Learning Objectives

**LO4-1** Explain why the ability to perceive, interpret, and respond appropriately to the organizational environment is crucial for managerial success.

**LO4-2** Differentiate between the global task and global general environments.

**LO4-3** Identify the main forces in both the global task and general environments, and describe the challenges that each force presents to managers.
LO4-4 Explain why the global environment is becoming more open and competitive and identify the forces behind the process of globalization that increase the opportunities, complexities, challenges, and threats that managers face.

LO4-5 Discuss why national cultures differ and why it is important that managers be sensitive to the effects of falling trade barriers and regional trade associations on the political and social systems of nations around the world.
What is the Global Environment?

**Global Organizations**
- Organizations that operate and compete in more than one country
- Operating in the global environment is uncertain and unpredictable

**Global Environment**
- Set of global forces and conditions that operate beyond an organization’s boundaries but affect a manager’s ability to acquire and utilize resources
Forces in the Global Environment

Figure 4.1

[Diagram showing the General Environment, Task Environment, and The Organization]

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What is the Global Environment?

**Task Environment**

- Set of forces and conditions that originate with suppliers, distributors, customers, and competitors and affect an organization’s ability to obtain inputs and dispose of its outputs because they influence managers daily.
What is the Global Environment?

-General Environment

- The wide-ranging global, economic, technological, socio-cultural, demographic, political, and legal forces that affect an organization and its task environment
Question?

What are individuals and organizations that provide an organization with the input resources that it needs to produce goods and services?

A. Customers
B. Suppliers
C. Distributors
D. Competitors
The Task Environment

🔹 Suppliers

- Individuals and organizations that provide an organization with the input resources that it needs to produce goods and services
  - Raw materials, component parts, labor (employees)
Suppliers

- Changes in the nature, number, or types of suppliers produce opportunities and threats to which managers must respond
  - Depending upon these factors, a supplier’s bargaining position may be either strong or weak
- At a global level, managers have the opportunity to buy products from foreign suppliers or to become their own suppliers and manufacture their own products abroad
Global Outsourcing

- The purchase or production of inputs or final products from overseas suppliers to lower costs and improve product quality or design.
The Task Environment

✧ **Distributors**
  
  - Organizations that help other organizations sell their goods or services to customers

✧ If distributors become so **large and powerful** that they can control customers’ access to a goods and services, they can threaten the organization by demanding that it **reduce** the prices of its goods and services
The Task Environment

✧ Customers
- Individuals and groups that buy the goods and services that an organization produces

✧ Identifying an organization’s main customers and producing the goods and services they want is crucial to organizational and managerial success
The Task Environment

✧ **Competitors**
  - Organizations that produce goods and services that are similar to a particular organization’s goods and services

✧ A high level of rivalry typically results in price competition, and falling prices reduce customer revenues and profits

✧ **Potential Competitors**
  - Organizations that presently are not in a task environment but could enter if they so choose
Barriers to Entry

- Factors that make it difficult and costly for the organization to enter a particular task environment or industry
Barriers to Entry

✦ **Economies of Scale**
  − Cost advantages associated with large operations

✦ **Brand Loyalty**
  − Customers’ preference for the products of organizations currently existing in the task environment

✦ **Government Regulations**
  − In some cases act as a barrier to entry at both the industry and the country levels
Barriers to Entry and Competition

Figure 4.2

- Economies of scale
- Brand loyalty
- Government regulations

Create barriers to entry

that deter potential competitors
What are pressures that emanate from the social structure of a country or society or from the national culture?

A. Economic forces
B. Technological forces
C. Socio-cultural forces
D. Demographic forces
The General Environment

✧ Economic Forces

- Interest rates, inflation, unemployment, economic growth, and other factors that affect the general health and well-being of a nation or the regional economy of an organization.
The General Environment

✦ **Technology**
  - The combination of skills and equipment that managers use in designing, producing, and distributing goods and services

✦ **Technological Forces**
  - Outcomes of changes in the technology that managers use to design, produce, or distribute goods and services
What technology has had the biggest impact on business in the last 50 years?

A. Internet
B. Smart phones
C. Computers
D. Email
The General Environment

✧ **Sociocultural Forces**
  
  - Pressures emanating from the social structure of a country or society or from the national culture

✧ **Social Structure**
  
  - The traditional system of relationships established between people and groups in a society
National Culture

- the set of values that a society considers important and the norms of behavior that are approved or sanctioned in that society.
Demographic Forces

- Outcomes of changes in or changing attitudes toward the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, or social class

Most industrialized nations are experiencing the aging of their populations.
The General Environment

✧ Political and Legal Forces

- Outcomes of changes in laws and regulations, such as the deregulation of industries, the privatization of organizations, and an increased emphasis on environmental protection
The Process of Globalization

Globalization

- The set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographical regions so that nations become increasingly interdependent and similar
The Process of Globalization

✧ Forces That Drive Globalization

- Human capital
- Financial capital
- Resource capital
- Political capital
Declining Barriers to Trade and Investment

✧ **Tariff**
- A tax that a government imposes on imported or, occasionally, exported goods

✧ **Free-Trade Doctrine**
- The idea that if each country specializes in the production of the goods and services that it can produce most efficiently, this will make the best use of global resources
Satellites, digital technology, the Internet, global computer networks, and video teleconferencing have enabled reliable, secure, and instantaneous communication to nearly any part of the world.

The Internet facilitates the development of global communications networks and media that have helped to create a worldwide culture above and beyond unique national cultures.
Effects of Free Trade on Managers

✧ Declining Trade Barriers

- Opened enormous opportunities for managers to expand the market for their goods and services.
- Allowed managers to now both buy and sell goods and services globally.
Regional Trade Agreements

✧ **North American Free Trade Agreement (NAFTA)**
  - Aimed to abolish the tariffs on 99% of the goods traded between Mexico, Canada, and the United States by 2004
  
✧ Has removed most barriers on the cross-border flow of resources, giving retail businesses in Canada and the United States **unrestricted access** to the Mexican marketplace
The Role of National Culture

✧ Values

− Ideas about what a society believes to be good, desirable and beautiful
− Provides the underpinnings for notions of individual freedom, democracy, truth, justice, honesty, loyalty, social obligation, collective responsibility,
− Very slow to change
The Role of National Culture

✧ **Norms**
  - Unwritten informal codes of conduct that prescribe how people should act in particular situations and are considered important by most members of a group or organization

✧ **Mores**
  - Norms that are considered to be central to functioning of society and to social life

✧ **Folkways**
  - Routine social conventions of everyday life
Hofstede’s Model of National Culture

Figure 4.4

- Individualism vs. Collectivism
- Low power distance vs. High power distance
- Achievement orientation vs. Nurturing orientation
- Low uncertainty avoidance vs. High uncertainty avoidance
- Short-term orientation vs. Long-term orientation
Hofstede’s Model of National Culture

🌟 Individualism

- A worldview that values individual freedom and self-expression and adherence to the principle that people should be judged by their individual achievements rather than by their social background
Collectivism

- A worldview that values subordination of the individual to the goals of the group and adherence to the principle that people should be judged by their contribution to the group
Hofstede’s Model of National Culture

✧ Power Distance

- The degree to which societies accept the idea that inequalities in the power and well-being of their citizens are due to differences in individuals’ physical and intellectual capabilities and heritage
Hofstede’s Model of National Culture

✧ **Achievement Orientations**
  - Worldview that values assertiveness, performance, success, and competition

✧ **Nurturing Orientation**
  - Worldview that values quality of life, warm personal friendships, and care for the weak
Hofstede’s Model of National Culture

**Uncertainty Avoidance**

- Degree to which societies are willing to tolerate uncertainty and risk
Hofstede’s Model of National Culture

✧ **Long-Term Orientation**
  - Worldview that values thrift and persistence in achieving goals

✧ **Short-Term Orientation**
  - Worldview that values personal stability or happiness and living for the present
National Culture and Global Management

✧ Management practices that are effective in one country might be troublesome in another

✧ Managers must be sensitive to the value systems and norms of an individual’s country and behave accordingly
Be the Manager

-Analyze the major forces in the task environment of a retail clothing store
Topics for Discussion

Why is it important for managers to understand the forces in the global environment that are acting on them and their organizations? [LO 4-1]
The population is aging because of a combination of declining birth rates, declining death rates, and the aging of the baby boom generation. What might some of the implications of this demographic trend be for (a) a pharmaceutical company, and (b) the home construction industry? [LO 4-1, 4-2, 4-3]
Which organization is likely to face the most complex task environment—a biotechnology company trying to develop a new cure for cancer or a large retailer like the Gap or Macy’s? Why? [LO 4-2, 4-3]
How do political, legal, and economic forces shape national culture? What characteristics of national culture do you think have the most important effect on how successful a country is in doing business abroad? [LO 4-3, 4-5]
After the passage of NAFTA, many U.S. companies shifted production operations to Mexico to take advantage of lower labor costs and lower standards for environmental and worker protection. As a result, they cut their costs and were better able to survive in an increasingly competitive global environment. Was their behavior ethical—that is, did the ends justify the means? [LO 4-4]