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SKU: 9780134283593-SOLUTIONS

Chapter 2

Environmental Constraints On Managers

LECTURE OUTLINE

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The External Environment
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  - Shareholders
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  - Suppliers
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- The General Environment
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Learning Objective 4: Explain how does the environment affect managers?
How the Environment Affects Managers
- Assessing Environmental Uncertainty

The Pros and Cons of Globalization

Please note: This Instructor's Manual (IM) includes guides and connections as follows:

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- Suggested approaches and teaching strategies for the end of chapter exercises and cases (see this information below).
- Connections and linkages to useful chapter related materials and activities in the text as well as the MyManagementLab (MML) accompanying this text (see the table below) based upon different levels of learning and application (Interpret, Analyze & Practice)
- Additional suggested activities designed to gradually elevate your student's understanding of the chapter material are also available for your use as classroom or take home assignments (see the Supplemental Activities section at the end of this chapter summary). These activities are also introduced in the text as possible instructor-led exercises.

MyManagementLab® Learning Resources

Resources

- Student PowerPoints
- Audio Summary of Chapter
- ROLLS (Robbins Online Learning System)
- MySearchLab

The MyManagementLab features a personalized Study Plan that includes a Pre-Test and a Post Test for each chapter. Once students have read the chapter the pre-test is designed to help students identify which concepts they have understood and then guides them towards study tools for the areas in which they may need more practice. The Post-Tests are designed to help students confirm their mastery of all the key chapter concepts.

This chapter discusses the components and complexities of the external environment and how these may constrain managers. The chapter also explores the opportunities and challenges managers face in managing in a global environment. Managers in all types and sizes of organizations must be prepared to monitor changes in the global environment.

1. What is the external environment for managers?
2. What challenges do managers face in a global environment?
3. How do organizations do business globally?
4. How does the environment affect managers?

CHAPTER OVERVIEW

INTRODUCTION

Managers must be aware that organizational environments will influence both the way an organization is managed and its effectiveness. In this chapter, we consider the impact of an organization's external environment on the ability of managers to act. We begin our exploration by considering the degree of control managers have over an organization's performance. Can managers do anything they want? Do managers control their environment, or are they controlled by it? Are they affected more by circumstances outside or inside the organization? Organizational environments as well as the global environment are explored in order to understand the complexities involved in each. Managers who don't closely monitor changes in the global environment, or who don't take the specific characteristics of their location into consideration as they plan, organize, lead, and control are likely to find limited global success.

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Learning Objective 1: Define what is the external environment for managers?

THE EXTERNAL ENVIRONMENT

The term **external environment** refers to forces and institutions outside the organization that potentially can affect its performance. The external environment is made up of three components, as shown in **Exhibit 2-1**

A. The Specific Environment

The **specific environment** is the micro part of the environment that includes the constituencies that are directly relevant to the achievement of an organization's goals. Each organization's specific environment is unique and changes with conditions. The main forces that make up the specific environment include stakeholders, shareholders, customers, suppliers, and competitors.

Stakeholders have a stake in or are significantly influenced by what the organization does. In turn, these groups can influence the organization. Often an organization depends on these groups as sources of inputs (resources) and as outlets for outputs (goods and services), and managers should consider their interests as they make decisions and take actions. Shareholders (also known as stockholders) own one or more shares of stock in a company. Since these individuals have a vested interest in how the company performs (in that they have put their own money into the activities of the firm) they will expect results that provide them with a positive return on that investment.

1. Customers

   Customers are the reason that organizations exist, as they absorb the outputs. They obviously represent potential uncertainty, particularly if their tastes and desires change.

2. Suppliers

   This force includes firms that provide materials and equipment as well as financial and Labour inputs. Managers seek to ensure a steady flow of the needed materials, equipment, and financial and Labour inputs at the lowest possible prices.

3. Competitors

   All organizations—profit and not-for-profit—have competitors which are an important environmental force to monitor and respond to. Competitors give customers a choice and therefore present a challenging force to all organizations.

B. The General Environment

The **general environment** includes the broad political, economic, socio-cultural, technological, environmental and legal conditions that can affect and organization's performance. The PESTEL acronym is often used to capture the key elements of this environment.

1. Political Conditions

   Political conditions include the political climate, the general stability of a country in which an organization operates, and the attitudes that elected government officials hold toward business. The political environment influences businesses, and also has a major impact on consumer confidence and spending. Organizations seek "stable" political environments for some measure of predictability – but this is not possible in many parts of the world.

2. Economic Conditions

   These conditions include interest and inflation rates, disposable income, stock market fluctuations, and the general business cycle, among many other things. The overall health of an economy has a significant effect on how well a business will perform in that environment.

3. Socio-Cultural Conditions

   These conditions include both the static and the ever-changing expectations of society. Societal values, customs, and tastes are rooted in centuries of practice and

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can also change with outside pressure and societal trends; managers must be aware of both these aspects of socio-cultural conditions. Demographic conditions are a part of this environment and include various characteristics of a population, such as gender, age, level of education, geographic location, income, and family composition, which can also change, and managers must adapt to these changes. The three largest demographic groups are demonstrated in **Exhibit 2-2**.

4. Technological Conditions
These conditions can vary with locale and include the changes that are occurring in technology, especially in relation to communication, production and transportation.

5. Environmental Conditions
This aspect of the environment includes everything from how organizations treat the physical environment in which they work, to sustainability practices followed by these organizations, to the regulatory
requirements and constraints that may be imposed upon entities operating in a particular locale.

6. Legal Conditions
Legal conditions include the kind of legal regime (whether it is code, common or theocratic law) that regulates the activities of business. Some examples of legislation that affect what organizations can do include the following:
   a. The *Canadian Human Rights Act* makes it illegal for any employer or provider of service that falls within federal jurisdiction to discriminate on the following grounds: race, national or ethnic origin, color, religion, age, sex (including pregnancy and childbirth), marital status, family status, mental or physical disability (including previous or present drug or alcohol dependence), pardoned conviction, or sexual orientation.
   b. *Canada's Employment Equity Act* of 1995 protects several categories of employees from employment barriers: Aboriginal peoples (whether First Nation, Inuit, or Metis); persons with disabilities; members of visible minorities (non-Caucasian in race or nonwhite in color); and women. This legislation aims to ensure that members of these four groups are treated equitably.

Learning Objective 2: Describe what challenges do managers face in a global environment?

UNDERSTANDING THE GLOBAL ENVIRONMENT

The global environment presents managers with opportunities to expand and treat the entire world as a market. There are also substantial challenges associated with managing in a global environment, including the fact that managers must continually monitor the global market and the effect changes around the world will affect their business.

A. Global Trade

When trade is allowed to flow freely, countries benefit from economic growth and productivity gains because they specialize in producing the goods they are best at and importing goods that are more efficiently produced elsewhere. Countries and organizations have been trading with each other for centuries. Two significant forces that are reshaping the global environment are regional trading alliances and the agreements negotiated with the World Trade Organization.

1. Regional Trading Alliances
The **European Union (EU)** is a union of 27 European nations created to eliminate national barriers to travel, employment, investment, and trade. The primary motivation for the creation of the EU (in February 1992) was to allow these nations

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to reassert their position against the industrial strength of the United States and Japan. The EU took an enormous step towards full unification in 1999 when 12 of the 15 countries became part of the EMU—the economic and monetary union, the formal name for the system where participating countries share the same currency, the Euro. Now the EU membership encompasses more that 490 million people.

The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and US governments in which barriers to free trade were reduced. NAFTA went into effect on January 1, 1994. Exports to the United States accounted for 72 percent of total exports. The agreement is still not without its problems as occasional disagreements arise.

The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Southeast Asian countries. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world. ASEAN economic impact could eventually rival that of both NAFTA and the EU.

The **Trans-Pacific Partnership (TPP)** is a group of nine countries comprising the U.S., Australia, New Zealand, Singapore, Peru, Vietnam, Malaysia, Brunei and Chile that is intending to revolutionize Asian trade relations. Canada asked for a seat at the TPP table and the request is currently being considered by the organization. Brazil, Russia, India, China and South Africa (BRICS) is trade group but an acronym for high growth countries and leading emerging markets.

2. The **World Trade Organization (WTO)** was formed in 1995 evolving from the General Agreement on Tariffs and Trade (GATT). The WTO is a global organization that sets rules for trade among nations and also helps to negotiate trade problems and settle trade disputes.

B. PESTEL – Global Environment

As noted above, managers need to be able understand the political, economic, socio-cultural, technological, environmental and legal contexts of each country in which they operate. The PESTEL acronym provides a model that managers can use to think about and gauge the conditions they will face in the respective environments.

The political and legal environments are often discussed together as both are inextricably linked in that the politicians make the laws that govern a country in general and the activities of its enterprises in particular.

The stability of the legal–political environment is extremely important to managers in a global business environment. Stability provides some assurance that the "rules of the game" will not change drastically and, if they do change, that the change will be orderly and transparent. Managers in a global organization must stay informed of the specific laws in countries where they do business in order to understand the constraints in which they operate and the opportunities that may exist.

The economic environment of a nation has the potential to constrain management decisions and actions, which is why a global manager must be aware of economic issues. A **market economy** is one in which resources are primarily owned and controlled by the private sector.

A **command economy**, on the other hand, is one in which all economic decisions are controlled by a central government.

Research by Geert Hofstede, a Maastricht University professor, indicates that **national culture** has a greater impact on employees than does the organization's culture (see **Exhibit 2-3 & 2-4**). He identified the following six value dimensions of national culture:

1. *Individualism vs. collectivism* (the degree to which people prefer to act as individuals vs. members of a group)
2. *Power distance* (the degree to which people accept that power in Organizations is distributed unequally)

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3. *Uncertainty avoidance* (the degree to which people prefer structured over unstructured situations)
4. *Achievement vs. nurturing* (the degree to which values such as assertiveness, the acquisition of money and material goods and competition prevail)
5. *Long-term vs. short-term orientation* (the degree to which people look to the future vs. value the present and the past)
6. *Normative vs. Pragmatic*—In societies with a normative orientation, most people have a strong desire to explain as much as possible. People in such societies have a strong concern with establishing the absolute truth and a need for personal stability. *Pragmatic*—in societies with a pragmatic orientation, most people do not have a need to explain everything, as they believe that it is impossible to understand fully the complexity of life.

Learning Objective 3: Explain how do organizations do business globally?

DOING BUSINESS GLOBALLY

In today's business environment, there are many organizations in different industries and from different countries that are pursuing global opportunities.

A. Different Types of International Organizations

Despite the fact that doing business internationally is widespread, there is no one generally accepted approach to describing the different types of international companies; they are called different things by different authors. We use the terms *multinational*, *multidomestic*, *global*, *transnational*, and *born globals* to describe the various types of international organizations.

1. **Multinational Corporations**
   A multinational corporation (MNC) is a company that maintains significant operations in multiple countries simultaneously but manages them all from one base in a home country.
2. **Multidomestic Corporations**
   A multidomestic corporation is a company that maintains significant operations in more than one country but decentralizes management to the local entity rather than trying to manage activities from the home country.
3. **Global Companies**
   A global company treats the world market as an integrated whole, focusing on the need for global efficiency, and in doing so centralizes its management and other decisions in the home country
4. **Transnational or Borderless Organizations**
   A transnational corporation (TNC) or borderless organization attempts to increase efficiency and effectiveness in world markets by eliminating structural divisions that impose artificial geographic barriers.
5. **Born Globals**
   Born global corporations are businesses that choose to "go global" from their inception, committing resources up front to international ventures.

B. How Organizations Go Global

Organizations have various global options, depending upon the level of investment and risk the company is willing to take (see **Exhibit 2-5**):

1. **Global Sourcing**. During the initial stages of going global, managers look at ways in which to enter international markets without having to invest a lot of capital. At this stage companies may start with **global sourcing** (sometimes referred to as *global outsourcing*) which refers to purchasing of materials or Labour from around the world, usually from the most cost effective locations.
2. **Importing and Exporting**. A relatively low-investment strategy is to go global by **exporting** the organization's products to other countries, that is, by making products at home and selling them overseas. In addition, an organization can go

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global by **importing** products, that is, selling products at home that are made overseas. Both exporting and importing are small steps toward being a global business and involve minimal investment and minimal risk.

3. **Licensing and Franchising**. An organization can give another organization the right to use its brand name, technology, or product specifications in return for a lump-sum payment or a fee usually based on sales through licensing or franchising. The only difference is that **licensing** is used primarily by manufacturing organizations and **franchising** is used by service organizations.
4. **Strategic Alliance**. Strategic alliances are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance.
   A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose is called a **joint venture**.
5. **Foreign Subsidiary**. Managers can make a direct investment in a foreign country by setting up a **foreign subsidiary**, a separate and independent production facility or office.
   This subsidiary can be managed as an MNC (domestic control), a TNC (foreign control), or as a borderless organization (global control).
   This arrangement involves the greatest commitment of resources and poses the greatest amount of risk.

Learning Objective 4: Explain how does the environment affect managers?

HOW THE ENVIRONMENT AFFECTS MANAGERS

The environment affects managers through the degree of **environmental uncertainty** that is present, through stakeholder relationships, and through the challenges that occur as a result of managing in a global environment.

A. Assessing Environmental Uncertainty

Environments are not all the same: they differ in their degree of **environmental uncertainty**, which is defined as the degree of change and complexity in an organization's environment (see **Exhibit 2-6**).

1. Degree of change is measured as dynamic or stable. If the components in an organization's environment change frequently, it's a dynamic environment. If change is minimal, the environment is called a stable one.
2. The other dimension of uncertainty relates to the degree of **environmental complexity**, which is defined as the number of components in an organization's environment and the extent of an organization's knowledge of these components.
3. If the number of components is minimal and there's little need for
   Sophisticated knowledge, the environment is classified as simple. If there are a number of dissimilar components and there is a great need for
   Sophisticated knowledge, the environment is complex.
4. Because uncertainty is a threat to organizational effectiveness, managers must try to minimize it.

B. The Pros and Cons of Globalization

Globalization has both positive and negative effects on countries and their citizens. The viewpoints expressing these contrasting effects are summarized in **Exhibit 2-7**.

1. There are economic and social benefits from globalization; however, there are challenges that stem from the openness that is necessary for it to work. For example, if one country's economy falters, it may have a negative effect on the countries with which it does business.
2. Some have claimed that globalization is no longer a force, while others believe that even though there has been a slowdown in the amount of activity in the aftermath of the September 11, 2001 terrorist attacks, globalization still remains a strong force.

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3. The United States is sometimes criticized for wanting to "Americanize" other parts of the world through its increased interest in globalization.

Canadian managers may have an advantage over their American counterparts in doing business internationally due to the fact that Canada is not seen as being intent on promoting Canadian values and culture to other parts of the world.

Discussion Questions

1. Describe the components of the specific and general environments

The specific environment includes the following components: customers, suppliers, competitors, and public pressure groups. The general environment consists of the following conditions: political, economic, socio-cultural, technological, environmental, and legal.

2. Contrast multinational corporations, multi-domestic corporations, global companies, and transnational corporations or borderless organizations

Multinational corporations maintain operations in multiple countries but manage their operations from headquarters in their home country; multi-domestic corporations, though operating somewhat like multinationals, decentralize management decisions to the local entity. Global corporations focus on efficiency and effectiveness through treatment of the world as "one market" with decision making centralized in home office. Transnational corporations or borderless organizations choose to decentralize management to the local country and remove structural divisions that impose geographical barriers of any kind in terms of managing their global organization.

3. Why is it important for managers to understand the external forces that act on them and their organizations

The external environment consists of many factors that have an impact on the organization. Political and legal factors (government regulations), demographics (that can affect Labour supply), technological improvements, and other factors directly affect the management of the organization, including planning and decision making.

4. Compare the advantages and disadvantages of the various approaches to going global

Global Sourcing: Sourcing of some aspects of a company's operations to global suppliers or partners offers a world of opportunity to cut costs (and in theory pass those cost reductions to consumers in the form of lower prices). However, the movement of some business functions to other off-shore sources contributes to job loss in the home country.

Importing and Exporting: Both exporting and importing are small steps toward being a global business and involve minimal investment and minimal risk. Many organizations start doing business globally this way.

Licensing and Franchising: Licensing and franchising involve more investment and risk than exporting and importing because the company's brand is more at stake.

Strategic Alliances: Strategic alliances are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance. However, it is not always easy to find a partner.

Foreign Subsidiaries: Managers can make a direct investment in a foreign country by setting up a foreign subsidiary, a separate and independent production facility or office. This arrangement involves the greatest commitment of resources and poses the greatest risk.

As we move down the list, the risks increase and the involvement in the foreign country becomes greater.

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5. What challenges might confront a Mexican manager transferred to Canada to manage a manufacturing plant in Winnipeg? Will these be the same for a Canadian manager transferred to Guadalajara, Mexico? Explain

The Mexican manager would have to become familiar with the legal–political, economic, and cultural environments of Canada. The cultural environment would be particularly challenging, as the national culture of Mexico is very different from the national culture of Canada in terms of some of the value dimensions associated with Hofstede's research. On the individualism–collectivism dimension, Mexico is more of a collective society whereas Canada is somewhat more individualistic. This for example could be revealed in the Mexican manager expecting work teams to actually work together, where in Winnipeg there could be conflict resulting from individual efforts to further their own interests rather than that of the work team. On the power distance dimension, Mexico rates large whereas Canada rates small. The Mexican manager may expect more respect of his position whereas in Canada superiors are not necessarily held in high esteem by employees. On the uncertainty avoidance dimension, Mexico rates high while Canada rates low. Only in the quality of life dimension are the two countries similar. The adjustments required of the Mexican manager would also be required of the Canadian manager, simply in reverse.

Developing Management Skills

DILEMMA

You are considering organizing an event to raise funds for a special cause (children living in poverty, breast cancer research, illiteracy, or something of your choice.) Think about who you might invite to this event (that is, your "customers"—those who will buy tickets to the event). What type of event might appeal to them? What suppliers might you approach for help in organizing the event? What legal issues might you face in setting up this event? After considering all these issues, how difficult is the environment you face in holding this event?

Teaching Suggestions:

During the discussion of this dilemma, have students identify which elements of the specific and general environment have the most potential to impact the success or failure of the event. As well, you may ask students to discuss the role that stakeholders would play in this event and suggest ways to manage the specific stakeholder relationships.

BECOMING A MANAGER

Familiarize yourself with current global, political, economic, and cultural issues.
If given the opportunity, try to have your class projects or reports (in this class and other classes) cover global issues or global companies.
Talk to instructors or students who may be from other countries and ask them what the business world is like in their countries.
When you evaluate companies for class assignments (for this class and others you may be enrolled in), make a habit of looking at the stakeholders that might be affected by these companies' decisions and actions.

Teaching Suggestions:

Newspapers such as the *Globe and Mail* or the *National Post* always cover matters of international importance. Students could be directed to these sources (or others from your institution's library) and asked how these issues would affect companies operating in theses environments (and/or Canadian companies in particular). Guest speakers are always a good alternative for addressing this subject material as there are many companies in your community that would have had exposure to international markets and the challenges of operating globally. Students could then write a reflective piece on what they learned about and should take into consideration if they were to "become a manager" in a global environment.

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Hey, you're the Boss Now!

1. *UK-based company Kwintessential has several cultural awareness "quizzes" on its website (**http://www.kwintessential.co.uk/resources/country-profiles.html**. Go to the company's website and try two or three of these. Were you surprised at your score? What does your score tell you about your cultural awareness?*
   This question may be best answered via a take-home assignment and will involve students in a more reflective, personal assessment.

2. *What advice might you give to a manager who has little experience working with people in other countries?*
   The core of the response here is that managers who will operate in a new country environment would be well advised to do their "cultural homework" and be prepared to adapt their home country methods of managing to the conditions of the different circumstances A key lesson is also to never assume that the methods of managing that you have used in the home market can be transferred to the international marketplace.

Diversity Matters

Becoming More Culturally Aware

Students are asked to read four descriptions of employees working for the same organization and then write a short paragraph describing what the goals and priorities of each employee might be. *With what types of employee issues might the manager of each employee have to deal with? How could these managers exhibit the value of diversity?*

Teaching Suggestions:

1. Assign students to various small groups to come up with a group consensus to the questions posed above. Encourage students to share any insight they may have regarding the cultures described in the scenarios.
2. Ask each group to elect a spokesperson to share the group's thoughts and opinions with the rest of the class regarding the employee issues. Each group should also offer suggestions as to how the value of diversity could be demonstrated by each of these managers.
3. After the groups have all presented, take the opportunity to review the ways that managers can improve their handling of diversity issues by referring to the eight behaviors identified in this exercise.

Steps in Developing the Skill

1. Fully accept diversity. Accepting and valuing diversity is important because it is the right thing to do.
2. Recruit broadly. When you have job openings, work to get a diverse applicant pool.
3. Select fairly. Try to use job-specific tests rather than general aptitude or knowledge tests.
4. Provide orientation and training for minorities. Provide support to minority group either through mentoring.
5. Sensitize non-minorities. Accept and value diversity and encourage all your employees to do so.
6. Strive to be flexible. Recognize different groups have different needs and values.
7. Seek to motivate individually. Motivating a diverse workforce is an important skill of a successful manager.
8. Reinforce employee differences. Encourage and celebrate diversity by embracing and valuing diverse views.

Practising the Skill

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Students will follow the roles given and will write description of these roles according to what they learned in the chapter.

With what types of employee issues might the manager of each employee have to deal? How could these managers exhibit the value of diversity? How can they manage issues of communicating with heavy accents or the significance of cultural garments?

As a manager of **Vincenzo**, you might face issues like not exactly understanding what he is saying due to his heavy Italian accent. But having worked in the firm for many years and at a senior level as a vice president, it gets easier to understand his working style and his work related communication. While he is around in the community as a volunteer, people get used to his working habits and way of talking. The manager should be focusing more on his achievements and the methodology he uses to accomplish tasks at work.

Sanjyot's manager may be receiving complaints from other employees of communication gap between Sanjyot and her co-workers. The manager, at this point, should appreciate her efforts to improve her accent and English by taking classes so that it does not get problematic at the work place in the future. Manager may make her understand that not wearing specific office dress code at work might get her distanced from other co-workers as well as could be a hurdle during any emergency event. It can also become an issue when she will get promoted for a higher level assignment. However, she should not be pushed for it and she may be encouraged to wearing her cultural garments only on specific days like Fridays or office celebration instead of wearing them in routine.

Yuri's manager might face issues of his communication with others at work. As Yuri's job involves technical terms and explanation of methods, he needs to have a good level of communication that is understandable to the customers as well. The manager might send him for an English course or makes him understand to do some extra efforts to learn it so that his communication can get better and so he can excel in his current job as he does not have any higher level engineering degree in Canada. Other co-workers can also be helpful to him to achieve an appropriate level of accent and communication.

Bobby's manager might face an issue of him not being able to mix with his other co-workers from different ethnicity and can't get the deadline met at work. Manager might give him an assignment that needs to co-ordinate extensively with his co-worker(s) who belong to the other ethnicity. This will give him an opportunity to know about them and in order to accomplish the task, he might get the acceptance level for his co-workers and understands their work styles. This way he gets enriched with diversity experience and will have more opportunities to get promoted as manager at his work place.

Your Essential Management Reading List
• *Why Nations Fail*—Daron Acemoglu and James Robinson
• *China Shakes the World*—James Kynge
• *Breakout Nations*—Ruchir Sharma

3BL: The Triple Bottom Line

This case profiles the challenges Kinder Morgan Canada will face in the external environment with three key stakeholders, each of whom will have concerns related to the expansion of one of its pipelines to Vancouver and the attendant impact of additional shipping of crude oil from the port of Vancouver.

Thinking Strategically About 3BL

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Anderson's game plan involves building alliances among business groups like the BC Chamber of Commerce, with First Nations and environmental organizations across BC, and with municipal politicians. He plans to meet with various stakeholders for a full two years before entering the regulatory process. How should he approach each of the three environmental factions? What are the differing environmental stakeholder perspectives on the pipeline expansion?

Teaching Suggestions:

Students will have a variety of perspectives on this matter but the key from the start is that Anderson needs to present a genuine interest in dialogue with the stakeholder's involved and a willingness to listen more than state his position at the outset of these discussions. The respective groups will have established positions. Since this is a real situation students can conduct research on what the positions of the stakeholders are at any point in time and discuss the differences. As a follow-up, once this information is established, students can discuss how Anderson can approach these groups using what they have learned from the chapter material

Team Exercises

Be the Consultant: Ethical Decision Making

In teams of five or six people, students are asked to discuss each of the following scenarios and come to an agreement on the most ethical courses of action in each situation.

Scenario 1: You work for a large Canadian non-profit organization that holds a big annual conference. The conference rotates throughout Canada on a yearly basis. A resort and conference company in Hawaii invites you and one other person down for a one-week paid vacation so that you can check out their conference facilities. Should you:

a) Accept the vacation?
b) Turn down the vacation?
c) Accept the vacation if your boss poses no objection?
d) Accept the vacation if the majority of the conference attendees are in favour of holding the conference in Hawaii?

Teaching Suggestions: Since it is the practice of the organization that the conference takes place in Canada it would be advisable to turn down the vacation. Moreover, Hawaii may be regarded as an inappropriate locale for a non-profit to hold its annual conference.

Scenario 2: You work for a large manufacturer of farm equipment in Saskatchewan. You are anticipating that a large bid you submitted for a big project is going to be successful. The final decision is being delayed by bureaucracy with the international combine manufacturer. It is likely that you are to be awarded the contract and the tight timelines mean that you need to get started right away. You begin negotiations with a supplier and decide to tell them:

a) "Approval is done. We can skip the technical details and start production immediately."
b) "Start producing the product and we'll cover your costs when we sign the contract"
c) "We are anticipating that the proposal will be approved. We can sign an interim contract to cover the first phase of the project, which we will initiate on a tentative basis."
d) "The deal is almost done. It's going to be a big deal for both of us, but we need you to shoulder the start-up costs until the contract is signed. Then we can work out a contract between the two of us."

Teaching Suggestions: Choice "c" offers the most ethical option given that there is still uncertainty and if some headway is to be made both the supplier and the primary firm will be sharing the risks based on a negotiated and transparent arrangement.

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Scenario 3: You work for a medium-sized IT consulting firm in Quebec. You submit the lowest bid for a government contract. You do not have the staffing in place to meet the contract at the moment and you anticipate that it will take you three months longer than your main competitor to build the IT infrastructure awarded in the contract. Your government client asks for details on your schedule before awarding the contract to you or your main competitor. What do you do?

a) Indicate that your schedule is "basically the same" as what you believe your competitor's is to build the infrastructure
b) Commit to completing the job in the same timeframe as your competitor and tell your internal team that they must shorten their timeframe by three months or else
c) Ignore the scheduling question and focus on the quality of your firm's work and the lowest cost component of your bid
d) Admit that your schedule is longer than your competitor's but reconfirm the quality of your work and hope that you don't lose too many points in the evaluation process

Teaching Suggestions: Clearly "d" is the most ethical choice. Honesty is always the "best the policy." More often than not when you tell a client that things are other than they actually are and "hope things will work out", they do not go as you planned and your reputation with the client then is damaged.

Scenario 4: Your newest hire is a friend of yours. Her performance is lacking and her relationships with her co-workers are poor. What do you do?

a) Call her in to discuss her poor performance.
b) Meet with her co-workers and tell them to give her some slack.
c) Ask HR to meet with her and develop a performance management plan.
d) Do nothing because she is new on the job and will perform better.

Teaching Suggestions: The option to have the HR department meet with your friend to discuss her performance allows the situation to be handled with professionalism and transparency. This is the most ethical approach under the circumstances.

Assessing Employees' Global Aptitudes

This exercise asks students to consider the characteristics, skills, and attitudes required for someone to be a successful global employee.

Teaching Suggestions:
Students should work in groups of three to five to act as Global Human Resource specialists and develop a rough draft of an aptitude assessment form for individual employees being considered by Zara for global assignments. The teams' drafts should cover only personal (not organizational) criteria and should be at least one-half page but no longer than one page. These drafts should then be presented to Zara's top-management team—classmates and faculty member.

Option: Some groups might be assigned an assessment form for (a) individual employee characteristics, and other groups for (b) spouses' characteristics, or (c) dependents' (children) characteristics.

Research indicates that not only is the adjustment of the employee important for the successful completion of a global assignment, but the adjustment of spouse and dependents is quite important for executive assignment success. Each character—employee, spouse, or dependent—has a different set of criteria to be addressed for adjustment to a global assignment. The student groups should approach the global assignment from the perspective of their assigned character and attempt to think about the specific issues that are important to that individual and that will require cultural adjustment when being assigned to a global opportunity.

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Business Cases

Earth Rated

This case profiles a company that sells an affordable eco-friendly bag for picking up animal waste. The "poop bags" are now carried in more than 900 stores in North America and parts of Europe. Company sales were ten times higher in their second year of operation, and sales were on pace to triple in 2012. The company moved away from online sales and instead uses their web presence to communicate via social media with customers, retailers, and the charities that they support. They have built high awareness and now need to turn that into higher sales and engagement.

1. What strategies can Gnanendran use to maintain social media momentum

Students will have many ideas about the use of social media and their creativity should not be limited a few suggestions here. Examples may be Facebook Twitter WhatsApp Viber Line etc.

2. How can Earth Rated continue to expand into the US and European markets

With respect to global market expansion it is a general rule of conducting international business that a company should not tackle too many markets at once (given limited resources). Hence it would be advisable to continue expansion into the US first (given its proximity and cultural similarities) and then concentrate on Europe.

3. What world market should Earth Rated target next?

Both should be preceded by additional market research to target specific regions of the US and specific, canine friendly countries in Europe.

Joe Fresh

Pioneered by one of Canada's leading fashion moguls, Joe Mimran, in 2006, Joe Fresh products are available in over 340 Loblaw Companies Ltd. stores in Canada, as well as in 650 JCPenney stores in the United States. Joe Fresh signed three partnership agreements in 2014 that brought the brand into global market. Joe Fresh's unique pricing is one of its selling points, but in 2013 that approach was brought into question with the collapse of a factory in Dhaka, Bangladesh that was involved in producing Joe Fresh products. Loblaw provided compensation for the families of victims, as well as aid and resources where the collapse took place. Senior executives met with local officials to discuss "finding an approach that ensures safe working conditions, drives lasting change in the industry and helps prevent other tragedies without discontinuing the operation.

Who is to judge what is morally correct for companies operating in the global marketplace? Joe Fresh continues to manufacture clothing in Bangladesh? Do you believe this is ethical behaviour?

Basically, the local Governments of the country of operation are primarily responsible for ensuring the safe and environmentally friendly work places (or buildings) along with the owners of the buildings and/or businesses.

Loblaw's handled the situation very well. They, rather than using a PR firm to boost its good image, directly worked at the local level to prevent these tragedies from happening in the future. They provide long-term compensation to the victims and their families and continue to work with the economy and manufacturing

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communities of Bangladesh. The customers also appreciate such moves and becomes more loyal to the company and its brands. This is ethical way to correct the situation as on one hand victims are being looked after and on the other hand the company does not halt its operation to provide more opportunities to the economy. Having said that, any company that enters into the global market should investigate about the facilities provided to the employees who will be working for them.

SUPPLEMENTAL ACTIVITIES

Interpret Activity

In this activity a series of environmental situations are presented based upon the opening case (TransCanada). Several situations from the case are presented and students are required to match (drag and drop) the correct "force" that with the corresponding environmental situation. The following table contains the matches:

Specific Environment	General Environment	Global Environment
Shareholders expect the company to grow and be profitable. *(The shareholders are the owners of the company and therefore directly affected by its operations and so they are part of the specific environment.)* The citizens of Nebraska voice objection to the company's proposed development through their state. *(Decisions of TransCanada related to this project will have direct impact on the citizens living in the affected areas and so they are part of the company's specific environment.)* Asian customers' demand for oil continues to grow. *(The demands and wishes of customers have a direct impact on a company, making this part of the specific environment.)* The competitor Enbridge receives support from the Canadian government for the Northern Gateway Project. *(The actions of its competitors can create*	The Canadian government changes legal processes to improve the efficient of resource development project applications. *(As this change will impact all resource companies in a variety of industries, forestry, oil & gas, fisheries etc. this is part of the Political General Environment.)* Due to high ratio of household debt to income, and an expected housing market correction, the Canadian economy is projected to remain stable in the coming year. *(All organizations that serve and operate within this economic environment will be influenced by this Economic factor of the General environment, not just TransCanada.)* Canadians continue to look for more environmentally responsible options for goods and services. (This social-cultural	

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threats and opportunities for a company. This direct influence makes this part of the specific environment.)		

Analyze Activity:
The variety and importance of stakeholders to managing in all environments

Using the case at the end of the Chapter - **3BL: The Triple Bottom Line** the case and its opening question (*What Should Kinder Morgan Canada Do When It Anticipates Opposition to Expansion of its Oil Pipeline in B.C.?)* presents a good opportunity to mix current issues with a very current debate about the value of oil pipelines to the West Coast of Canada.

A separate activity can be undertaken before the case is used or after the case is introduced to ask students to first identify and then analyze all the stakeholders that are involved in the pipeline debate and research some of their positions. If an instructor is inclined and classroom policies allow, students should be encouraged to bring their laptop or even their smart phone to class for use in this activity.

The activity could be used first in class to engage students to think about all of the different stakeholders involved in the intention of a company to build an oil pipeline across a demanding frontier – from the customers who want the oil, to the proponent enterprises who will benefit, to the companies and workers who build it, to the variety of environmental groups along way. The Kinder Morgan case could be used as a backdrop or student recollections of other pipeline debates involving Enbridge or TransCanada.

All of the stakeholder groups could be identified/listed on the blackboard/whiteboard/overhead or presentation software. This encourages the students to think about the wide variety of stakeholders involved in an issue of this sort and in doing so they can be directed to their text to use it as a reference for including every type of stakeholder. Then students could be divided into small teams to research in class (with the use of their laptops and/or smart phones) the positions of each of the stakeholder groups. Students could be assigned or choose the stakeholders to research.

The activity can also be used to introduce students to useful databases and sources available within their libraries – especially the current electronic versions of newspapers, journals and magazines that are provided by the library and paid for with their tuition.

The key aspects of each stakeholder's position can be written or posted by any of the above media and used to discuss the dynamics of managing all of the very different and divergent interests. If nothing else the activity opens the student's eyes to the difficulty of managing through all the constraints imposed by the many different stakeholders and their interests.

The activity also presents an opportunity to link what is learned with subsequent efforts of managers to plan, organize and control given these environmental constraints. This approach to the subject also presents the opportunity to build on and apply the concepts of Chapter 2 of other chapters in the text. The activity could also be used as a take home assignment.

Practice Activity:
The Impact of "Going Global"

A significant portion of this chapter deals with concepts of undertaking business in an international environment, including the importance of managers understanding different cultures and developing a cultural sensitivity to include in their decision making.

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The MyManagementLab has a ready set of scenarios to introduce students to the considerations managers must make when engaging in an international venture.

In the MyManagementLab, following the path to "Course Content" then "Course Resources" then "ROLLS On-line Learning System" and finally choosing "Passport" there are a series of scenarios where students can practice some initial decision making with respect to managing in an international context – and especially the importance of understanding the culture in which they are operating. Passport has a build in source of information facilitating the student's research on the country in question with each country referred to in the scenarios having a body of information including: General Overview, Background, Economy, Population, Workforce, Country Culture, Video, Doing Business in Singapore, Management Practices, Organizational Characteristics and Resources.

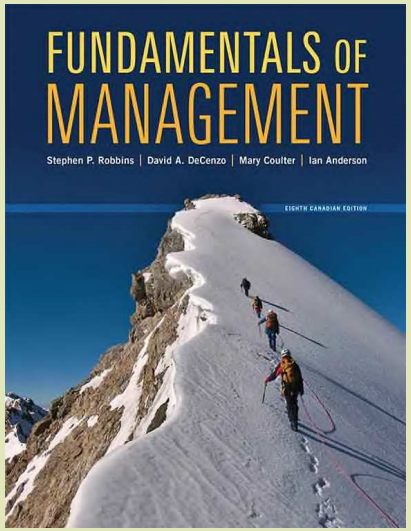
The attendant information will assist students in answering the questions associated with conducting business in each of the unique country environments with particular attention to the culture of each region.

Again, the use of this material lends itself to small group activity or a take home assignment. Students can also be encouraged to conduct additional research using the institution's library or their own internet resources.

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Environmental Constraints on Managers



Chapter 2

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Learning Objectives

1. **Define** What is the external environment for managers?
2. **Describe** What challenges do managers face in a global environment?
3. **Explain** How do organizations do business globally?
4. **Explain** How does the environment affect managers?

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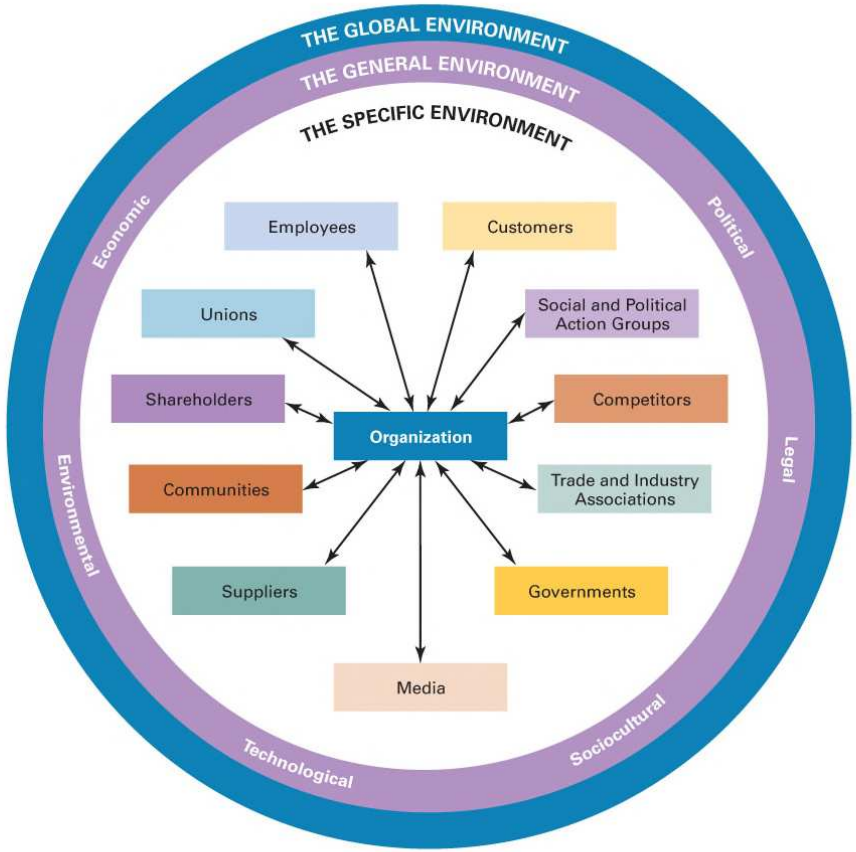


The External Environment

- The external environment refers to forces outside the organization that may affect its performance.
- The external environment has three components:
  - The specific environment
  - The general environment
  - The global environment

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EXHIBIT 2-1 The External Environment



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The Specific Environment

- The specific environment includes external forces that have a direct and immediate impact on managers' decisions and actions.
- Each organization's specific environment is unique and variable.
- Managers are affected by the relationships they have with external stakeholders.
  - Groups that have a "stake" in or are significantly influenced by what the organization does

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The Specific Environment

Key forces that make up the specific environment are:

- Customers
  - Organizations exist to meet the needs of customers.
- Suppliers
  - Provide materials and equipment as well as financial and labour inputs.
- Competitors
  - Most organizations have one or more competitors to which they must be prepared to respond.

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The General Environment

The general environment includes the broad political, economic, sociocultural, technological, environmental, and legal conditions that *may* affect the organization.

- Changes in these areas usually do not have as large an impact as changes in the specific environment, but managers must consider them as they plan, organize, lead, and control.

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The General Environment

PESTEL is an acronym for the six general environment factors.

- **P**olitical Conditions
  - Considers the political climate and stability of a market.
  - Governments influence what organizations do.
- **E**conomic Conditions
  - Interest rates, inflation, disposable income, and stock market fluctuations influence management practices.
- **S**ocio-Cultural Conditions
  - The changing expectations of society as well as changing demographic trends affect managers' decisions and actions.

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The General Environment

- **Technological Conditions**
  - Advances in technology are changing the ways that organizations are structured and the way that managers manage.
- **Environmental Conditions**
  - How organizations treat the environment in which they operate as well as sustainability practices.
- **Legal Conditions**
  - Legislation and regulations that govern how businesses must operate.

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The PESTEL Model

- P – Political
- E – Economic
- S – Socio-Cultural
- E – Environmental
- T – Technological
- L – Legal

- A model for summarizing and assessing the conditions of the global environment
- Assists managers with market entry decision-making

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The Challenges Managers Face in a Global Environment

In the global environment, managers must deal with cultural, economic, and political differences.

New competitors can suddenly appear at any time, from any place on the globe.

Managers who make no attempt to learn and adapt to changes in the global environment end up reacting, rather than innovating.

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The Challenges Managers Face in a Global Environment

Global Trade benefits participating countries and is shaped by:

- Regional Trading Alliances
  - The European Union (EU), The North American Free Trade Agreement (NAFTA), The Association of Southeast Asian Nations (ASEAN), and others.
- The World Trade Organization (WTO)
  - Sets rules for international trade and helps countries negotiate trade problems and settle trade disputes.

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The Cultural Environment

EXHIBIT 2-3 Hofstede's Six Dimensions

Power Distance	Hofstede used the term *power distance* as a measure of the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally.
	High power distance—Accepts wide differences in power; great deal of respect for those in authority; titles, rank, and status carry a lot of weight.
	Low power distance—Plays down inequalities; employees are not afraid to approach, nor are they in awe of the boss.
Individualism vs. Collectivism	Individualism is the degree to which people in a country prefer to act as individuals rather than as members of groups. Collectivism is characterized by a social framework in which people prefer to act as members of groups.
	Individualistic—People look after their own and family interests because of the freedom afforded by society.
	Collectivistic—People expect the group to look after and protect them.
Masculinity vs. Femininity	The masculinity side of this dimension represents a preference in society for achievement, while the femininity side is more nurturing.
	Achievement—Values such as assertiveness, acquiring money and goods, and heroism prevail. Society is competitive.
	Nurturing—Values such as relationships, concern for others, cooperation, and the quality of life prevail. Society is consensus-oriented.
Uncertainty Avoidance	Uncertainty avoidance describes the degree to which people tolerate risk and prefer structured over unstructured situations. Since the future is uncertain, should we try to control the future, or just let it happen?
	High uncertainty avoidance—Threatened by ambiguity and experience high levels of anxiety and stress; intolerant of unorthodox ideas.
	Low uncertainty avoidance—Comfortable with risk; tolerant of different behaviours and opinions.
Pragmatic vs. Normative	This dimension describes how people relate to the fact that so much that happens around us cannot be explained.
	Normative—In societies with a normative orientation, most people have a strong desire to explain as much as possible. People in such societies have a strong concern with establishing the absolute truth and a need for personal stability. They exhibit great respect for social conventions and traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.

(*Continued*)

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The Cultural Environment

EXHIBIT 2-3 Hofstede's Six Dimensions (*Continued*)

	Pragmatic—In societies with a pragmatic orientation, most people do not have a need to explain everything, as they believe that it is impossible to understand fully the complexity of life. The challenge is not to know the truth but to live a virtuous life. In societies with a pragmatic orientation, people believe that truth depends very much on situation, context, and time. They show an ability to accept contradictions, adapt according to the circumstances, show a strong propensity to save and invest, and demonstrate thriftiness and perseverance in achieving results.
Indulgence vs. Restraint	Indulgence in society refers to willingness to have fun and enjoy life, while restraint refers to suppression of the gratification of needs through social norms.
	Indulgent—People look to the future and value gratification and freedom of expression.
	Restrained—People value tradition and the past and are comfortable suppressing their needs.

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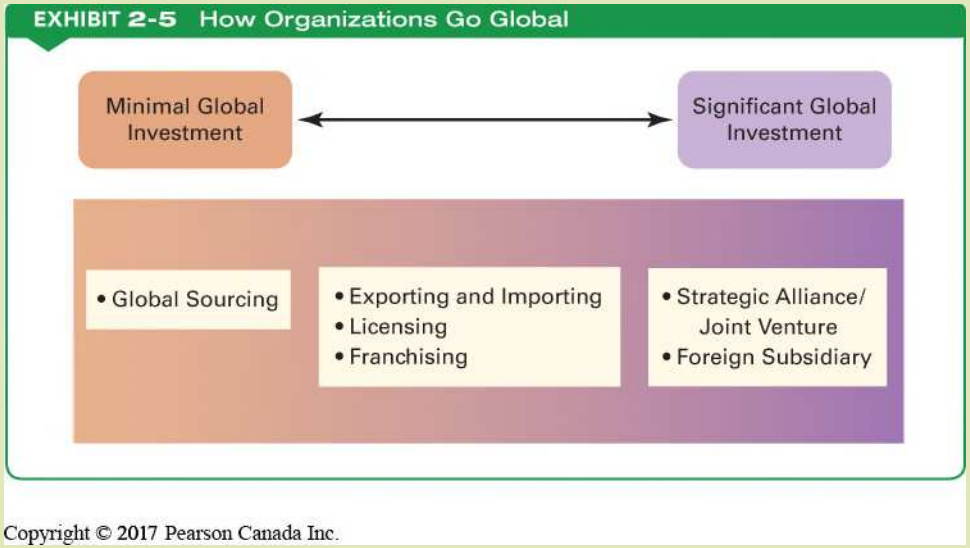
How Organizations Do Business Globally

Types of International Organizations:

- Multinational Corporations
- Multidomestic Corporations
- Global Companies
- Transnational or Borderless Organizations
- Born Globals

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How Organizations Go Global



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How Organizations Go Global

- Global Sourcing
  - Purchasing materials or labour from around the world, wherever it is cheapest.
- Exporting
  - Making products at home and selling them abroad.
- Importing
  - Selling products at home that are made abroad.

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How Organizations Go Global (cont'd)

- Licensing and Franchising
  - Giving another organization the right to use its name, technology, or product specifications
- Franchising
  - Franchising is used by service organizations to use another company's name and operating methods
- Licensing
  - Licensing is used by manufacturing organizations that make or sell another company's products

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How Organizations Go Global (cont'd)

- Strategic Alliance
  - Partnership between companies (domestic and foreign) to share resources in developing new products or building production facilities
    - A joint venture is a strategic alliance where partners form a separate, independent organization for a business purpose
- Foreign Subsidiary
  - Direct investment in a foreign country by creating a separate and independent production facility or office

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How the Environment Affects Managers

- **Environmental uncertainty** is defined as the degree of change and complexity in an organization's environment
  - Degree of change: How dynamic or stable is the external environment?
  - Degree of complexity: The number of components in an organization's environment and the extent of an organization's knowledge of these components.

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How the Environment Affects Managers

EXHIBIT 2-6 Environmental Uncertainty Matrix

Degree of Complexity	Degree of Change: Stable	Degree of Change: Dynamic
Simple	**Stable and predictable environment** Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	**Dynamic and unpredictable environment** Few components in environment Components are somewhat similar but are in continual process of change Minimal need for sophisticated knowledge of components
Complex	**Stable and predictable environment** Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	**Dynamic and unpredictable environment** Many components in environment Components are not similar to one another and are in continual process of change High need for sophisticated knowledge of components

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