.4.3: Explain multi-domestic strategies for global management

1.4.4: Explain transnational strategies for global management

# Global Business Strategies

- Major concern for managers deciding on global business strategy- tradeoff between global integration and local responsiveness
  - **Global Integration:** Degree to which the company is able to use the same products and methods in other countries
  - **Local Responsiveness:** Degree to which the company must customize their products and methods to meet conditions in other countries
- Four basic global business strategies: export, standardization, multidomestic, and transnational

# Export Strategy

- Used when company is primarily focused on domestic operations
- Doesn't intend to expand globally but does export some products to take advantage of international opportunities
- Doesn't attempt to customize products for international markets
- Isn't interested in responding to unique conditions in other countries or in creating integrated global strategy



# Standardization Strategy

- Used when company treats whole world as one market with little meaningful variation
- Assumption is that one product can meet needs of people everywhere
- Produces efficiencies by centralizing many common activities such as product design, gaining scale economies in manufacturing, simplifying supply chain, and reducing market costs

# Multidomestic Strategy

- Customizes products or processes to specific conditions in each country
- Overall management of company with this strategy is centralized in home country but country managers are given latitude to make adaptations
- Companies benefit because country managers understand local laws, customs, and tastes and can decide how to best meet them

# Transnational Strategy

- Combines standardization strategy and multidomestic strategy
- Used when company faces significant cost pressure from international competitors but must also offer products that meet local customer needs
- Very difficult to maintain because company needs to achieve economies of scale through standardization but also be flexible to respond to local conditions
- Ford Motor Company is example



# Class Activity: Multidomestic Strategy

A multidomestic strategy could be applied to management, marketing, or product.

From a product perspective, the strategy would dictate designing different products for different markets. For instance, Heinz Tomato Ketchup produced for India does not include garlic or onion as those ingredients are not popular in that county.

From a management perspective, the strategy would give local control to a subsidiary to run their business locally with great autonomy.

Discuss the advantages and disadvantages of how the multidomestic strategy is applied to both areas.

# Learning Outcomes: Effective Training for International Assignments

1.5: Explain how managers can effectively train employees for international assignments

1.5.1: Differentiate between documentary training, cultural simulations, and field simulation training

# Types of Training for Global Workers

- Sometimes done for development of manager or so company can exert more control over subsidiary
- Effective training program- depends on “rigor” or how thorough and challenging it is
- If moving for year or more with intent of living in host country, high-rigor is required
- Training can include watching videos on culture, going to lectures, and attending briefings
- Longer assignments- extensive experimental learning, interactions with nationals, and language training
- More effective when families are included

# Documentary Training

- Textbook and classroom learning: focuses on looking at culture differences
- Differences are examined because they are potential friction points that create misunderstandings
- Cultural differences involve human interactions
- Perception of sickness and disease differs greatly in different cultures even among closely related ethnicities



# Cultural Simulation Training

- Where employees will role play various situations and practice responding in culturally sensitive ways
- Most effective when training takes place in host country
- Goal is to duplicate possible scenarios that employee may face



# Field Simulation Training

- After “survival training”
- Employee and family visits neighborhood of same ethnic background as destination
- Drop individuals into rural area with limited resources and told to get back to office
- Family also may be moved to temporary housing to explore area



# Benefits of Rigorous Training Programs

- Providing practical assistance for relocation efforts
- Giving employee information that will allow her to make an informed decision about the assignment
- Providing emotional security about the change
- Increasing cultural sensitivity of employee
- Only disadvantage is cost of training and out-of-office time- outweighed by benefits
- Company should also offer readjustment counselling for when employee is back

# Quick Review

- What are the key characteristics of business globalization?
- Can you explain global competition? How about global supply chains?
- What are some examples of the global nature of innovation?
- Are you able to correctly explain export, standardization, multidomestic, and transnational strategies for global management?