

UNDERSTANDING GLOBAL ENVIRONMENT WTO AND SAARC

UNDERSTANDING THE GLOBAL ENVIRONMENT

Several significant forces are reshaping the global environment that managers face. Two important features of the global environment are regional trading alliances and the World Trade Organization.

A. Regional Trading Alliances.

Regional trading alliances are reshaping global competition. It's no longer country versus country, but region against region.

1. The **European Union (EU)** is a union of 15 (25 state members are according to December, 2004) European nations created to eliminate national barriers to travel employment, investment, and trade.
 - a. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan.
 - b. The EU took an enormous step towards full unification in 1999 when 11 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.
 - c. Six other countries (Turkey, Romania, Slovakia, Bulgaria, Latvia, Lithuania, and Malta) are considering starting membership negotiations.
2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated.
 - a. NAFTA went into effect on January 1, 1994.
 - b. The signing of NAFTA had both critics and champions.
 - c. Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries.
 - d. Colombia, Mexico, and Venezuela signed an economic pact eliminating import duties and tariffs in 1994.
 - e. An additional 36 countries in the Caribbean region, South America, and Central America are negotiating a Free Trade Area of the Americas (FTAA) trade agreement.
 - f. Also in existence is another free-trade block known as the Southern Cone Common Market—Mercosur.
3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations.
 - a. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world.
 - b. Another significant historical and economic event in this region was the return of Hong-Kong from British rule to Chinese rule on July 1, 1997.

B The South Asian Alliance for Regional Cooperation body i.e. SAARC

World Trade Organization (WTO) is an international body of which more than 100 countries are members. Several trade treaties have been agreed and worked out so far for regulation of world trade. It is a body which helps in promoting global, regional and trade with most favored nation states.

Test your answers!

1. **How does a global economy create both opportunities and challenges for managers?**
 The global economy creates opportunities because, with the entire world as a marketplace and national borders becoming irrelevant, the potential for organizations to grow and expand increases dramatically. It can create challenges in that new competitors can suddenly appear anytime,

anywhere, and managers who don't respond quickly to changes are likely to find their organizations' survival in doubt.

2. Describe the four major regional trading alliances including what it is, why it was formed, and what challenges it is facing.

The European Union (EU) united Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Germany, Austria, Finland, and Sweden in a single market with no national barriers to travel, employment, investment, and trade. The EU was formed to allow its 15 member nations to reassert their position against the industrial strength of the United States and Japan. Its ultimate goal, to have common customs duties and unified industrial and commercial policies, as well as a single currency and regional central bank, faces problems particularly over the establishment of a single currency.

The North American Free Trade Agreement (NAFTA) united Mexico, Canada, and the United States in dropping all barriers to free trade such as tariffs, import licensing requirements, and customs user fees. It was formed to provide such long-term benefits as job creation, market development, and an increased standard of living for all three countries. Studies have reported both positive and negative effects on employment to date. It faces continued opposition from labor advocates and environmentalists and competition from other regional trade alliances and trading blocs.

The Association of Southeast Asian Nations (ASEAN) includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Burma, Cambodia, and Laos in a trading entity. Another significant development in Asia was the return of Hong Kong from British Rule to Chinese rule in July 1997. South Asian Alliance for Regional Cooperation (SAARC) is a body comprising of country, India, Bangladesh, Sri Lanka, and Nepal. It is a trading as well as collaborative entity for dialogue on concerns of mutual interest.

3. What are the legal-political and economic factors that managers need to be aware of in managing globally?

The legal-political environment consists of legal-political systems and legal-political procedures. Managers must understand the legal-political environment in a foreign country in order to understand the constraints under which they operate and the opportunities that exist. The primary economic factors that managers must be aware of in global management are fluctuating currency exchange rates, inflation rates, and diverse tax policies.

4. Compare and contrast national culture and organizational culture.

Like organizational culture, national culture is shared by all or most inhabitants of a country and shapes their behavior and the way they see the world. Organizational and national cultures differ in that national culture has a greater effect on employees than does organizational culture.

5. Describe Hofstede's four characteristics of national culture.

Geert Hofstede found that national cultures differed on four dimensions: (a) individualism vs. collectivism, which describes who it's believed is responsible for caring for people—the individual or the group; (b) power distance, or the extent to which a society accepts the fact that power is distributed unequally; (c) uncertainty avoidance, or the degree to which people are tolerant of behavior and opinions that differ from their own; and (d) quantity of life (assertiveness and the acquisition of money and material goods) vs. quality of life (importance of relationships and concern for the welfare of others).

6. How can an understanding of Hofstede's four dimensions help managers be more effective in managing in a global marketplace?

Understanding these four dimensions helps managers be more effective in managing in the global marketplace by identifying those countries that are most like and least like the United

States, where U.S. managers would be likely to fit best, and where they would have the biggest adjustment problems.

Let us now learn the first management function in POLCA i.e. Planning.

Planning; Why and what?

Planning is one of the four functions of management.

WHY DO MANAGERS PLAN?

Purposes of Planning.

Planning is important and serves many significant purposes.

1. Planning gives direction to the organization.
2. Planning reduces the impact of change.
3. Planning establishes a coordinated effort.
4. Planning reduces uncertainty.
5. Planning reduces overlapping and wasteful activities.
6. Planning establishes objectives or standards that are used in controlling.

WHAT IS PLANNING?

Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive set of plans to integrate and coordinate organizational work.

Planning is in fact the advance decision making by managers. Keeping in mind that decision making and decision taking, may it be for present or for future is always required and is very much a managerial job. Let us first study the nature process of decision making and its various models and types.