

Global Environmental Analysis

1. Overview/Goal

By the end of unit 1, students should be able to understand international management trends; The World is Flat, regional trading blocs, influence of information technology and globalization of human capital.

By the end of unit 2, students should have learned about Environmental Scanning – doing Business in a Country, assessing the political environment, assessing the economic environment, assessing the legal environment, anti-terrorism, new kids on the global bloc.

2. Competencies

Unit 1 - Assessing the major issues as they relate to international business in today's tech-based economic environment, understand global trends, know why the world is "flat", understand the major world trading blocs, and describe the influence of IT in the global marketplace.

Unit 2 - Understanding the importance of environmental scanning, assess a MNC's competitive advantage, and describe new economic heavyweights.

Unit 1: **Global Business Now**

3.1. Pre-activity discussion / UNIT 1 – Global Business Now

Instructor displays the Top 10 list of "Why the World is Flat". Students would see if they can identify one reason that the world is indeed considered flat and explain why that particular reason made the list.

4.1: Learning activity

(Slide 6): Anyone in the field of technology and/or engineering today is now being faced with increased global dynamics in their operating environment. To adequately compete in the marketplace, a proper assessment of the international community must be taken into account. Skills in a multicultural environment are imperative to anyone that wants to succeed in product design and any technologically based setting, as working in cross cultural teams is becoming the norm. Today, an international project is continually ongoing. That is, any undertaking that is global in nature sees continuous and persistent responsibilities. Those technology and engineering students that are best equipped to work with international team will have the best chances of success in this global work setting. The World Is Flat is Thomas L. Friedman's account of the great changes taking place in our time, as lightning-swift advances in technology and communications put people all over the globe in touch as never before-creating an explosion of wealth in India and China, and challenging the rest of us to run even faster just to stay in place. In The World Is Flat, Friedman at once shows "how and why globalization has now shifted into warp drive. He explains how the flattening of the

world happened at the dawn of the twenty-first century; what it means to countries, companies, communities, and individuals; how governments and societies can, and must, adapt; and why terrorists want to stand in the way. (Farrar, Straus and Giroux publishers) It is critical for an engineer or tech-based worker to realize that today, the world never sleeps, and a work project is continually on the watch. The sun may set where you are, but the sun never goes down and the project never rests due to globalization today.

(Slide 7): Truly, 1) technology has changed the shape of the world. At the same time, 2) cheap and abundant communications and broadband connectivity have made it easy for knowledge work to be done from anywhere in the world. This has created a "flat" global political, economic, and cultural playing field. Here is a summary of the top 10 reasons why Friedman stated that "The World is Flat" 1-The walls came down, windows went up: The old cold-war barriers blew open, and everyone was talking to everyone else through a common platform, computers and software. 2-Internet browsers: Suddenly everyone could browse the web with significant and prolific content, allowing instant publishing to a world audience. 3-Workflow software: Common web-based standards; software applications "taking" to each other. 4-Open-source: Self-organizing, collaborative communities; the decline of closed, proprietary developments. 5-Outsourcing: Business suddenly realizing that everything did not have to be done in-house. The rise of outside specialists, part-timers and home-workers.6-Off-shoring: Sending manufacturing to wherever it could be done – good, fast and cheap. With the availability of worldwide high-speed communications, knowledge work can be delivered fast from anywhere.7- Supply-chaining: The development of fast, efficient and effective supply-chains to deliver products from anywhere. A good example is the rise of Wal-Mart to become the largest company in the world. 8-Logistics: UPS and Fedex don't just deliver packages – they do logistics. 9-Informing – web search: Google & Yahoo deliver information quickly and effectively, anywhere, to anyone. The rise of Groups and Weblogs 10-Digital, mobile, personal, virtual: Everything shaped, manipulated and transmitted by computers and instant communications.

(Slide 8): An International Business is any organization or business that engages in international investment or trade. Globalism is the shift towards a more interconnected, integrated global economic system. Global Management is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. A home/host country- is a nation in which representatives or organizations of another state are present because of government invitation and/or international agreement. A home country, in a global context, usually indicates the country of operations (where a factory would be present) for the parent corporation. There are many challenges for the global manager today as they try to navigate through the marketplace due to the multifaceted issues affecting such as politics and technology. Those managers must adjust their management strategies to the country or region in which their MNC operates. It is the challenge of a global manager to properly assess the conditions in a country with which his company has interests and make the best strategic decisions based on the business environment there. Recently, globalism has been typified by trends such as dramatic increases in exports, swelling Foreign Direct Investments between nations, and the movements toward regional trading blocs.

(Slide 9): In 2008, three dominant trading regions have dominated the global economy. The European Union has recently expanded and now includes 10 eastern and central European countries with former ties to communist regimes- Czech republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia, Malta, and Cyprus. It is now a 27-nation unified market of over 490 million people. The Asian market has seen a power shift in the past 15 years, from Japan to China. China has seen consistent high GDP growth, which has averaged 8%-10% as of late. The Asian market also includes South Asia and the Four Tigers- Taiwan, Singapore, Hong Kong, and South Korea. The North American Free Trade Agreement, Nafta, has enabled Mexico's economy to now be ranked 9th highest among all nations, up from 15th a dozen years ago. These three regional trading blocs dominate the world economy. The three dominant trading blocs are dominated by three currencies. The pictures show (from left to right) 2 euro coin, 1 yen, front and back of dollar.

The European Union (EU) is a family of democratic European countries, committed to working together for peace and prosperity. It is not a State intended to replace existing States, nor is it just an organization for international cooperation. The EU is, in fact, unique. Its member states have set up common institutions to which they delegate some of their sovereignty so that decisions on specific matters of joint interest can be made democratically at European level. http://europa.eu/abc/panorama/index_en.htm

The economy of Asia comprises more than 4 billion people (60% of the world population), living in 46 different states. Six further states lie partly in Asia, but are considered to belong to another region economically and politically. As in all world regions, the wealth of Asia differs widely between, and within, states. This is due to its vast size, meaning a huge range of differing cultures, environments, historical ties and government systems. The largest economies in Asia in terms of nominal GDP are Japan, China, and India. Economies range from Japan, as the world's second largest economy by nominal GDP, to Cambodia as one of the poorest. In terms of GDP by purchasing power parity, China has the largest economy in Asia and the second largest economy in the world, followed by Japan and India as the world's third and fourth largest economies respectively. India has focused its efforts on high-tech services, which annual economic growth over 8% per year. South Korea also has one of the largest economies in the world being the 10th largest in the world by nominal GDP. South Korea is expected to have a larger economy than France by 2020. Pictured is 100 Renminbi literally People's currency, abbreviated to RMB, which is the currency in mainland of the People's Republic of China wikipedia

NAFTA came into effect on January 1, 1994 and it remains the largest trade bloc in the world in terms of combined GDP of its members. The North American Free Trade Agreement (NAFTA) eliminated the majority of tariffs on products traded among the US, Canada, and Mexico, and gradually phases out other tariffs over a 10-year period. Trade has increased dramatically among the three nations since NAFTA. In the period of 1993–2004, total trade between the United States and its NAFTA partners increased 129.3% (110.1% with Canada and 100.9% with Mexico). Wikipedia The pictures on the slide are the currencies of NAFTA, including (left to right) dollars, Canadian dollars, and the Peso. NAFTA's 4 original goals were quicker growth, more employment, improved working conditions, and a cleaner environment.

(Slide 10): IT has dramatically increased productivity, commerce, and electronic commerce around the world. The speed of information flow has made geographic barriers less important. IT has also transformed the strategy of international manager more than any other issue. At the same time, IT has accelerated techno-globalism (fast developments in IT and communication technologies). No longer is information secretly hidden by governments, and old cultural barriers are being broken down due to the role of IT as societies learn about one another. The Internet has had a drastic influence on how global organizations operate. Lightning fast communications, trading, and data exchange can now occur due to the internet. The old global walls of space, logistics, culture, and time are being broken down. The influence of information technology has accelerated global competition. Electronic commerce (ecommerce) is the buying and/or selling over technology such as computers or the internet. An e-business is a term used to describe businesses run on the Internet, or utilizing Internet technologies to improve the productivity or profitability of a business. An e-business may also use the Internet to acquire wholesale products or supplies for in-house production. This facet of e-business is sometimes referred to as e-procurement, and may offer businesses the opportunity to cut their costs dramatically. Even many e-businesses which operate without an electronic storefront now use e-procurement as a way to better track and manage their purchasing. These advances in technology have given rise to global commerce and have increased the importance of cross-cultural work relationships.

(Slide 11): Human capital refers to the stock of productive skills and technical knowledge embodied in labor. Many early economic theories refer to it simply as labor, one of three factors of production, and consider it to be a fungible resource -- homogeneous and easily interchangeable. Other conceptions of labor dispense with these assumptions. Adam Smith defined four types of fixed capital (which is characterized as that which affords a revenue or profit without circulating or changing masters). The four types were: 1) useful machines, instruments of the trade; 2) buildings as the means of procuring revenue; 3) improvements of land and 4) human capital. In the 1960's, the US dominated the global marketplace and had the most skilled workforce, US MNCs (multinational companies) were the first to "go global", and the former Soviet bloc and its allies were not trading partners with the US. Since then, much has changed and human capital has been globalized. Every corner of the world is competitive, skills of a labor force are more important than ever, and cross-cultural interactions are essential.

5.1: Post Activity Discussion/Unit 1 – Global Business Now

Pick a country (other than the US) and try to find a website that gives some data on that nation. See if you can find some information that describes any of these aspects of that country:

- Currency
- Trading Partners
- Economic Data
- Common types of skilled labor

What did you find out about that country?

Unit 2: The Business Environment of a Nation

3.2. Pre-activity discussion / UNIT 2 – The Business Environment of a Nation

Students will be asked why it is important to do homework for their classes. Then students will be asked why they think it is important for an international manager to research a company and find out as much as they can about that country before making a business decision that is affected by the political, legal, or economic environment of that country.

4.2: Learning activity

(Slide 16): Managing an international company is much more multifaceted than simply running a domestic operation due to vast array of variations in a foreign country's unique political, economic, and legal systems: An environmental scan is important in order to assess the risks of doing business in a nation. Political risk is the likelihood that the local or federal government will implement drastic changes in that nation's business environment that negatively affects the of a business enterprise. Pictured embracing are the dictator Hugo Chavez from Venezuela and Cuba's "former" dictator, Fidel Castro. These leaders' countries are examples of nations that pose a sizeable political risk. What would happen to any business interests in these countries if the leaders were to die or be overtaken in a coup? How much potential for new business interests in these countries would there be? Economic risk is the likelihood that economic mismanagement will cause drastic changes in a country's business environment that adversely affects the profit and other goals of a business enterprise. Pictured is King Abdullah of Saudi Arabia, who is seen to have a friendship with officials in the US government, and Russian president Vladimir Putin, who has been criticized recently for taking away private enterprises in Russia. Legal risk is the possibility that a country where you are doing business will opportunistically break a binding contract or seize property rights. Pictured is Chinese President Hu Jintao, who presides over a system where the courts are controlled by the government. These differences in political, economic, and legal systems of a country need to be closely examined when conducting any business in a given region or nation. A foreign country's business environment should be properly scanned. The political, economic, and legal systems in a country equal that country's ultimate business environment.

(Slide 17): Proactive globally oriented firms maintain an up-to-date profile of the political and economic environment of the countries in which they maintain operations (or have plans for future investment). One important aspect is the phenomenon of *ethnicity*, which is often behind political instability or unrest within a country. In today's global marketplace, firms must assess political risks involving ethnicity and religion in a region or country where they do business. The current business climate in Iraq is surely affected by the different religious sects that live there. Measures taken by a local government that are religiously based can affect the operations of an organization. Often times, the religion of people in a particular

region plays a big part in differences between groups, which may result in business unrest or even uprisings, mutinies, and revolts which may be the results of these religious conflicts. Disagreements that are thought to be political are actually expressions of variances among ethnic groupings. Religious disputes may be the origin of differences. For example, most businesses in China operate under Confucian values and standards of etiquette. A global manager must understand and assess these circumstances that permeate the work environment.

(Slide 18): There are several options for a Global Manager which can serve to minimize changes in the political environment. 1) Avoidance— a company's withdrawal of capital and investment in a certain country 2) Adaptation – when an organization decides to adjust to a political environment in a region or country 3) Dependency – the process of keeping the host nation reliant on the MNC 4) Hedging – the strategy that involves minimizing the losses that might occur with any political risk. It is important for a global manager working on a project to minimize any changes that could result from sudden modifications in a host country's political environment.

(Slide 19): There are many differences in the political governments of nations. *Communism* is a system of social organization in which all economic and social activities are controlled by a totalitarian state. In this governmental form, one person or political party exercises absolute control over all spheres of human life, and opposing political parties are prohibited. Pictured is Karl Marx, one of the founding fathers of communism. The flags are from current communist countries, (from left to right- North Korea, Cuba, and China). *Socialism* is similar and this system of social organization advocates the vesting of ownership and control of the means of production and distribution of capital, land, etc in the community as a whole. *Privatization* is the movement or transfer from public or governmental control and ownership to free market and private enterprise by selling formally state-owned assets. Democracy is a governmental system in which supreme power is vested in the people and representatives are elected freely. Many of the economies of the world have privatized and have moved towards a democratic system. Pictured are American founding father Thomas Jefferson, the US flag, the Japanese flag, and, and the South Korean flag. The trends toward privatization and democratic rule are fueling globalization as people are increasingly apt to trade and do business with one another in different countries.

(Slide 20): The 3 distinct styles of economic systems include a command economy, a market economy, and a mixed economy. A command economy is an economy where supply and price are regulated by the government rather than market forces. Government planners decide which goods and services are produced and how they are distributed. The former Soviet Union was an example of a command economy, also called a centrally planned economy. A market economy is a system of allocating resources based only on the interaction of market forces, such as supply and demand. A true market economy is free of governmental influence, collusion and other external interference. A mixed economy includes some aspects of both a market and a command economy. Just as the governmental systems are shifting away from communism, the economic systems of the world are trending towards a market economy.

(Slide 21): A country's level of economic development generally determines its economic stability. Most industrialized nations pose little risk of economic instability. A free market system is likely to be the norm in countries where individual goals are given primacy over collective goals. Lesser Developed Countries pose more economic uncertainty and thus risk. State-owned enterprises and restricted trade markets are common in countries where collective goals are dominant. Economic risk falls into 2 categories. First, when government changes its fiscal policies and second, when government modifies its foreign-investment policies. Although the trends are moving towards free markets in the past several decades, many countries today operate somewhere in between a restricted trade market and a total free market system. A prudent global manager will properly assess the specifics of the economic environment in any country where he is conducting business. It is imperative for global managers to constantly assess and reassess the economic environment of a country where it does business or potentially does business.

(Slide 22): A global manager must consult with lawyers and legal issues, whether they be in their home country or host country, in order to best comply with host-country regulations. The regulatory surroundings for an international manager includes all of the local laws and the court systems in those countries. Some legal matters are covered by international law, which governs relationships between different countries. A manager should comply with the host country's legal system. Three different types of legal systems in place are: Common Law – past court decisions serve as precedents to the interpretation of the law Civil Law – a comprehensive set of laws organized into codes and interpretation is based on references to codes and statutes Muslim law – based on religious beliefs which dominate all life. The legal system of a nation consists of the laws and rules that control behavior, as well as the procedures by which those laws are put into effect and the process which redress for grievances is attained. You can access and analyze a specific country's legal environment by looking at its product safety and liability, the contract laws currently in the books, property rights, that country's judicial system, and that country's intellectual property right laws.

(Slide 23): A global manager now needs to take into account the possibility of terrorism, anti-American protesters (include French guy that became hero for McDonalds), and anti-capitalistic tendencies in a country in which it operates. In an era of increasing globalization, understanding and preparing for terrorism and political violence has arguably never been more important for business. Business leaders believe they are operating in an increasingly dangerous world, and as a result they are spending more management time focusing on the risks which they face from terrorism and political violence. However, the reality is that 21st century terrorism is not restricted to certain predetermined 'hot spots', and solutions are rarely simple when it comes to dealing with political violence. The importance of reflecting this changing risk environment in corporate risk management strategy has therefore never been greater. Learn more about the issues and impact of terrorism and political violence on business and what steps can be taken in response. As of late, it has become fashionable for anti-globalization groups to focus on the US multinational corporation Starbucks.

(Slide 24): The particular tactics towards trade of a country or region of the world varies according to the country. Every country approaches free trade and other competitive advantages differently. Examples of differences in a country's or region's competitive

advantage might include the Japanese and European markets, which are more likely to have regulations in place that put higher tariffs and taxes on imported goods. They are not as reliant on market forces for trade. Although free trade is becoming more common, some nations or regions of the world have put trade and/or investment restrictions in place. Another example of a nation's competitive advantage is China's decision to embrace foreign direct investment in the 1980s which has subsequently made it an economic powerhouse and allowed it to become a destination for international business.

(Slide 25): Numerous models and approaches explain how *leaders* of multinational corporations can create a competitive advantage. 3 questions to ask for a Global company when assessing their competitive advantage. On what basis will the corporation compete? The 3 questions to ask when a Global company looks at their competitive advantage are 1- Is the firm's economic model sustainable and can the current corporation model be sustained into the future? 2- In what areas will the MNC compete? 3-Does the organizational plan capture skill sets and strategies of the employees?

(Slide 26): A new economic powerhouse has emerged- China. Pictured are the Great Wall of China, the map of China, and the RMB (currency). China's economy during the last quarter century has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Reforms started in the late 1970s with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment. China has generally implemented reforms in a gradualist or piecemeal fashion, including the sale of minority shares in four of China's largest state banks to foreign investors and refinements in foreign exchange and bond markets in 2005. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis, China in 2007 stood as the second-largest economy in the world after the US, although in per capita terms the country is still lower middle-income. Annual inflows of foreign direct investment in 2007 rose to \$75 billion. By the end of 2007, more than 5,000 domestic Chinese enterprises had established direct investments in 172 countries and regions around the world. Without a doubt, the Chinese economy and the Chinese culture will be integral players on the world stage in the decades ahead. A respect, appreciation, and understanding of China is vital to any technology-based workforce that wants to succeed in the global marketplace. The second key player on the world stage is India. Pictured are the Taj Mahal, the map of India, and the rupee (currency). India is capitalizing on its large numbers of well-educated people skilled in the English language as they are becoming specialized in the services and software sector. The government has reduced controls on foreign trade and investment. And the economy has posted an average growth rate of more than 7% since 1997, reducing poverty by about 10 percentage points and significantly expanding production and manufacturing. Despite impressive gains in economic investment and output, India faces pressing problems such as significant overpopulation, environmental degradation, extensive poverty, and ethnic and religious strife.

(Slide 27): Recently, much cross-cultural business, and many businesses in the tech sector in particular, have business interests in LDC's. Least Developed Countries (LDCs or Fourth World countries) are countries which according to the United Nations, exhibit the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all the countries in the world. A country is classified as a Least Developed Country if it meets three criteria based on: 1-low income, which is a three-year average GNI (Gross National Income) per capita of less than US \$750, (which must exceed \$900 to leave the list) 2-human resource weakness (based on indicators of nutrition, health, education, and adult literacy) and 3-economic vulnerability(based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, and handicap of economic smallness, and the percentage of population displaced by natural disasters).

5.2. Post-activity discussion / UNIT 2 – The Business environment of a Nation

Select China or India and find out something about the nature of that country's economy. What trends are occurring? Predict where that country's economy might be in 5 years. In 20 years.

What are the implications for the global marketplace if China and India continue to grow as they have been?

6. Assignment specifications

Select China or India and find out something about the nature of that country's economy. What trends are occurring? Predict where that country's economy might be in 5 years. In 20 years.

7. Assessment

Pick a country (other than the US) and try to find a website that gives some data on that nation. See if you can find some information that describes any of these aspects of that country:

- Currency
 - Trading Partners
 - Economic Data
 - Common types of skilled labor
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