

# MGT370

## INTERNATIONAL MANAGEMENT

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■ INTERNATIONAL MANAGEMENT:  
MANAGING ACROSS BORDERS AND  
CULTURES, 9<sup>th</sup> Ed.

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# Chapter I: Assessing the Environment

*Political, Economic, Legal, Technological*



# CHAPTER LEARNING GOALS

- 1. Understand the global business environment and how it affects the strategic and operational decisions which managers must make**
- 2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face**
- 3. To develop an appreciation of the legal environment for international business**
- 4. To review the technological environment around the world and how it affects the international manager's decisions and operations**



# **OPENING PROFILE: CHALLENGES MANAGERS FACE**

- **Politics**
- **Cultural differences**
- **Global competition**
- **Terrorism**
- **Technology**
- **Sustainability**
- **Social obligations**

# OPENING PROFILE: ASSESSING RISKS IN RUSSIA

- **Top two risks:**
  - *Sanctions-based retaliatory measures*
  - *Decline in business activity*
- **Other issues: threat of backlash in Russia against Western products; continued standoff between Russia and Ukraine; global outcry after Malaysia Airlines Flight 17 shot down**
- **Globalization has compounded the types and level of business risks**

## **CHAPTER LEARNING GOALS**

- 1. Understand the global business environment and how it affects the strategic and operational decisions which managers must make.**

# **WHAT IS INTERNATIONAL MANAGEMENT?**

**The process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage.**

# WHAT IS GLOBALIZATION?

**Global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy.**



# Global Trends

- **Five key global trends:**
  - **Changing balance of growth towards emerging markets**
  - **Need for increased productivity and consumption in developed countries**
  - **Increasing global interconnectivity**
  - **Increasing gap between supply and demand of natural resources**
  - **Challenge for governments to develop policies for economic growth and financial stability**

## **2014–2015 Foreign Direct Investment Confidence Index Top 25 Targets for FDI**

- **The main types of FDI are acquisition of a subsidiary, joint ventures, licensing, and investing in new facilities or expansion**
- **The United States is in the lead since 2013, followed by China, Canada, United Kingdom, and Brazil**
- **India has dropped to seventh from second in two years**
- **Results show confidence in the economic recovery of the United States and Europe.**
- **Rapidly developing economies continue**

## Chapter Learning Goals

**2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face.**

# CHALLENGES TO GLOBALISM

- **Backlash against capitalism and rekindling of nationalism**
- **Increased protectionism of high-demand resources**
- **Need to develop top managers with international understanding and experience**
- **Increasing pressure and publicity for companies to consider the social responsibility of their actions**

# EFFECTS OF GLOBALIZATION ON CORPORATIONS

- **Global companies are becoming less tied to specific locations**
- **Companies that desire to remain competitive will have to develop a cadre of experienced international managers**
- **Small companies are also affected by and in turn affect globalism**

## ADDITIONAL RESOURCES

- World Trade Organization—[www.WTO.org](http://www.WTO.org)
- Financial Times—[www.ft.com](http://www.ft.com)
- CEO Express—[www.ceoexpress.com](http://www.ceoexpress.com)

# The Globalization of Human Capital

- **While firms still offshore manufacturing jobs, some are reshoring jobs to lower shipping costs**
- **Firms are outsourcing white-collar jobs to India**
- **For global firms, winning the war for talent is a pressing issue**

# Globalization of Information Technology

- **The speed and accuracy of information transmission are changing the nature of international manager's jobs**
- **Cultural barriers are being lowered gradually**
- **Technology gets dispersed around the world by MNEs**
- **Explosive growth of information technology is both a cause and effect of globalism**



## ADDITIONAL RESOURCES

- <http://www.forbes.com/technology>
- *The Financial Times (technology section)*

# Management In Action: Global Cybertheft of Corporate Secrets

- **Cybertheft: hard to detect and combat**
- **In 2014, the U.S. Department of Justice charged Chinese military personnel of stealing trade secrets**
- ***Digital reprisal:* China targeted firms which contested its policies at the World Trade Organization**
- **Protection of intellectual property is the primary risk in China**
- **China's goal is to achieve technological superiority by importing and adapting technologies**

# REGIONAL TRADING BLOCS

- **Much of today's world trade is grouped around three dominant currencies:**
  - **Euro, yen, and the dollar**
- **These trade blocs are continually expanding their borders to include neighboring countries**
- **Much of today's world trade takes place within these three regional free-trade blocs:**
  - **Western Europe, Asia, and the Americas**

# THE EUROPEAN UNION

## “EU”

- **A unified market over 500 million people in 28 nations**
- **Stability of the euro and the debt crisis in question**
- **2014-2015 Global Competitiveness Index shows that Europe has 6 of the top 10 countries**
- **Challenges for global managers:**
  - “Fortress Europe”***
  - Multiple cultures in one market***

### **ADDTL RESOURCES:**

[www.eurunion.org](http://www.eurunion.org)

# ASIA

- **China**
- **India**
- **ASEAN**
- **South Asia Association of Regional Cooperation (SAARC)**
- **Japan**
- **Asian Tigers:**
  - Hong Kong 🇭🇰
  - Singapore 🇸🇬
  - South Korea 🇰🇷
  - Taiwan 🇹🇼



# THE AMERICAS

- **North American Free Trade Agreement (NAFTA)**
- **Brazil**
- **MERCOSUR**
- **Central America Free Trade Agreement (CAFTA)**



# OTHER REGIONS IN THE WORLD

- **The Russian Federation**
- **Middle East**
- **The African Union—AU**
- **South Africa**
- **Less developed countries—LDCs**
  - Low Gross National Product (GNP)
  - Low Gross Domestic Product (GDP)
  - Large, relatively unskilled workforce
  - High international debt



# **COMPARATIVE MANAGEMENT IN FOCUS: CHINA LOSES ITS ALLURE**

- **Until 2010, China grew at 10 percent for 30 years, declining to 7.3 percent in 2014**
- **Growth of 7 percent for 2015 was called “a new normal” by Premier Li Keqiang**
- **China is a developing country, with differences between urban and rural areas**
- **China is the second-largest trading partner with the United States**
- **State firms play a significant or dominant role**



# Comparative Management in Focus: China Loses Its Allure

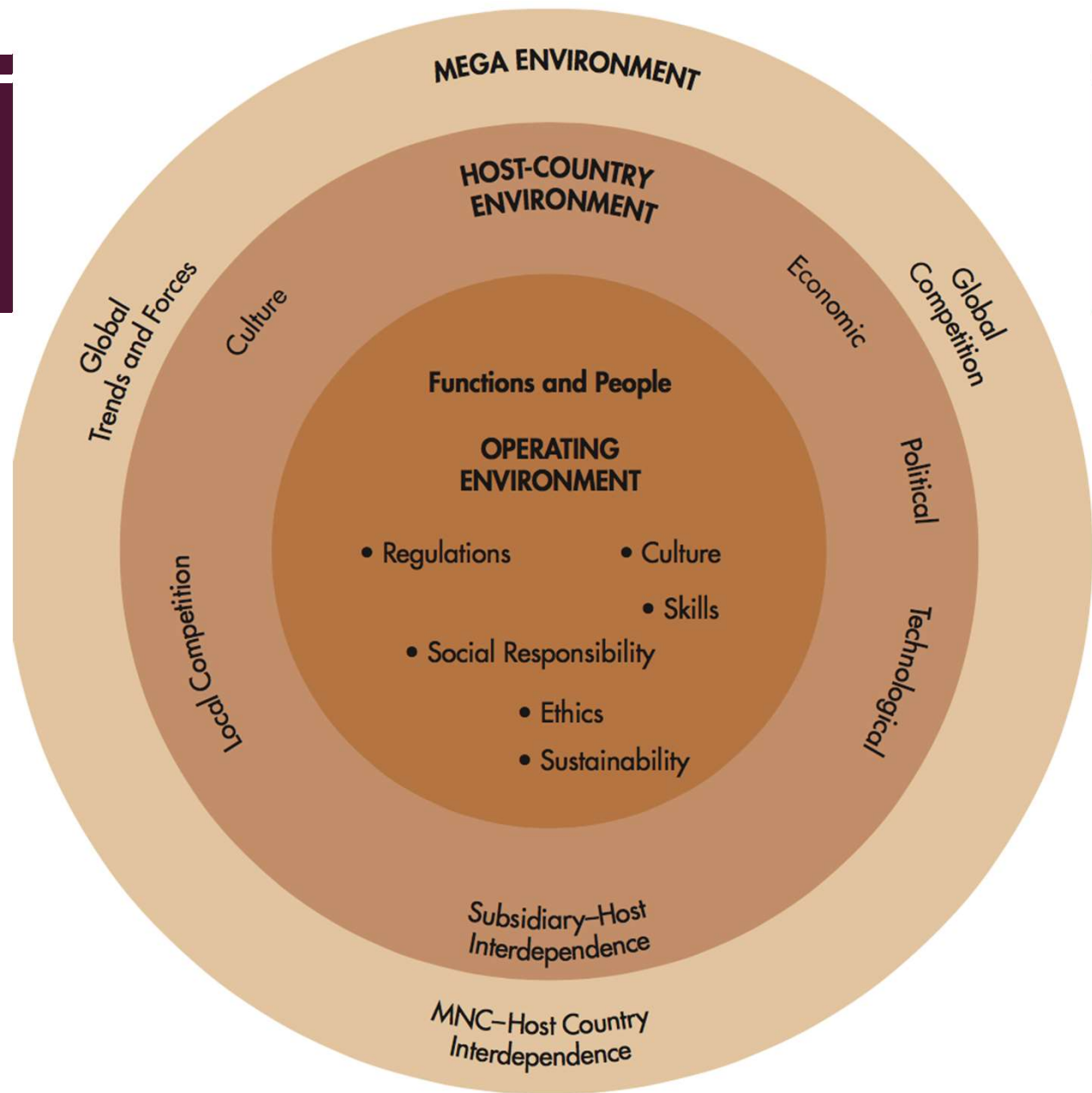
## **HOWEVER:**

- **China's legal and regulatory system is arbitrary**
- **China leans toward protecting its local firms**
- **Political goals and agendas often take precedence over commercially based decisions**
- **Discrepancies of business practices make it difficult for SMEs to get started**

## **Management Focus: Tips for doing business in China**

- **Connections are important**
- **Negotiations will be different from the U.S. and difficult**
- **Communication must be clear, honest, and fully prepared for**
- **Culture matters**

# THE GLOBAL MANAGER'S ROLE




# THE POLITICAL AND ECONOMIC ENVIRONMENT

- **Sustainability**—economic, political, social, and environmental—has become a significant worldwide issue
- **Ethnicity**—a driving force behind political instability around the world
- **Religion**—religious disputes lie at the heart of regional instabilities, for example, former Yugoslavia, Northern Ireland, the Middle East...

# POLITICAL RISK

Any governmental action or politically motivated event that could adversely affect the long-term profitability or value of a firm



Argentina announced plans to nationalize Repsol YPF, the Spanish oil co., taking 51%

In Russia, the Kremlin exploited the financial crisis to take control of energy companies

# THE POLITICAL RISK CONT.

Typical Political Risks	Political Risk Assessment
<ul style="list-style-type: none"><li>■ <b>Expropriation and confiscation</b></li><li>■ <b>Nationalization</b></li><li>■ <b>Terrorism</b></li><li>■ <b>Discriminatory treatment</b></li><li>■ <b>Barriers to repatriation of funds</b></li><li>■ <b>Interference in managerial decision making</b></li><li>■ <b>Dishonesty by government officials</b></li></ul>	<ul style="list-style-type: none"><li>■ <b>Helps companies manage exposure to risk and minimize financial loss</b></li> <li>■ <b>Two forms:</b><ul style="list-style-type: none"><li>■ <b>Consultation with experts</b></li><li>■ <b>Development of internal staff capabilities – increasingly common</b></li></ul></li></ul>

# MANAGING POLITICAL RISK

## Avoidance and Adaptation

- **Equity sharing**
- **Participating management**
- **Localization of the operation**
- **Development assistance**

## Dependency and Hedging

- **Input control**
- **Technology control**
- **Expatriate position control**
- **Distribution control**
- **+**
- **Political risk insurance (OPIC and FCIA)**
- **Local debt financing**

## ADDITIONAL RESOURCES

- <http://travel.state.gov/>
- <http://money.cnn.com/>
- <http://www.state.gov>



# MANAGING TERRORISM RISK

- **Develop a benevolent image (IBM and Exxon)**
- **Maintain a low profile and minimize publicity**
- **Using teams to monitor terrorist activities**
- **Hiring counterterrorism consultants**

# ECONOMIC RISK

- **Closely related to political risk**
- **Determined by a country's ability or intention to meet its financial obligations**
- **Historically, most industrialized nations have posed little risk of economic instability**
- **However the level of economic risk in Europe is of concern in the eurozone due to debt problems in Greece**

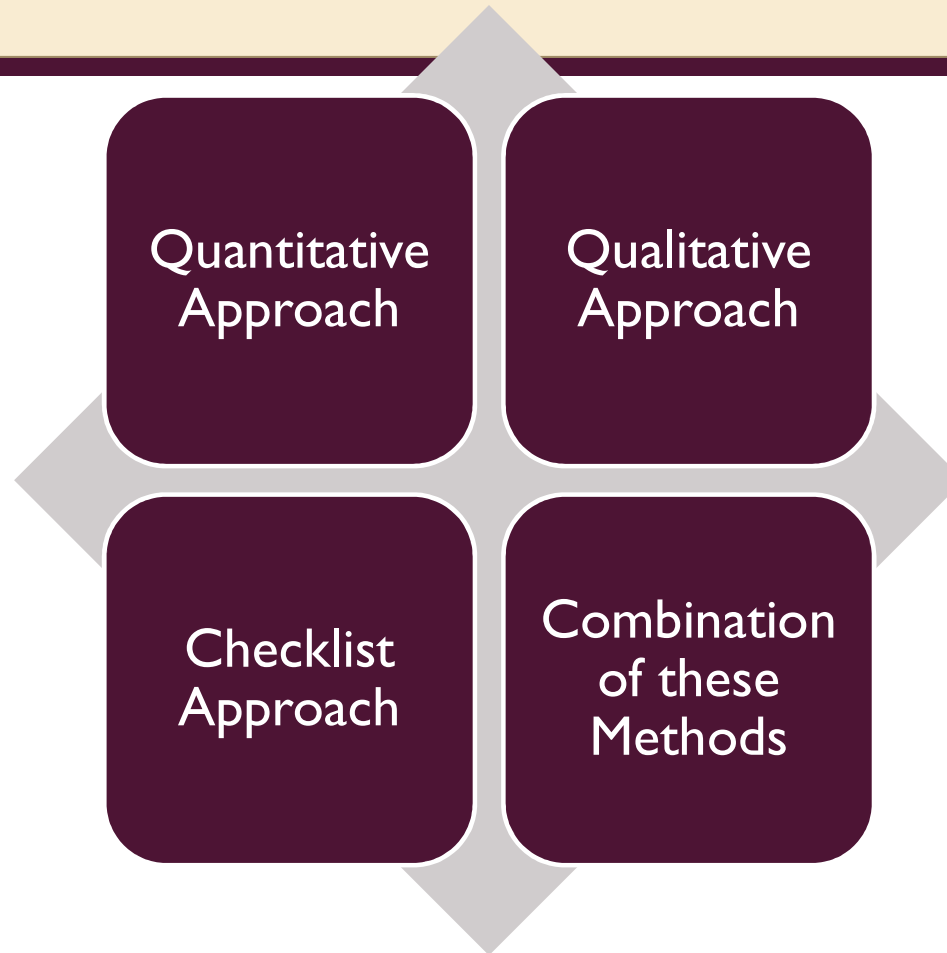
# CATEGORIES OF ECONOMIC RISK

**1. Loss of profitability due to abrupt changes in monetary and fiscal policies**

**2. Loss of profitability due to changes in foreign investment policies**

**3. Risk of currency exchange rate volatility results in currency translation exposure**

# MANAGING THE ECONOMIC RISK



# ADDITIONAL RESOURCES

What is currency worth?

[www.reuters.com](http://www.reuters.com)

**World financial markets' Updates**

[http://www.cnnfn.com/markets/world\\_markets.html](http://www.cnnfn.com/markets/world_markets.html)

## **CHAPTER LEARNING GOALS**

**3. To develop an appreciation of the legal environment for international business**

# THE LEGAL ENVIRONMENT

- Consists of the local laws and legal systems of those countries in which an international company operates, and of international law, which governs relationships between sovereign countries



# THE LEGAL ENVIRONMENT

## Types of Legal Systems

- Common law
- Civil law
- Islamic law

## Approaches to Contract Law

- Common law: details must be written in the contract to be enforced
- Civil law: assumes promises will be enforced without specifying the details
- In Asia the contract may be in the relationship, not on the paper





## **OTHER REGULATORY ISSUES**

- **Protectionist policies, such as tariffs or quotas and other import and trade restrictions**
- **The attractiveness of the tax system**
- **The level of government involvement in the economic and regulatory environment**

## OTHER RESOURCES

Information on all of the embassies in  
Washington, D.C.

<http://www.embassy.org/>

## Chapter Learning Goals

**4. To review the technological environment around the world and how it affects the international manager's decisions and operations.**

# THE TECHNOLOGICAL ENVIRONMENT

- **The appropriability of technology**
- **The International Convention for the Protection of Industrial Property (the Paris Union)**
- **Inappropriate use of technology by JVs, franchisees, licensees, and employees**
- **Appropriateness of technology for the local environment**



## **UNDER THE LENS: THE GLOBAL ROLE OF INFORMATION TECHNOLOGY**

- **Making Geographic barriers less relevant**
- **Both cause and effect of globalization**
- **Lowering cultural barriers**
- **Encouraging convergence of consumers' tastes and preferences**
- **However, China still monitors and limits electronic information flows**

# GLOBAL E-BUSINESS

**E-Business**—the integration of systems, processes, organizations, value chains, and entire markets using Internet-based and related technologies and concepts

**E-Commerce**—marketing and sales process via the internet

**B2B**—Business to Business (Example: Alibaba in China, large proportion is SMEs)

**B2C**—Business to Customer (Example: Amazon.com)

## OTHER RESOURCES

- **Websites like Forrester Research ([www.forrester.com](http://www.forrester.com)) and E-marketer ([www.emarketer.com](http://www.emarketer.com)) provide regular updates on all facets of Electronic Commerce including statistics on the current state of B2B transactions online.**

# QUESTIONS?

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