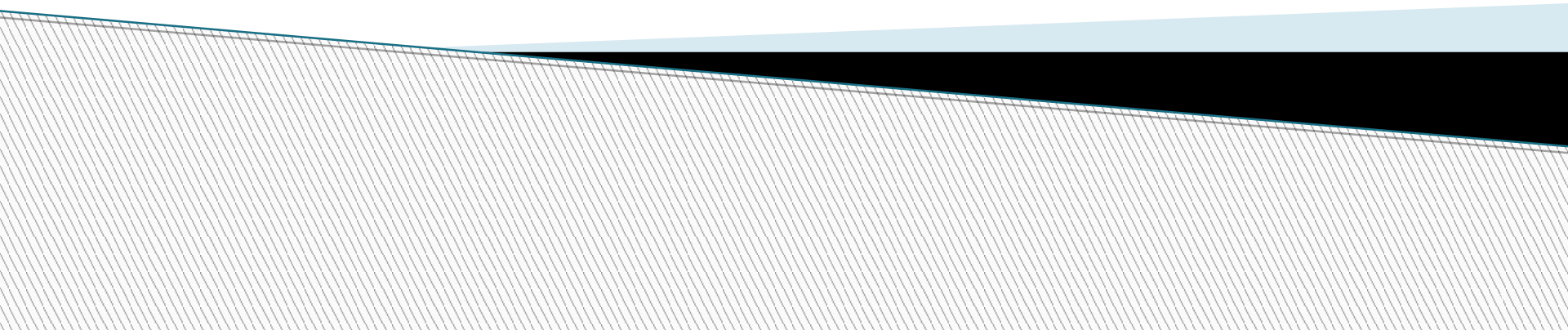


# Perspective Management



# What we will cover

Module 1 : Management: Science Theory and Practice

What is Management

Evolution of Management Thought

Management and Society: The External Environment

Social Responsibility and Ethics

Global Management

Planning: Nature, Purpose, Objectives, Strategic Planning

Decision Making

# What we will cover

## Module 2 : Organizing, Leading and Communicating

Nature of Organizing

Organizational Structures

Line/ Staff Authority and Decentralization

Effective Organizing and Organizational Culture

Human Factors and Motivation

Leadership

Committees, Teams and Group Decision Making

Communication

# What we will cover

## Module 3 : Controlling

System and Process of Controlling

Control Techniques and Information Technology

Line/ Staff Authority and Decentralization

Effective Organizing and Organizational Culture

# What we will cover

Module 4 : Mental Conditioning

Entrepreneur v/s Manager

Risk and Rewards

# What we will cover

Module 5 : Strategic Management

What is Strategic Management

Strategic Decision making

Relevance of Strategic Management

# What we will cover

## Module 6 : Recent Trends in Management

Social Responsibility of Management

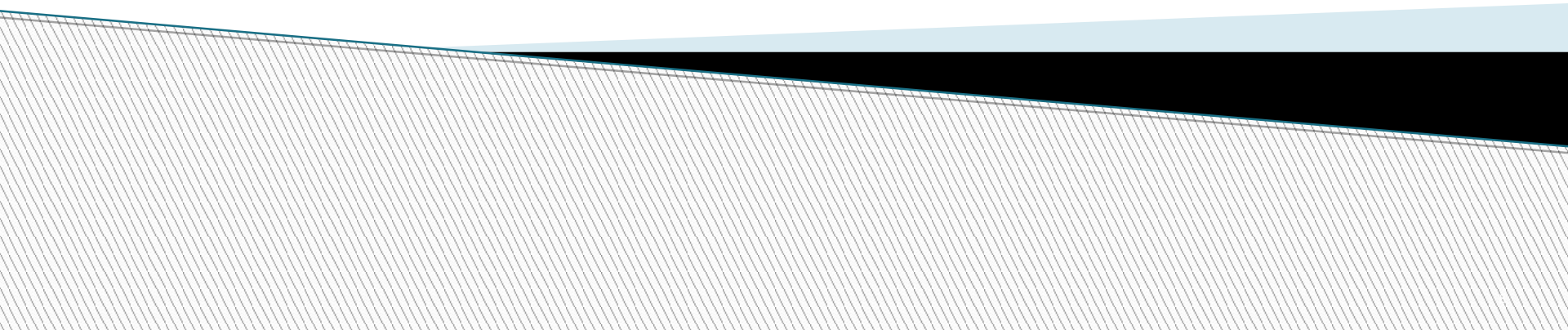
Management of Change

Management of Crisis

Total Quality Management

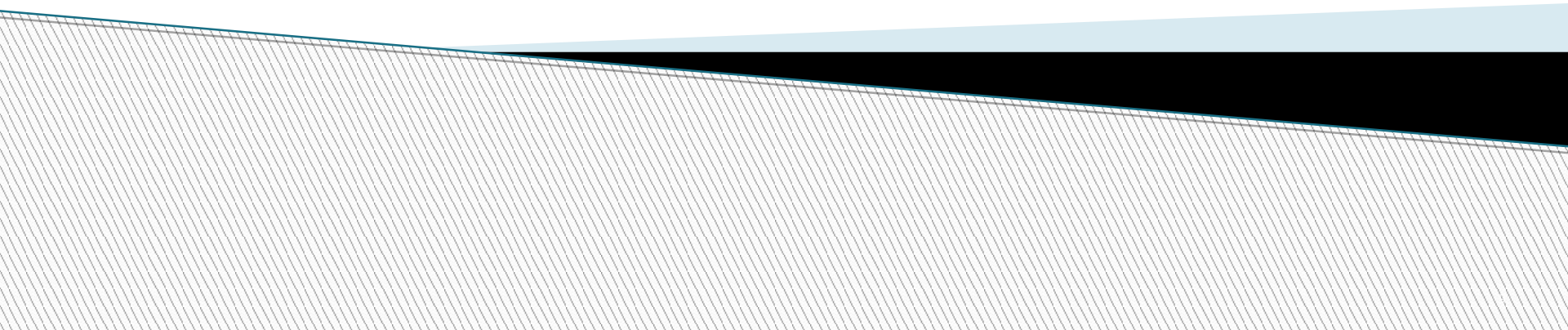
Stress Management

# Module 1: Management: Science, Theory and Practice





# Management Defined



# Management Defined

- ▶ Management is the process of achieving goals and objectives effectively and efficiently through and with the people.
- ▶ Management is a process of designing and maintaining an environment in which individuals work together in groups to effectively and efficiently accomplish selected aims



# Management Defined

- ▶ Management is the process of achieving organizational goals and objectives effectively and efficiently by using management functions i.e.
  - Planning
  - Organizing
  - Staffing
  - Leading
  - Controlling
- ▶ Management is a set of activities directed at an organization's resources with the aim of achieving organizational goals in an efficient and effective manner.



# Implications of the Definition

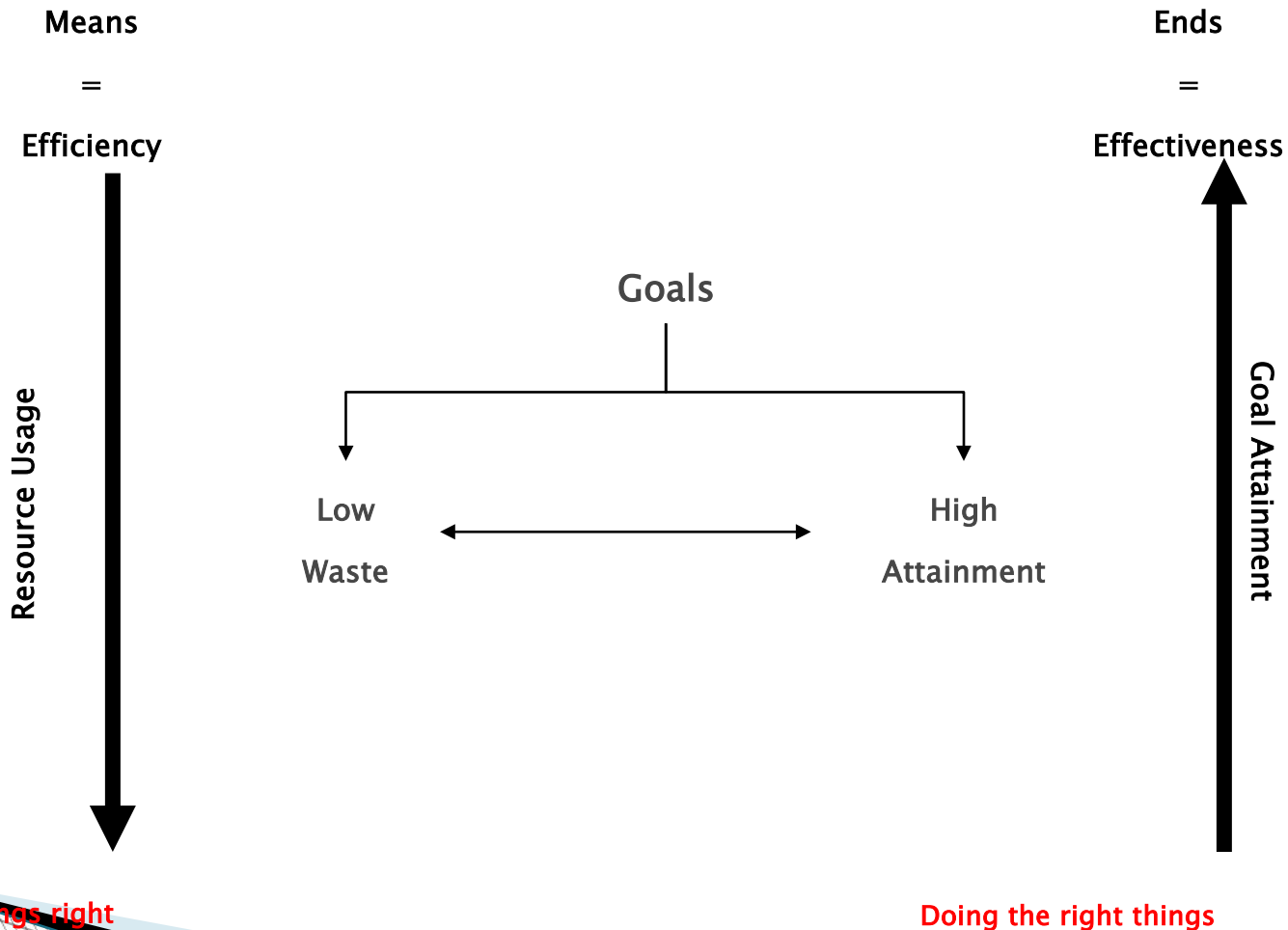
- ▶ Management is thus a continuous effort aimed at shaping an organization and contributing to its overall growth;
- ▶ Functions of managers include
  - Planning
  - Organizing
  - Staffing
  - Leading
  - Controlling
    - These functions are essential to any kind of organization
- ▶ Aim of managers is to increase productivity, effectiveness and efficiency

# Elements of the Definition

- ▶ Process –represents ongoing functions or primary activities engaged in by managers
- ▶ Efficiency –getting the most output from the least amount of inputs
  - “doing things right”
  - concerned with means
  - Achieving the objectives in time
- ▶ Effectiveness –completing activities so that organizational goals are attained
  - “doing the right things”
  - concerned with ends
  - Achieving the objectives on time



# Efficiency and Effectiveness



# Case Study for Class Discussion

- ▶ Where did Ahmed go wrong??

# Case Study: Where did Ahmed go wrong??

- ▶ Sole focus on quantity
- ▶ Lack of automation – no idea about projects, deadlines
- ▶ Weak project management
- ▶ Weak monitoring systems
- ▶ Lack of investment in training???



What to Do

**EFFECTIVENESS**

**EFFICIENCY**

How to Do

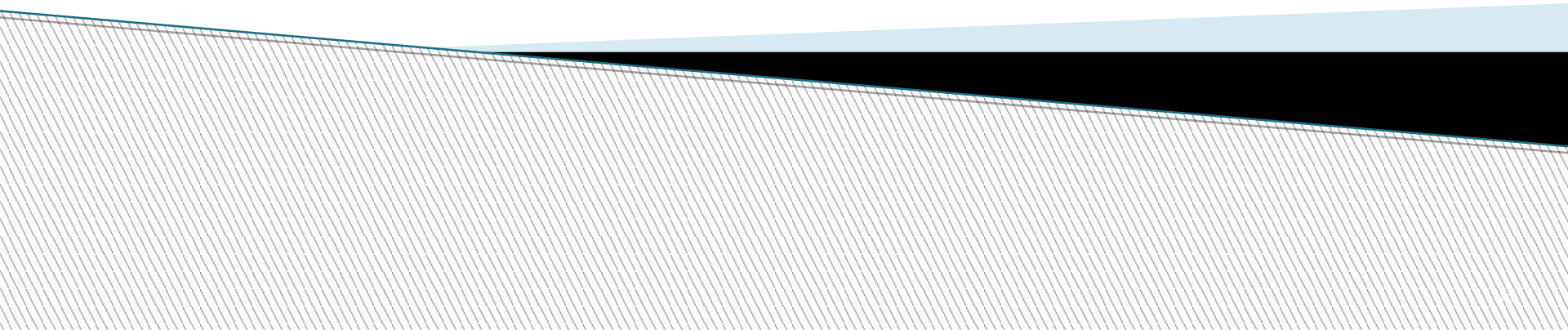
		LOW	HIGH
HIGH	<p><b>Low efficiency/ High effectiveness</b></p> <p>Manager chooses the right goals to pursue, but does a poor job of using resources to achieve these goals. Result: A product that customers want, but that is too expensive for them to buy.</p>	<p><b>High efficiency/ High effectiveness</b></p> <p>Manager chooses the right goals to pursue and makes good use of resources to achieve these goals. Result: A product that customers want at a quality and price that they can afford.</p>	
LOW	<p><b>Low efficiency/ Low effectiveness</b></p> <p>Manager chooses wrong goals to pursue and makes poor use of resources. Result: A low-quality product that customers do not want.</p>	<p><b>High efficiency/ Low effectiveness</b></p> <p>Manager chooses inappropriate goals, but makes good use of resources to pursue these goals. Result: A high-quality product that customers do not want.</p>	

High-performing organizations are efficient *and* effective.

# Another real life example

- ▶ Efficiency is doing something as fast as possible without making mistakes. For instance, you build a quality ladder as fast as possible, using the right tools, right materials and right workforce.
- ▶ Effectiveness is doing the right thing, also as fast as possible, without making mistakes. Once you have completed the ladder you remember that you need to use it in the garden to pick apples. However, you have assembled it in your upstairs bedroom. As a result, you will now have to dismantle it and start again outside. You can see that you may have been efficient in terms of the speed by which you put the ladder together, but because you didn't plan the activity properly, you were ineffective in achieving your ultimate goal of having the ladder completed in the right place at the right time."

# Management : Art or Science



# Management As Art

- ▶ Management is an art of getting things done through people
- ▶ Management is an art due to
  - Use of intelligence
  - Initiative
  - Innovative
  - Individual Approach
  - Application and Dedication
  - Result Oriented

# Management as a Science

- ▶ Science is a systematic body of knowledge which is universally accepted
- ▶ Frederick W Taylor – Father of Scientific Management was perhaps the first person to consider Management as a Science
- ▶ Sciences can be
  - Physical Sciences – exact and accurate
    - Physics/ Chemistry
  - Social Sciences – not exact and accurate
    - Deal with Human beings
- ▶ So what kind of Science is Management??

# Management – Both Art and Science

## Management as Art

- ▶ Advances by practice
- ▶ Feels
- ▶ Guesses
- ▶ Describes
- ▶ Opines
- ▶ Expresses

## Management as Science

- ▶ Advances by knowledge
- ▶ Proves
- ▶ Predicts
- ▶ Defines
- ▶ Measures
- ▶ Impresses

# Characteristics of Management



# Characteristics of Management

Management is intangible

Management is goal oriented

Management is universal

Management is a social process

Management is a group activity

Management is a system of authority

Management is dynamic

Management is both a science and an art

Management is multidisciplinary



# Functions of Management



# Functions of Management

1

## Planning

Planning is the process of setting goals, and charting the best way of action for achieving the goals. This function also includes, considering the various steps to be taken to encourage the necessary levels of change and innovation.

2

## Organizing

Organizing is the process of allocating and arranging work, authority and resources, to the members of the organization so that they can successfully execute the plans.

3

## Staffing

A: Staffing is the process of filling the positions in the organization and keeping them filled.

B: Staffing is the process of recruiting and selecting the right person for the right job at the right time in the right place.

4

## Leading

Leading involves directing, influencing and motivating employees to perform essential tasks. This function involves display of leadership qualities, different leadership styles, different influencing powers, with excellent abilities of communication and motivation.

5

## Controlling

Controlling is the process of devising various checks to ensure that planned performance is actually achieved. It involves ensuring that actual activities conform to the planned activities. Monitoring the financial statements, checking the cash registers to avoid overdraft etc., form part of this process.

**Who is a Manager???**



# Who is a Manager

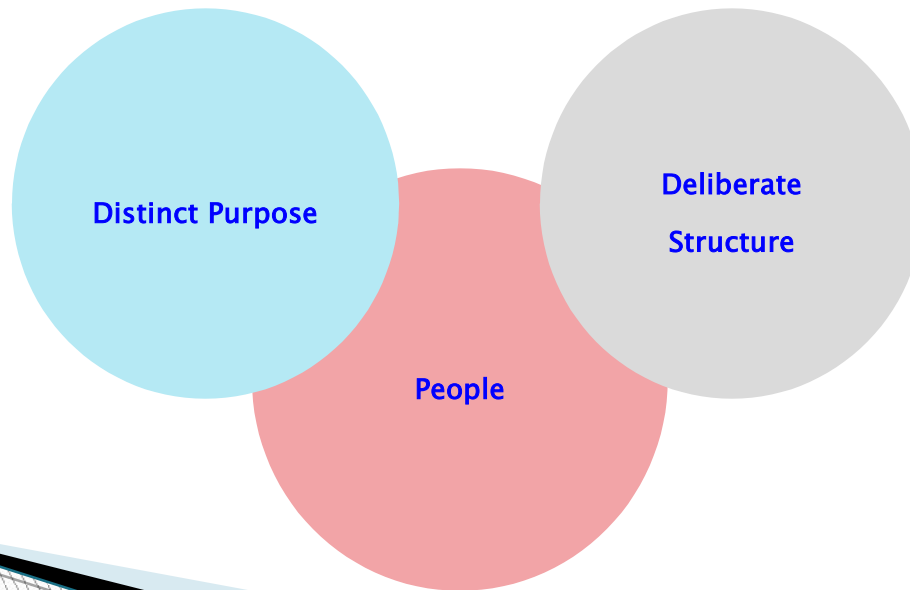
- ▶ A manager is someone whose primary responsibility is to carry out the management process within an organization to achieve the organizational goals.



# What is an Organization

- ▶ An organization is a systematic arrangement of people to accomplish some specific purpose.

## Characteristics of Organization



# Organizational Levels

Top Level Management

Operatives – People who work directly on a job or task and have no responsibility for overseeing the work of others

Managers – Individuals in an organization who direct the activities of others

Middle Level Management

First-Line  
Management

# Top Management

*Responsible for...*

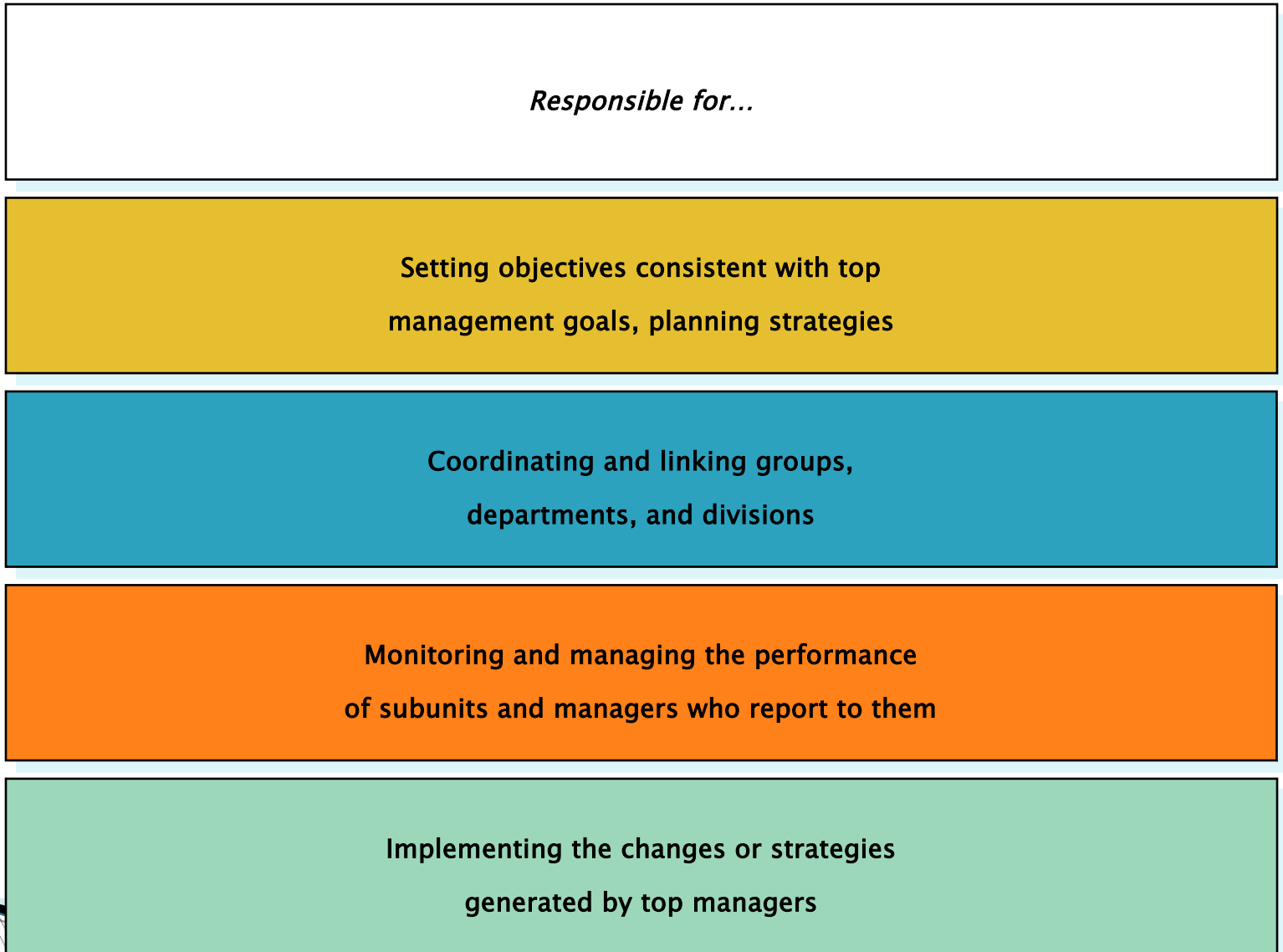
**Creating a context for change**

**Developing attitudes of commitment  
and ownership in employees**

**Creating a positive organizational  
culture through language and action**

**Monitoring their business environments**

# Middle Management





# First Line Management

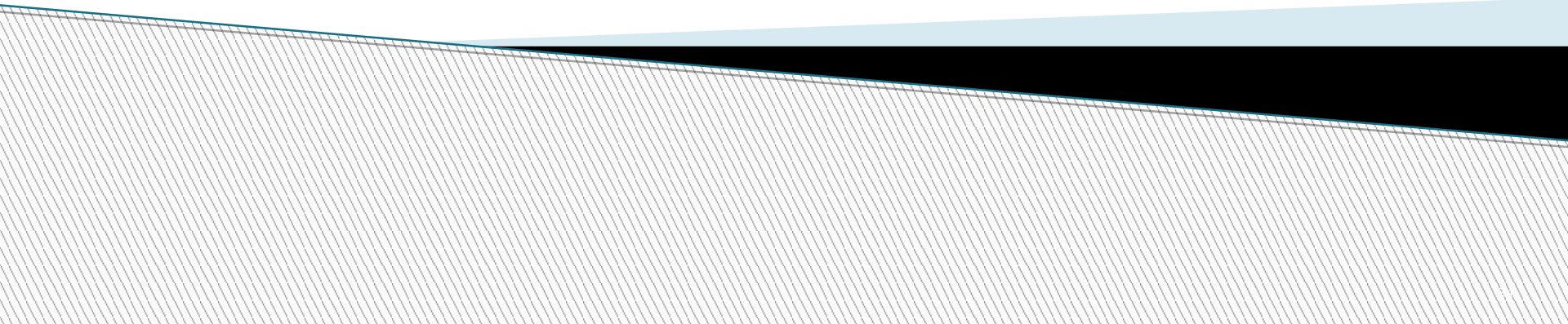
*Responsible for...*

Managing the performance of  
entry-level employees

Teaching entry-level employees  
how to do their jobs

Making schedules and operating plans based on  
middle management's intermediate-range plans

# Managerial Roles



# Mintzberg's Managerial Roles

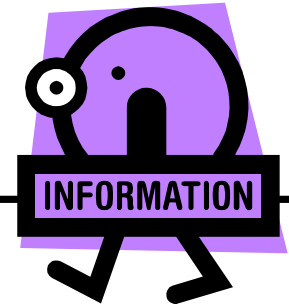
■ Henry Mintzberg studied CEOs at work and created a scheme to define what managers do on the job. These are commonly referred to as *Mintzberg's managerial roles*.

■ These can be grouped into three primary headings: *Interpersonal, Informational and Decisional*



# INTERPERSONAL

Role	Description	Identifiable Activity
<b>Figurehead</b>	Manager serves as an official representative of the organization or unit	
<b>Leader</b>	Manager guides and motivates staff and acts as a positive influence in the workplace	
<b>Liaison</b>	Manager interacts with peers and with people outside the organization to gain information	



# INFORMATIONAL

Role	Description	Identifiable Activity
Monitor	Manager receives and collects information	
Communication (Disseminator)	Manager distributes information within the organization	
Spokesperson	Manager distributes information outside the organization	

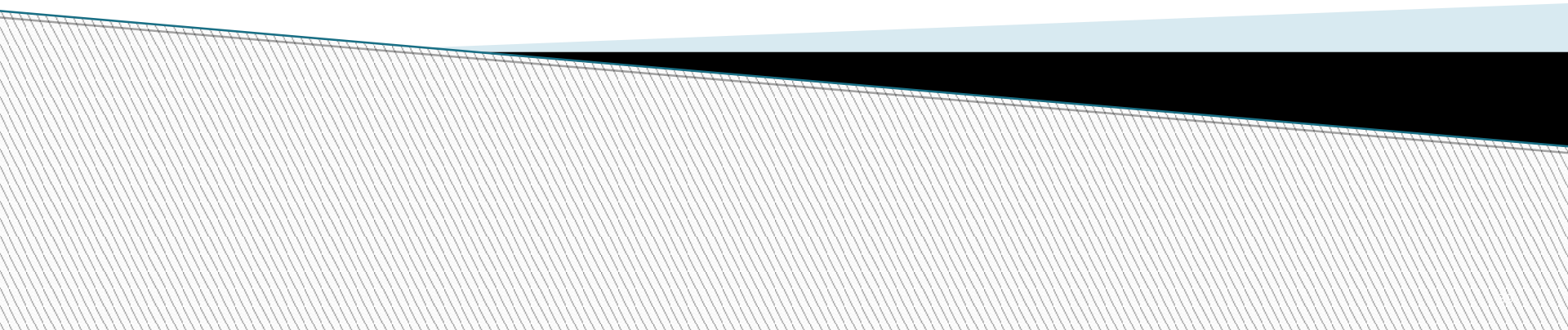
# DECISIONAL



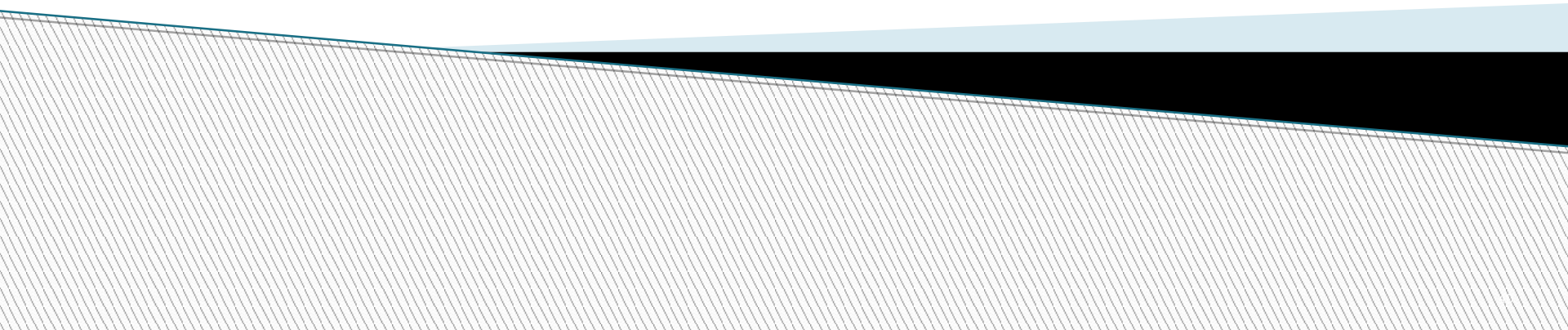
Role	Description	Identifiable Activity
Entrepreneur	Manager initiates change	
Disturbance Handler	Manager decides how conflicts between subordinates should be resolved	
Resource Allocator	Manager decides how the organization will use its resources	
Negotiator	Manager decides to negotiate major contracts with other organizations or individuals	

# Case for Class Discussion

## “Left or Right”



# Management Skills





# Managerial Skills



## Managerial Skills

### Primary Skills

- Conceptual Skills
- Technical Skills
- Human Skills

### Secondary Skills

- Problem solving Skills
- Communication Skills
- Leadership Skills

# Managerial Skills

## Conceptual Skills

- Ability to think and conceptualize abstract situations
- These abilities required for complex decision making
- Mental capacity to develop plans, strategies and vision

## Technical Skills

- Knowledge, ability or proficiency in activities involving methods, processes and procedures in relevant fields
- Ability to use the knowledge or techniques of a particular discipline to attain the ends

## Interpersonal/ Human Skills

- Ability to understand other people and interact effectively with them
- Ability to work with other people in teams

# Managerial Skills

## Problem Solving Skills

- Ability to handle and solve any sort of unforeseen or actual problems that may crop up in the organization

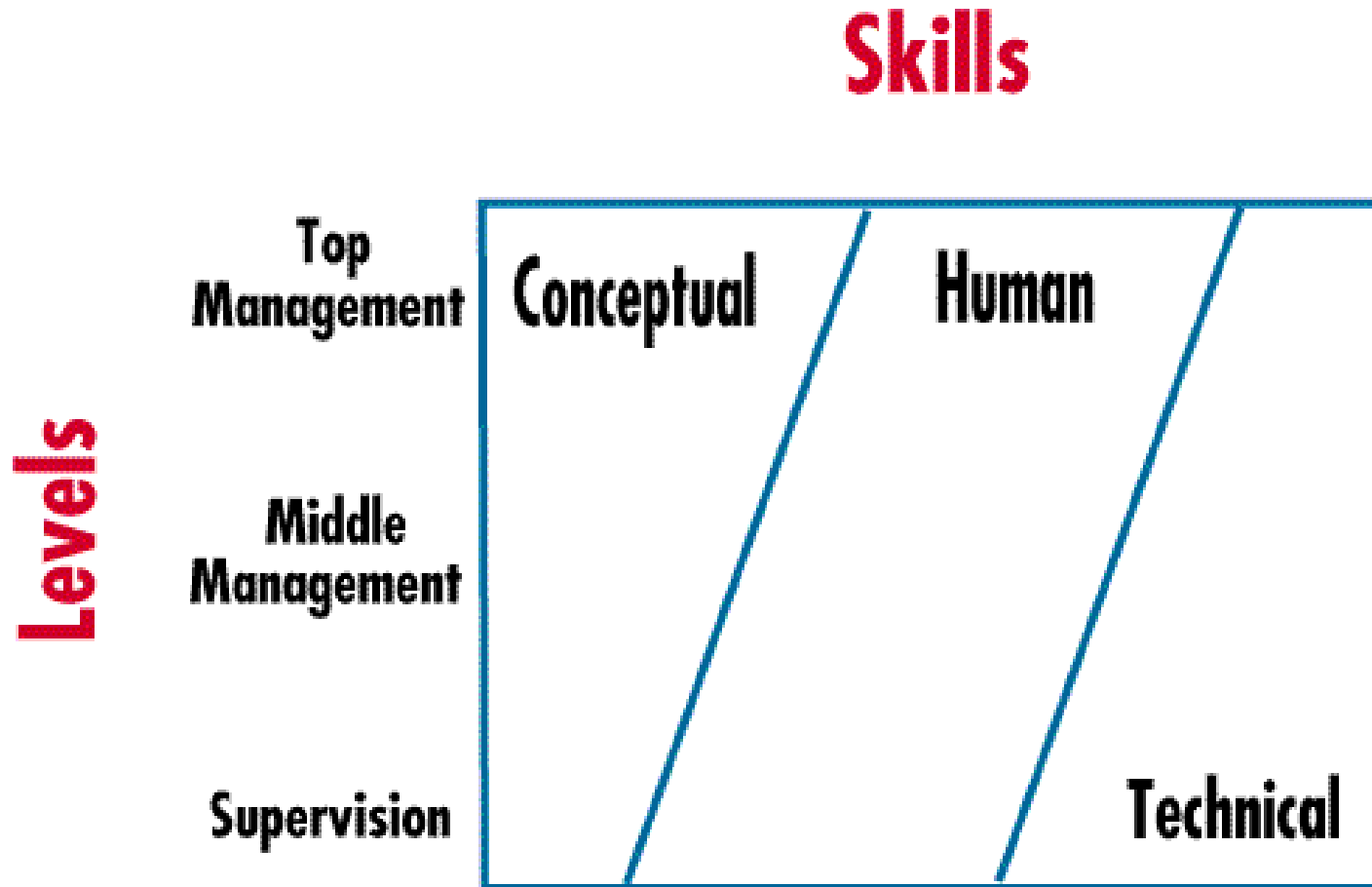
## Communication Skills

- Ability to exchange ideas and information effectively
- To understand others and let others understand you comprehensively

## Leadership Skills

- Ability to influence others to achieve a common goal.

# Skill Distribution at various levels



# Skills of an Effective Manager

## Planning Skills

- Ability to think ahead
- Ability to forecast future trends
- Ability to state organizational objectives clearly and precisely
- Ability to make choices that help in realizing predetermined goals
- Ability to set performance standards

## Organizing Skills

- Ability to analyze and describe various organizational jobs
- Ability to select, train, develop and maintain people
- Ability to define working relationships and authority flow properly
- Ability to get along with changing situations

# Skills of an Effective Manager

## Leading Skills

- Ability to see the big picture
- Ability to communicate ideas effectively
- Ability to inspire people to do better
- Ability to inculcate a sense of collectivism in the employees and motivate them to do their job better

## Controlling Skills

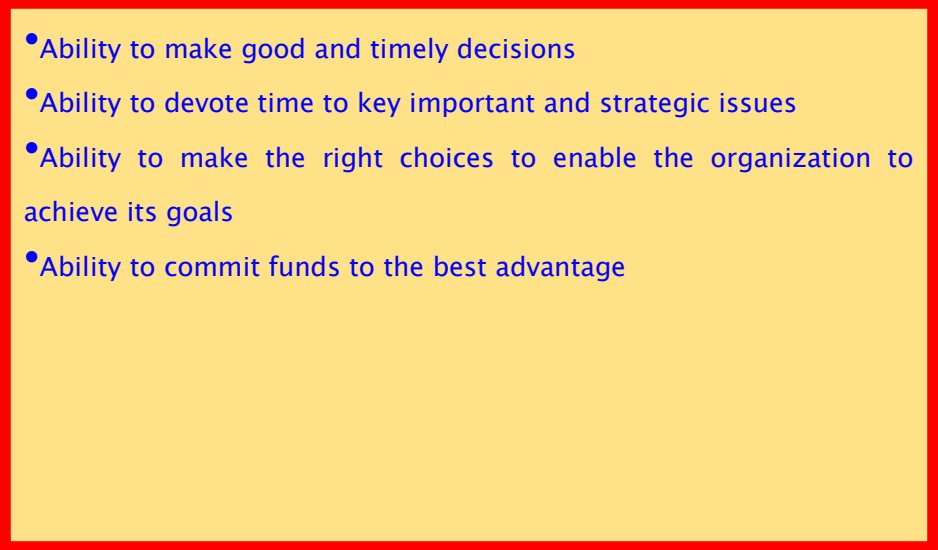
- Ability to keep the activities on desired path
- Ability to initiate corrective steps at the right time
- Ability to ensure effective control measures without hurting the feelings of employees in a negative manner

# Skills of an Effective Manager

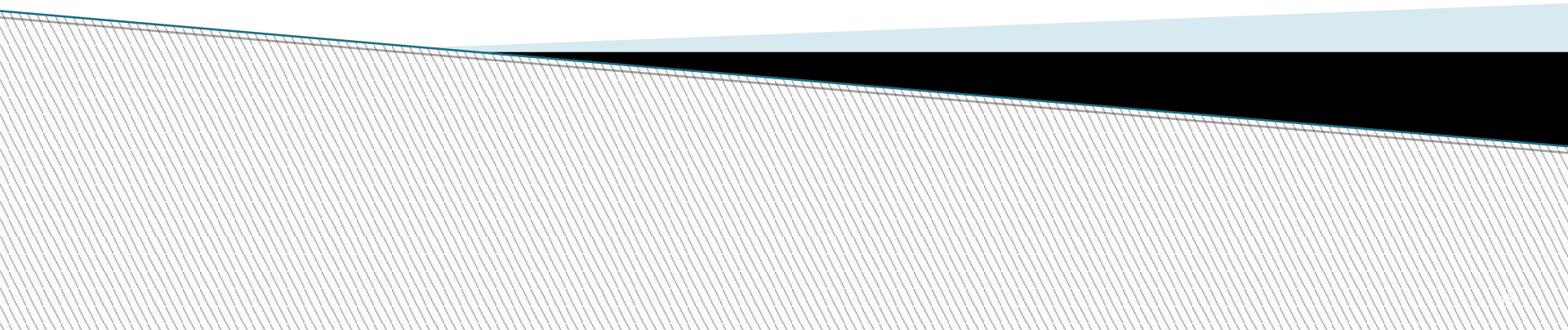


Decision Making  
Skills



- 
- Ability to make good and timely decisions
  - Ability to devote time to key important and strategic issues
  - Ability to make the right choices to enable the organization to achieve its goals
  - Ability to commit funds to the best advantage

# Is Managing People Easy?? Some Food for Thought

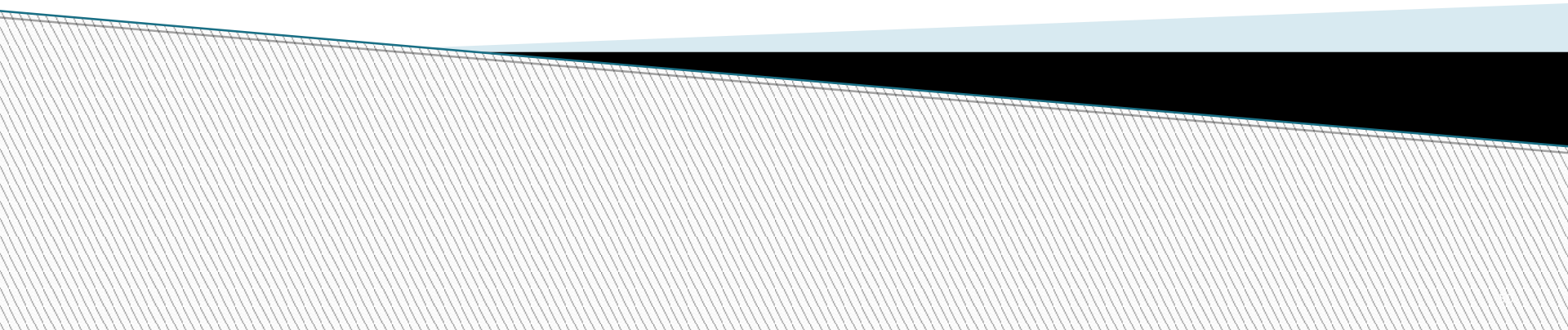




# Managing People is not EASY

- ▶ In one of Burmah–Shell’s up–country divisional offices an expatriate with a military background was in charge as divisional manager. One day he received an anonymous letter that the night watchman at the company’s local petroleum storage depot in the railway yard was habitually asleep on duty. He decided to stop at the depot without notice after a dinner party. Not unexpectedly, he found the watchman fast asleep. He decided not to create a fuss at that late hour, merely picked up the watchman’s pugree as proof.
- ▶ He was back at the depot the next morning before the watchman had handed over charge. The company’s depot superintendent conducted an inquiry on the spot, as required under the law before disciplinary action could be taken. It was expected that, having been caught red–handed, the watchmen would confess guilt, plead that this was his first offence (possibly claiming that he had little sleep in the previous couple of days as a result of sickness in the family or a similar excuse) and seek mercy in the form of a warning rather than a harsh penalty.
- ▶ The watchman came up with an ingenious defence instead. He told the depot superintendent, keeping a very straight face, that Sahib was drunk as a lord when he arrived at the depot and for some reason demanded his *pugree*. He could not understand what had caused the strange command but he decided that it was a harmless order and it would be wise under the circumstances to hand over without much ado. He then persuaded Sahib to get into his car and go home. His interrogators were stunned by this defense and acquitted the watchman, for want of corroborating evidence!

# A Skill Building Exercise



# RajivBeri's Diary

- ▶ RajivBeri is the president of a small company that produces electronic circuits. Here is his diary for one day

Time	Activity
7:30 – 8:15	Weekly Staffmeeting with five supervisors
8:15 – 8:45	Made arrangements to display the company's products at a trade show in October
8:45 – 9:30	Interviewed an applicant for the position of purchasing agent
9:45 – 10:00	Discussed maternity leave with a secretary
10:00 – 11:00	Met with three shareholders to explore how Rs. 10 lakhs in new funds could be obtained
11:00 – 12:00	Met with a potential customer to demonstrate equipment and processes
12:00 – 1:15	Took the customer to lunch
1:15 – 2:15	Worked with the production supervisor to determine why recent units were not meeting quality control standards
2:15 – 2:45	Telephone conversation with a customer who complains about one of their salespeople

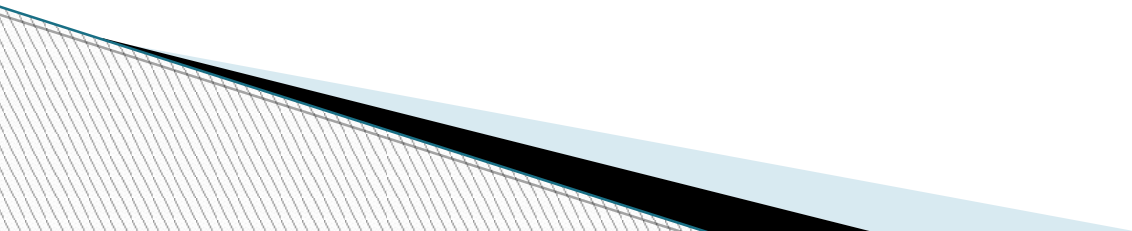
# RajivBerri'sDiary

Time	Activity
2:45 – 3:15	Discussionwith salespeople regarding the complaint
3:15 – 4:30	Visited a local bank to determine prospects for borrowing Rs. 10lakhs
4:30– 6:30	Worked in the laboratory to try out some newoptics to be used in the production equipment

- 1. Of the Activities listed, which ones are technical and which managerial?*
- 2. In relation to each managerial activity, list the management function involved.*
- 3. Based on the above, do you consider RajivBerito be an effective manager?*

# Evolution of Management Thought/ Theory

# Evolution of Management Theory



# Scientific Management Theory

# Scientific Management Theory

- ▶ Modern management began in the 19<sup>th</sup> century
  - Organizations were seeking ways to better satisfy customer needs
  - Machinery was changing the way goods were produced
  - Managers had to increase efficiency of the worker–task mix
  
- ▶ Key proponents of Scientific Management
  - Frederick W Taylor
  - Frank and Lillian Gilbreth
  - Henry Gantt
  
- ▶ One of the important scientific management theories was proposed by Frederick W Taylor
  - Systematic study of work methods to improve the productivity of individual workers
    - Taylor sought to reduce the time spent by a worker on each task by optimizing the way the task was done



# Scientific Management Theory

- ▶ F.W. Taylor is known as the Father of Scientific Management
- ▶ Worked as a mechanical engineer with Midvale and Bethlehem Steel Companies in Pennsylvania
  - Was continually appalled by worker's inefficiencies
    - Employees used vastly different techniques to do the same job
    - Workers loaded “pigs” of iron weighing 92 pounds onto rail cars
      - Average daily output was 12.5 tons per worker
      - Combination of procedure, techniques and tools along with motivating the worker with an economic incentive, Taylor increased average daily output to 48 tons per worker

# Scientific Management Theory

- ▶ Taylor's Four Principles of Scientific Management
  - Scientifically study each part of a task and develop the best method of performing the task.
  - Carefully select workers and train them to perform the task by using the scientifically developed method.
  - Cooperate fully with workers to ensure that they use the proper method.
  - Divide work and responsibility so that management is responsible for planning work methods using scientific principles and workers are responsible for executing the work accordingly.

# Scientific Management Theory – Summation

- ▶ Science and not “rule of thumb”
- ▶ Harmony not discord
- ▶ Cooperation not individualism
- ▶ Maximum output instead of restricted output
- ▶ Development of each man to his greatest efficiency and prosperity
- ▶ Equitable distribution of work and responsibility between management and labour

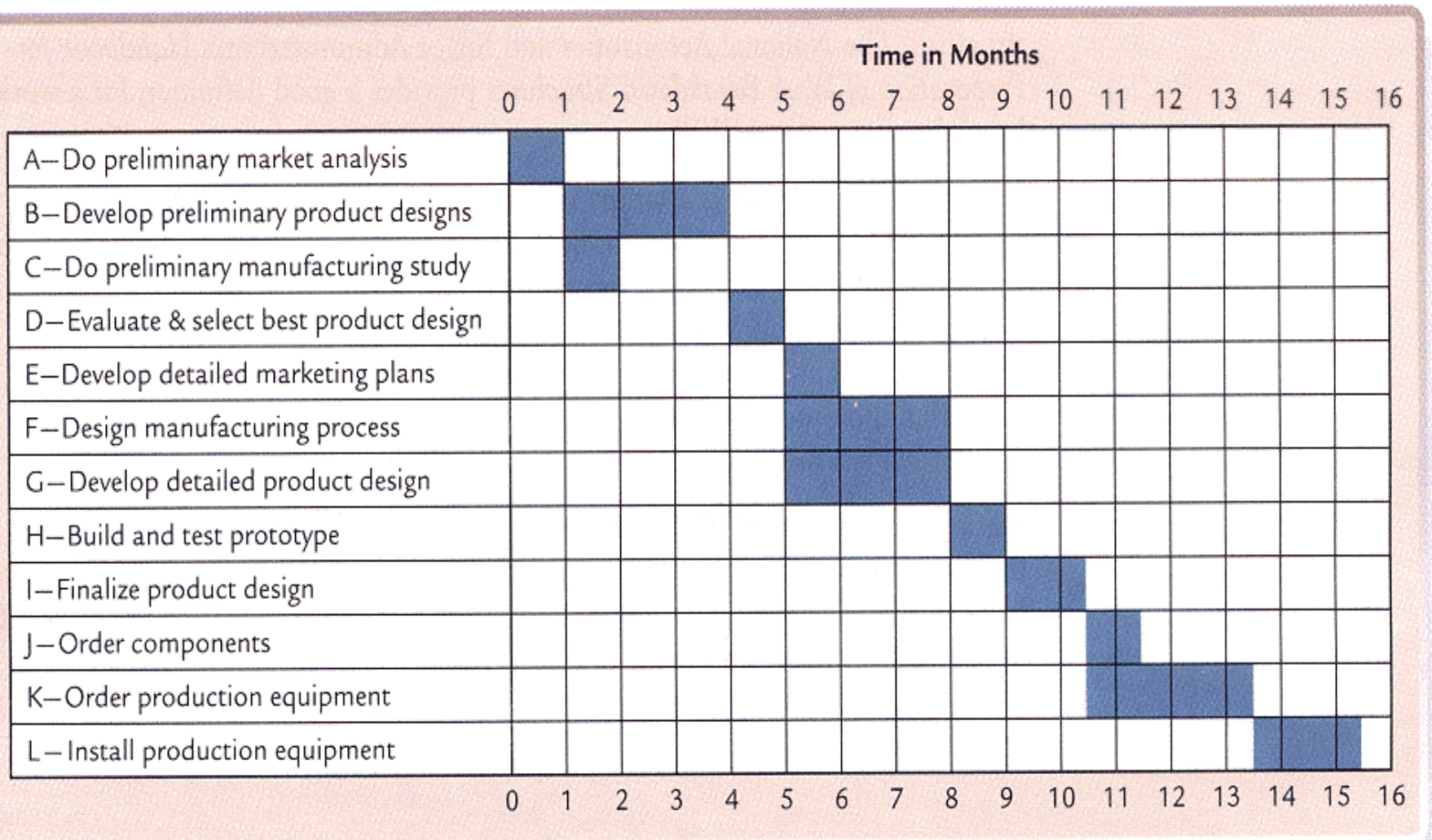
# Scientific Management Theory

- ▶ Frank and Lillian Gilbreth's Theory
- ▶ Refined Taylor's methods of Scientific Management
- ▶ First researchers to use motion pictures to study hand and body motions
- ▶ Advocated Time and Motion Studies
  - Break down every action into components
  - Find better ways to perform it
  - Reorganize each action to be more efficient
  - Thus find the best sequence and minimum number of motions required to complete a task
- ▶ The Gilbreths also studied fatigue problems, heating, lighting and other worker issues

# Scientific Management Theory

- ▶ Henry Gantt sought to increase worker efficiency through scientific investigation
- ▶ Devised an incentive system that gave workers a bonus for completing jobs in time less than the allowed standard
  - Also introduced a bonus for each foreman to be paid for each worker who made the standard and an “extra” bonus if all the workers under the foreman made the standard
- ▶ Expanded the scope of scientific management to include work of managers as well as operatives
- ▶ Gantt Chart is a simple chart that compares actual and planned performances
  - Allows management to see how plans are progressing and take necessary action to keep projects on time
  - Modern variations still used for scheduling work in today’s organizations

# Sample Gantt Chart



# Scientific Management Theory

- ▶ Problems with Scientific Management theory
  - Managers often implemented only the “increased output” part of Taylor’s plan
  - They did not allow workers to share in the increased output
  - Specialized jobs became very boring and dull
  - Workers could purposely “underperform”
  - Management responded with increased use of machines
  - Did not acknowledge variance amongst individuals
  - Tended to regard workers as uninformed and ignored their ideas
  - Workers ended up distrusting Scientific Management

# General Administrative Theories





# Administrative Theories

- ▶ This group of theorists looked at the subject of management but focused on the entire organization
  - Looks at not only shop floor but also managerial level
  - What managers do and what constitutes good management practice
- ▶ Max Weber's theory of bureaucracy
- ▶ Henry Fayol's 14 principles of Management

# Max Weber's Theory of Bureaucratic Management

- ▶ German sociologist who developed a theory of authority structures
  - Described organizational activity based on authority relations
  - Described an ideal type of organization called a bureaucracy characterized by
    - Division of labor
    - Clearly defined hierarchy
    - Detailed rules and regulations
    - Impersonal relationships

# Weber's Ideal Bureaucracy

- ▶ Division of Labor
  - Jobs are broken down into simple, routine, and well defined tasks
- ▶ Authority Hierarchy
  - Offices or positions are organized into a hierarchy
    - Each lower one being controlled and supervised by a higher one
- ▶ Formal Selection
  - All organizational members are to be selected on the basis of technical qualifications demonstrated by training, education or formal examination
- ▶ Formal Rules and Regulations
  - Managers must depend on formal organizational rules to ensure uniformity and regulate the actions of employees

# Weber's Ideal Bureaucracy

## ▶ Impersonality

- Rules and controls are applied uniformly
- Avoid involvement with personalities and personal preferences of employees

## ▶ Career Orientation

- Managers are professional officers, rather than owners
- Work for fixed salaries and pursue their careers within the organization

- *Recognized that this system didn't exist in reality*
- *Used it as a basis for work theory and how work could be done in large groups*

# Henry Fayol's 14 Principles of Management

Division of Labor



- Allows for job specialization
- Specialization increases output by making employees more efficient

Authority and Responsibility



- Managers must be able to give orders
- Authority gives them this right
- Along with authority, goes responsibility

Unity of Command



- Every employee should receive orders only from one superior

Line of Authority/ Scalar Chain



- A clear chain from the top to the bottom of the organization

Centralization



- The degree to which authority rests at the top of the organization

# Henry Fayol's 14 Principles of Management

Unity of Direction

r

• Each group of activities that have the same objective should be directed by one manager using one plan.

Equity

• Provision of justice and fair and impartial treatment of all employees

Order

• People and materials should be in the right place at the right time.

Initiative

• Fostering of creativity and innovation by encouraging employees to act on their own

Discipline

• Obedient, respectful employees needed for the organization to function

# Henry Fayol's 14 Principles of Management

General interest over individual interest



•Interests of one or a group of employees should not take precedence over the interests of the organization

Remuneration



•Workers must be paid a fair wage for their services

Stability of tenure



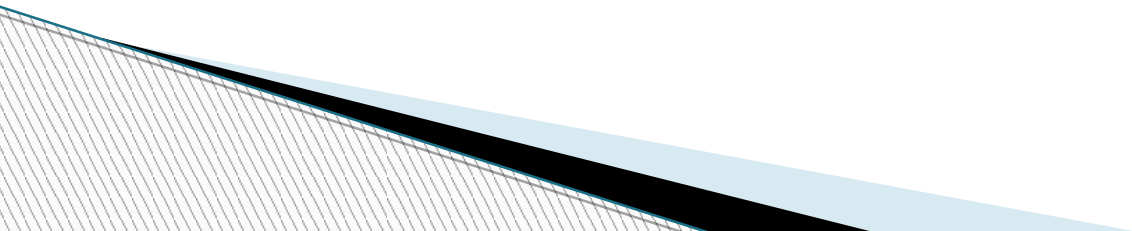
•Long term employment is important for the development of skills that improve the organization's performance

Espiritde corps



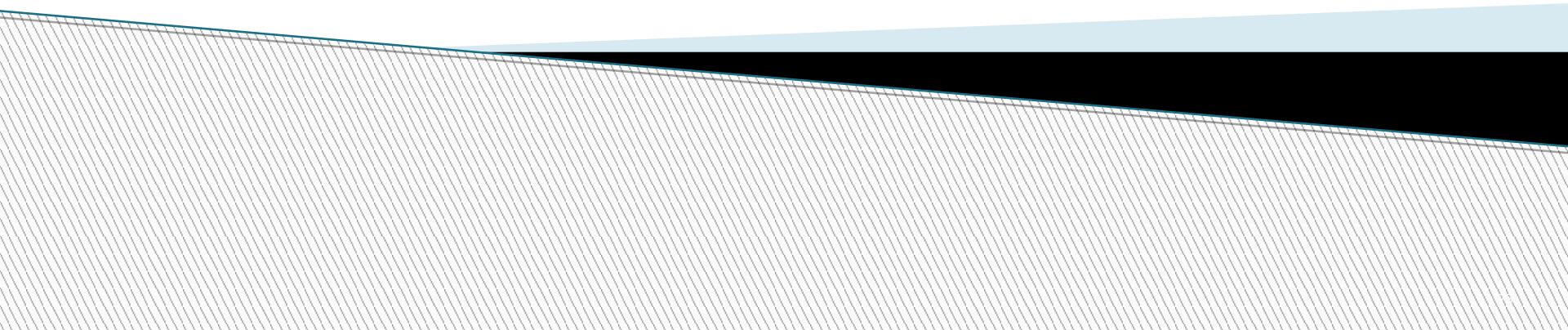
•Shared enthusiasm and devotion to the organization

# Evolution of Management Theory





# Human Resources Approach



# Human Resources Approach

- ▶ Emphasized the importance of understanding human behaviors, needs and attitudes in the workplace as well as social interactions and group processes.
- ▶ Early advocates
  - Robert Owen
  - Hugo Munsterberg
  - Mary Parker Follett
  - Chester Bernard
- ▶ Robert Owen
  - Successful Scottish businessman who was repulsed by harsh treatment meted out to workers
  - Proposed an ideal workplace
    - Regulated work hours
    - No child labor
    - Provision of public education
    - Businesses to be involved in community projects
- ▶ Hugo Munsterberg
  - Created the field of Industrial Psychology
  - Argued for the scientific study of human behavior
    - To identify general patterns
    - To explain individual differences
  - Use of psychological tests to improve employee selection
  - Study human behavior to understand motivation

# Human Resources Approach

## ▶ Mary Parker Follett

- an influential leader in early managerial theory
- Suggested workers help in analyzing their jobs for improvements.
- The [worker](#) knows the best way to improve the job.
- If workers have the knowledge of the task, then they should control the task.

## ▶ Chester Bernard

- President of New Jersey Bell Telephone Company
- Saw organizations as social systems that required human cooperation
  - Organizations made up of people who have interacting social relationships
  - Orgnis also dependent on its external environment
    - Investors/ Suppliers/ Customers/General Public

# Hawthorne Studies

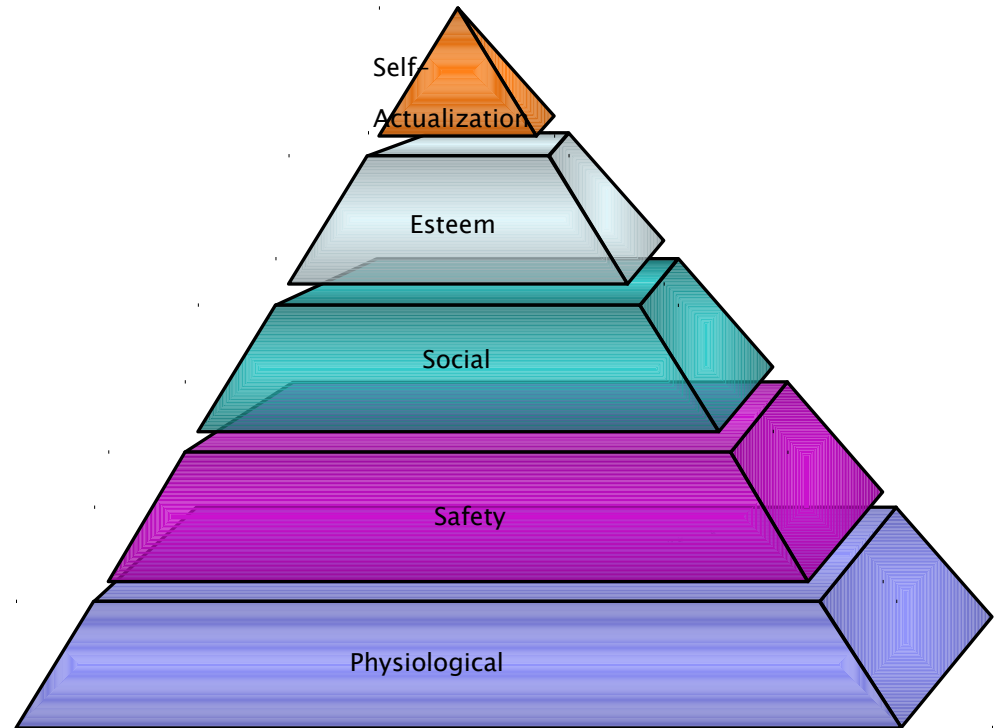
- ▶ Series of studies performed at Western Electric Company's Hawthorne Works in Illinois by Harvard Prof Elton Mayo
  - Redesign of jobs
  - Changes in workday and workweek length
  - Introduction of rest periods
  - Individual v/s group wage plans
  - Studies provided new insights into group norms and behavior
  - Group influences significantly affected individual behavior
    - Group standards established individual worker output
    - Money was less a factor in determining output than group sentiments and security
- ▶ Led to a new emphasis on the human factor in functioning of organizations
  - Employees were not machines which the organization used to efficiently reach its goals

# Human Relations Movement

- ▶ Emphasized the importance of understanding human behaviors, needs and attitudes in the workplace as well as social interactions and group processes.
- ▶ Proposed that better human relations could improve worker productivity
- ▶ Employee Motivation Theory
  - Abraham Maslow
- ▶ Theory X and Theory Y
  - Douglas McGregor

# Maslow's Hierarchy of Needs

- ▶ Man is a wanting being
- ▶ His needs and wants are growing continuously
- ▶ Needs have a definite hierarchy
- ▶ Behavior of a person at a particular time is determined by his strongest need
- ▶ Once a need is satisfied, a new need arises and so on..



# Douglas McGregor's Theory X and Theory Y

## Theory X

Most People dislike work

Most People must be coerced and threatened before they work.

Most people prefer to be directed. They avoid responsibility and have little ambition.

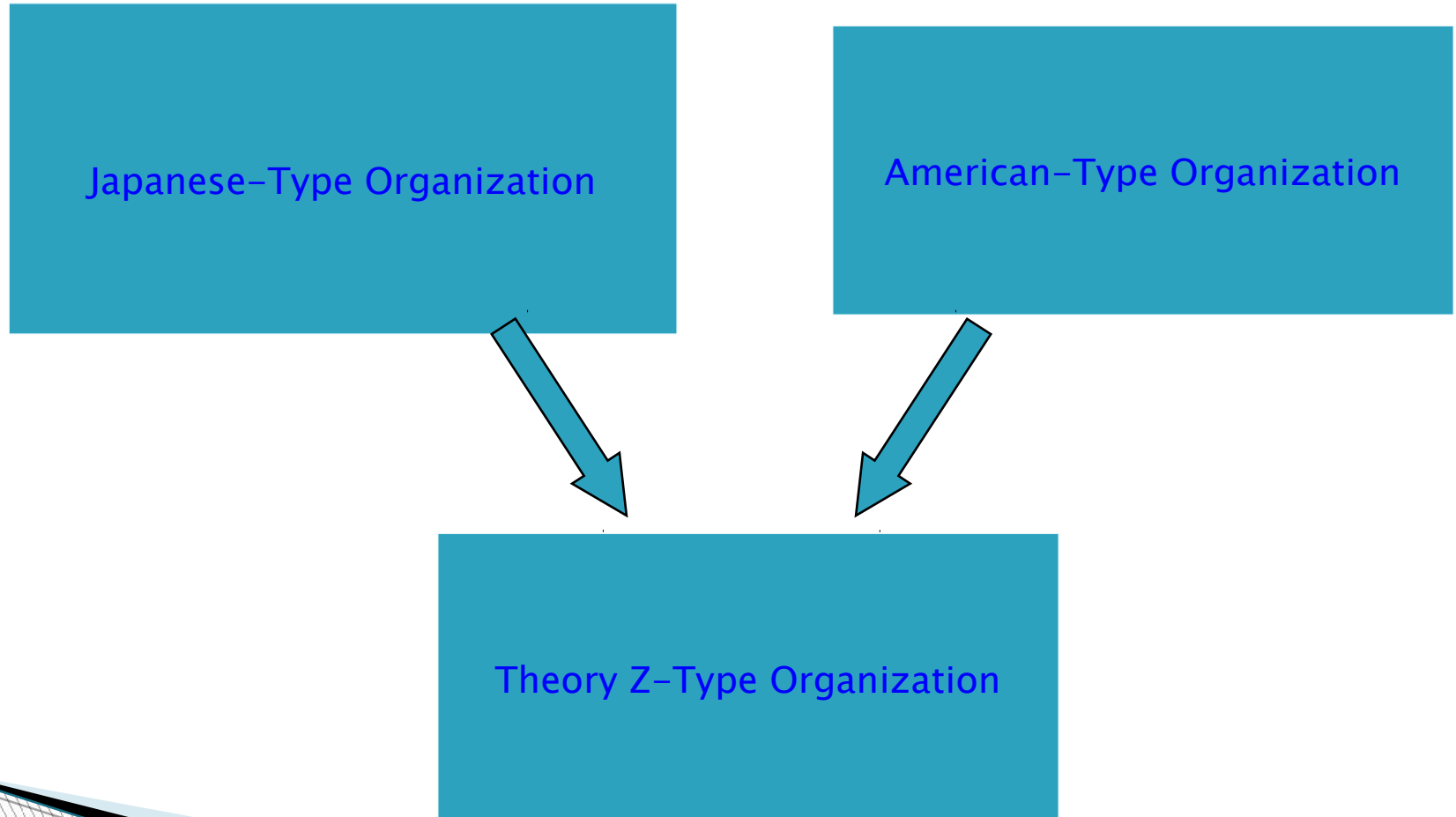
## Theory Y

Work is a natural activity like play.

People are capable of self direction and self control

People become committed to organizational objectives if they are rewarded in doing so.

# Theory Z Management: Blending the Best of Japanese and American Management Theories (1980's)





# Japanese-Type Organization

- ▶ Lifetime employment
- ▶ Collective decision making
- ▶ Collective responsibility
- ▶ Slow evaluation and promotion
- ▶ Non-specialized career paths
- ▶ True concern for employees as people

# American-Type Organization

- ▶ Short-term employment (relative to the Japanese)
- ▶ Individual decision making
- ▶ Individual responsibility
- ▶ Rapid evaluation and promotion
- ▶ Specialized career path
- ▶ Segmented concern for employee as a person

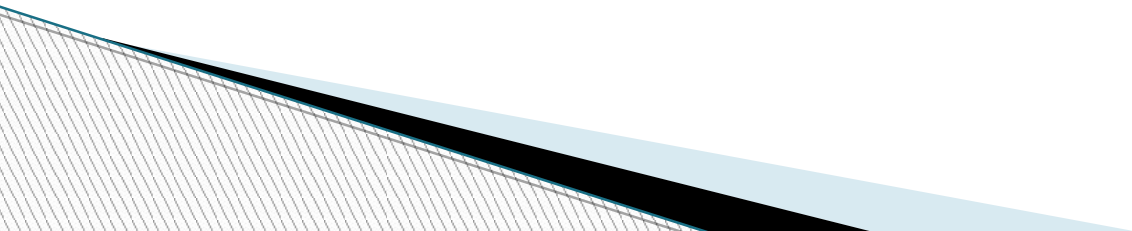
# Theory Z-Type Organization

- ▶ Long-term employment
- ▶ Consensual, participative decision making
- ▶ Individual responsibility
- ▶ Slow evaluation and promotion
- ▶ Moderately specialized career paths
- ▶ Concern for the employee, including their family

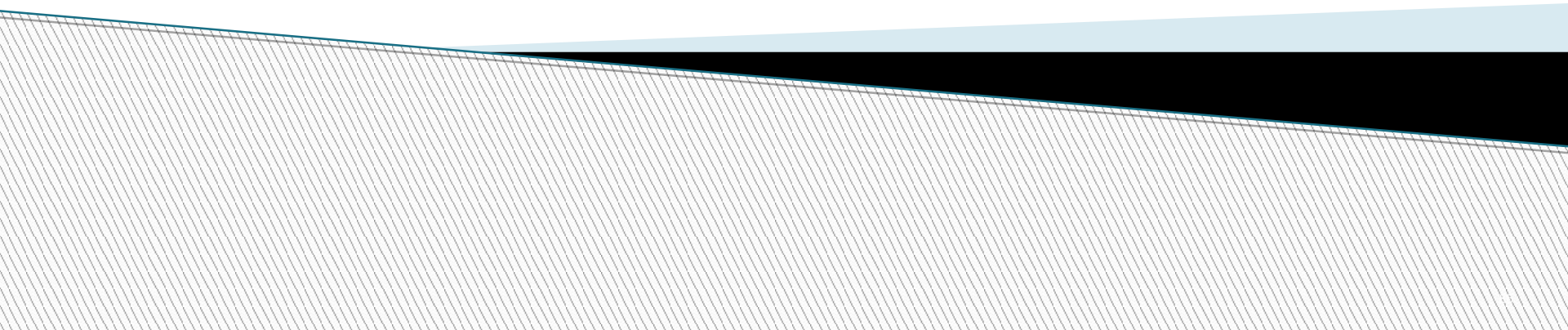
# Behavioral Science Theories

- ▶ Relies on scientific research for developing theories about human behavior that can be used to provide practical tools for managers
- ▶ Draws from sociology, psychology, anthropology, economics and other disciplines to understand employee behavior and interaction in an organizational setting.

# Evolution of Management Theory



# Quantitative Approach



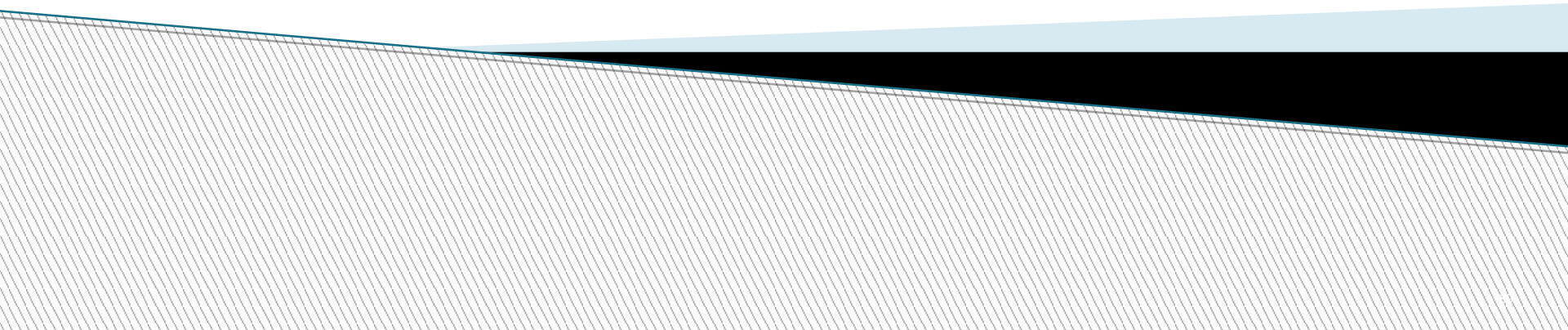
# Management Science

- ▶ Uses rigorous quantitative techniques to management
  - Applications of statistics
  - Optimization models
  - Computer simulations
- ▶ **Quantitative management**: utilizes linear programming, modeling, simulation systems
- ▶ **Operations management**: techniques to analyze all aspects of the production system
- ▶ **Total Quality Management (TQM)**: focuses on improved quality
- ▶ **Management Information Systems (MIS)**: provides information about the organization

# Evolution of Management Theory



# Modern Integrative Approaches



# Peter Drucker's Management Thought

- ▶ Revolutionized management thinking in the early 1950s
- ▶ Hailed as a pioneer of several modern management concepts
  - Innovation
  - Creativity
  - Problem Solving
  - Organization design
- ▶ Nature of Management
  - Management is a dynamic, life giving element in an organization
  - Management is a distinct discipline and a social function
  - Managers need to be creative and innovative in order to produce results

# PeterDrucker'sManagement Thought

## ▶ Manager's Job

- Managers must set meaningful goals for the entire organization
- Managers impact society through their actions – hence they must meet social expectations regarding quality, service etc
- Stressed the importance of setting goals, defining problems correctly and motivating people
- Managers must ensure that businesses deliver want–satisfying goods and services
- Managers must set meaningful objectives in 8 key business areas
  - Market standing
  - Innovation
  - Productivity
  - Physical and financial resources
  - Profitability
  - Manager performance and development
  - Worker performance
  - Social Responsibility

# Peter Drucker's Management Thought

## ▶ Management by Objectives

- Stressed the importance of joint goal setting through a novel concept called MBO
- Goals should be participatively set and should be tangible, verifiable and measurable
- Managers need to focus on what must be accomplished (goals) rather than how it is to be accomplished (method)

## ▶ Decentralization

- Vehemently criticized the functional focus of managers
- Instead of task specialization, he advocated federal decentralization
- Managers should create autonomous, self contained, independent product divisions within a large undertaking
  - Adequate and proportionate emphasis to be given to various products

# Peter Drucker's Management Thought

## ▶ Structure

- Drucker wanted managers to reduce the number of layers within the organization
- Organization structure should be dynamic in nature
- To achieve this, he suggested three concrete steps
  - **Activity Analysis:** What is to be done, how it should be put together, how much emphasis to be put on each activity
  - **Decision Analysis:** Degree of futurity in the decision, impact of a decision on other activities, various qualitative elements that enter the decision making process, whether the decision is a recurring phenomenon or a rare one
  - **Relations Analysis:** Helps in providing a concrete shape to the structure and manning the structure properly

# Peter Drucker's Management Thought

## ▶ Decision Making

- Life of a manager is a perpetual choice making activity
- **Management is nothing but decision making**
- Managers need to define the problems correctly before trying to find solutions
  - What is the problem?
  - Which problem to solve?
  - What is the real cause of the problem?
- While selecting a solution, managers should
  - Evaluate the risks of each course of action against expected gains
  - Put emphasis on economy of effort
  - Give weightage to timing and
  - Consider limitations of physical, financial and human resources

## ▶ Executive Development

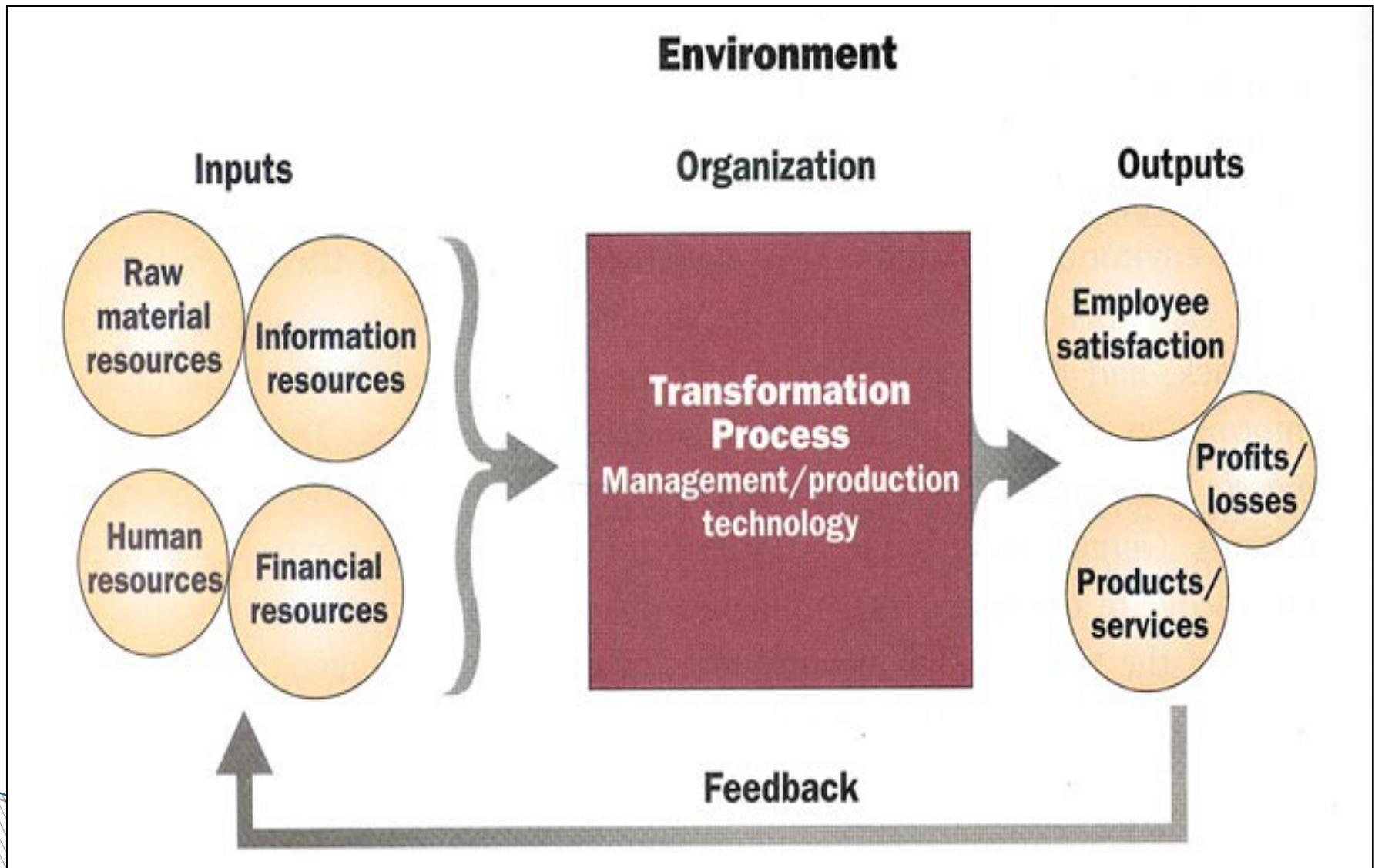
- Successful managers did not wait for the future, they made the future
- Managers should be fully prepared for all future challenges by updating their skills, knowledge and experience

# Systems Approach

- ▶ The Systems Theory regards the organization as a system of interrelated parts
- ▶ By adopting this perspective you can look at your organization in two ways
  - A collection of subsystems— parts making up the whole system
  - A part of the larger environment
- ▶ An open system interacts with the environment. A closed system is self-contained.
  - Closed systems often lose the ability to control itself and fail.



# Systems Approach

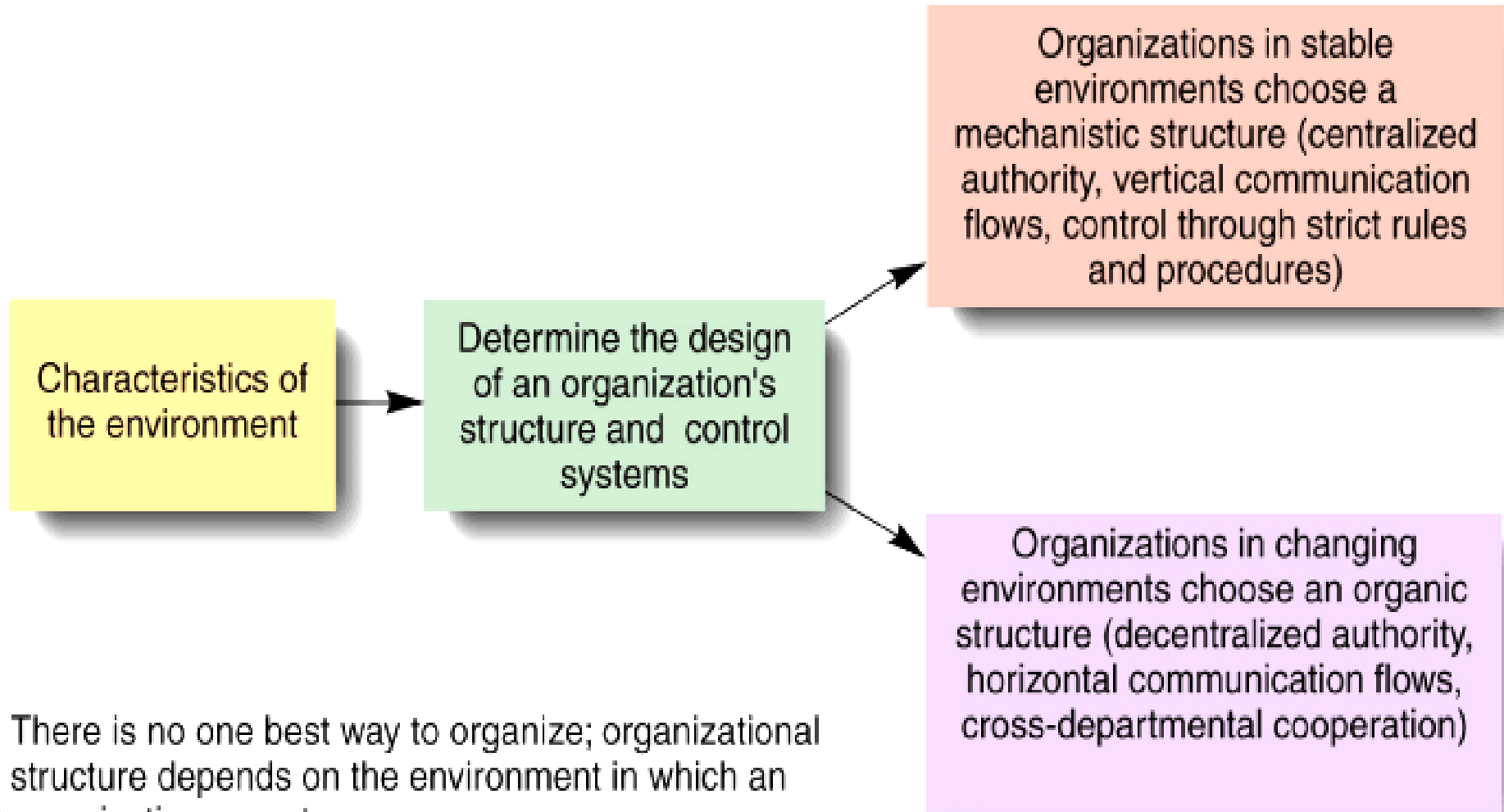




# Contingency Approach

- ▶ States that there is no “one best way” to manage an organization.
  - Because what works for one organization may not work for another
  - Situational characteristics (*contingencies*) differ from organization to organization
  - Managers need to understand the key contingencies that determine the most effective management practices in a given situation
- ▶ Some popular contingency variables
  - Organization size
  - Routineness of task technology
  - Environmental uncertainty
  - Individual differences

# Contingency Approach



There is no one best way to organize; organizational structure depends on the environment in which an organization operates.

# Learning Organization Approach

- ▶ This management approach is based on an organization anticipating change faster than its counterparts to have an advantage in the market over its competitors.
- ▶ Managers must create an environment conducive to learning
- ▶ Managers encourage the exchange of information among organization members
- ▶ Managers promote
  - systematic problem solving
  - Experimentation
  - learning from experiences and past history
  - learning from experience of others
  - transferring knowledge rapidly throughout the organization

# Building a Learning Organization

## ▶ System Thinking

- Every organization member understands his or her own job and how the jobs fit together to provide final products to the customer

## ▶ Shared vision

- All organization members have a common view of the purpose of the organization and a sincere commitment to accomplish the purpose

## ▶ Challenging the existing models

- Organization members routinely challenge the way business is done and the thought processes people use to solve organizational problems

# Building a Learning Organization

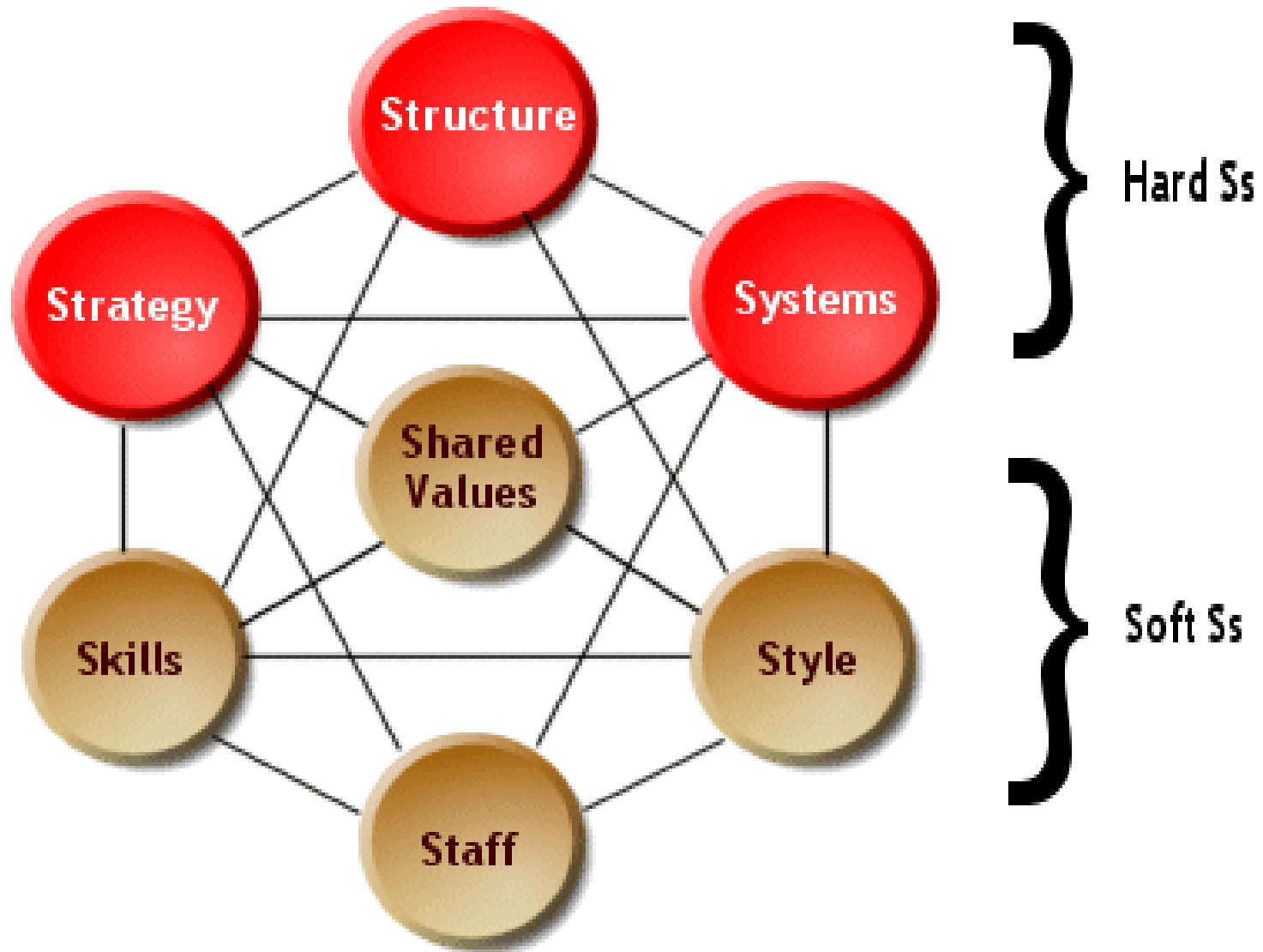
## ▶ Team learning

- Organization members work together, develop solution to new problems together, and apply the solutions together.
- Working as teams rather than individuals will help the organization gather collective force to achieve organizational goals

## ▶ Personal mastery

- All organization members are committed to gaining a deep and rich understanding of their work
- Such an understanding will help organizations to reach important challenges that confront them

# McKinsey's 7 S Approach



# McKinsey's 7 S Approach – The Hard S's

- ▶ Strategy
  - Direction and scope of the organization over the long term
- ▶ Structure
  - the basic organization of the company, its departments, reporting lines, areas of expertise and responsibility (and how they inter-relate)
- ▶ Systems
  - formal and informal procedures that govern everyday activity
    - MIS Systems
    - Online systems

# McKinsey's 7 S Approach – The Soft S's

- ▶ Skills
  - the capabilities and competencies that exist within the company. What it does best.
- ▶ Shared Values
  - the values and beliefs of the company which ultimately guide the employees towards 'valued' behavior.
- ▶ Staff
  - the company's people resources and how they are developed, trained and motivated
- ▶ Style
  - the leadership approach of top management and the company's overall operating approach.



# Class Discussion – Management Today

- ▶ What do you think are the most important aspects of Management today

# **Management and Society**

## **An Organization and its Environment**

# Operating in a Pluralistic Society

- ▶ A society where many organized groups represent various interests
  - Each group has an impact on other groups
  - No one group has an inordinate amount of power
- ▶ Implications for business
  - To keep the business power in balance –eg. Environment groups
  - To forward business interests –eg.. Chambers of commerce
  - To participate in projects with other groups –eg.. Projects with suppliers/ customers

# The Business Environment for an Organization

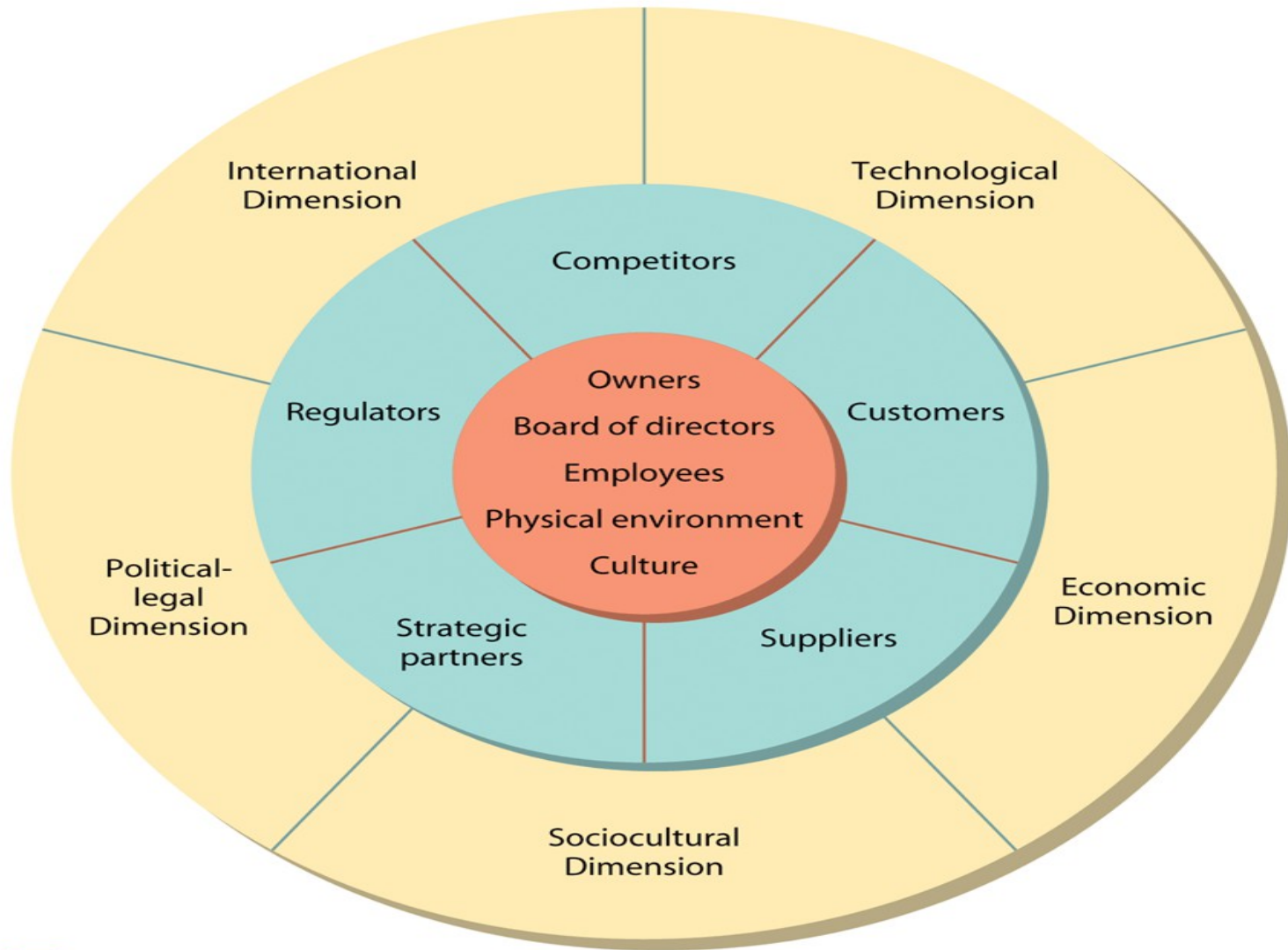
## ▶ External Environment

- *General environment* is everything outside an organization's boundaries—economic, legal, political, socio-cultural, international, and technical forces (Also known as Indirect Action Environment)
- *Task environment* is composed of specific groups and organizations that affect the firm (Direct Action Environment)

## ▶ Internal Environment

- Conditions and forces present and at work within an organization

# The Organization and Its Environments



- Internal environment
  - Task environment
  - General environment
- } External environment

# Class Discussion

- ▶ Draw up the Task Environment and General Environment for McDonalds

# How Environments Affect Organizations

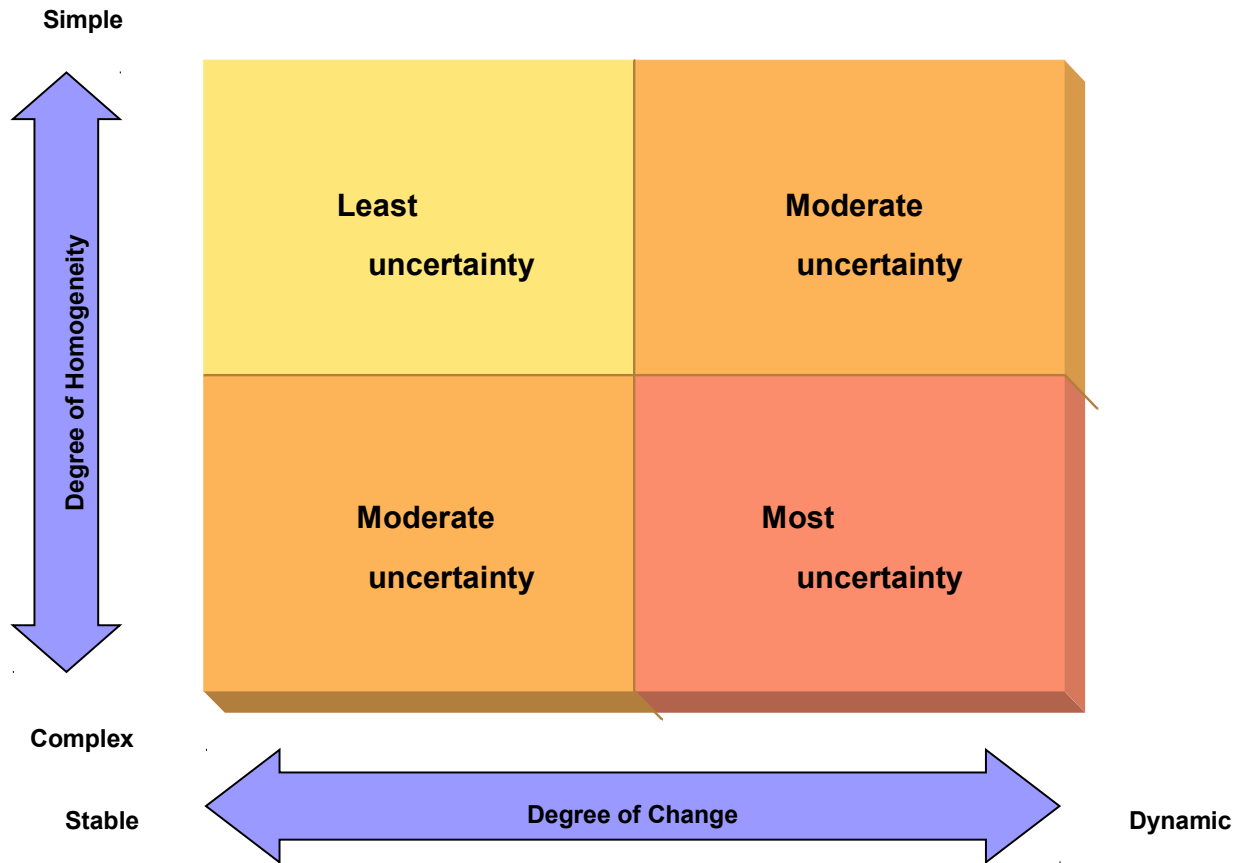
## ▶ Three basic Perspectives

- Environmental Change and Complexity
- Competitive Forces
- Environmental turbulence

## ▶ Two Dimensions of Change and Complexity

- Degree of change – the extent to which the environment is relatively stable or relatively dynamic
- Degree of homogeneity – the extent to which the environment is relatively simple (few elements, less segmentation) or relatively complex (many elements, more segmentation)
- These two dimensions interact to determine the level of uncertainty faced by an organization

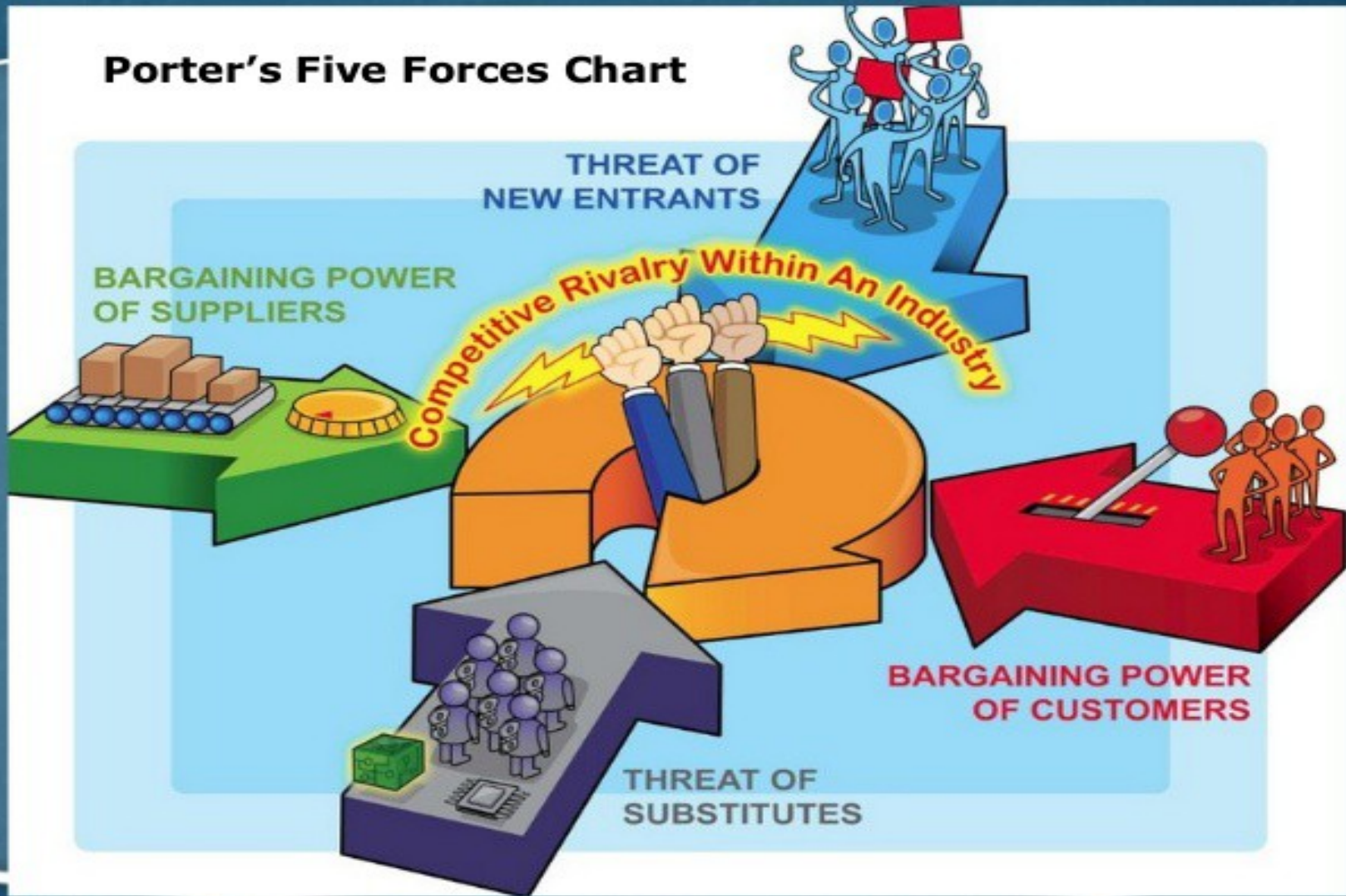
# Environmental Change, Complexity and Uncertainty





# Competitive Forces

## Porter's Five Forces Chart



# Porter's Five Forces Model of Competition

## Threat of New Entrants

Barriers to entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching cost to buyers
- Access to distribution channels
- Other cost advantages
- Government policies

Incumbants' defense of market share  
Industry growth rate



## Determinants of Supplier Power

Supplier concentration  
Availability of substitute inputs  
Importance of suppliers' input to buyer  
Suppliers' product differentiation  
Importance of industry to suppliers  
Buyers' switching cost to other input  
Suppliers' threat of forward integration  
Buyers' threat of backward integration



## Rivalry Among Existing Firms

Number of competitors (concentration)  
Relative size of competitors (balance)  
Industry growth rate  
Fixed costs vs. variable costs  
Product differentiation  
Capacity augmented in large increments  
Buyers' switching costs  
Diversity of competitors  
Exit barriers  
Strategic stakes



## Determinants of Buyer Power

Number of buyers relative to sellers  
Product differentiation  
Switching costs to use other product  
Buyers' profit margins  
Buyers' use of multiple sources  
Buyers' threat of backward integration  
Sellers' threat of forward integration  
Importance of product to the buyer  
Buyers' volume



## Threat of Substitute Products

Relative price of substitute  
Relative quality of substitute  
Switching costs to buyers

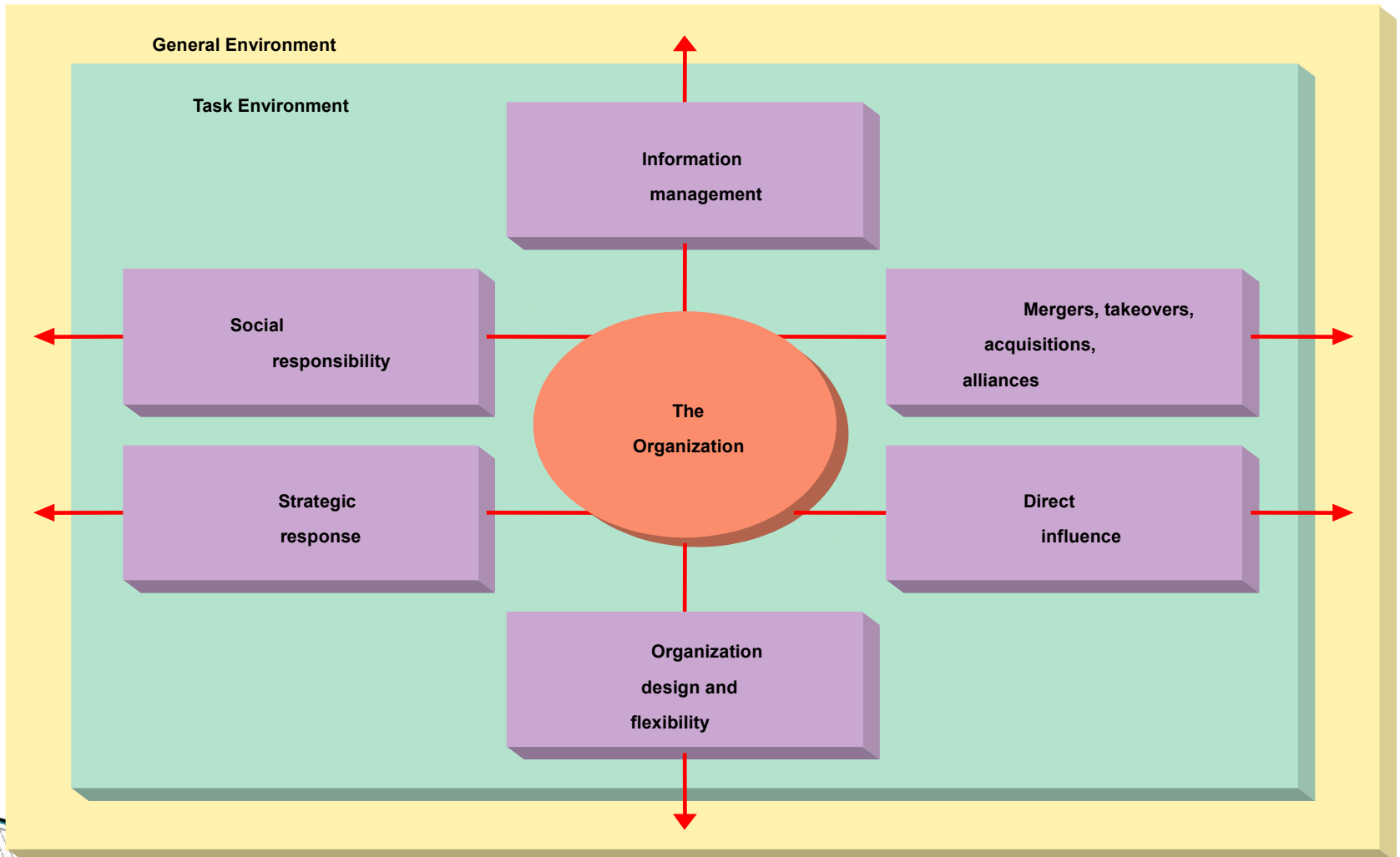
# How Environments Affect Organizations

## ▶ Environmental Turbulence

- Unexpected changes and upheavals in the environment of an organization.
- May occur without any warning at all
  - 9/11 affected travel, international and many domestic businesses
- Workplace violence

## ▶ Very few organizations usually have crisis plans to deal with such events

# How Organizations Respond to Their Environments



# How Organizations Respond to their Environments

## ▶ Information Management in Organizations

- *Environmental scanning* is the process of monitoring the environment.
- *Information systems* summarize and deliver information in a form pertinent to a manager's needs.
- *Boundary spanners* are employees who accumulate information through contacts outside the organization.

## ▶ Strategic Response

- Maintaining the status quo, altering the current strategy, or adopting a new strategy.

## ▶ Mergers, Acquisitions, Alliances

- Firms can combine (merge), purchase (acquisition), or form new venture partnerships or alliances with another firm.

# How Organizations Respond to Their Environments

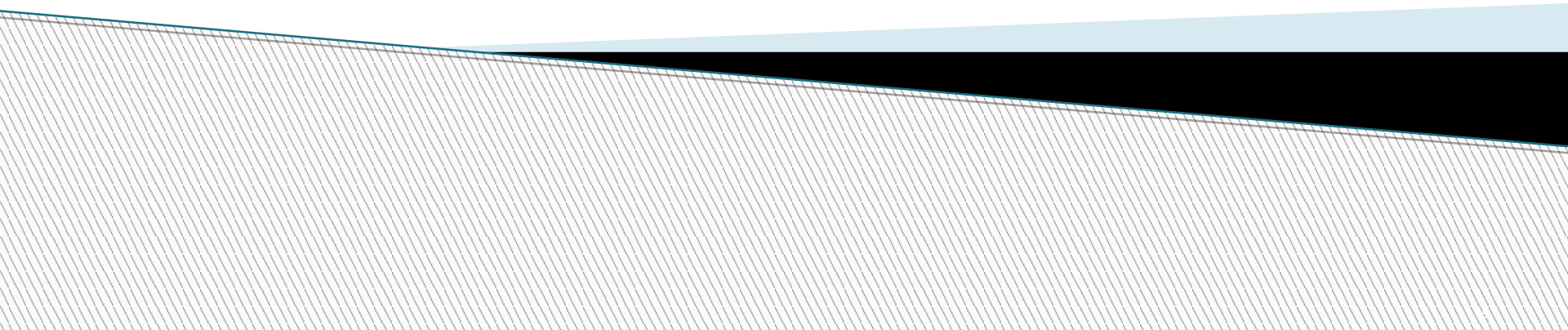
## ▶ Organizational Design and Flexibility

- An organization may adapt to its environmental conditions by incorporating flexibility in its structural design.
- *Mechanistic firms* operate best in stable environments.
- *Organic firms* are best suited for dynamic environments.

## ▶ Direct Influence of the Environment

- An organization may attempt to change the nature of the competitive conditions in its environment to suit its needs.
- Pursuing new or changed relationships with suppliers, customers, and regulators can alter the organization's environment in a way that favors the organization.

# Global Management/ International Business



# Globalization involves all of us...



## ▶ Your Everyday Life:

- *Wake up to a GE alarm clock made in China*
- *Slip on Adidas sandals made in Indonesia*
- *Put your Polo T shirt made in Mexico*
- *Unplug your Nokia phone made in the U.S. and Taiwan*
- *Hop into your Toyota made in Kentucky*
- *Grab a Starbuck's coffee with beans harvested in Columbia*



# What is Globalization?



- ▶ Integration of national economies into the international economy through trade, direct foreign investment...short-term capital flows, international flows of workers and humanity generally, and flows of technology.
  - Worldwide integration and deepening of economic activities
  - Integrated production and consumption systems
  - Facilitated by the IT revolution, liberalization and deregulation
  - Mobility of factors of production
  - Strongly interdependent and interconnected world.
- ▶ The ongoing social, economic and political process that deepens and broadens the relationships and interdependencies amongst nations – their people, firms and their governments

*International business facilitates the Globalization process.*

# Forces behind Globalization

Increased expansion and technological improvements in transportation and communication

Liberalization of cross border trade and resource movements

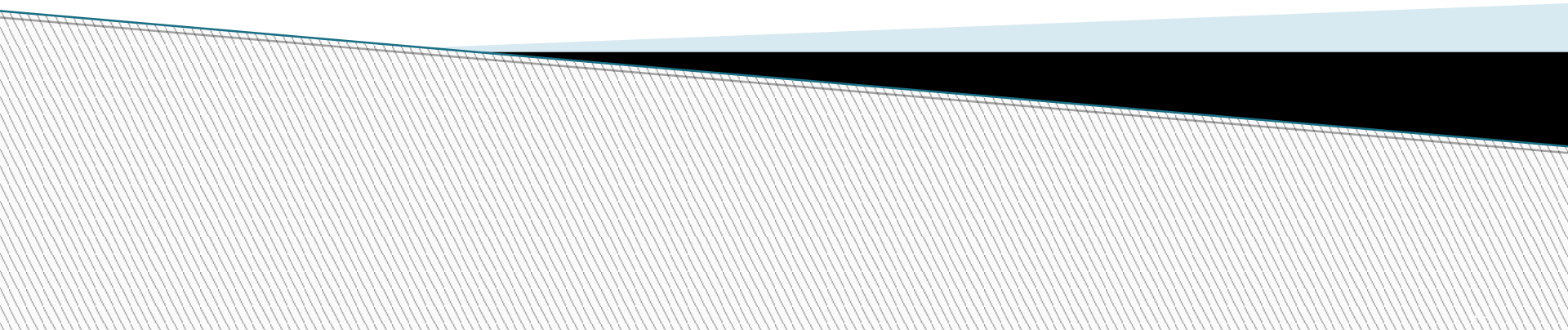
Development of services that support international business activities

Growing consumer demand for foreign products

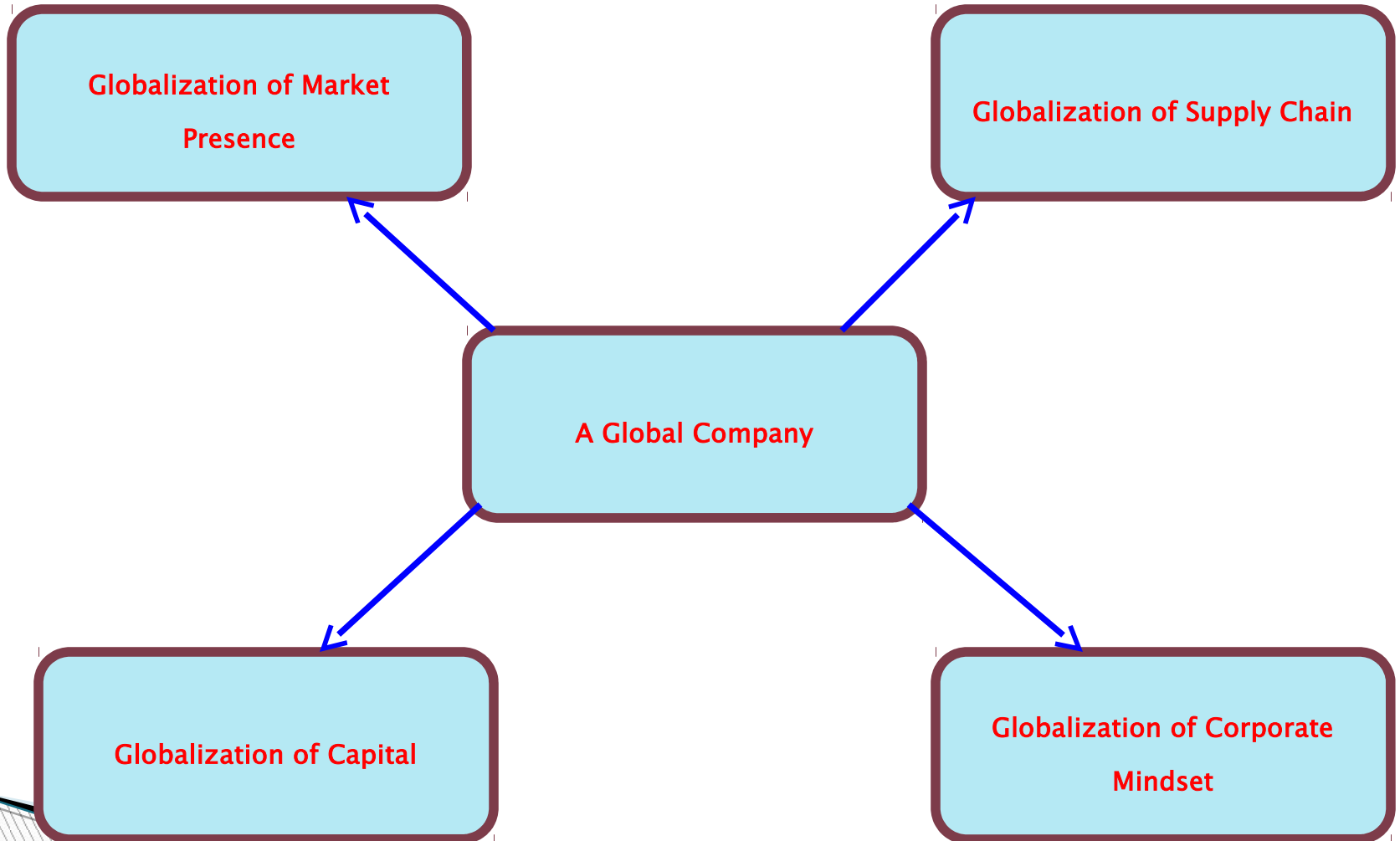
Increased global competition

Changing political and economic landscape – cross national treaties/ agreements

How do we Define a Global Company



# What is a Global Company



# Stages of Internationalization

## Domestic Firms

- Starting point for many firms
- Stage where companies understand their markets and consumers, perfect their technologies and learn to operate business

## International Firms

- Internationalization process begins with direct and indirect exporting/ licensing/ technical agreements/ JV's
- Firm slowly gains experience of foreign markets
- Knowledge of local customs helps to increase its risk bearing ability

## Multinational Firms

- Firms starts understanding markets in several countries
- Develops expertise to suit its business and products to market requirements
- Greater resource commitment – could be engaging in international production
- Owns income generating assets in multiple countries

Market Presence

Supply Chain

Capital

Corporate Mindset

# Stages of Internationalization

## Global Firms

- Entire world is one market
- Emphasizes global operations over the domestic market
- Coordinated systems to:
  - Borrow money from any country at lowest rates
  - Global sourcing of raw materials
  - Manufacture at lowest cost
  - Selection of best people for the job regardless of nationality
- Offers globally standardized products
  - Adjusts to differences in product preferences only after all efforts to retain standardization have been exhausted

## Transnational Firms

- Shares of the firm are held by nationals of different countries
- National identities are transcended
- Aim to eliminate home country bias in decision making

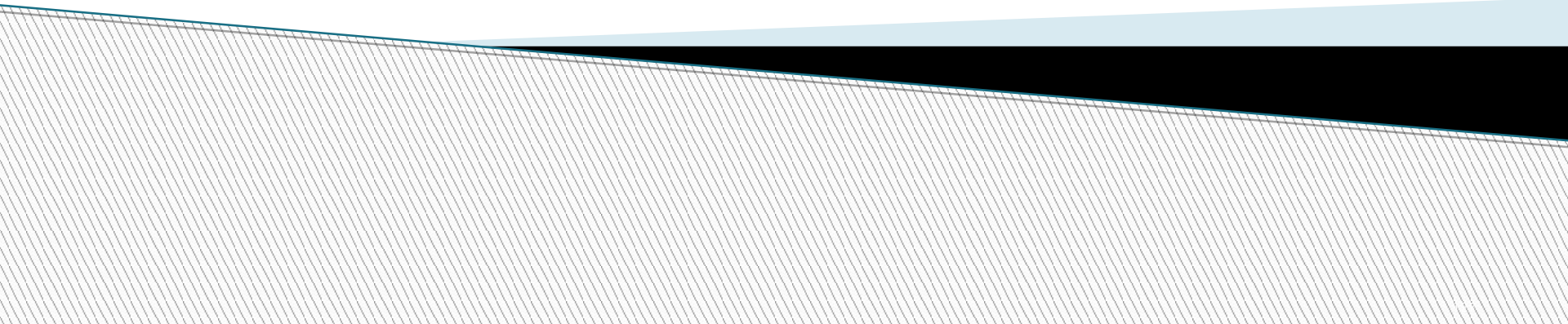
Market Presence

Supply Chain

Capital

Corporate Mindset

# International Business Environment



# International Business Environment

- ▶ In the context of a business **firm**, environment can be defined as various external actors and forces that surround the **firm** and influence its decisions and operations.
- ▶ The two major characteristics of the environment as pointed out by this definition are:
  - These actors and forces are external to the firm
  - These are essentially uncontrollable. The firm can do little to change them
- ▶ A firm's international business environment can also be classified into:
  - Micro Environment
  - Macro Environment



# Micro Environment

- ▶ **Micro environment** can be defined as the actors in the firm's immediate environment which directly influence the firm's decisions and operations.
  - Suppliers
  - Market intermediaries – wholesalers/ retailers/ transporters
  - Advertising and marketing research agencies,
  - Business consulting firms
  - Financial institutions
  - Competitors
  - Customers
  - General public.
- ▶ While the customers constitute firm's market, suppliers and market intermediaries help providing the firm with inputs and assist in production and marketing processes.
- ▶ Competitors and general public also influence the way a firm conducts its business.

# Macro Environment

Political Environment

Economic Environment

Socio-Cultural Environment

Technological Environment

Legal Environment

Ecological Environment

# Political Environment

- ▶ Three major dimensions
  - Home country Political Environment
  - Host country Political Environment
  - Global political Environment
- ▶ Home Country Political Environment
  - Domestic policies also affect a firm's international activities
  - Some countries encourage their firms to set up activities abroad
    - Eg., Japan encouraged their electronic and auto companies to invest abroad
    - However countries which ignore their home country may also be accused of creating domestic unemployment problems.

# Political Environment

## ▶ Host Country Political Environment

- Have a direct effect on a firm's activities in that country
- Governments may be hostile if actual benefits are not seen
  - Business community may be subject to political pressures
  - Appropriation of assets in extreme cases
- Labourunion issues

## ▶ Global Political Environment

- Multi lateral agreements
- Free trade concessions
- Differing government policies

# Economic Environment

- ▶ Sum total of
  - Economic conditions in the foreign market
  - Economic policies of the government
  - Economic system of the country
- ▶ Economic conditions in the market
  - Demand supply scenario
    - Income levels/ saving levels/ spending levels
    - Suppliers/ nature of supply/ nature of competition
  - Study of economic factors like low per capita income can help the firm to develop an appropriate pricing and promotion strategy
    - Supply at reasonable prices
    - Sales promotion - discounts/ free gifts
    - Extended warranties
    - After sales service
    - Hard sell advertising
  - Study of supply factors
    - Plan the market expansion
    - Introduction of new products
    - Assessment of competition
    - Decision on whether to enter the market or not

# Economic Environment

## ▶ Economic policies of the government

- Industrial policy
- Fiscal/ Monetary policy
- Import export policy
- Currency Interventions

## ▶ Economic System of the country

- Free market economy/ Capitalist economy
  - Freedom to invest and produce goods
  - Minimal control by government
- Centrally Planned Economy
  - Government has complete control over various factors of production and their allocation
  - Government decides what to produce and what should be consumed
- Mixed Economy
  - Combination of capitalist and communist economic systems
  - Companies can invest in public sector and private sector

# Economic Environment – Demographic Focus

- ▶ Size of the population and population growth rate
  - A large population could mean a sizeable market
  - Higher population growth could translate into increase in cheap labour
    - Leading to lower labour costs
- ▶ Age composition and family size
  - Decline in birth rates have led to fall in market for baby products
  - Declining birth rate may be a boon for certain industries – hotels, airlines, restaurants
- ▶ Income levels in the country
  - Steady increase in income drives market growth in developing economies
  - Higher disposable income leads to more spending
- ▶ Occupational mobility of population
  - Highly mobile labour force usually means lesser labour problems
  - A highly heterogeneous labour force could also be complex to handle
- ▶ Heterogeneous population
  - Varied tastes/ preferences/ beliefs
  - Different demand patterns and therefore need for different business strategies

# Socio-Cultural Environment

- ▶ Social environment has a great influence on the international business environment
- ▶ System of society/ social attitude and behavior impact consumer behavior and purchasing practices
- ▶ Key components of social system include
  - Education
  - Religion
  - Family System
- Culture can be defined as a "sum total of man's knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by man as a member of society."
  - Total way of life and thinking patterns that are passed on from generation to generation



# Socio – Cultural Environment

- ▶ Within each culture there are many *subcultures* that can have business significance.
- ▶ Subcultures are found in all national cultures and failure to recognize them may create impressions of sameness which in reality may not exist.
- ▶ A single national and political boundary does not necessarily mean a single cultural entity.
  - Canada divided between its French and English heritages
    - although politically the country is one.
    - Different strategies may be needed for each heritage
    - Similarly a single personnel policy may not work with workers employed in two different plants if they belong to different sub cultural groups and differ in their work habits and underlying motivations.

# Technological Environment

- ▶ Maturity of technology, competing technological developments, research funding, technology legislation, new discoveries
- ▶ Information technology, internet, global and local communications
- ▶ Technology access, licensing, patents, potential innovation, replacement technology/solutions, inventions, research, intellectual property issues, advances in manufacturing
- ▶ Transportation, energy uses/sources/fuels, associated/dependent technologies, rates of obsolescence, waste removal/recycling

# Legal Environment

- ▶ Laws of the land directly affect international business
- ▶ Three aspects to International Legal Environment
- ▶ Home country laws
  - Deal with conduct of the firm in domestic territory
  - More facilitating and regulating in nature
- ▶ Host Country laws
  - Investment regulations/ tariffs and duties/ anti-dumping regulations
  - Protection of local industries from unfair competition
- ▶ International laws
  - Treaties/ conventions/ international agreements
  - Patents/ trademark protection
  - Need to understand broad provisions of UN resolutions and multilateral agreements like WTO

# Ecological Environment

- ▶ Environmental issues
- ▶ Environmental regulations
  - Extent of government involvement in environment
- ▶ People's perception to environmental issues

# Multinational Corporations



# Meaning of MNC

- ▶ A Multinational Corporation is an organization doing business in more than one country
  - Considers opportunities throughout the globe
  - Invests considerable portion of their assets internationally
  - Engages in international production and operate plants in a number of countries
  - Has a global perspective in management and decision making
  
- ▶ David ELilien's definition
  - "MNCs mean corporations which have their home in one country but operate and live under the laws and customs of other countries as well."
  
- ▶ According to Raymond Vernon
  - A MNC means "a company that attempts to carry out its activities on an international scale as though there are no national boundaries on the basis of a common strategy directed from a corporate centre."

# Characteristics of MNCs

Large Size

Multinational Management

Multinational Ownership

Huge Financial resources

Varied Activities

Advanced Technology

Brand reputation

Transfer of resources from parent company to subsidiaries

# Advantages of MNCs to Host Countries

Promote foreign investment

Facilitate transfer of technology

Accelerate industrial growth

Help in promotion of exports and reduce imports

Provide services of professionals

Efficient utilization of resources

Provide benefits of advanced R & D

Support enterprises in the host country

Promote global trade and co-operation



# Advantages of MNCs to Home Countries

Facilitate inflow of foreign exchange

Optimum utilization of resources

Promote bilateral trade relations

Help in promotion of exports and reduce imports

Create opportunities for domestic firms to tap overseas markets

Create employment opportunities for people of home country both at home and abroad

# Demerits of MNCs

Usage of outdated technologies in developing/ underdeveloped nations

Repatriation of huge profits to the parent company

Unbalanced growth in the host country

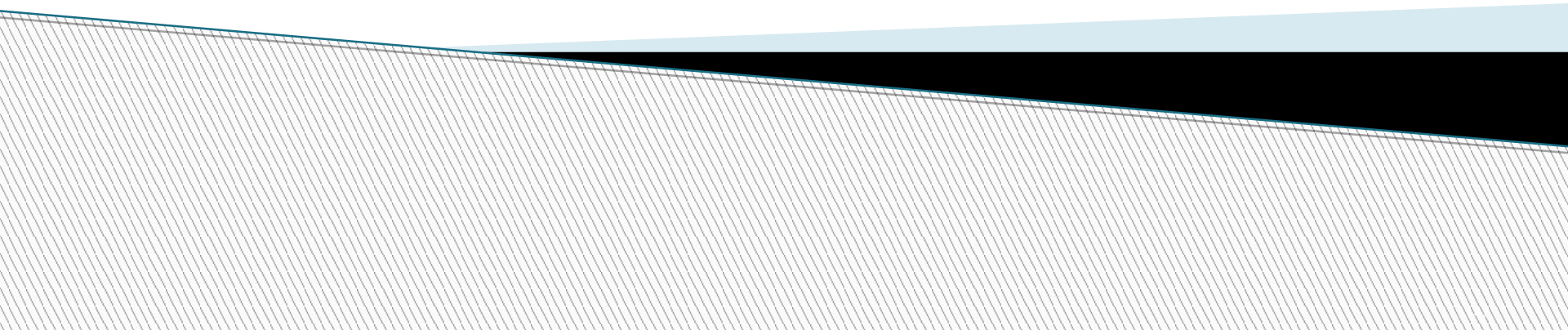
Morality and Ethics/Tax Evasions

Exploitation of Host Country Resources

Loss of culture in the host country

Threat to Indigenous producers

# Management Orientations towards International Business – EPRG Framework



# Management Orientations to International Business

- ▶ A company's response to global business opportunities is dependent on management's belief about the nature of the world.
- ▶ EPRG concept of various orientations (Perlmutterin 1967)
  - Ethnocentric
  - Polycentric
  - Regiocentric
  - Geocentric
  - Based on view of company personnel towards
    - New business opportunities in new markets
    - Culture of various markets
    - Preferences of consumers in a foreign market

# Ethnocentric Orientation

- ▶ Involves a home country orientation
- ▶ Domestic strategies, techniques, and personnel are perceived as superior and more important.
- ▶ International markets are secondary, regarded primarily as outlets for surplus domestic production.
- ▶ Company believes that domestic strategies, technology and human resources are best fitted for foreign operations.
- ▶ Even if ethnocentric companies conduct business outside home country,
  - Belief that products that succeed in the home country can be sold everywhere without adaptation
  - In an Ethnocentric International company, foreign operations are secondary to home country operations
    - Valuable managerial knowledge and experience in local markets may go unnoticed
    - Differing consumer needs are ignored
- ▶ Advantages
  - Simple Organization structure
  - Overcomes shortage of trained and qualified managers in foreign markets
  - Uniform corporate culture
- ▶ Disadvantages
  - Cultural shortsightedness
  - Ignorance of many opportunities outside home country
  - Lack of flexibility and responsiveness

# Polycentric Orientation

- ▶ Focuses on the importance and uniqueness of each international market
- ▶ Marketer believes that every market is unique in nature
- ▶ Opposite of Ethnocentric Approach
- ▶ Firms establish independent business subsidiary in each target country.
  - Fully decentralized, minimal coordination with headquarters
- ▶ Extensive R & D programs to develop country specific products.
- ▶ Marketing and other business strategies are specific to each country.
- ▶ Advantages
  - Local personnel get maximum freedom
  - Low level of interference from parent company
  - Product Development and Marketing Strategies developed to suit different target markets
- ▶ Disadvantages
  - No economies of scale
  - Duplicated functions
  - HQ gets isolated from foreign subsidiary
  - Reduces opportunities to achieve synergies

# Regiocentric Orientation

- ▶ Management views regions as unique and seeks to develop an Integrated Regional Strategy
- ▶ Regions are formed based on cultural, geographical and political similarities
  - Eg., India- Pakistan- Nepal and Bhutan
  - BRIC countries
  - NAFTA countries - Canada- Mexico- USA
  - EU countries
  - Eg., A US company focusing on NAFTA countries has aregiocentricorientation
  - A European company focusing on the EU countries has aregiocentricorientation
- ▶ Detailed research done on the region
  - Competitive strategies evolved based on the research
- ▶ Every region has standardized business operations
- ▶ Market Entry could be through
  - Setting up of a subsidiary
  - Joint ventures etc

# Geocentric Orientation

- ▶ *Views the entire WORLD as one market*
- ▶ Strives to develop integrated world market strategies
- ▶ Such companies are called global or transnational companies
- ▶ Ambience or services provided worldwide are similar
  - Products are manufactured according to the local needs
- ▶ Maximizes efficiencies worldwide
- ▶ Efficient use of human resources
- ▶ Attempts to balance global integration and local responsiveness



# Forms of International Business



# Forms of International Business



## Direct Exporting

- ▶ Exporting by the manufacturer himself
  - Through its own export department
  - Deputing sales representatives abroad to get orders through personal contacts
  - By opening its branches/ sales offices abroad
  - Without using services of merchant exporters/ export houses etc

# Forms of International Business



## Indirect Exporting

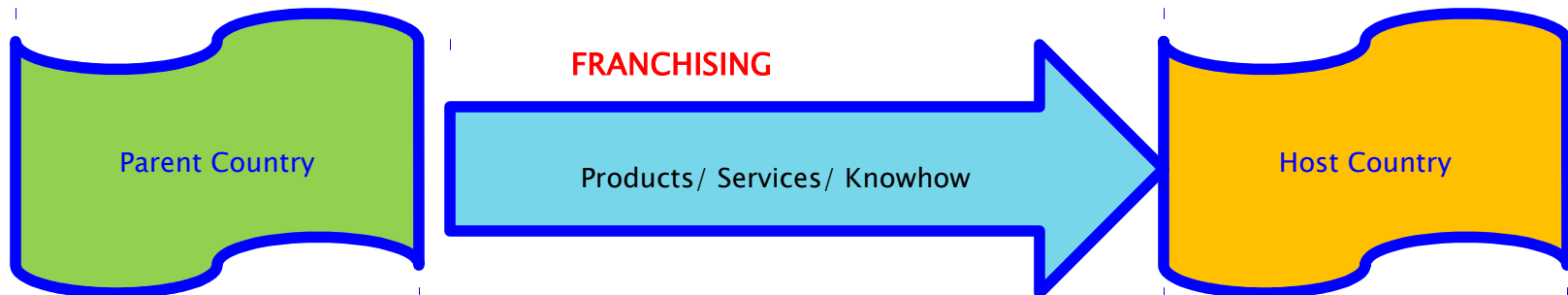
- ▶ Selling to a Merchant Exporter or an Export House in India
- ▶ Selling to Visiting/ Resident Buyers
- ▶ Selling through Overseas Import Houses

# Forms of International Business



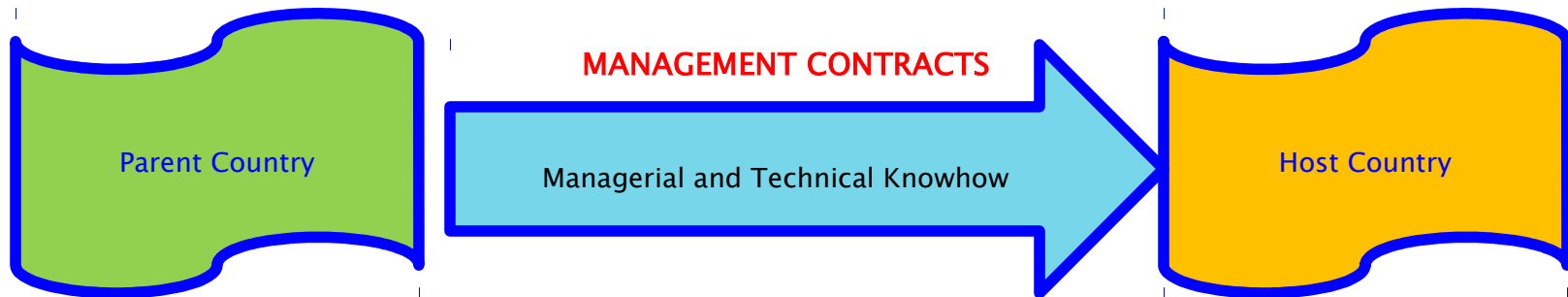
- ▶ A firm in one country (licensor) permits a firm in another country (the Licensee) to use its intellectual property
  - patents/ trademarks/ copyrights/ technology/ technical knowhow, marketing skill
  - Licensee will pay a royalty or fee to the licensor
  - Licensing can also be cross licensing
    - Mutual exchange of knowledge or patents
    - Cash payments may not be involved

## Forms of International Business



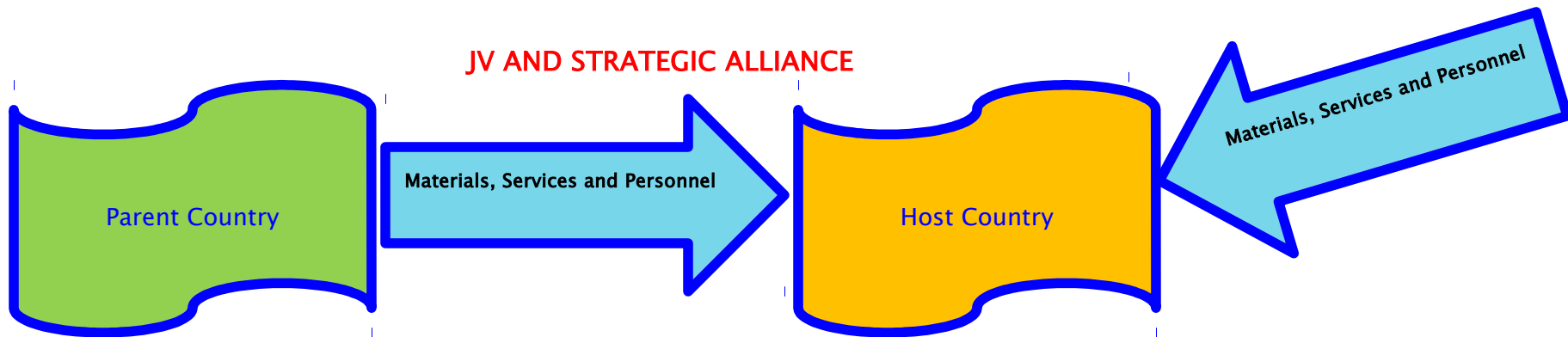
- ▶ Franchising is a form of Licensing
- ▶ Contractual association between the franchisor (manufacturer) and franchisee (independent business)
  - Franchisee buys the right to own and operate the business in a particular country
  - Franchisor not only supplies the product but also provides services such as brand name, trademarks, technical knowhow etc
  - Franchisor also provides support systems like advertising, training employees, quality assurance etc
  - Depending on socio cultural requirements of the country, franchisor may allow product adaptation
    - McDonald's sells beef burgers in East European countries while it sells vegetable burgers in India
  - Examples of franchisees in India are
    - Domino's Pizza/ KFC/ McDonalds/Barista /Costa Coffee

# Forms of International Business



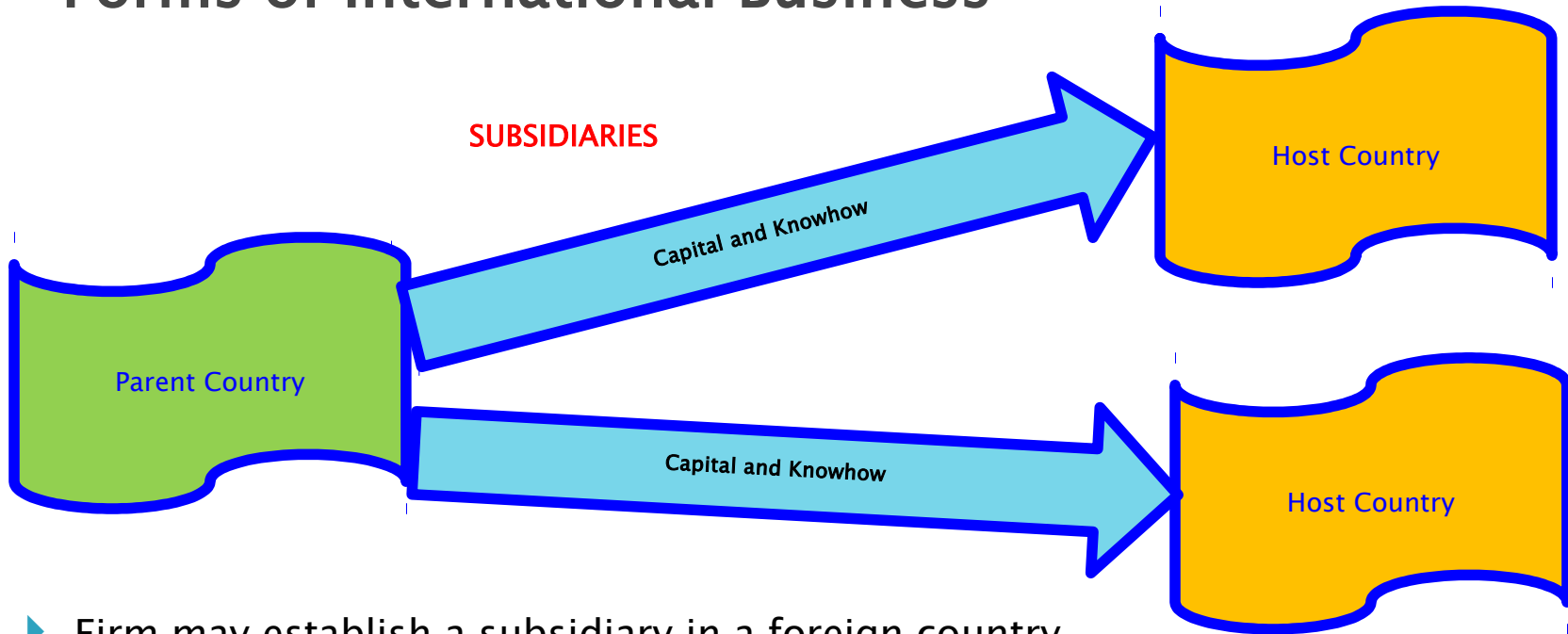
- ▶ Agreement between two companies wherein one company provides managerial and technical assistance to the other;
  - For which appropriate monetary compensation is paid
- ▶ Companies with low level technology and managerial expertise may seek the assistance of a foreign company
- ▶ Compensation could be
  - A fixed amount or lump sum fee
  - A percentage of sales
  - A share in profits

# Forms of International Business



- ▶ A Joint venture involves partnership between a foreign company and a local company
  - Useful to the foreign company for easy entry into the new market
  - Foreign company may bring finance and technical knowhow whereas the domestic company can provide local knowledge and marketing facilities
  - Could also be in the form of a strategic alliance

# Forms of International Business



- ▶ Firm may establish a subsidiary in a foreign country
  - Subsidiary may manufacture and market the products in the foreign country
  - Subsidiary may purchase raw materials from the foreign market and send them to the foreign manufacturer
  - Foreign manufacturer may manufacture the products and send them back to the subsidiary for distribution to consumers



# Unifying and Conflicting Factors

- ▶ Contact between parent firm and host country may be affected by both Unifying and Conflicting Factors

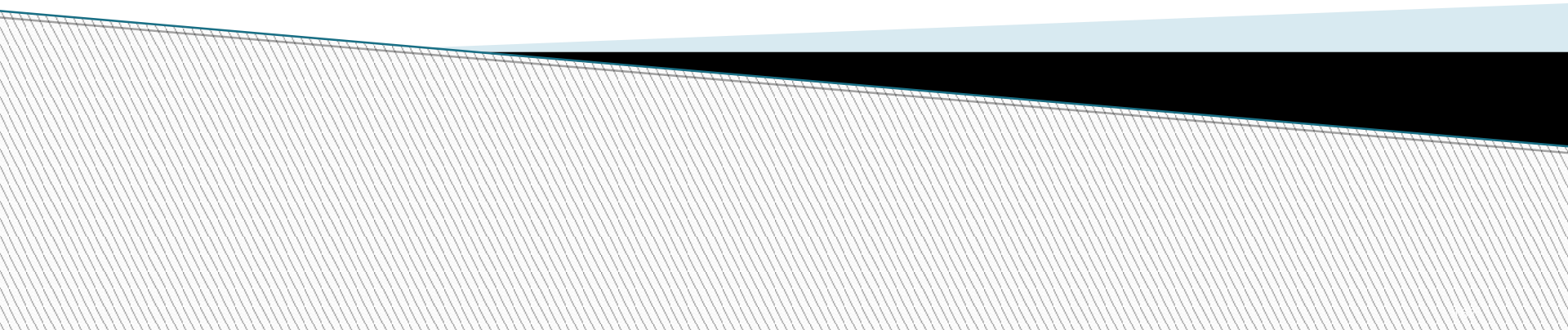
## Some Unifying Factors

- ▶ Similar business environment
- ▶ Sharing of technical and managerial knowhow by parent company
- ▶ Sharing of human resources
- ▶ Global organizational structure
- ▶ Equitable policies

## Some Conflicting Factors

- ▶ Nationalistic self interest
- ▶ Sociocultural differences
- ▶ Inadequate communication
- ▶ Subsidiary feeling overwhelmed by large MNC parent

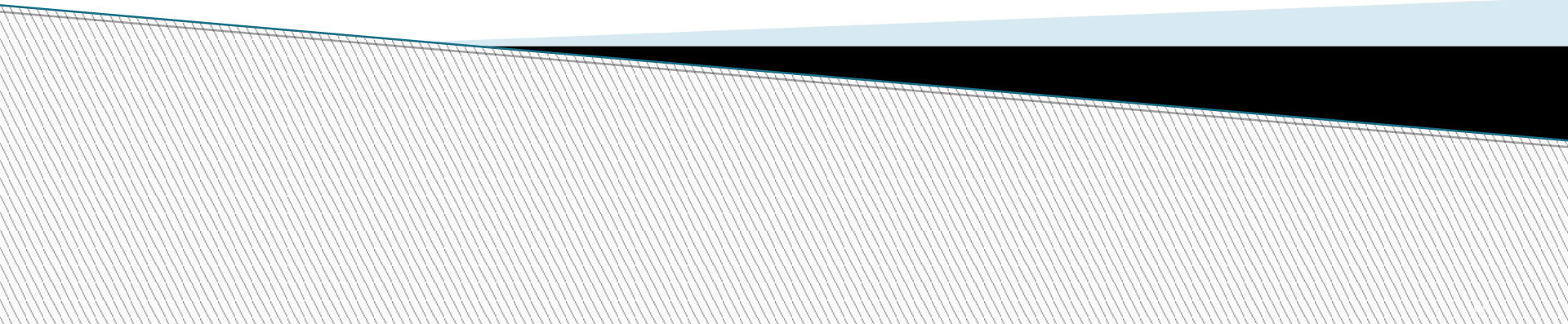
# International Management Cultural and Country Differences



# What is Culture??

- The word culture, is derived from the Latin word colo, -ere, with its root meaning being "to cultivate".
- Culture is learned, socially acquired traditions & life styles of the members of society, including their patterned, repetitive ways of thinking, feeling & acting.
- A perceptual structure of human activities that include, behaviors, values, arts, beliefs, languages, custom, dress, rituals, manners, religion, laws, morality, & code of honors.

# Geert Hofstede's Model of Cultural Dimensions



# Hofstede's Cultural Dimensions

- ▶ Geert Hofstede
  - Dutch management researcher
- ▶ Gathered data from 100,000 IBM employees
  - Wanted to determine values on which cultures vary
- ▶ Surveyed workers from 50 countries and 3 regions
- ▶ Concluded that there are five dimensions used to differentiate and rate cultures
  - Power Distance
  - Uncertainty Avoidance
  - Individualist - Collectivist
  - Masculinity - Femininity
  - Long term - short term

# Power Distance

- ▶ Extent to which people view inequality as normal
- ▶ Extent to which less powerful members of institutions accept that power is distributed unequally
  - High Power Distance
    - Power is a scarce resource
    - Society accepts unequal distribution of power
    - Inequality is natural and inevitable
    - Blindly obey orders of superiors – Respect for authority
    - Hierarchical organization structure – centralization emphasized
      - Eg., Mexico/ India/ South Korea/ Malaysia/ Arab countries
  - Low Power Distance
    - Minimal power differences
    - Society less accepting of power
    - Superiority not rigid – Less emphasis on authority/ title/ rank
    - Decentralized decision making
    - Flat organizational structures
      - Eg., USA/ Austria/Finland

# Uncertainty Avoidance

- ▶ Extent to which people within a culture are made nervous by situations which they perceive as unstructured, unclear, or unpredictable
  - Extent to which they feel threatened by ambiguous situations
  - High Uncertainty Avoidance (Germany/ Japan/ Spain/ Greece/ France)
    - Avoid ambiguity and high need for security
    - Strict codes of behavior
    - Belief in absolute truths
    - Strong belief in experts
  - Low Uncertainty Avoidance (Denmark/ US/ India/)
    - Accept ambiguity and lack of structure
    - More inclined to take risks and “think outside the box”
    - Rules are rejected or ignored

# Individualist–Collectivist

- ▶ How people define themselves and their relationship to others
  - Individualist (UK/ USA/Australia)
    - Believe individual is most important
    - Stress independence over dependence
    - Reward individual achievement
    - Value uniqueness of individual
  - Collectivist (Japan/ China)
    - Views, needs, and goals of group most important
    - Obligation to the group is the norm
    - Self is defined in relation to others
    - Focus on cooperation, not competition



# Masculinity–Femininity

- ▶ Relationship between gender and behavior
  - Masculinity (eg., Germany/ Japan)
    - Distinct roles
    - Men are assertive, ambitious, and competitive
    - Women are supportive, nurturing, and deferent
  - Femininity (Eg., Norway/ Denmark)
    - Fewer rigid gender roles
    - Relationship orientation
    - Quality of life favoured
    - Men and women are more equal
    - Focus on Interpersonal relationships

# Long-term/Short-term

## ▶ Long-term Orientation

- Focus on long term goals
- Willing to sacrifice short term profit for long term gains
- Accept delayed gratification of material, social and emotional needs
- Savings driven
- Eg., China/ Japan/ Taiwan

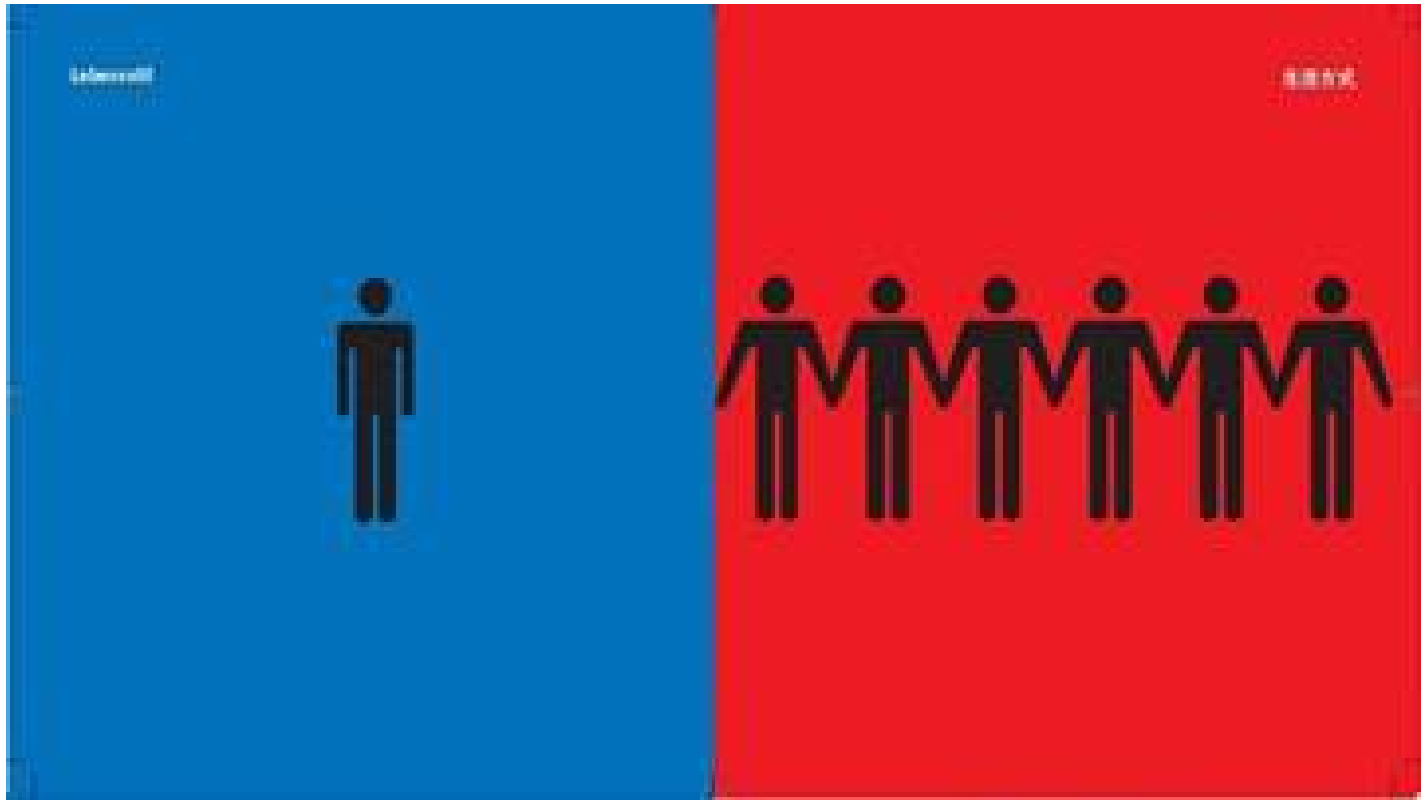
## ▶ Short-term Orientation

- Immediate gratification
- “Make money, spend money”
- Less willing to sacrifice short term profits
- Consumption driven
- Eg., US/ UK/ Canada

**Behaviors in Different Cultures**  
**Cultural Divide???**  
**East v/s West**

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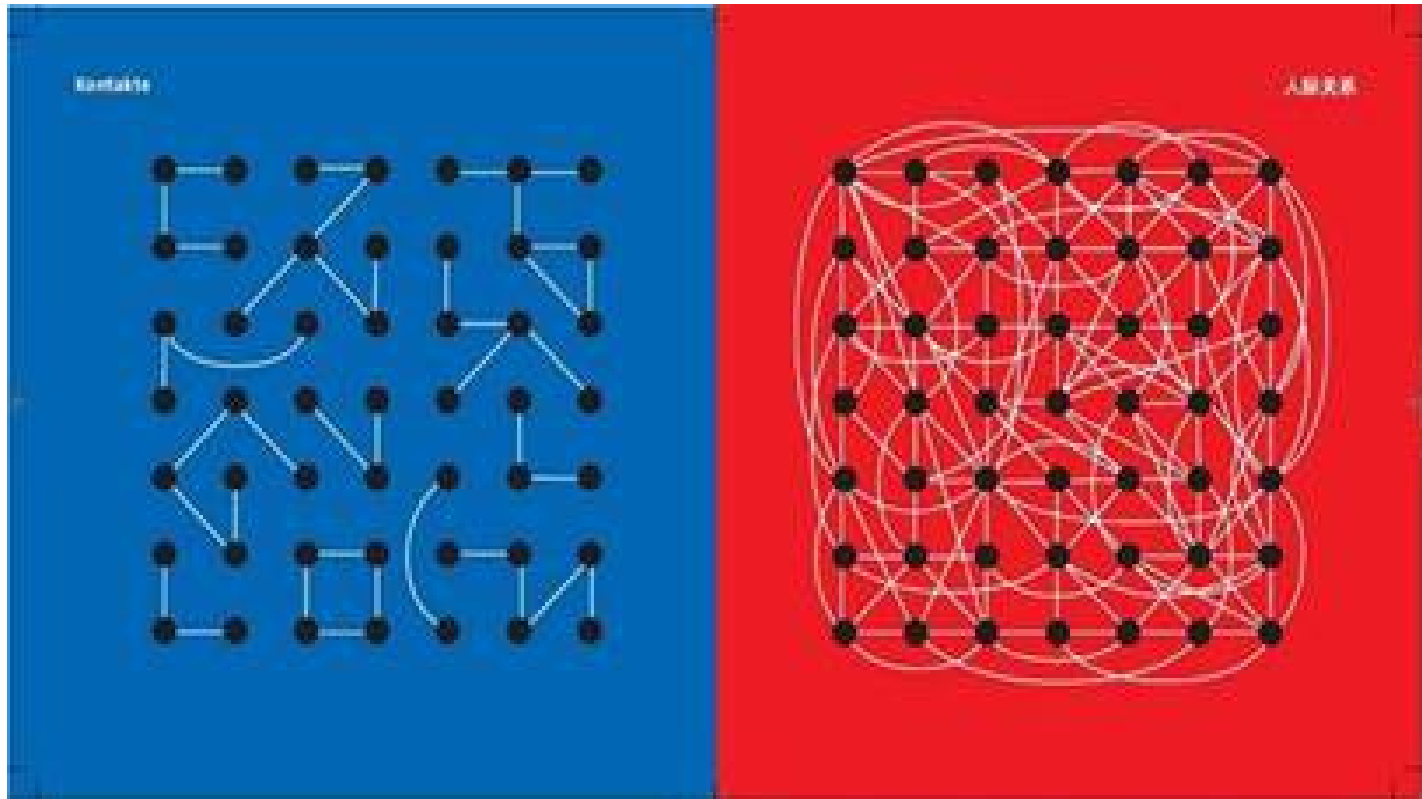
# Way of Life



Westerners – Individualism– Think only about oneself

Asians – Enjoy Gathering with friends and relatives, solving their problems

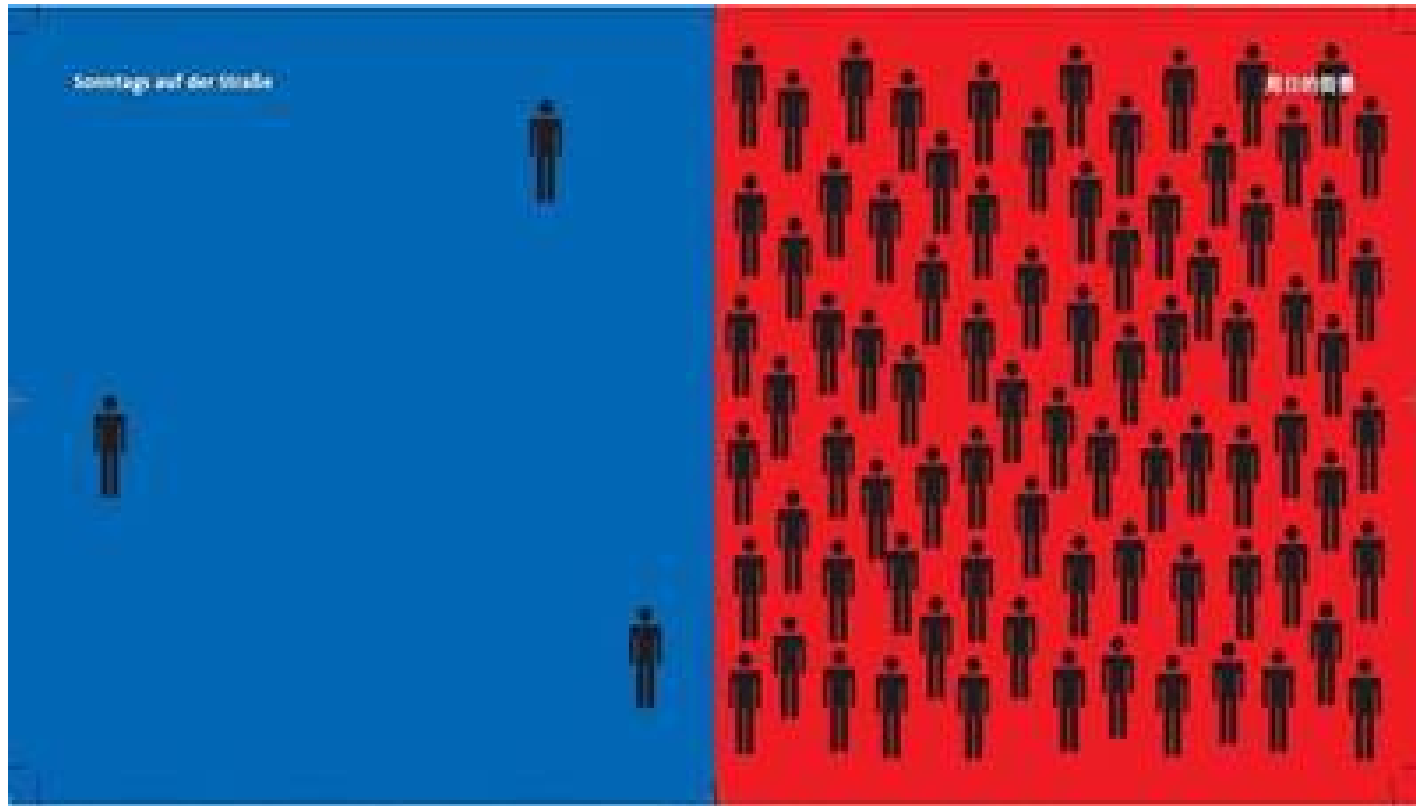
# Contacts



Westerners: Contact to related person only.

Asians: Contact everyone everywhere, business very successful.

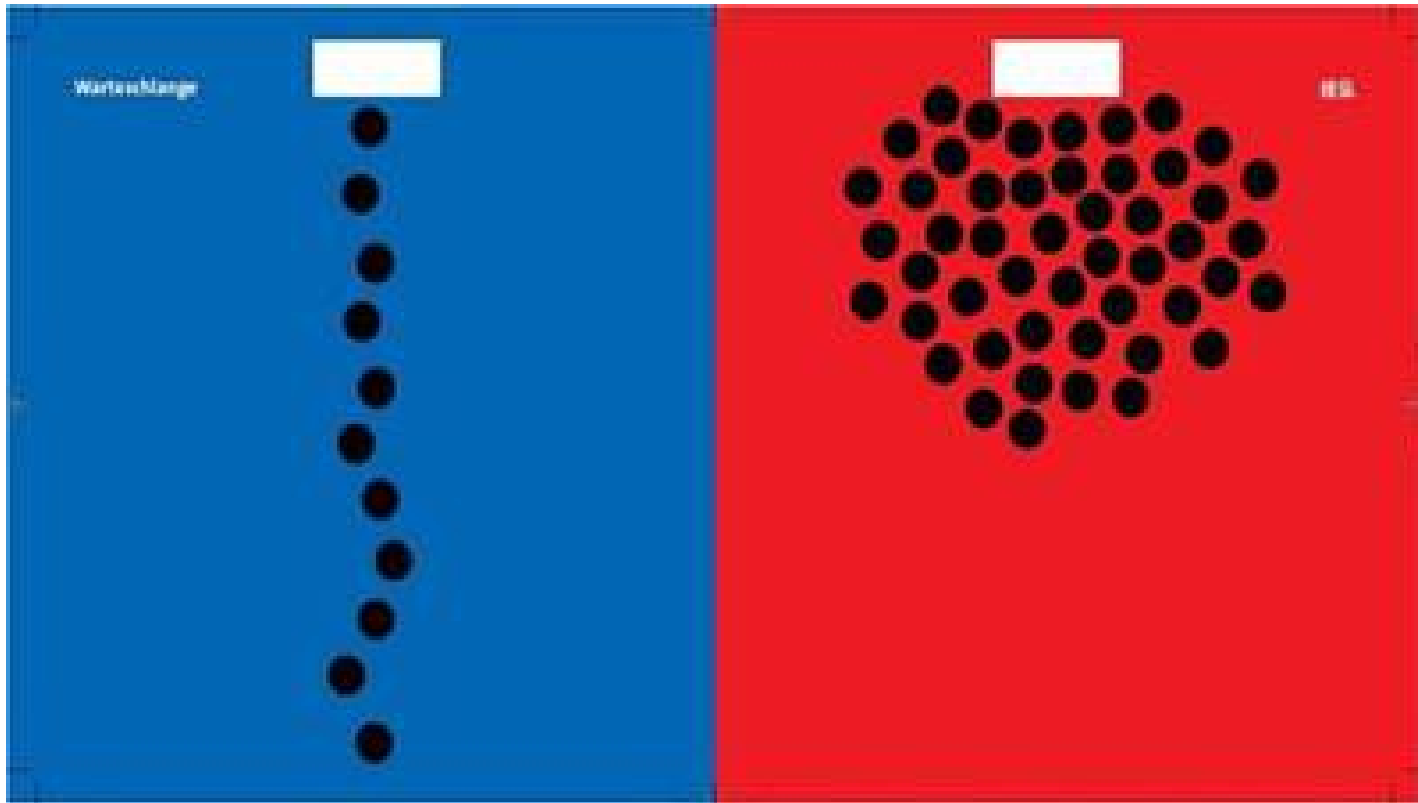
# Sundays on the Road



Westerners: Enjoy weekend relaxing peacefully.

Asians: Enjoy weekend in crowded places, like going to the mall.

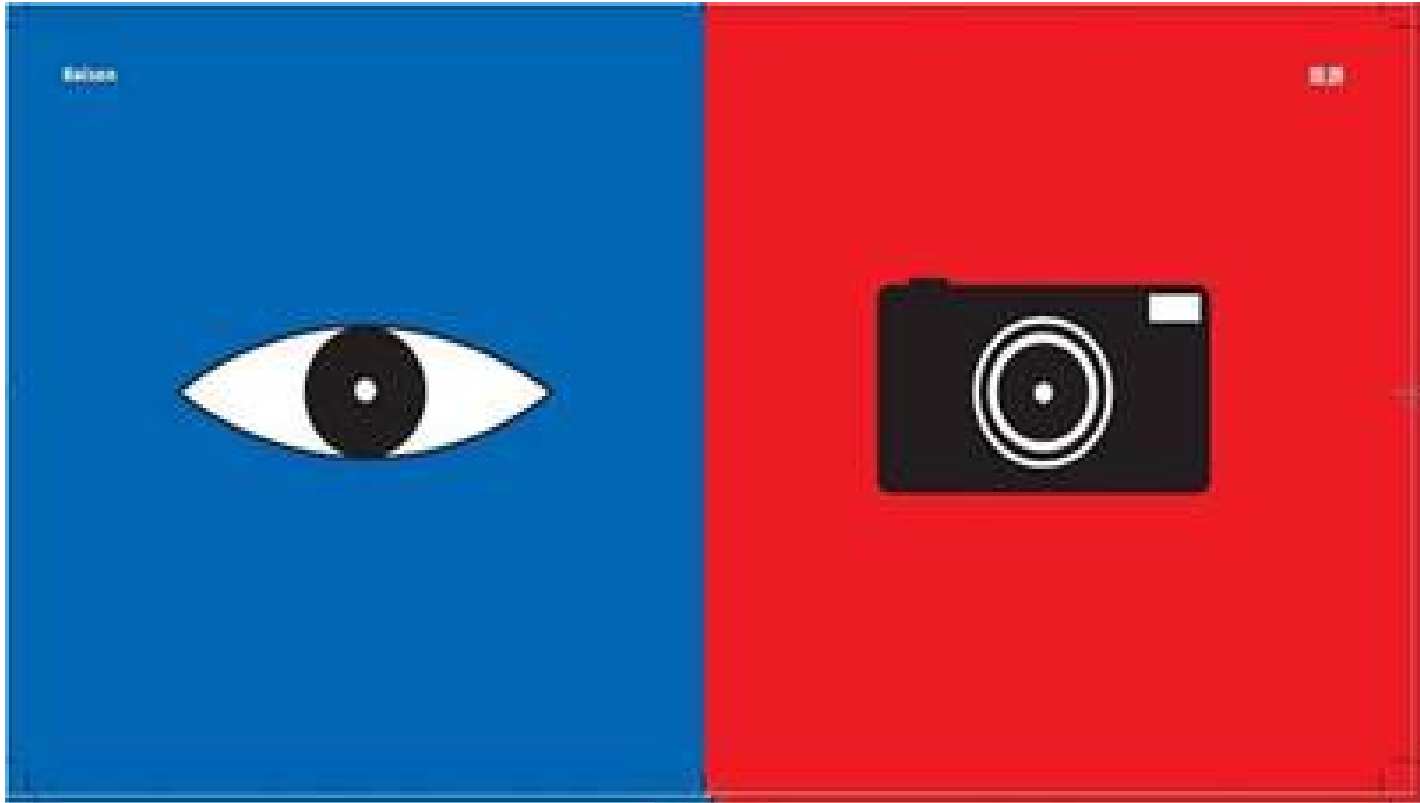
# Queue when Waiting



Westerners: Queuing in an orderly manner.

Asians: Queuing?! What's that?

# Travelling

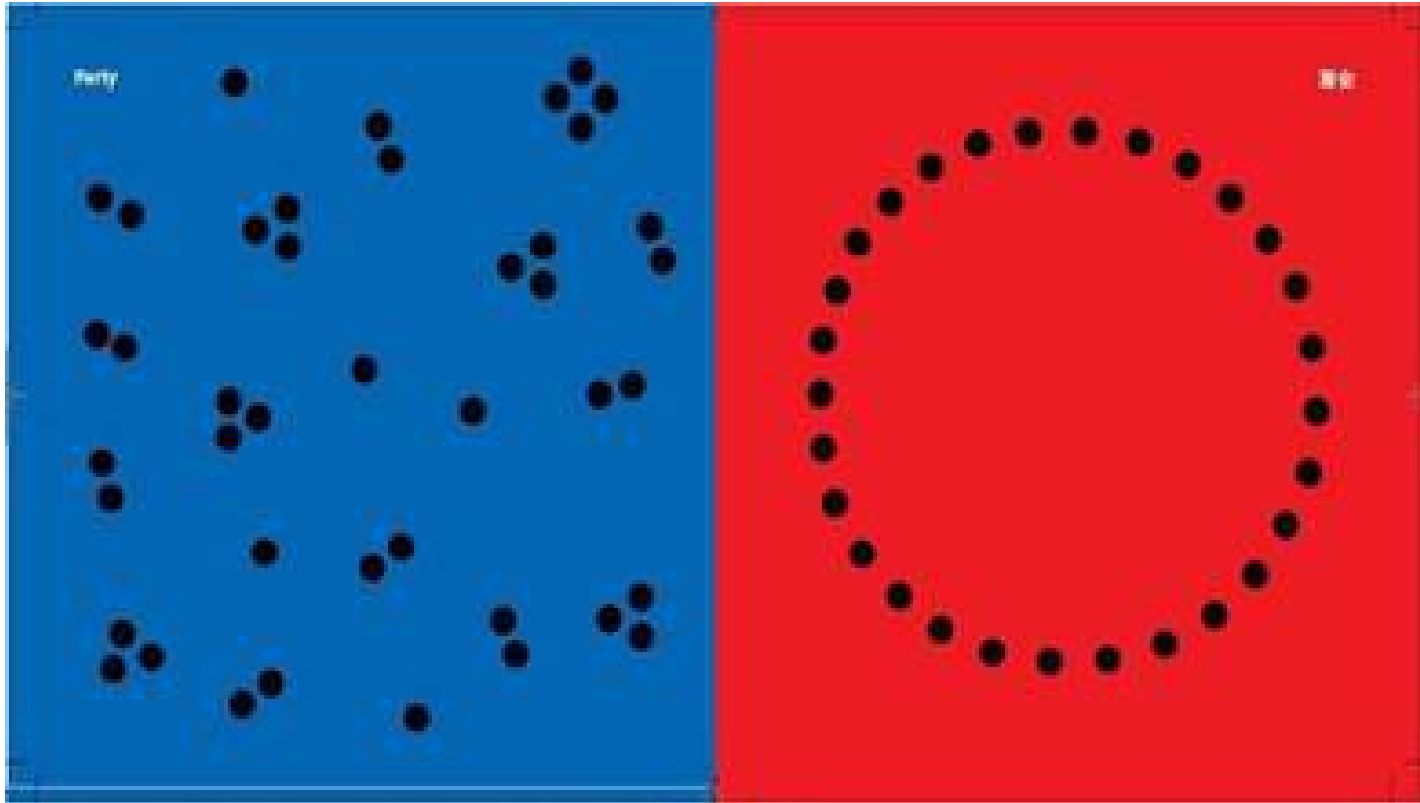


Westerners: Love sightseeing and enjoy the scenery.

Asians: Taking picture is the most important; scenery is just for the background.



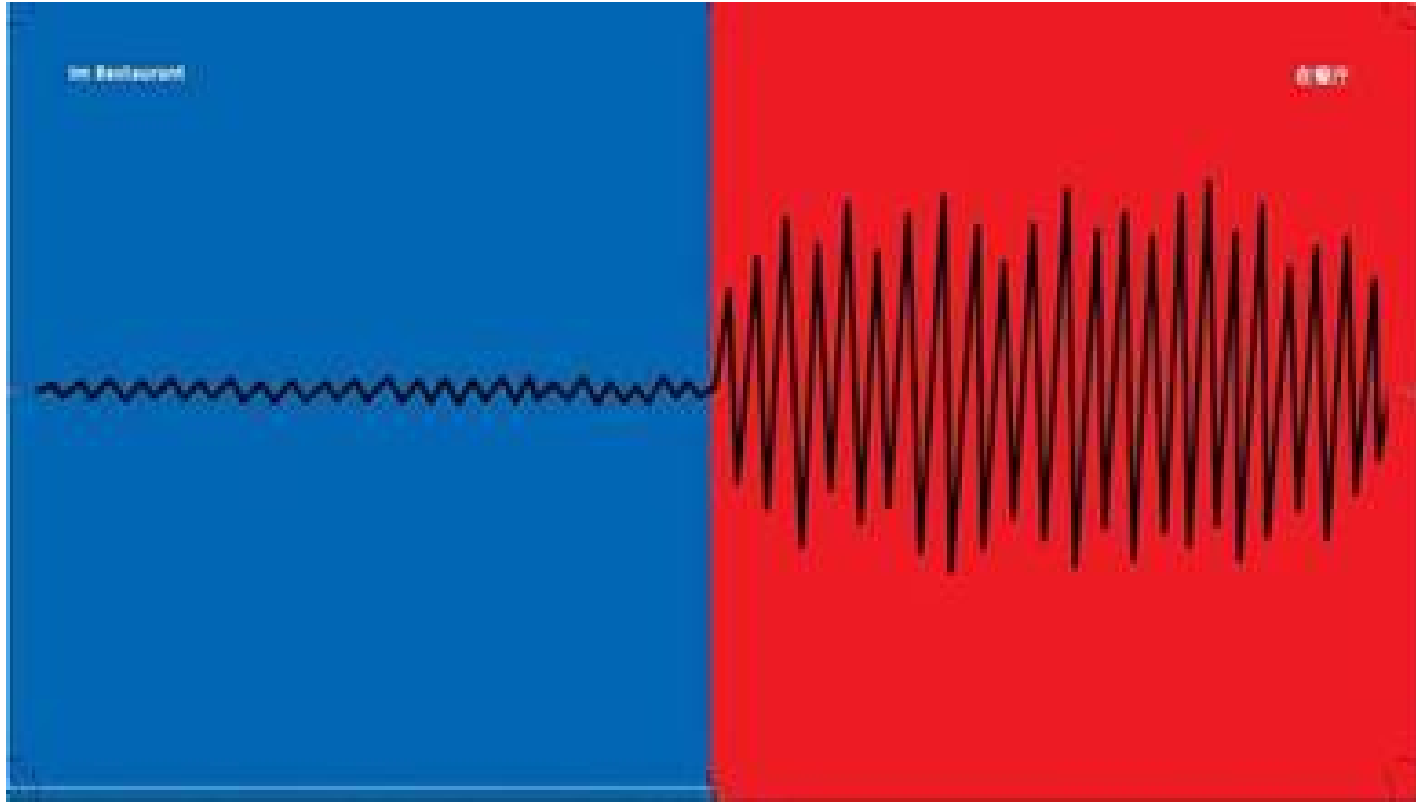
# Party



Westerners: Only gather with their own group.

Asians: All focus on the one activity that is hosted by the CEO.

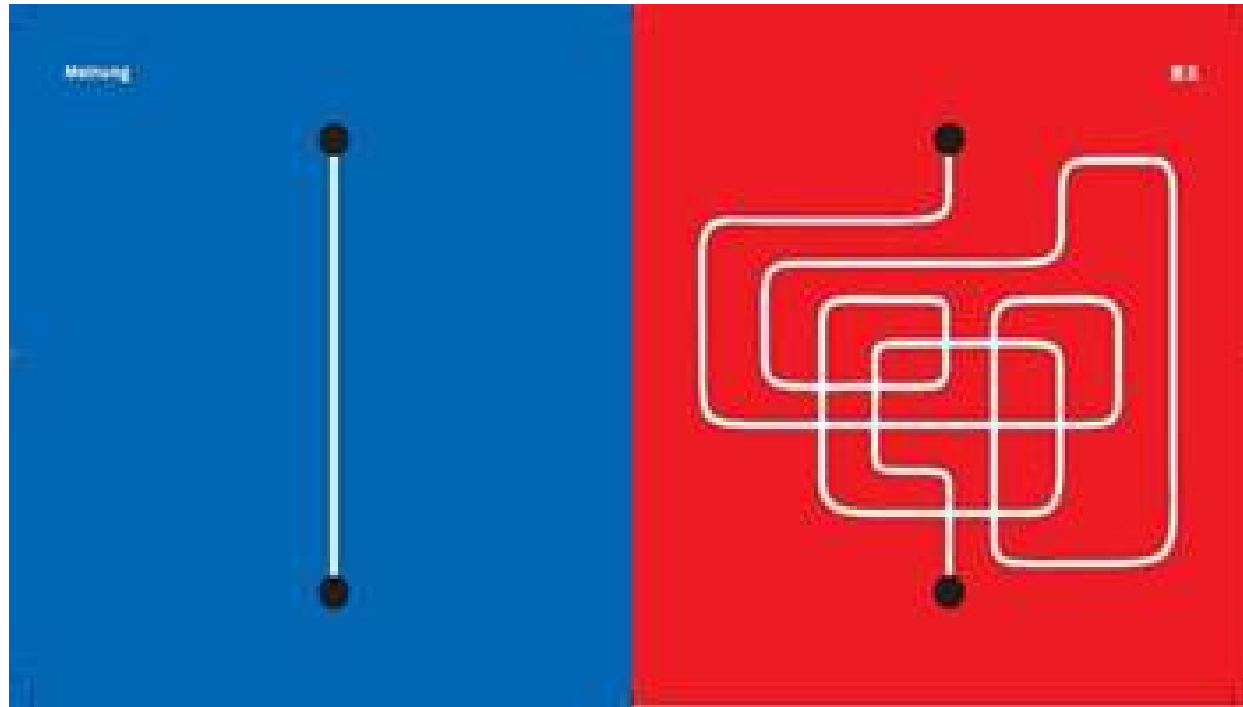
# In the restaurant



Westerners: Talk softly and gently in the restaurant.

Asians: Talk and laugh loudly like they own the restaurant.

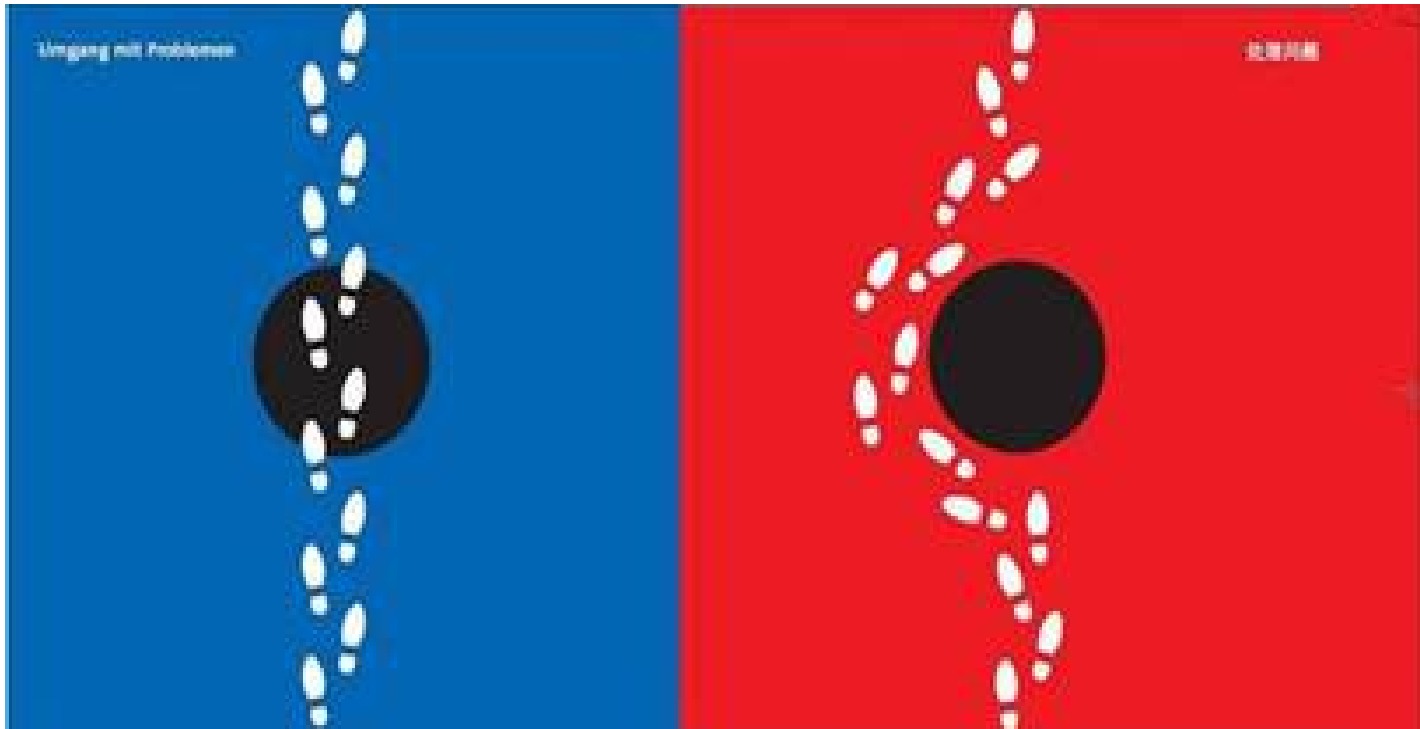
# Opinion



Westerners: Talk to the point

Asians: Talk around the circle, especially if opinions are different .

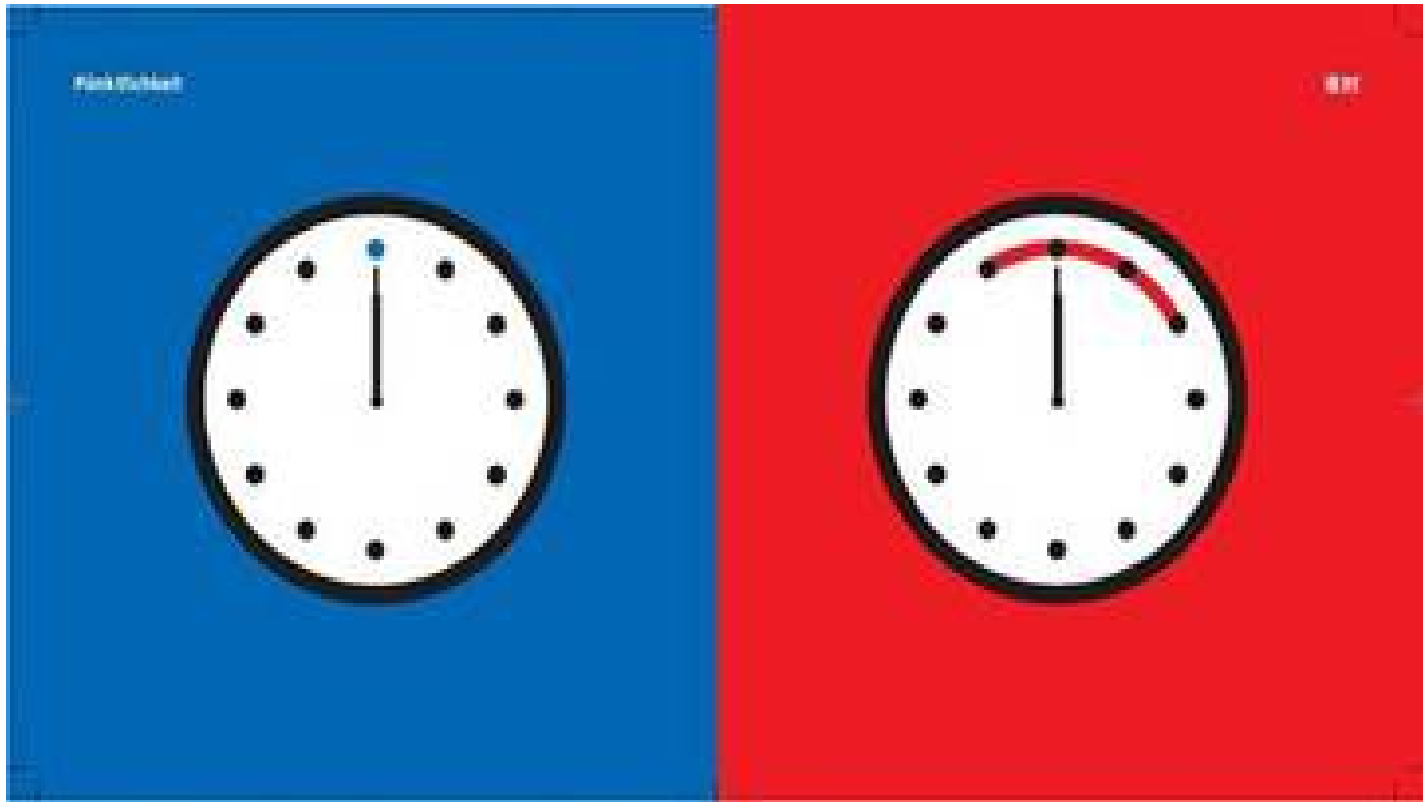
# Handling of Problems



Westerners: Take any steps to solve the problems.

Asians: Try to avoid conflicts, and if can, don't leave any trail.

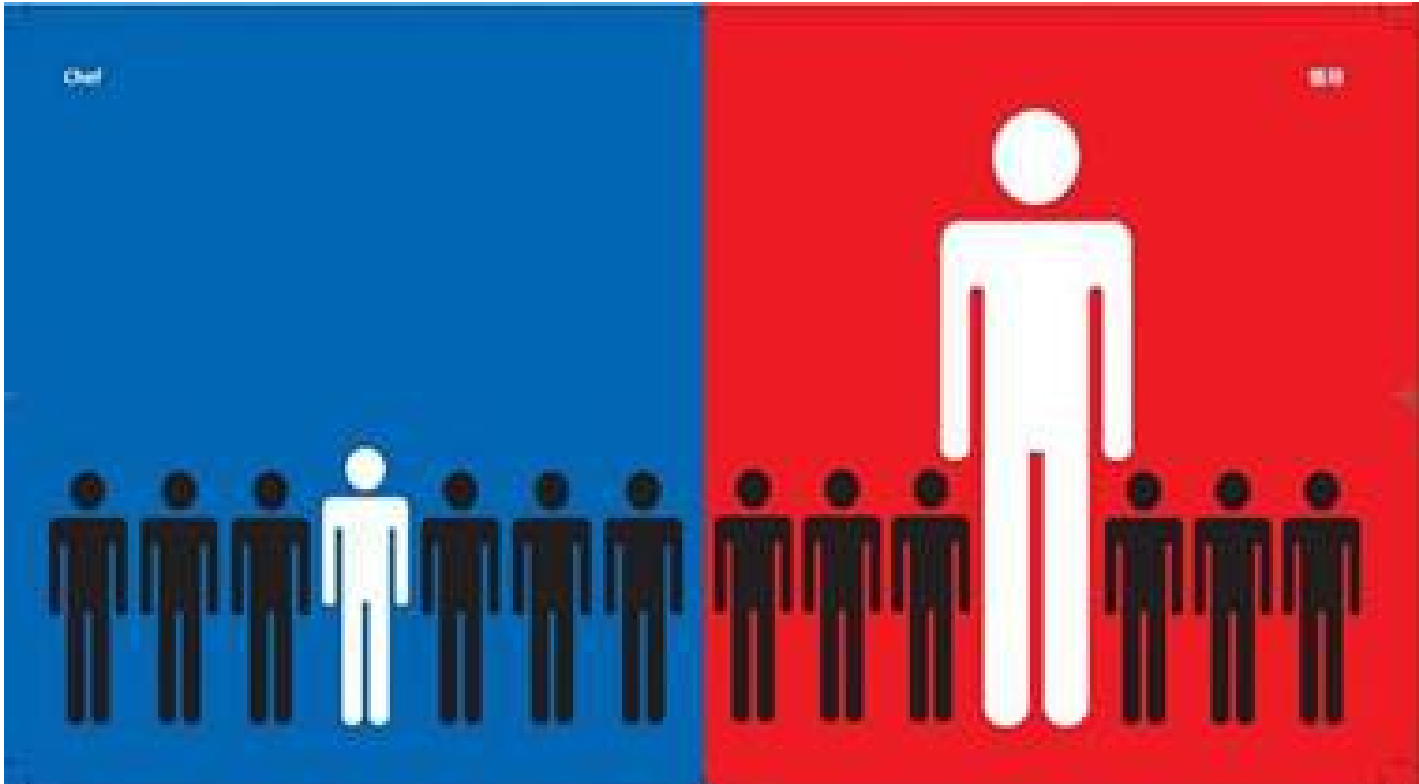
# Punctuality



Westerners: on time.

Asians: in time.

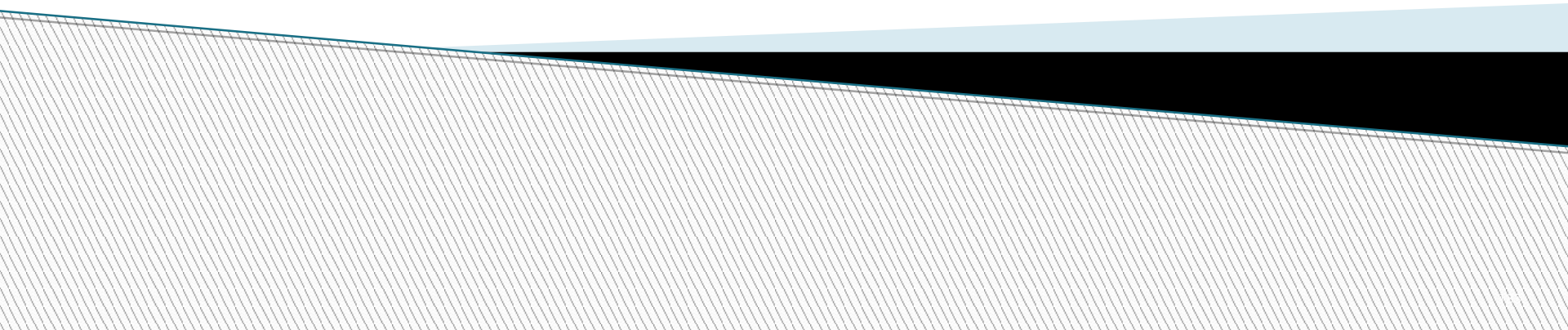
# The Boss



Westerners: The boss is part of the team.

Asians: The boss is in charge.

# Competencies required in International Managers



# Competencies required

Knowledge of One's own country

Global Perspective and Mindset

Knowledge of Other countries

Understanding of International Business Environment

Understanding of International Business Partners

Knowledge of customers

Knowledge of silent and spoken international language

Knowledge of Business Etiquettes of host country