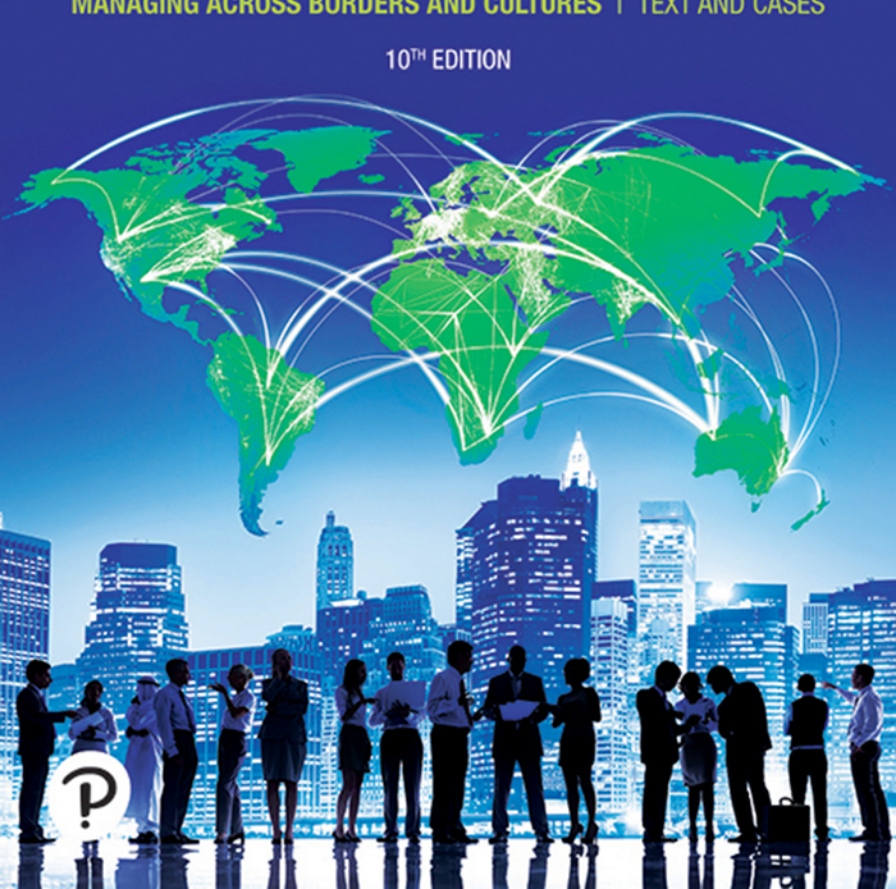
HELEN DERESKY • STEWART R. MILLER

INTERNATIONAL MANAGEMENT

MANAGING ACROSS BORDERS AND CULTURES | TEXT AND CASES

10TH EDITION



International Management

Managing Across Borders and Cultures

Text and Cases

TENTH EDITION

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To my husband, John, for his love and support, and to my family members, who always inspire me:
John J. and his wife Alyssa: John Rock, Helena, Max
Mark and his wife Sherry: Jacob, Sarah, Rachel
Lara and her husband Thomas: Thomas (TJ), Luke.
Helen

To my wife, Tracy, and son, Matthew,
for their constant encouragement and unending love.
Stewart

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Preface

International Management: Managing Across Borders and Cultures explores how recent developments and trends within a hypercompetitive, digitally driven global economy present managers with challenging situations. Companies seeking to operate overseas are confronted with varied and dynamic environments in which they must accurately navigate the political, legal, technological, competitive, and cultural factors that shape their strategies and operations. The fate of overseas operations depends greatly on the international manager's cultural skills and sensitivity as well as on their ability to carry out the company's strategy within the context of the host country's business practices.

NEW TO THIS EDITION

This edition has 11 chapters, with a particular focus on global strategic positioning, entry strategies and alliances, effective cross-cultural understanding and management, and developing and retaining an effective global management cadre. It has been revised to reflect current research, events, and global developments and includes examples of companies around the world from the popular business press such as *Financial Times, Wall Street Journal, Fortune International,* and *Bloomberg Businessweek.* The following section summarizes specific features and changes:

- **Integrative case:** A new comprehensive case in the Integrative section "IKEA's Challenges in Russia"
- **Comprehensive cases:** All the comprehensive cases are new.
  - Part 1, Case No. 1. Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?
  - Part 1, Case No. 2. Enrich, Not Exploit: Can the New CSR Strategy Help Body Shop Retain Its Glory?
  - Part 2, Case No. 3. Cross-Cultural Challenges for a Singaporean Expatriate in Zurich
  - Part 2, Case No. 4. Anuj Pathak Returns to India
  - Part 3, Case No. 5. Amazon.com in China: Can Elaine Chang Crack the Chinese Market?
  - Part 3, Case No. 6. Souq.Com and the Battle for the Future of E-Commerce in the MENA Region
  - Part 3, Case No. 7. Coming to America: A Successful Japanese Acquisition in Global Business
  - Part 4, Case No. 8. Daimler China: Facing a Media Firestorm
  - Part 4, Case No. 9. Cirque du Soleil's Global Human Resource Management Practices
- **Chapter-end case studies:** There are nine new chapter-end case studies. These help the students to refocus on the salient, important, and key contents of the chapter in a real-world scenario.
  - Chapter 1. Harley-Davidson Sees $120m Hit from Tariffs This Year
  - Chapter 2. Facebook Faces Fresh Probe after Photo Leak
  - Chapter 4. Italy's D & G in China: Fashion Show Canceled in Shanghai Following Scandal

- Chapter 5. India's E-Commerce Crackdown Upends Big Foreign Players
- Chapter 6. How UK Businesses Are Planning—or Not—for a No-Deal Brexit
- Chapter 7. IKEA Finally Opens in India—Minus the Meatballs
- Chapter 8. Renault and Nissan Attempt to Ease Tension with New Board
- Chapter 10. Expat Tax Break for Brexit Bankers: FT Readers Respond
- Chapter 11. How to Bring Cross-Cultural Teams Together

- **Chapter-opening profiles:** There are eight new opening profiles, which draw the student's attention to the chapter contents with a short example, such as "The Impact of Social Media on Global Business," and "Citi Sets Post-Brexit Frankfurt Trading Hub in Motion."
- All of the "**Comparative Management in Focus**" sections have been revised and updated. For example, "Global Companies Take Advantage of Growth Opportunities in Africa" now examines all of Africa rather than just South Africa.
- All of the "**Management in Action**" boxes have been replaced or updated. For example, "'Impact Beyond Numbers'—GoodWeave's Global Solution to Child Labor," "A Guide to (Mis)communication," and "Spotify's Plan to Beat Apple."
- Coverage on geopolitical developments, such as Brexit and the tariff war with China, and their effects on strategy has been added throughout the tenth edition. Such discussions highlight the dynamic nature of the global manager's job.

CHAPTER-BY-CHAPTER UPDATES

Part 1: The Global Manager's Environment

CHAPTER 1 ASSESSING THE ENVIRONMENT: POLITICAL, ECONOMIC, LEGAL, TECHNOLOGICAL	• New Opening Profile: Small Businesses Steel Themselves for No-Deal after Brexit • New Management in Action (MIA): Google to Set Up German Team to Tackle Privacy and Safety Issues • New Under the Lens (UTL): South-East Asia Wakes Up to Power of Corporate Competition • Updated Comparative Management in Focus (CMF): China Loses Its Allure • Updated Case: Harley-Davidson Sees $120m Hit from Tariffs This Year • Added and updated material on regional economic groups • New section, "Developing Skills to Enhance Your Career"
CHAPTER 2 MANAGING INTERDEPENDENCE: SOCIAL RESPONSIBILITY, ETHICS, SUSTAINABILITY	• New Opening Profile: Samsung Finally Apologises to Its Workers around the World Struck Down by Disease • New UTL: SAP Alerts US to South Africa Kickback Allegations • Revised CMF: Doing Business in China— Censorship, Human Rights and the Challenge for Multinationals • New UTL: Volkswagen under the Spotlight • New UTL: Specialty Products, Support, and Shared Value Are Key to Success: India • New MIA: 'Impact Beyond Numbers'—GoodWeave's Global Solutions to Child Labor • New End Case: Facebook Faces Fresh Probe after Photo Leak • New section on ethics in uses of technology —censorship and privacy

Part 2: The Cultural Context of Global Management

CHAPTER 3 UNDERSTANDING THE ROLE OF CULTURE

- New UTL: Seoul Fights Back against Workaholic Culture: Labour Law
- New MIA: A Cultural Revolution Is Changing India, One Open-Plan Office at a Time: Office Life Modernisation
- New section, "Consequence or Cause?"
- Expanded coverage of culture's effects on management
- Inclusion of the Culture Classification Model (task versus relationship orientation)
- Updated coverage of the connection between the Internet and culture

CHAPTER 4 COMMUNICATING ACROSS CULTURES

- New Opening Profile: The Impact of Social Media on Global Business
- New UTL: Native English Speakers Must Learn How They Come Across
- New MIA: A Guide to (Mis)communication
- New End Case: Italy's D & G in China: Fashion Show Canceled in Shanghai Following Scandal
- New sections on trust in the digital age and second language use

CHAPTER 5 CROSS-CULTURAL NEGOTIATION AND DECISION MAKING

- New Opening Profile: Hitachi Looks for Deal with ABB on Power Grids Business
- New UTL: Ryanair Secures UK Licence in Preparation for No-Deal Brexit
- New MIA: Spotify's Plan to Beat Apple: Sign the Rest of the World
- New End Case: India's E-Commerce Crackdown Upends Big Foreign Players
- New section on negotiating styles and dealing with translators

Part 3: Formulating and Implementing Strategy for International and Global Operations

CHAPTER 6 FORMULATING STRATEGY

- New Opening Profile: Why Ford Is Stalling in China while Toyota Succeeds
- New MIA: Why Dyson Is Shifting Its HQ to Singapore
- Updated CMF: Global Companies Take Advantage of Growth Opportunities in Africa
- Updated and Revised MIA: Strategic Planning for Emerging Markets
- New UTL: Revolut's Russian Founder Stirs Up Lithuania's Fintech Debate
- New End Case: How UK Businesses Are Planning—or Not—for a No-Deal Brexit
- Revised section on transnational strategies
- New section on the Strategy Diamond to help with formulating strategies
- New sections of liability of foreignness and foreign direct investment decisions under uncertainty
- Expanded section on e-business and born globals

	• Expanded, revised feature on strategic planning for emerging markets • Updated data and charts on global Internet usage and global services • New features and updated examples focusing, among others, on Singapore, Africa, Lithuania, and China as well as features on how the uncertainty from Brexit affects the strategic decision of multinational companies
CHAPTER 7 IMPLEMENTING STRATEGY: STRATEGIC ALLIANCES, SMALL BUSINESSES, EMERGING ECONOMY FIRMS	• New Opening Profile: Alibaba to Set Up Online Retail Service in Russia • Updated CMF: Joint Ventures in the Russian Federation • Revised and Updated UTL: Breaking Down Barriers for Small or Medium-Sized Enterprises (SMEs) • New UTL: Ford to Use Blockchain in Pilot to Trace Cobalt Mined in Congo • Updated MIA: Infosys's Path from Emerging Start-up to Emerging MNC • New End Case: IKEA Finally Opens in India, Minus the Meatballs • New sections regarding implementing strategies for equity and nonequity strategic alliances and wholly owned subsidiaries • Updated and expanded discussion of motivations and benefits of global and cross-border alliances • New section on trends regarding labor and supply chain sourcing, which provide further updates on issues facing managers
CHAPTER 8 ORGANIZATION STRUCTURE AND CONTROL SYSTEMS	• New Opening Profile: Citi Sets Post-Brexit Frankfurt Trading Hub in Motion • New UTL: Volkswagen Makes Sweeping Changes to Management and Structure • New UTL: Unilever Backs Down on Plan to Move Headquarters from UK • New UTL: Yum China Battles McDonald's in China • New End Case: Renault and Nissan Attempt to Ease Tension with New Board • New sections on dual headquarters and business groups • New section, "Teams as a Global–Local Structure" • New sections on organizational structure in the digital economy and digital organizational readiness
Part 4: Global Human Resources Management	
CHAPTER 9 STAFFING, TRAINING, AND COMPENSATION FOR GLOBAL OPERATIONS	• Updated Opening Profile: Staffing Company Operations • Updated UTL: Tata's Staffing Challenges in the United States • New UTL: Expatriate Employees Struggle to Readjust to Old Lives • Updated MIA: Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in China • Updated research information and focuses on the "war for talent" around the world, in particular the competition for talent in emerging markets • Updated information on the role of IHRM in global strategies, staffing for global operations, and training host-country nationals

CHAPTER 10 DEVELOPING A GLOBAL MANAGEMENT CADRE	• Updated Opening Profile: The Expat Life • New UTL: Should I Stay or Should I Go? Overseas Jobs Demand the Extra Mile • New MIA: The Emergence of a Virtual Multinational Enterprise • New UTL: German Manufacturer to Close Two UK Plants • Updated CMF: Labor Relations in Germany • New End Case: Expat Tax Breaks for Brexit Bankers: FT Readers Respond • Expanded and updated sections, "Global Management Teams," "Expatriate Career Management," and "The Role of Women in International Management" • Updated information on the role of organized labor around the world and its impact on strategy and human resources management. • New feature on best practices for virtual multinational companies • New survey results regarding expatriate retention and the roles of their families • New feature examining the role of expatriates' careers in knowledge transfer to the firm
CHAPTER 11 MOTIVATING AND LEADING	• New Opening Profile: Motoi Oyama of Asics: The Globally Minded Shoe Ambassador • New UTL: Bad Bosses Are Making the UK's Productivity Puzzle Worse • New UTL: Japanese Boards Move to Open Up to Overseas Executives • New Under the Lens: French Companies Lead the Way on Gender Diversity • Updated MIA: Leadership in a Digital World • New End Case: How to Bring Cross-Cultural Teams Together • Updated and expanded sections on reward systems, culture, and job motivation as well as the global leader's role and environment • Updated section on leadership in a digital world

SOLVING TEACHING AND LEARNING CHALLENGES

Most students who take the International Management course do not yet have the international exposure and the understanding of the cultural differences in which a business must operate. This text guides students in what actions to take and how to develop the requisite skills to formulate and implement international strategies, to conduct effective cross-national interactions, and to manage daily operations in and with foreign subsidiaries as well as with global allies and partners. This text takes the perspective of managers around the world so that students can learn how to work effectively in cross-national teams and how to combine best practices for the local environment in which the firm is operating.

To ensure students understand the change in decision making due to cultural shifts, this text uses the following features to keep the attention of students by challenging them to think critically about the practical applications of the text.

Cases and the term project:



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Case 5 Amazon.com in China: Can Elaine Chang Crack the Chinese Market?

This case was written by ***Koti Vinod Babu,*** *under the direction of* ***Debapratim Purkayastha,*** *IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

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"China is a very important market for Amazon. We're committed to growing our business here."

About Amazon

Amazon was founded in June 1994 by Jeff Bezos (Bezos). In June 1995, he launched his online bookstore, Amazon.com. It soon increased its product portfolio and became a force to reckon with in retailing. Analysts felt that by offering low prices, a wide selection, and a great customer experience, Amazon was able to drive traffic (customers) and increase

Part end cases help students to recognize, to provide analysis, and make and implement decisions in complex situations experienced by real companies.

Chapter end cases help students to recognize and apply the chapter concepts in a specific situation.

The new **comprehensive case** in the Integrative section—"IKEA's Challenges in Russia"—is especially informative and challenging because it covers a range of topics from the entire book.



PART 5: Integrative Case

ICMR
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www.icmrindia.org

Case 10 IKEA's Challenges in Russia

This case was written by ***Hadiya Faheem,*** *under the direction of* ***Debapratim Purkayastha,*** *IBS Hyderabad.*[1]

"[. . .] not all companies succumb to corruption. The Swedish furniture retailer IKEA has steadfastly refused to bribe Russian officials."[2]

—Alexander Hill, president emeritus of InterVarsity Christian Fellowship[3] US, in 2017

"Ikea is clearly quite successful in Russia but in the early days when they entered the market they took the expres-

taking kickbacks from the rental company for inflating the rental price of the service. Consequently, IKEA was rebuked in court for a breach of the rental contract. While the bureaucratic system added to its troubles in Russia, there were also times when local or federal authorities were supportive, which enabled the company to get things done faster than in any other country in the world.

Over the years, IKEA grew and experienced success with its stores in Russia. Some of its stores went on to become the

The popular **Integrative Term Project** has been retained, providing the opportunity for students to pull together the concepts and management decisions and actions covered in the book. This end-term project challenges students to create teams that take on the role of top management in a situation that requires applying the entire content of the course.



Comparative Management in Focus

Negotiating with the Chinese

The Chinese way of making decisions begins with socialization and initiation of personal guanxi *rather than business discussion. The focus is not market research, statistical analysis, facts, Power-Point presentations, or to-the-point business discussion. My focus must be on fostering* guanxi.[40]

Sunny Zhou, General Manager of Kunming Lida Wood and Bamboo Products

With the increasing business being conducted in China (see Map 5-1) or with Chinese allies or other companies, business practices there are now showing more similarity to those in the West. However, when Westerners initiate business negotiations with representatives from

Comparative Management in Focus–Allows the students to apply chapter concepts to a specific country or region to gain further insight into comparative management. These provide in-depth comparative applications of chapter topics in a broad range of specific countries or regions, thus helping the students to understand cultural differences—what applies in one culture may need a different approach elsewhere.

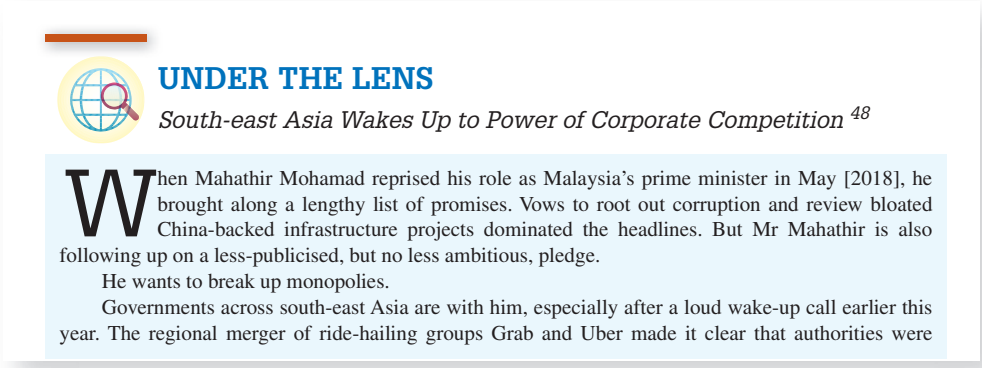


MANAGEMENT IN ACTION

Spotify's Plan to Beat Apple: Sign the Rest of the World[76]

Few could be happier about the synergy between music streaming and Latin America than Spotify — whose stock price, and arguably its future, depend on repeating the same trick in new markets. Spotify needs to keep adding subscribers to make Wall Street happy as it battles Apple, one of the richest companies in the world, to dominate how people listen to music. There is a finite amount of affluent 20-somethings in western cities to pay Spotify $10 a month for its services. However, after growing at a torrid clip in Europe and the US, investors are betting that Spotify can sign up hundreds of millions of people in what the Swedish company bluntly calls the "Rest of the World".

Management in Action–Helps the students understand through real examples of managing regarding the concepts in the chapter. These examples, often gleaned from the press, demonstrate to students what managers actually do to address the kinds of situations and challenges in the chapter.



UNDER THE LENS

South-east Asia Wakes Up to Power of Corporate Competition [48]

When Mahathir Mohamad reprised his role as Malaysia's prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were

Under the Lens–Helps students to gain further insight into an important topic in the chapter by focusing on a specific subject in a specific situation. This feature can then "tune in" the student to real situations that demonstrate the chapter challenges. One of the Under the Lens is *"Should I Stay, or Should I Go? Overseas Jobs Demand the Extra Mile"* from Chapter 10.

DEVELOPING SKILLS TO ENHANCE YOUR CAREER

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. Chapter 1 includes a new section on *Developing Skills to Enhance your Career*. It focuses on five critical employability skills: (1) communication, (2) critical thinking, (3) collaboration, (4) knowledge application/analysis, and (5) business ethics/social responsibility. Specifically, it highlights how the material in this textbook helps to develop skills in each of these areas to prepare students for success in their professional endeavors. Each chapter offers many opportunities to acquire and refine skills that can lead to professional success in the digital economy. For example, the Opening Profiles, Management in Action sections, Under the Lens sections, and Comparative Management in Focus sections provide an opportunity to engage the students with real-world situations and challenges facing multinational firms and their leadership teams. Experiential learning exercises offer the opportunity to learn by doing—often a hands-on assignment involving a group. The case studies entail real-life situations of people and firms—some of which involve best practices while others reveal negative consequences. The case studies provide students with valuable opportunities to engage in critical thinking, apply key frameworks, develop recommendations, and even use breakout sessions in which students can refine their ideas and analytical skills in a team setting. Moreover, we include some cases that emphasize the digital economy (e.g., blockchain) while addressing a social responsibility issue (e.g., work conditions). All five employability skills are essential—whether you seek an international management position or a functional role.

Employability Skills Matrix

	Critical thinking	Communi-cation	Collabora-tion	Knowledge Application and Analysis	Social Responsibility
Opening Profiles	✔	✔		✔	
Manage-ment in Action	✔	✔		✔	✔
Under the Lens	✔	✔		✔	✔
Compara-tive Man-agement in Focus	✔			✔	✔
Application exercises	✔	✔	✔	✔	
Experiential exercises	✔	✔	✔	✔	
Case studies	✔	✔	✔	✔	✔

INSTRUCTOR RESOURCES

For more information and resources, visit www.pearson.com.

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—Helen Deresky & Stewart R. Miller

PART

1 The Global Manager's Environment

PART OUTLINE

CHAPTER 1
Assessing the Environment: Political, Economic, Legal, Technological

CHAPTER 2
Managing Interdependence: Social Responsibility, Ethics, Sustainability



CHAPTER

1 Assessing the Environment

Political, Economic, Legal, Technological

OBJECTIVES

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

1-3. To recognize the role of the legal environment in international business

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

1-5. To explore essential skills for developing your career as a manager in a multinational company

Opening Profile: Small Businesses Steel Themselves for No-Deal after Brexit[1]

Graham Masarik is in the minority of Britain's small and medium-sized business owners. Little more than a month before the UK is due to leave the EU on March 29, he is preparing for a no-deal Brexit.[2]

Mr Masarik has moved most of the distribution operations for Eurocams, his auto parts company, to the Netherlands to avoid the import duties and standards checks that will accompany a no-deal departure from the EU.

The Weston-super-Mare-based group has factories in China, so for some products the switch means bypassing Britain entirely. Already 95 per cent of Eurocams' annual revenues of £5m come from Europe.

"[This] will mean closing down a majority of what I've got here and going to Holland—not something I wanted to do but it is out of my hands," said Mr Masarik. "You can't wake up on 30 March and find that you have no business."

Smaller UK companies' preparations for Brexit vary widely. Some, such as Shiner, a Bristol-based manufacturer of skateboards and related goods, are trying to stockpile as much as they can in the EU ahead of March 29—and are likely to set up legal entities in the bloc.

Others, such as Albion Stone, a group that exports Portland stone, a prestigious building material, are stockpiling in the UK—at considerable cost—and thinking about scrapping sales to the EU entirely.

But many companies lack the resources or the information to prepare for a no-deal.

Allie Renison, head of EU and trade policy at the Institute of Directors, said that only 14 per cent of the business group's members were "very prepared" for such an outcome. "At the moment, there is still far too much information missing for most small and medium enterprises to be ready for no-deal on 29 March," she said.

With Prime Minister Theresa May still looking for a deal with Brussels that will win majority support in the House of Commons, companies have to prepare for a host of uncertainties.

"The reality is that yesterday the first freighter that will arrive after Brexit set off from Felixstowe with no clarity on the terms on which its cargo will arrive," said Greg Clark, business secretary, on Tuesday. "No one should regard waiting to the last moment . . . as acceptable."

But neither businesses nor politicians know whether there will be a deal or no-deal, nor indeed whether Brexit will be delayed to allow both sides to adjust.

Matt Griffith, policy director at Business West, a group that helps companies in the west of England, said most groups had assumed that policymakers would give them enough time to adapt to a no-deal Brexit, but now recognise this was "dangerously optimistic."

"Because the government have not decided what they are going to do, businesses like us are having to spend hundreds of thousands of pounds [on storage]," said Charlie Allen, managing director at Shiner.

"By March 30 [2019] we need to transfer a lot of stock to third-party logistics, especially the stock with high duty."

Mr Allen noted that if Britain leaves the EU without a deal, clothes may be subject to tariffs of about 12 per cent, and that he needs to give six weeks' notice to logistics partners—a milestone that has already passed.

Speaking before Mrs May announced a deadline of March 12 [2019] to hold a "meaningful vote," Mr Allen said: "Every day makes a difference; they need to have decided what the outcome is by the end of February." He added that delaying the Brexit date "would just prolong the uncertainty."

He said EU authorities had already warned the company that, unless it had a legal presence in the bloc, any websites with the .eu suffix would be taken down.

"We will have to pay for the pick and pack operation in Germany or Holland," he added. "The work will be done on mainland Europe instead of in the UK. This means less jobs in Bristol."

Last autumn the government published technical notices to help businesses prepare for a no-deal, but these were widely derided as lacking enough detail for any practical planning purposes. In October the CBI, the employers' organisation, called for a "one-stop shop" of advice for businesses trying to prepare for Brexit. This has not materialised.

Many businesses are still unaware of what information is available. The British Exporters Association says it is directing its members to online resources such as the government's "Prepare your business for EU exit" website.

Source: © The Financial Times Limited 2019.

As evidenced in the opening profile, managers in the twenty-first century are being challenged to operate in an increasingly complex, global economy in which some regions undergo periods of uncertainty, thus requiring these managers to be more responsive yet more flexible. Uncertainty abounded after the referendum on **Brexit** (for **Br**itain to **exit** the European Union (EU). British lawmakers finally approved exiting from the EU in January 2020. And, of course, the **digital economy** provides a threat to some companies but offers opportunity to others. Clearly, those involved in international and global business have to adjust their strategies and management styles to the global disruption brought on by the digital economy as well as other global developments.

As well as the disruption driven by the digital economy, typical challenges that managers face involve politics, cultural differences, global competition, terrorism, technology, sustainability, and economic uncertainties. For example, changes to the European Union (Brexit) and the free trade agreement between Mexico, Canada, and the United States have led many multinational companies to reassess their strategies and investment decisions in Europe and the Americas as of the writing of this text.

In addition, the opportunities and risks of the global marketplace increasingly bring with them the societal obligations of operating in a global community. Many companies face increased scrutiny from investors and nongovernment organizations (NGOs) to provide a thorough account of the environmental and social implications of their supply chains. For instance, the London Metal Exchange has supported a consortium of metals traders and financial institutions to build a blockchain-based system to track the trade of physical metal. Through digital technology—a blockchain-based system—"you know where your metal is, you have proof of your metal, but

nobody can see what your metal is and where your metal is," according to Matt Chamberlain, chief executive of the London Metals Exchange. Managers in those companies are struggling to find ways to balance their social responsibilities, their reputations, and their competitive strategies.

To compete aggressively, firms must make considerable investments overseas—not only capital investment but also investment in well-trained managers with the skills essential to working effectively in a multicultural environment. In any foreign environment, managers need to handle a set of dynamic and fast-changing variables, including the pervasive variable of culture that affects every facet of daily life. Added to that behavioral "software" are the challenges of the digital economy, which are rapidly changing the dynamics of competition and operations.

International management (IM), then, is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. Corporate leaders need to instill a global mindset with their employees while navigating the diverse competitive landscapes as well as the uncertainty associated with the digital economy. Even more, international managers need to consider how to recruit, train, and develop the new generation of talent from around the world. These management challenges are shaped by the prevailing conditions and ongoing developments in the world, as outlined in the following sections and subsequent chapters.

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

THE GLOBAL BUSINESS ENVIRONMENT

Following is a summary of some of the global situations and trends that managers need to monitor and incorporate in their strategic and operational planning. We discuss the status of globalization and the debates about its effects on countries, on corporations, on human capital, and on the relationship with **information technology (IT)**. We look briefly at some of the areas in the world in which you might find yourself doing business, with a particular focus on China (see World Map 1, after the chapter, for reference throughout this book).

Globalization

The types of events described in the opening profile illustrate the interdependence of the business, politics, trade, finances, and technological environment around the world. That interdependence has come to be known as **globalization**—global competition characterized by networks of international linkages comprising economic, financial, political, and social markets that in turn bind countries, institutions, and people in an interdependent global economy. These linkages have resulted in the free movement of goods, people, money, and information across borders. Economic integration results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world. The invisible hand of global competition has been propelled by the phenomenon of an increasingly borderless world, by technological advancements, and by the rise of emerging markets such as China and India—a process that Thomas Friedman called "leveling the playing field" among countries—or the "flattening of the world."[3] That was then, but this is now—and some are now arguing that the world is no longer so flat, such that the pace of globalization has slowed and, in some instances, has declined. This retreat is resulting from political crises, cybertheft, protectionism, and increasing trade barriers.[4] As Bremmer notes in the *Harvard Business Review*, the governments of many developing nations have become increasingly nationalistic in protecting their own industries rather than open them to foreign companies, in particular multinational corporations (MNCs).[5]

On a strategic level, Ghemawat argues that the business world is in a state of "semi-globalization"—that various metrics show that only 10 to 25 percent of economic activity is truly global. He bases this conviction on his analysis that "most types of economic activity that can be conducted either within or across borders are still quite localized by country."[6] Ghemawat posits that we are in an "unevenly globalized world" and that business opportunities and threats depend on the individual perspective of country, company, and industry.[7] He observes that, as emerging market countries have gained in wealth and power and increasingly call their own shots, a reverse trend of globalization is taking place—evolving fragmentation—which he says is having, ironically, a ripple effect of globalization.[8]

Global Trends

Nevertheless, globalization is still here; it is a matter of degree and direction in the future. The rapid development of globalization over the past decades is attributable to many factors, including the burgeoning use of technology and its accompanying uses in **international business**; political developments that enable cross-border trade agreements; and global competition for the growing numbers of consumers around the world. From studies by Bisson et al. and others, we can also identify six key global trends that provide both challenges and opportunities for companies to incorporate into their **strategic planning**:[9]

- The changing balance of growth toward emerging markets compared with developed ones, along with the growing number of middle-class consumers in those areas
- The need for increased productivity and consumption in developed countries to stimulate their economies
- The increasing global interconnectivity—technologically and otherwise, as previously discussed—and in particular the phenomenon of an "electronically flattened earth" that gives rise to increased opportunity and fast-developing competition
- The increasing gap between demand and supply of natural resources, in particular to supply developing economies, along with the push for environmental protection
- The challenge facing governments to develop policies for economic growth and financial stability[10]
- The growing number of emerging-market companies embracing digital technologies

Globalization and Emerging Markets

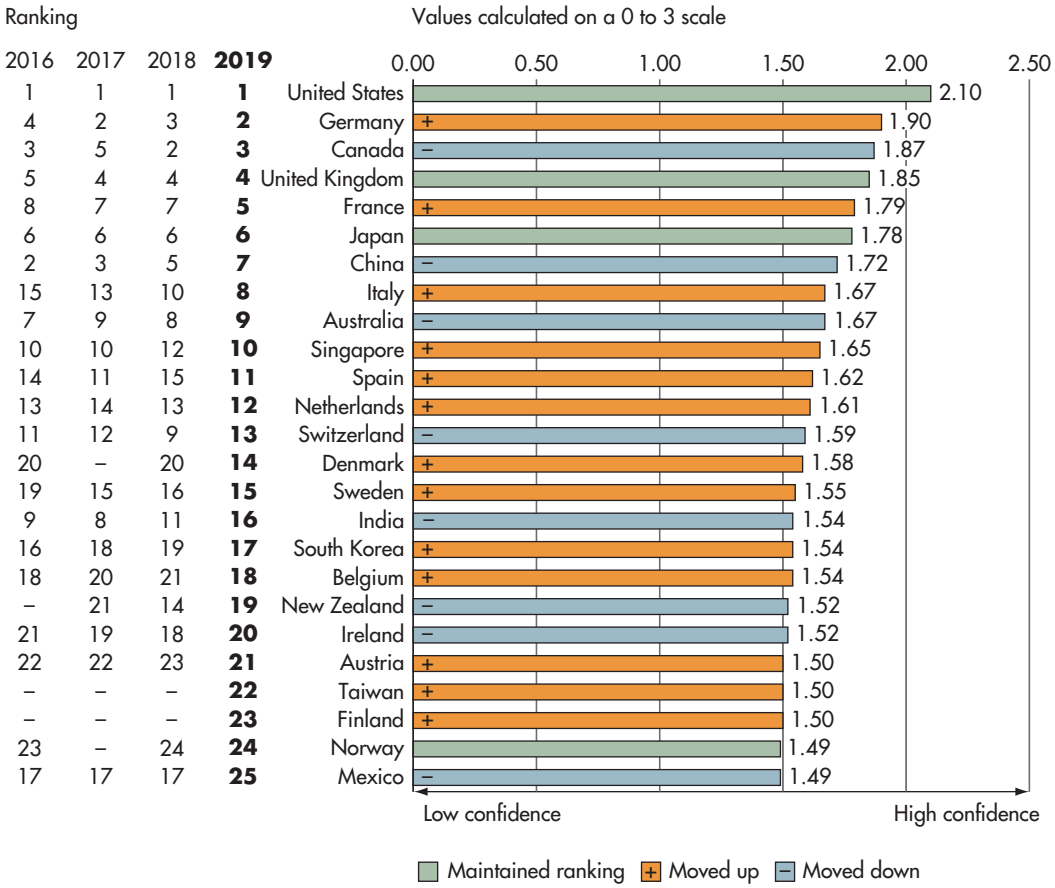
There are growing concerns about rising political and **economic risks** in developed economies. Despite wariness, MNC leaders remain relatively positive on the global economy. Moreover, FDI levels fell again in 2018. According to research by the A. T. Kearney Company on the **foreign direct investment (FDI)** intentions and preferences of the leaders of 300 top companies in various industry sectors spanning six continents, companies view foreign direct investment (FDI) as crucial to profitability and sustainable competitive advantage. Indeed, 77 percent of MNC leaders indicated that FDI will grow in importance in the years ahead.[11] These corporate leaders also viewed FDI as a means to achieve localization, which implies shifting managers, production, operations, and/or marketing to local markets. The Kearney report reveals some paradoxes as corporate leaders affirm that they will be increasing foreign investment, yet the actual levels of FDI do not reflect that affirmation.

Exhibit 1-1 shows the 2017–2019 results of the A. T. Kearney Foreign Direct Investment Confidence Index. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Kearney's results show that the United States continues to be in the lead since 2017 and up from 4th in 2012. China has slipped from 3rd in 2017 to 7th in 2019. Germany, Canada, and the United Kingdom ranked 2nd, 3rd, and 4th respectively. India has dropped from 8th in 2017 to 16th in 2019. There are two other notable declines in ranking: Mexico dropped from 17th to 25th while Brazil dropped from 16th to unranked during the 3-year period.[12] Overall, the results show renewed confidence in the economic recovery in the United States and Europe and that emerging economies are improving their rankings, but not enough to be in the top 25 (see Map 1-1).

Although the United States remains dominant in many new-age industries such as nanotechnology and biotechnology, emerging markets continue to grow their countries' economies, and, in turn, will provide growth markets for the products and services of developed economies. It is clear also that the phenomenon of rapidly developing economies continues.

The Boston Consulting Group's (BCG) 2018 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster than comparable companies are. Although there are relatively fewer from China and India than in previous years, there are more from smaller countries, including five from Thailand, four from Turkey, and three from Chile, which are at all-time highs.[13] Examples of the now more mature emerging giants are, from China, Huawei Technologies, Lenovo Group, and Baosteel;

EXHIBIT 1-1 2019 Foreign Direct Investment Confidence Index Top 25 Targets for FDI
The main types of FDI are acquisition of a subsidiary or production facility, joint ventures, licensing, and investing in new facilities or expansion of existing facilities.



Source: 2019 FDI Confidence Index, © A. T. Kearney, 2019. All rights reserved. Reprinted with permission.

from India, Infosys Technologies, Tata Group, and Bharti Airtel; from Brazil, Embraer and Votorantim Group; from Mexico, Group Bimbo; from Russia, Gazprom; and from Indonesia, Bumi Resources—to name a few.

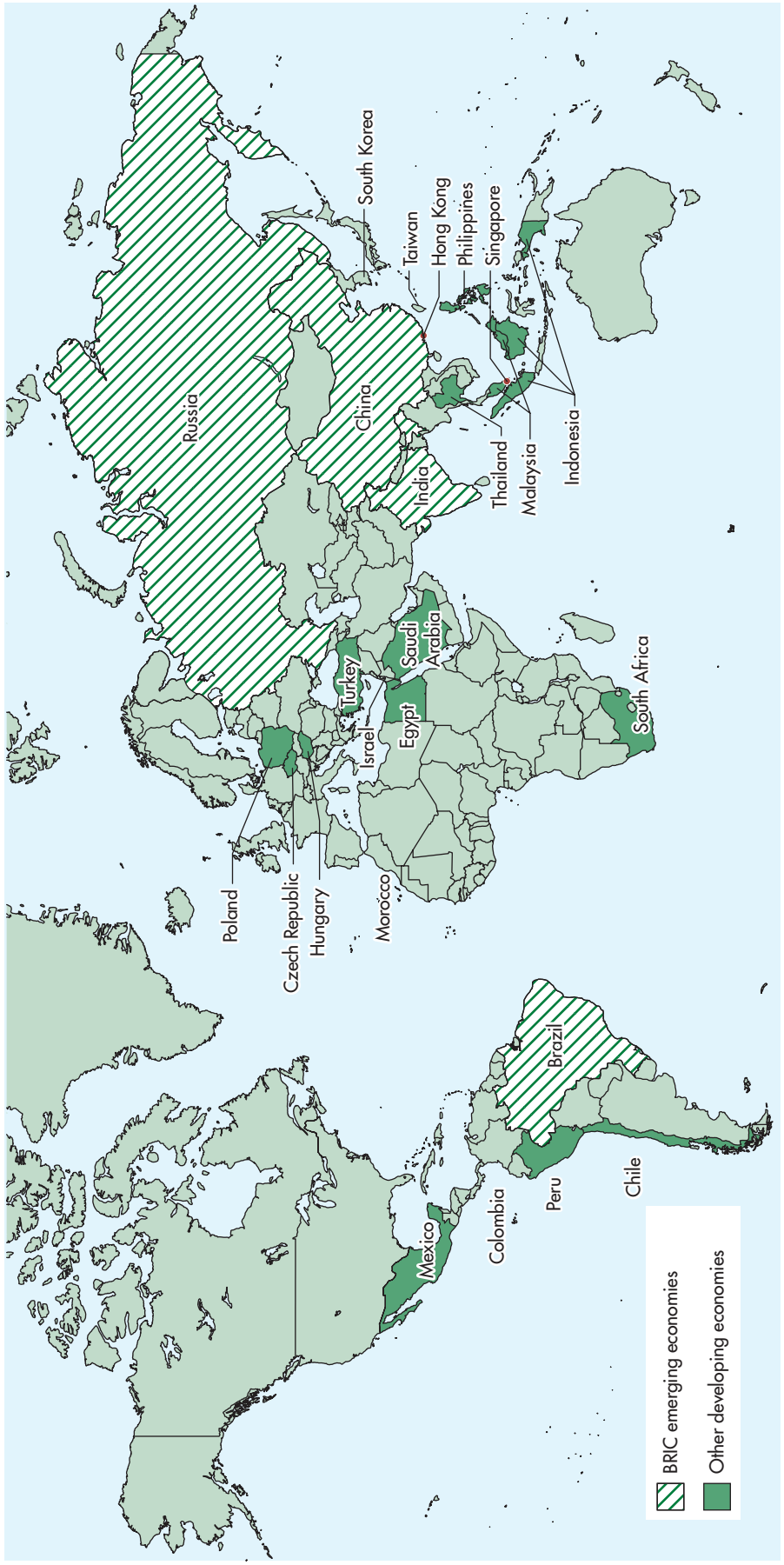
Further evidence that *globalization* is the increase in the number of emerging-market companies acquiring established large businesses and brands from the so-called developed countries. Clearly, companies in emerging markets are providing many tangible business opportunities for investment and alliances around the world and establishing themselves as competitors to reckon with. One example of a company enjoying rapid global growth through technology is China-based Tencent, which tends to acquire minority stakes in companies whose products can link to its WeChat and WeChat Pay platforms. Tencent offers those companies the opportunity to reach over one billion users.

It's almost impossible to succeed in China retail without Alibaba or Tencent.

James Root, Hong Kong-based partner at Bain & Co.[14]

Backlash against Globalization

As we consider the many facets of globalization and how they intertwine, we observe how economic power and shifting opinions and ideals about politics and religion, for example, result in an increasing backlash against globalization and a rekindling of nationalism. Capitalism and open markets, most notably by Western companies, have propelled globalization. Now, digitally



MAP 1–1 Emerging Economies

oriented multinational companies from China, India in particular, represent the new drivers of economic growth around the globe.[15]

The rising nationalist tendencies are evident as emerging and developing nations—wielding their economic power in attempted takeovers and inroads around the world—encounter protectionism. There is hostility toward takeovers such as Indian company Flipkart by U.S. retailer, Walmart.

Although the debate about the effects of globalization continues, it is clear that economic globalization will be advanced by corporations looking to maximize their profits with global efficiencies, by politicians and leaders wishing to advance their countries' economies, and by technological and transportation advances that make firms' production and supply networks more efficient. However, pressure by parties against those trends, as well as the resurgence in nationalism and protectionism, may serve to pull back those advances to a more regional scope in some areas or limit them to bilateral pacts.[16]

In addition, although competition to provide the best and cheapest products to consumers exerts pressure on corporations to maximize efficiencies around the world, there is also increasing pressure and publicity for them to consider the social responsibility of their activities (discussed further in Chapter 2).

Effects of Institutions on Global Trade[17]

Two major groups of institutions (supranational and national) play differing roles in globalization. Supranational institutions such as the **World Trade Organization (WTO)** and the International Labor Organization (ILO) promote the convergence of how international activities should be conducted. For example, the WTO promotes the lowering of tariffs and a common set of trade rules among its member countries. Similarly, the ILO promotes common standards of how workers should be treated. Although many supranational institutions frequently promote rules or laws favorable to foreign firms (e.g., requiring intellectual property rights protections in China), others have been criticized for infringing on national sovereignty (e.g., challenges to certain environmental laws in the United States).

National institutions, in contrast, play a role in creating favorable conditions for domestic firms and may make it more difficult for foreign firms to compete in those countries. For example, the stringent drug testing rules the U.S. Food and Drug Administration (FDA) requires and the anti-dumping rules the U.S. Department of Commerce's International Trade Administration (ITA) enforces act as entry barriers for foreign firms (see Chapter 6 for a more detailed discussion of these entry barriers).

Some supranational institutions represent the interests of a smaller group of countries. For example, the European Commission acts in the interest of EU members as a whole rather than in the interest of individual member countries. The European Commission is the executive arm of the EU and is responsible for implementing the decisions of the European Parliament and the European Council. Of relevance to international business, the European Commission speaks for the EU at the World Trade Organization and is responsible for negotiating trade agreements on behalf of the EU.[18]

Effects of Globalization on Corporations

In returning to our discussion at the corporate level, we can see that almost all firms around the world are affected to some extent by globalization and, in turn, cause globalization by their activities abroad. Firms that have investment, operations, or marketing activities in several countries are called **multinational corporations (MNCs)** or **multinational enterprises (MNEs)**. Firms from any country now compete with companies at home and abroad, and domestic competitors are competing on price by outsourcing or offshoring resources and services anywhere in the world. Often it is difficult to tell which competing products or services are of domestic or foreign origin. Examples abound—for example, do you really drive an American car?

> *Look at your vehicle identification number (VIN): If it starts with 1 it is made in America; 2, Canada; 3, Mexico; 4, anywhere else in the world. The only cars allowed to park in a United Auto Workers (UAW) plant are those with VIN numbers beginning with 1 and 2.*[19]

Honda vehicles, for example, are manufactured in many markets outside of Japan: Argentina, Australia, Bangladesh, Brazil, Canada, China, France, India, Indonesia, Italy, Malaysia, Mexico, Pakistan, Peru, Philippines, Taiwan, Thailand, the United Kingdom, the United States, and Vietnam.[20]

Some companies have made multiple investments in particular countries. For example, Japan's Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships as well as in design, testing, and research centers. As of 2019, it makes nine vehicles in the United States. For example, its Sienna model is assembled in Indiana. The Camry and Lexus models are made in Kentucky, while the Tundra is made in Texas.

It would seem that competition has no borders, with many global companies producing and selling a substantial portion of their global brands and services abroad than domestically. In 2018, Cisco Systems received 48.3 percent of its revenues from overseas. General Electric, however, derives 66.5 percent of its US$121 billion from overseas markets. Nestlé has 98.6 percent of its sales outside of its home market, with 42 percent of its sales coming from emerging markets. Coca-Cola has 64 percent foreign sales, while Procter & Gamble has 59 percent. [21]

The Tata Group, a conglomerate originating in India, generates over 60 percent of its revenues from its operations in over 100 international markets. In Europe, Tata has 19 companies across the continent with over 60,000 employees. In North America, it operates 13 companies with over 35,000 employees. In the Asia-Pacific region, Tata operates 16 companies consisting of over 7,000 employees. In particular, Tata has over 3,000 employees in both Singapore and China. Tata has a sizable presence in the Middle East with more than 20 companies and 10,000 employees.[22]

Investment by global companies around the world means that this aspect of globalization benefits developing economies—through the transfer of financial, technological, and managerial resources as well as through the development of local allies that later become self-sufficient and have other operations. Global companies are becoming less tied to specific locations, and their operations and allies are spread around the world as they source and coordinate resources and activities in the most suitable areas and as technology facilitates faster and more flexible interactions and greater efficiencies.

It is essential, therefore, for managers to look beyond their domestic market. If they do not, they will be even further behind the majority of managers who have already recognized that they must have a global vision for their firms, beginning with preparing themselves with the skills and tools of managing in a global environment. Companies that desire to remain globally competitive and expand their operations to other countries must develop a cadre of top management with experience operating abroad and an understanding of what it takes to do business in other countries and work with people of other cultures. Many large firms around the world are getting to the stage of evolution known as the stateless multinational, when work is sourced wherever it is most efficient; the result of this stage of development is that:

> *[F]or business leaders, building a firm that is seamlessly integrated across time zones and cultures presents daunting obstacles.* [23]

The above quote continues to resonate with multinational companies seeking to balance being global and local simultaneously. For example, India's largest technology and ecommerce start-up firms are based in its biggest cities—Bangalore and Greater Delhi serve as home to most of them. Yet Alibaba's Jack Ma told an Indian entrepreneur, "you must focus on the smaller cities and towns—they're untapped." Indeed, ecommerce growth is now fastest outside India's eight largest cities. Indian startup firms are facing increased competition from multinationals such as Amazon, which has observed the relatively higher growth rates in smaller Indian towns and cities.[24] According to Kishore Thota, an Amazon executive, "For a year or so we've been seeing this huge growth differential from outside the metros," he said. In light of the growth of online purchasing, Indian ecommerce users remain wary of online payment mechanisms, so Amazon offers them a cash payment option upon delivery. Needless to say, cash is the preferred payment choice for most Indian online transactions, suggesting that multinational companies—especially digitally oriented ones—need to understand local customers or miss huge growth opportunities.[25] For example, in 2018, Amazon created a Hindi version of its platform.

Small and Medium-Sized Enterprises (SMEs)

SMEs are also affected by and, in turn, affect globalization. They play a vital role in contributing to their national economies—through employment, new job creation, development of new products and services, and international operations, typically exporting. The vast majority (about

98 percent) of businesses in developed economies are small and medium-sized enterprises, which are typically referred to as those companies having fewer than 500 employees. Small businesses are rapidly discovering foreign markets. Although many small businesses are affected by globalism only to the extent that they face competing products from abroad, an increasing number of entrepreneurs are being approached by potential offshore customers, thanks to the burgeoning number of trade shows, federal and state export initiatives, and the growing use of websites that ease making contact and placing orders online.[26]

There has never been a better time for SMEs to go global; the Internet is as valid a tool for small companies to find customers and suppliers around the world as it is for large companies. By using the Internet, email, and web-conferencing, small companies can inexpensively contact customers and set up their global businesses.

The Globalization of Human Capital

> *Talent performance is now clearly seen as key to growth, job creation, and innovation. New approaches are emerging to stimulate entrepreneurial talent . . . Such strategies affect all aspects of talent competitiveness, including education, skilling, and re-skilling, attracting external talents and fostering co-creation with local ones, as well as encouraging imported or returning talent to stay and contribute to long-term local objectives.*[27]
>
> *2019 Global Talent Competitiveness Index Report*

Firms around the world have been offshoring manufacturing jobs to countries with lower wages for decades. Firms of all sizes have been and are continuing to produce or assemble parts of their products in many countries, that is, outsourcing by contracting to a local firm and then integrating it into their global supply chains. However, an increasing number of firms are realizing that their cost advantage of producing abroad is disappearing because wages and other manufacturing costs in countries such as China are going up, transportation costs are increasing, the risks involved in complex supply chains are becoming more apparent, and there is continuing pressure to supply jobs at home. According to Reshoring Initiative, an advocacy group, a growing number of U.S. firms are actively **reshoring** jobs back to the United States. They indicated that during the period 2010 to 1Q 2018, the 16 companies that reshored the most jobs, collectively brought back 73,000 manufacturing jobs to the United States. Apple led the way with 22,200 reshored jobs, followed by General Motors (12,988), Boeing (7,725), Ford (4,200), and Intel (4,000).[28]

But shipping costs do not affect nonmanufacturing jobs, and firms are outsourcing white-collar jobs to India, China, Mexico, and the Philippines. Customer support, medical analysis, technical work, computer programming, form filling, and claims processing—all these jobs can now move around the globe in the same way that farming and factory jobs could move a century ago.[29] We have all experienced talking to someone overseas when we call the airlines or a technology support service; now increasingly sophisticated jobs are being outsourced, leaving many people in developed economies worried about job retention.

For multinational firms, winning the war for talent is one of the most pressing issues, especially because hot labor markets in emerging markets are causing extremely high turnover rates.[30] Moreover, companies seeking to leverage a global talent pool need to recognize national differences in the abilities to "develop, attract, and empower the human capital that contributes to productivity and prosperity."[31] The Global Talent Competitiveness Index (GTCI) ranks countries according to six pillars—a country's ability to enable talent to develop, as well as what that country is doing to attract, grow, and retain talent. Two outcome-based pillars are the levels of vocational-technical skills and global knowledge skills of people in those countries. Switzerland, Singapore, and the United States ranked 1, 2, and 3 respectively in the 2019 GTCI rankings. The remaining countries in the top ten are all from Europe: Norway, Denmark, Finland, Sweden, the Netherlands, U.K., and Luxembourg. The United Arab Emirates ranked 19th, ahead of Israel (20th), Japan (22nd), South Korea (30th), Russian Federation (49th), and Brazil (72nd).[32] Table 1-1 shows the top three countries by competitiveness pillar.

TABLE 1–1 Global Talent Competitiveness Index by Pillar[33]

Pillar	Top Countries
Enabling Talent	Singapore, Switzerland, Denmark
Attracting Talent	Singapore, Luxembourg, UAE
Growing Talent	United States, Switzerland, Netherlands
Retaining Talent	Switzerland, Norway, Austria
Vocational-Technical Skills	Switzerland, United States, Germany
Global Knowledge Skills	Singapore, Iceland, United States

The 2019 Global Talent Competitiveness Index reveals several key takeaways. First, there is a growing talent inequality gap across countries. Second, entrepreneurial talent can mitigate inequalities. In China, for example, the migration of talent to the private sector has contributed to the emergence of globally competitive firms such as Ten-cent, Alibaba, and Haier. Third, digitalization and globalization enhance the role of entrepreneurial talent. Fourth, cities will assume a large role in cultivating entrepreneurial ecosystems.

Of all the developments propelling global business today, the one that is transforming the international manager's agenda more than any other is the rapid advance in IT. The explosive growth of IT is both a cause and an effect of globalization. Recently, however, large Indian IT companies such as Infosys Limited and the Tata Group were hiring their staff in the United States. Infosys, for example, has proclaimed on its website a "national commitment to hire 10,000 American workers."[34] The role of IT in international management is discussed later in this chapter, in the section titled "The Technological Environment."

FIGURE 1-1 IT allows service jobs to be performed anywhere in the world.



texelart/123RF GB Ltd

Regional Trading Blocs

The recent departure of the UK from the European Union draws attention to economic agreements between countries, or **regional economic groups**, which refer to "agreements among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other."[35] There are different types of regional economic groups, each of which is based on the level of integration between the member countries.

The most basic form of regional economic group is the **free trade area (FTA)**, which involves an agreement between countries that commits to removing all barriers to trade of goods and services among the member countries. However, each member country is permitted to

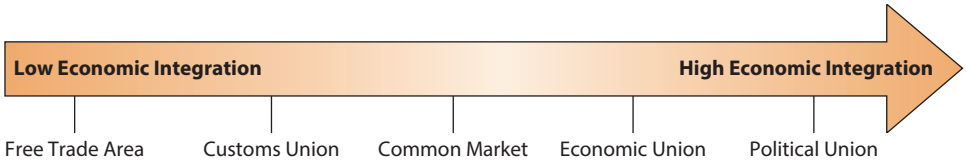
negotiate *independently* trade policies with nonmember countries. Examples of FTAs include the European Free Trade Association, which currently consists of Iceland, Norway, Liechtenstein, and Switzerland, and the North American Free Trade Agreement between Canada, Mexico, and the United States (subsequently replaced by the USMCA [United States, Mexico, Canada Agreement]).

A **customs union** entails a deeper level of economic integration. It refers to an agreement between countries that involves the removal of all barriers to the free flow of goods and services between member countries and establishment of a *common* trade policy with nonmember countries. An example of a customs union is the Andean Community, which consists of Bolivia, Columbia, Ecuador, and Peru.

The next step toward economic integration is a **common market**, which refers to an agreement between a group of countries that commit to the removal of all barriers to the free flow of goods and services, as well as factors of production—such as the free movement of labor and capital between member countries. Moreover, common market member countries pursue a common external trade policy. A current example of a common market is Mercosur, which has consisted of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. However, Venezuela has experienced difficulty in getting its membership ratified.

An **economic union** describes a deeper level of economic integration between member countries compared with a common market, customs union, and free trade area. In an economic union, member countries commit to the removal of all barriers to the free flow of goods, services, and factors of production between member countries. Moreover, member countries may adopt a common currency, establish uniform tax rates with member countries, and establish *common* trade policy with nonmember countries. The most recognized example of an economic union is the European Union. However, some EU member countries have adopted a common currency (the Euro), but other member countries have retained their own currencies.

The deepest level of economic integration is the **political union**, which consists of a central political system that directs and oversees economic, social, and foreign policies of the member states. An example of a political union is the United States.



Over time, economic groups may evolve. Some of these economic groups begin as free trade areas and then pursue deeper levels of integration over time. In addition, the members of the economic groups can change over time. For instance, some economic groups may add new member countries. However, there are instances in which member countries have been removed from the economic group for violating covenants and member countries have left voluntarily.

BENEFITS AND COSTS OF ECONOMIC INTEGRATION

One of the principal reasons to form an economic group is *trade creation*, which arises when high-cost domestic producers are replaced by lower-cost producers from other member countries. Moreover, it can reduce political risk between member countries, while enhancing the political strength of the economic group. Lastly, additional trade can increase job opportunities in the member countries. However, in light of these proposed benefits, there are some potential costs to economic integration. For example, it is conceivable to incur *trade diversion*, which arises when lower-cost producers from nonmember countries are replaced by higher-cost producers from member countries. Another concern with economic groups is the *loss of sovereignty*. For instance, some member countries may relinquish some monetary policy in economic unions. Also, expansion of an economic group may result in dilution of voting rights of existing member countries. Lastly, some member countries may contribute more than others, which can lead to concerns of inequity and even abandonment of the economic group if the inequity becomes excessive.

THE EUROPEAN UNION

In a watershed event, British citizens voted to leave the EU in its 2016 United Kingdom European Union membership referendum. As of 2020 the European Union (EU) will comprise a 27-nation unified borderless market, as shown in Map 1-2. The political fallout of Brexit has created a cloud of uncertainty pertaining to regulations, labor mobility, and trade between the UK and the rest of the EU member countries.

Total exports of goods between EU member countries steadily increased from 2003 to 2008, followed by a significant drop in exports through mid-2009. Following the global recession, exports between member countries began to increase, surpassing prerecession levels in 2011 and continuing the export trend through July 2018.[36] Countries around the world trade with the EU countries. Among non–EU members, the United States, China, Switzerland, Russia, and Turkey exhibited the highest trade with EU member countries in 2018.[37] The uncertainty as to what will

MAP 1-2 European Union



result from Brexit has led some multinational firms to rethink locating operations in the U.K. versus other EU member countries.

The importance of Germany to the eurozone is clear, but it is also a two-way street. In 2017, Germany exported the most goods to other EU member countries. From 2003 to 2017, Germany had a 4 percent annual growth rate in exports to other EU member countries. Moreover, it is among the top three trading partners of 26 EU member countries.[38] The strength of the German manufacturing model is evidenced by the fact that, although Germany has about a quarter of the population of the United States, and a quarter of the U.S. GDP (gross domestic product), it exports more than the United States.[39] Germans were concerned, however, that the need to help prop up weaker economies in the eurozone, such as Greece, would dilute their economic strength.

In spite of those problems, the World Economic Forum's 2018 Global Competitiveness Index (GCI) shows that six out of the top ten countries are in Europe (see Table 1-2).[40] The United States' rank rose from 3rd to 1st in three years, interestingly. The GCI is based on 12 pillars of competitiveness that provide attractive conditions and incentives for both local and foreign companies to do business there.[41] However, the elimination of internal tariffs and customs, as well as financial and commercial barriers, has not eliminated national pride. Although most people in Europe are thought of simply as Europeans, national identities prevail as they still think of themselves first as British, French, Danish, Italian, and so on, and are wary of giving too much power to centralized institutions or of giving up their national culture. The continuing enlargement of the EU to include many less prosperous countries, such as Croatia in 2013, has also promoted divisions among the older members.[42] In addition, continuing eurozone problems has prompted skepticism of any further enlargement.

Global managers face two major tasks. One is strategic: how firms outside of Europe can deal with the implications of the EU and of what some have called a Fortress Europe—that is, a market giving preference to insiders. Although firms must have a pan-European business strategy, they must realize that suitable market entry strategies need to be considered on a country-by-country basis.

Although the EU continues to move in the direction of a Single Market, some of Europe's most prominent industrial leaders are working together to invest more in job creation and innovation at home. One of the leaders of this initiative is Mr. Carl-Henric Svanberg, chairman of the European Round Table of Industrialists and head of Swedish truck manufacturer Volvo. Stressing the importance of a competitive home base, Mr. Svanberg stated, "*We as companies, even though we are global, will not be successful if the countries we come from are not successful.*"[43]

The other task is cultural: how to deal effectively with multiple sets of national cultures, traditions, and customs within Europe such as differing attitudes about how much time should be spent on work versus leisure activities.

ASIA

It would be difficult to overstate the power of the fundamental drivers of Asian growth. First, Asian economies have been enjoying a remarkable period of "productivity catch-up," adopting modern technologies, industrial practices, and ways of organizing—in some cases leapfrogging Western competitors.[44]

TABLE 1-2 2018 Global Competitiveness Index[45]

2014–2015 Rank	Country	2018 Rank
3	United States	1
2	Singapore	2
5	Germany	3
1	Switzerland	4
6	Japan	5
8	Netherlands	6
7	Hong Kong (SAR)	7
9	United Kingdom	8
10	Sweden	9
13	Denmark	10

Source: Based on selected data from www.worldeconomicforum.org.

Manufacturing, in particular, has propelled Asia's emerging markets, helping to fuel the demand for materials and supplies from the developed world and lending hope for a quick global economic recovery.[46] Japan and the Four Tigers—Singapore, Hong Kong, Taiwan, and South Korea—have provided most of the capital and expertise for Asia's developing countries. Now the focus is on China's role in driving closer integration in the region through its rapidly growing exports. Japan continues to negotiate trade agreements with its neighbors; China is negotiating with the entire thirteen-member Association of Southeast Asian Nations (ASEAN), whereas ASEAN has "virtually established" its own free trade area, that is the ASEAN Free Trade Area (AFTA).[47] The following "Under the Lens" examines government initiatives to spur competitiveness in Southeast Asia.



UNDER THE LENS

South-East Asia Wakes Up to Power of Corporate Competition [48]

When Mahathir Mohamad reprised his role as Malaysia's prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were ill-equipped to keep up with today's fast-acting tech companies.

Countries are recognising that monopolies and anticompetitive practices threaten to undermine trade deals and hard-won economic integration. If they level the playing field, though, it could go a long way to making the bloc a more attractive place to do business.

Mr Mahathir set things in motion immediately after his stunning victory. In May [2018], his new government ordered state-affiliated Telekom Malaysia to share its vast cable ducts for high-speed broadband. This will save new operators the expense of laying underground fibre optic networks, and save the government the burden of processing approvals. . . .

If there were any doubts about Mr Mahathir's determination, the government removed them in mid-October with a review of a five-year economic plan drawn up by his predecessor, Najib Razak.

The plan runs through 2020. "In the remaining period, focus will be given [to] reviewing and streamlining the role of state-owned enterprises and monopoly entities to meet the objectives of enhancing market efficiency and fair competition," the government said in a report. In the Philippines, President Rodrigo Duterte is making similar moves. Aiming to break the duopoly in the telecom sector, the government opened bidding for a third operating license on November 7. A few weeks before he took office in 2016, Mr Duterte complained about the country's poor internet connections. "If you cannot improve on the services . . . I would really agree to the coming in of foreign players," he said, adding that the same applied to energy. At least 10 potential bidders applied for the chance to take on PLDT, in which Japan's NTT Group and Indonesia's Salim Group are key shareholders, and Globe Telecom, a joint venture between Singapore Telecommunications and local conglomerate Ayala. An alliance between China Telecom and Davao-based tycoon Dennis Uy, an ally of Mr Duterte, emerged as the sole qualified bidder. The process is part of a broader effort to promote competition in the Philippines, led by an assertive new antitrust authority established in 2016.

Governments are focusing on competition to deliver "more economic benefits to their citizens", said Cassey Lee, senior fellow at the ISEAS-Yusof Ishak Institute and an expert on the region's competition laws. "Cross-border barriers to trade can be lowered through greater Asean integration, but anti-competitive conduct can reduce such benefits to citizens." Economically, south-east Asia may be one of the world's fastest-growing regions, but it lags behind in terms of ensuring fair play in business. Singapore offers the most level playing field of any country worldwide, according to the World Economic Forum. After the city-state, there is a drop-off to Malaysia in 24th place. The Philippines ranks 60th.

Vietnam, at 102nd place, has a new competition law set to take effect next July. The legislation will give the government authority over offshore business endeavours if there are implications for the domestic market, an upgrade prompted by cross-border acquisitions. Cambodia, the only Asean member that does not have a competition law, is in the process of establishing one.

The problem is that, although south-east Asian countries are changing their ways, the business landscape is changing even faster, particularly in the tech sector. The deal between Singapore's Grab and the US-based Uber showed how quickly the authorities can be overwhelmed.

(*Continued*)

On March 26 [2018], Grab and Uber announced they were merging their south-east Asian operations. Grab would take over Uber's regional business. In exchange, Uber would get a stake in Grab. The companies moved ahead without notifying competition authorities in advance. After all, it was not mandatory to do so.

Grab and Uber "proceeded to complete the transaction on March 26 and began the transfer of the acquired assets immediately, thus rendering it practically impossible to restore the status quo," the Competition and Consumer Commission of Singapore, or CCCS, pointed out later.

Since Uber runs a digital service with few physical assets, pulling out of the region was a breeze. Just two weeks after the announcement, Uber ended its ride-hailing services in six of the eight countries where it operated, leaving Grab as the dominant player in most markets.

The result? Fares rose while incentives for drivers were scaled back.

South-east Asian authorities gained valuable experience as they scurried to respond, suggested Toh Han Li, chief executive of the CCCS and this year's chair for Asean's competition agencies group. The Grab-Uber case "can be considered as the first significant case involving co-operation among Asean competition authorities," he said.

He noted that Singapore, the Philippines, Vietnam and Malaysia exchanged information and helped one another assess the effects of the deal. . . .

After only six years in business, Grab operates in eight south-east Asian countries and its app has been downloaded more than 100m times. Digital technology has made this sort of rapid expansion possible, which means cases such as the Grab-Uber merger are bound to increase.

Asean itself, as a bloc, recognised the significance of competition and cross-border mergers and acquisitions in 2015, when it compiled a blueprint for 2025. Member states aimed to foster a "competition-aware" region and to establish enforcement co-operation agreements.

Yet it took the Grab-Uber case to prompt meaningful action.

On October 9, the competition agencies of Asean members established a regional enforcers' network to share information and co-ordinate responses.

The stakes are high. The Asean economy has been growing at an annual rate of about 5 per cent over the past few years, but the pace may slow as markets mature. An effective framework for ensuring competition would help the region attract investors and maintain momentum.

Making that framework function properly is no easy task. South-east Asia is not Europe, and each country has its own legal structure.

"Asean is an intergovernmental organisation and member states retain full sovereignty over cross-border competition cases, unlike the European Union, which has powers to decide on [such] cases," said Mr Toh at the CCCS.

. . .

"The countries need to come together and take advantage of the regional market in order to compete more effectively with the larger economies in Asia," he said.

Source: © The FInancial Times Limited 2018.

CHINA

The Chinese market offers big opportunities for foreign investment, but you must learn to tolerate ambiguity.[49]

China has enjoyed success as an export powerhouse, a status built on its strengths of low costs and a constant flow of capital. Its tremendous growth, although now slowing, is further discussed in the following feature, "Comparative Management in Focus: China Loses Its Allure."



Comparative Management in Focus

China Loses Its Allure[50]

In 2018, China's official GDP growth rate was 6.4 percent. Nevertheless, the country is facing its slowest rate of economic growth in 30 years. A combination of forces, from flagging demand for exports to a sluggish property market, threaten to weigh down growth this year.[51] Beijing's plan for managing the slowdown in growth this year has been a stronger-than-expected burst of fiscal stimulus.

Central leadership has gone on a Rmb1.2tn ($179bn) issuance spree of local government bonds in the first three months of the year, most of which will be spent on infrastructure projects. A Brookings Institution study suggests the economic slowdown may be more severe than previously acknowledged by the Chinese government.[52] Indeed, the 2019 Brookings Institution study revealed that the official economic growth rate may have been overstated by approximately 2 percentage points per year since 2008.[53]

In 2018, China became the largest trading partner with the United States, passing Canada.[54] It is the world's second largest recipient of FDI after the United States—investment largely coming from MNCs. China is now a hybrid market-driven economy—driven by competition, capital, and entrepreneurship. As such, it is still attractive to companies wanting a piece of the action in this rapidly growing economy. In fact, more than 400 of the Fortune Global 500 companies are operating there.[55]

In spite of the economic slowdown, Chinese consumers are spending more on personal luxury goods. Young Chinese consumers associate high-end designer brands with social capital, not just a product to wear or use. According to a 2019 McKinsey & Company report on Chinese luxury goods, roughly 50 percent of post-1990 Chinese consumers made their first luxury good purchase within the past year.[56] Indeed, Chinese consumers are expected to increase luxury good spending by 6 percent per year from 2020 to 2025, while the rest of the world is expected to achieve only a 2 percent growth rate.[57]

SMEs are also active and gaining ground in this complex country, but all companies should do their homework first, as advised by the Foreign Commercial Service (FCS), which is part of the U.S. Department of Commerce's International Trade Administration:

> *FCS counsels American companies that to be a success in China, they must thoroughly investigate the market, take heed of product standards, pre-qualify potential business partners and craft contracts that assure payment and minimize misunderstandings between the parties.*[58]

With more than 1.4 billion people,[59] China benefits greatly from its large and growing foreign and domestic market size, which provides significant economies of scale. Innovation is becoming another competitive advantage with rising company spending on R&D coupled with strong university–industry research collaboration and an increasing rate of patenting. In addition, China has the world's largest foreign-exchange reserves, even though their annual foreign exchange reserves declined in 2018—the third time in four years—as the yuan faced strong selling pressure from the softening economy and rising trade tensions with the United States.[60] Not to be overlooked is the fact that the Chinese government often subsidizes and supports its manufacturing base and favors its local industries and companies. Those factors, along with rising costs of labor and shipping, mean that foreign firms are finding it increasingly difficult to do well there.

China's vast population of low-wage workers, with continued large numbers moving to the cities to work, as well as its massive consumer market potential, have long attracted offshoring of manufacturing from companies around the world. It is this low-cost manufacturing base that has contributed greatly to its exports and growth, a major factor in China's uniqueness, making it the world's largest manufacturer, second-largest consumer, largest saver, and probably the second-largest military spender. China has the world's largest shipped goods port capacity. For these reasons, China would seem well positioned to expand globally as long as global demand for its products and manufacturing continues. In all, China is still a developing country, with considerable differences between urban and rural areas making for quite varied markets. The great diversity is indicated by China's eight major languages, several dialects, and several other minority languages. Mandarin is the main language in the north, Cantonese in the south, in particular in Hong Kong. Each language reflects its own history and culture and, therefore, markets and economies. However, the fact remains that, in virtually all industrial sectors, state firms play a significant or dominant role. In addition, central, regional, and local political influences create unpredictability for businesses, as do the arbitrary legal systems, suspect data, and underdeveloped infrastructure.[61] The FCS cautions investors to beware of the following factors:

- China's legal and regulatory system is arbitrary. Protection of intellectual property rights is critical.
- In spite of its progress toward a market economy, China still leans toward protecting its local firms, especially the state-owned ones, from imports, and promotes their exports.
- Political goals and agendas often take precedence over commercially based decisions.
- Discrepancies of business practices make it difficult for SMEs with limited budgets to get started. The FCS advises those firms to start with fostering a sales network through regional agents or distributors who can assist in keeping track of policy and regulation updates and who have local contacts.[62]

How to negotiate with the Chinese is the subject of a further feature in Chapter 5. Presented here are ten basic tips for doing business in China, published by Mia Doucet in CanadExport.

(*Continued*)

TEN TIPS FOR DOING BUSINESS IN CHINA[63]

When doing business in China, the ability to navigate cross-cultural issues is just as important as the goods and services you bring to the marketplace. This is true whether your company is just now considering the China market, recently gained its first sale, or maintains an in-country presence.

Tip #1 Never underestimate the importance of existing connections. You need to be dealing with a Chinese person of influence. If that person feels you are trustworthy enough, and if they can get their network of contacts to trust you, there is a chance you will succeed. Asians want to do business with people they trust. But there is no real trust unless a person is in their circle. At first, they don't know if you will be a good partner. Show respect by keeping some distance. Focus on building the relationship before talking business. Do not go for big profit on your first contract.

Tip #2 To protect your intellectual property, use the same due diligence you would in the West.

Tip #3 Never pressure your Asian colleagues for a decision. To speed up the decision process, slow down. Start from the beginning and work through to a solution in a logical, step-by-step fashion. Then stand your ground.

Tip #4 The negotiation process will be anything but smooth. Your best strategy is a walk-away mentality. You have to go in trying not to make the deal. Explain your position in clear, concise words. State your terms clearly and respectfully. Then be prepared to walk away if your terms are not met.

Tip #5 Respect face. Never argue or voice a difference of opinion with anyone—even a member of your own team. Never make the other person wrong. Never say "no" directly, as that is considered rude and arrogant.

Tip #6 Because of language differences, account for potential miscommunications and misunderstandings with your Chinese business associate. Their smiles and nods have more to do with saving face than getting your meaning. Talk in short sentences. Listen more than you speak. Pause between sentences. Find four or five easy ways to say the same thing. Never ask a question that can be answered with a simple yes. Avoid all slang. Skip humor altogether.

Tip #7 Manage the way you present written information. Document everything in writing and in precise detail. Present your ideas in stages. Write clearly, using plain English text. In order to appeal to Asian visual bias, use sketches, charts, and diagrams.

Tip #8 Prepare for every interaction. Do not count on your ability to wing it. A lack of preparedness can cause loss of face and trust. Do not give or expect to receive partial answers from your Chinese colleagues, as that is considered offensive.

Tip #9 Make sure your facts are 100 percent accurate in every detail, or you will lose credibility. Do not present an idea or theory that has not been fully researched, proven, or studied beforehand. If you make a mistake, you are not to be trusted.

Tip #10 Everyone on your team needs to know how to avoid costly gaffes.

Most of us are not by nature sensitive to the differences in culture—we have to be taught. Time-honored passive resistance could bring your company to its knees. It makes sense to teach people the cross-cultural factors that have a direct impact on your profits.

INDIA

As the world's largest democracy and the third-largest economy, it is clear that there is much opportunity for foreign businesses in India with its population of 1.4 billion and great potential for continued growth.[64] However, with its slow pace of reform and continuing corruption cases, India is losing opportunities to other emerging markets that are more investor friendly. India ranked 11th on the A. T. Kearney 2018 FDI Confidence Index, as shown in Exhibit 1-1; this was down from 2nd in the 2012–2013 Index and 7th in the 2014–2015 ranking. Nevertheless, growth for fiscal year 2018–2019 was estimated at 7.3 percent, which is up from the 6.7 percent growth rate in the previous year. India is one of the fastest-growing economies in the world, capturing about 15 percent of worldwide economic growth. Moreover, India's robust economy has elevated millions of people out of poverty.[65]

Whereas China is known as the world's factory, India has become known as the world's services supplier, providing highly skilled and educated workers to foreign companies. India is the world's leader for outsourced back-office services and, increasingly, for high-tech services, with outsourcing firms such as Infosys becoming global giants themselves. India is the fastest-growing free-market democracy, yet its biggest hindrance to growth, in particular for the manufacturing sector, remains its poor infrastructure, with both local and foreign companies experiencing traffic gridlocks and power outages. However, much of India's growth has been in technology industries that have not been affected by poor roads, compared with China's manufacturing-based growth. Nevertheless, optimism abounds in India about the country's prospects. The expanding middle class of more than 300 million people is fueling demand-led growth. Increasing deregulation is enabling whole sectors to be competitive. Here, too, there is considerable diversity in markets, incomes, and economies; there are 15 major languages and more than 1,600 dialects. Yet India's rise is largely fueled by family firms that often maintain pyramid structures and grow vertically out of convenience because of problems with red tape, erratic supply chains, and infrastructure.

> *Adaptable, ingenious and combustible, the family firm remains the backbone of India's private sector, not an anachronism. . . . The oldest, such as Aditya Birla, Tata and Bajaj, stretch back over three or more generations and are wily survivors.*[66]

Even so, approximately 40 percent of the profits of India's 100 biggest listed firms come from state-controlled firms; an estimated two-thirds of production from India's finance, energy, and natural resources firms is state controlled, despite India's moves toward further privatization.[67]

A common comparison between China and India notes that China's economy grows because of its government, whereas India's economy grows in spite of it. However, with its 1.4 billion people, many are still mired in poverty, although the poverty rate is half that of 20 years ago. Although India's large upcoming youth bulge—compared with China—will bring a wave of workers for the economy, it will also bring many more mouths to feed. (India has the largest working-age population in the world, with about one-third under age 25 and one-third under age 15, whereas China is experiencing the results of its one-child policy.)

In many areas in India, the economic transformation is startling, with growth fed by firms like the Tata Group—a global conglomerate producing everything from cars and steel to software and consulting systems. Further discussion of doing business in India is included in Chapter 4.

SOUTH ASIA

In South Asia, an agreement was signed in 1985 to form the South Asia Association of Regional Cooperation (SAARC), a free-trade pact among seven South Asian nations: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan was invited to become a member in 2005.[68] The agreement was to lower tariffs to 25 percent within three to five years and to eliminate them within seven years. The member nations comprise more than 1.5 billion people, with an estimated one-third of them living in poverty. Officials in those countries hope to follow the success of the other Asian regional bloc, the ASEAN.

OCEANIA

Although not regarded as part of Southeast Asia but, rather, of the region called Oceania, which also includes New Zealand and neighboring islands in the Pacific Ocean, Australia did sign an ASEAN friendship treaty with Southeast Asia. Australia is one of the richest countries in the world, with the mining industry responsible for attracting about a third of its investment inflows. More than 50 percent of its exports go to East Asia, with more transported through the region to markets around the world. Australia ranked 8th in the 2018 FDI Confidence Index—unchanged from the 2014–2015 ranking. However, New Zealand entered the top 20 at 14th in the 2018 FDI Confidence Index shown in Exhibit 1-1.

THE AMERICAS

FROM NAFTA TO USMCA (UNITED STATES-MEXICO-CANADA FREE TRADE AGREEMENT)

The goal of the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico was to bring faster growth, more jobs, better working conditions, and a cleaner environment for all as a result of increased exports and trade. This trading bloc—one America—has 470 million consumers. Canada–United States trade is the largest bilateral flow between two countries. In addition, the vast majority—around 84 percent—of both Canadian and Mexican exports goes to the United States. Mexico is the United States' third largest trade partner (after Canada and China) and second largest export market for U.S. products.

From Mexico's perspective, the country's exports have exploded under NAFTA; U.S.–Mexico bilateral trade increased from $88 billion in 1993, the year prior to the implementation of NAFTA, to $394 billion in 2010, and to $612 billion in 2018.[69] However, Mexico's dependence on the United States for its exports—NAFTA's greatest success—was shown to be a liability in the global economic downturn as Mexico felt the full brunt of declining consumption in the United States. The auto industry, for example, which has flourished under NAFTA, ground to a virtual standstill at the time of the global recession in 2009.[70] However, with the U.S. economy strong, the 2019 FDI Confidence Index showed the United States atop the rankings, with Canada slipping from 2nd to 3rd place, and Mexico dropping to 25th.[71] Recent increases in violence among drug gangs, especially in border areas, have created insecurity for businesspeople.

Mexican trade policy is among the most open in the world, and the country has become an important exporting and importing power. Although the Mexican economic cycles depend on the American economy, it has signed 10 trade agreements with 45 nations, putting roughly 90 percent of its trade under free trade regulations.[72] In addition, it is estimated that 40 percent of the content of products from Mexico reimported to the United States originated in the United States as well as 25 percent from Canada.[73]

In 2018, the United States, Mexico, and Canada reached an agreement—called the United States-Mexico-Canada Agreement (USMCA)—following their renegotiations of the North American Free Trade Agreement (NAFTA). After many delays, it was finally approved by the U.S. Congress.[74]

> *USMCA is a great deal for all three countries, solves the many deficiencies and mistakes in NAFTA, greatly opens markets to our farmers and manufacturers, reduces trade barriers to the U.S. and will bring all three Great Nations together in competition with the rest of the world.*[75]
>
> U.S. President Donald J. Trump

MERCOSUR

This is the fourth largest trading bloc after the EU, NAFTA, and ASEAN. Established in 1991, it comprises the original parties—Brazil, Argentina, Paraguay, and Uruguay. Venezuela joined in 2012, but its membership has been indefinitely suspended since 2016.[76] Mercosur showed a tenfold increase in trade among member countries during the 1990s. Several South American countries have been granted associate membership: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname. These countries receive reduced tariff in trade with member countries but lack full voting rights and free access to their respective markets. Bolivia was invited to join as a full member in 2012. Its accession from associate to full member is pending.[77]

BRAZIL

The Federal Republic of Brazil is Latin America's biggest economy and the fifth largest country in the world in terms of land mass and population, with about 209 million people. According to the U.S. Department of Commerce, Brazil is the seventh largest economy in the world. Bolstered by demand from China and elsewhere for its raw materials, strong domestic demand, and a growing middle class, Brazil ranked 25th in the 2018 FDI Confidence Index, a sharp drop from its 5th place ranking in the 2014–2015 ranking (see Exhibit 1-1).

Brazil entered a severe economic recession in 2015–2016, in which real GDP dropped by over 3 percent in each year. However, the economy has begun to rebound as real GDP grew by 1 percent in 2017 and 1.1 percent in 2018. Brazil's central bank has forecasted 2 percent growth for 2019.[78] In recent years, Brazil was hampered by corruption scandals that implicated a large

number of Brazil's corporate establishment.[79] Brazil business environment is plagued by "[a] mind-bending tax system, regulatory uncertainty, crumbling infrastructure and widespread inefficiency."[80] These systemic problems have contributed to Brazil being ranked only 109th out of 190 countries in terms of ease of doing business according to a World Bank survey.[81] Further discussion regarding doing business in Brazil is included in Chapter 3.

CAFTA-DR

The Dominican Republic-Central America FTA (CAFTA-DR) is the first free-trade agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Collectively, the CAFTA member countries represent the 16th largest U.S. goods trading partner. Trade between the United States and the six CAFTA-DR partners has increased more than 71 percent since inception, from $35 billion in 2005 to $60 billion in 2013. However, U.S.-CAFTA trade dropped to $53 billion in 2015. (U.S. exports to the CAFTA-DR countries totaled $29 billion; imports totaled $24 billion.)[82]

Other recent agreements include three trade agreements, between the United States and South Korea, Colombia, and Panama, all passed on October 12, 2011. As of 2019, there are 20 free-trade agreements with the United States.[83]

Other Regions in the World

Sweeping political, economic, and social changes around the world present new challenges to global managers. The move toward privatization has had an enormous influence on the world economy. Economic freedom is a critical factor in the relative wealth of nations.

One of the most striking changes today is that most nations have suddenly begun to develop decentralized, free-market systems to manage a global economy of intense competition, the complexity of high-tech industrialization, and an awakening hunger for freedom.

THE RUSSIAN FEDERATION

Foreign investment in Russia, as well as its consumers' climbing confidence and affluence, did bode well for the economy—until the illegal annexation of Crimea (Ukraine) in 2014 and aggression toward the Ukrainian navy in 2018, which caused a considerable downturn in confidence and in the economy.[84] The rate of inflation soared to 11.4 percent as the ruble lost nearly half its value over the 2014–2015 period. GDP contracted 2.8 percent in 2015 and 0.2 percent in 2016, followed by modest growth of 1.6 percent in 2017.[85] According to the World Economic Forum's 2018 Global Competitiveness Report, the Russian Federation was ranked 43rd in the 2018 global competitive rankings, which is up two slots from 2017. Its global competitiveness has benefited from having a large market size and technological adoption, but is hamstrung by its lack of transparency, institutions, and relatively weak entrepreneurial climate.[86]

Membership in the WTO in 2011 promised additional trade liberalization. Until recently, Russia was regarded as more politically stable. New land, legal, and labor codes have encouraged foreign firms to take advantage of opportunities in that immense area, in particular the vast natural resources and the well-educated population of 145 million. Moscow, in particular, is teeming with new construction sites, high-end cars, and new restaurants. Export opportunities abound in Russia, with a growing middle class and vast infrastructure needs. However, corruption and government interference persist, along with excessive regulations, weak rule of law, and infrastructure problems.

THE MIDDLE EAST

The Middle East has been experiencing transition. In the past, Middle Eastern governments in many countries across the region expected (or required) citizens to sacrifice a certain degree of individual economic prosperity in return for stability and security. This arrangement was made feasible by exports of natural resources and foreign aid. It led to government inefficiencies, pervasive subsidies, and government control over large parts of the economy. Unfortunately this government-driven economic approach has proven unsustainable.

Egypt, where the political landscape has been redrawn in recent years, is beginning to attract interest from Gulf, Western, and Asian international investors. "I think the main theme when considering whether to enter these markets is the potential for long-term growth that will ultimately lead to a more positive outcome."[87]

Although a few countries have engaged in real economic reform and increased investments, the aggregate competitiveness of the Arab world economies remains stagnant over the past decade. For example, the United Arab Emirates and Qatar ranked 17 and 25 out of 137 countries on the 2018 Global Competitiveness Index.[88]

Keys to the region's economic progress are becoming less dependent on natural resources and increasing the role of the private sector. However, obstacles include a weak educational system, an underdeveloped financial system, and poor governance quality.[89]

DEVELOPING ECONOMIES

Developing economies are characterized by change that has come about more slowly as they struggle with low gross national product (GNP) and low per capita income as well as the burdens of large, relatively unskilled populations and high international debt. Their economic situations and the often unacceptable level of government intervention discourage the foreign investment they need. Many countries in Central and South America, the Middle East, and Africa desperately hope to attract foreign investment to stimulate economic growth.

THE AFRICAN UNION (AU)

As of September 2018, the AU comprises the 55 African countries and was formed from the original Organization of African Unity (OAU) primarily to deal with political issues.[90] According to the International Monetary Fund (IMF), seven of the world's ten fastest growing economies are in Africa. However, there continue to be many major problems in the region. Unfortunately, Africa has received little interest from most of the world's investors, although it receives increasing investment from companies in South Africa, which has the region's biggest economy. However, trade between China and Africa has risen from $10 billion in 2000 to over $200 billion in 2018. Specifically, China's exports to Africa reached US$104.9 billion (a 10.8 percent increase over 2017) and China's imports from Africa were US$99.3 billion, up 30.8 percent over 2017.[91]

China's infrastructure projects in Africa—for example, dams, railways, ports, and telecommunications networks—have drawn considerable attention from the international community. From 2000 to 2014, the stock of Chinese investment in Africa went from 2 percent to 55 percent of U.S. investment levels. Also, China's appetite for commodities led to a surge in FDI in Africa.[92]

> *Chinese involvement in Africa is not just about state-driven efforts. A just as large, if not larger, component is these private enterprises, which are more job-intensive, which localise quicker and which have a much larger economic and social impact.*
>
> Irene Yuan Sun, associate partner at McKinsey & Co.

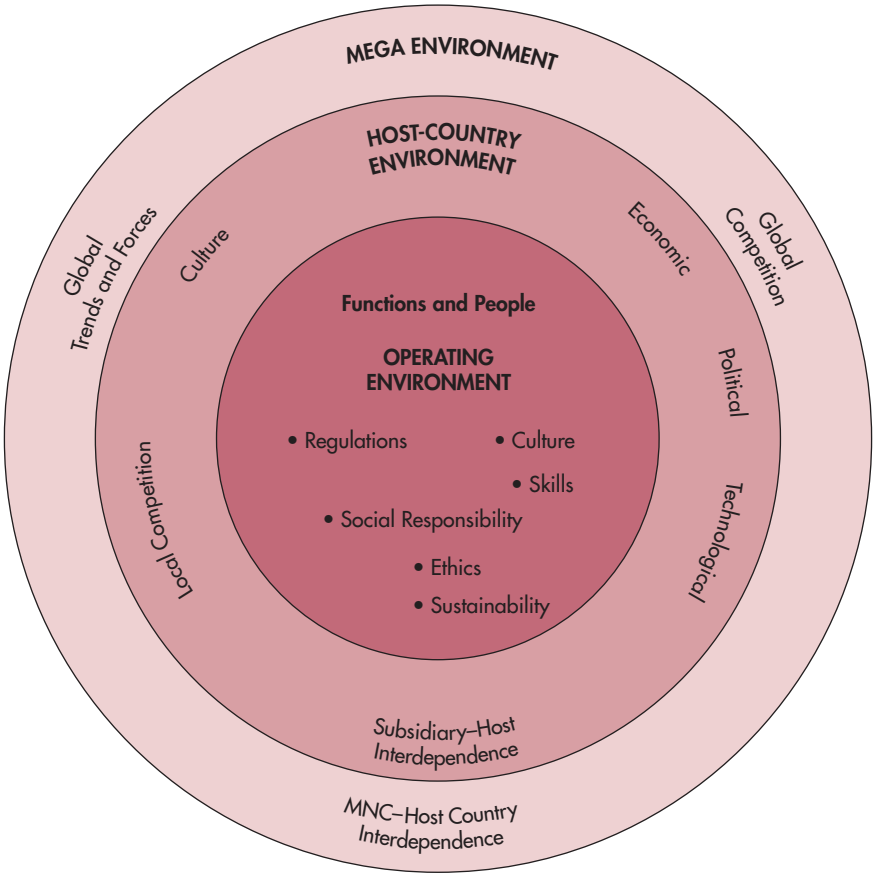
Nevertheless, widespread unemployment and extreme poverty prevail on the continent and remind businesspeople of the tremendous challenges that remain. Africa is featured in a "Comparative Management in Focus" in Chapter 6.

SOUTH AFRICA

The South African economy grew steadily since 1998 amid a more stable political environment since the defeat of apartheid. However, its annual average GDP growth has slowed—hovering around 1 percent from 2016 through 2018.[93] This is the longest economic upswing in the country's history, although unemployment remains very high.[94] South Africa is a country of roughly 57.7 million people that is rich in diverse cultures, people, and natural resources. "Enjoying remarkable macroeconomic stability and a pro-business environment, South Africa is a logical and attractive choice for U.S. companies to enter the African continent."[95] In fact, the 2014–2015 FDI Confidence Index by A. T. Kearney ranked South Africa thirteenth. In 2017, it dropped to 17th, and in 2018, it was unranked.[96]

For firms willing to take the economic and political risks, developing economies offer considerable potential for international business. Assessing the risk–return trade-offs and keeping up with political developments in these developing countries are two of the many demands facing international managers.

EXHIBIT 1-2 An Open Systems Model



The Global Manager's Role

Whatever your level of involvement, it is important to understand the global business environment and its influence on the manager's role. This complex role demands a contingency approach to dynamic environments, each of which has its own unique requirements. Within the larger context of global trends and competition, the rules of the game for the global manager are set by each country (see Exhibit 1-2): its political and economic agenda, its technological status and level of development, its regulatory environment, its comparative and competitive advantages, and its cultural norms. The astute manager will analyze the new environment, anticipate how it may affect the future of the company, and then develop appropriate strategies and operating styles. The manager will need to take into account the business practices and expectations of varying sets of suppliers, partners, customers, and local managers. These factors in the manager's role are the subjects of the rest of this book.

THE POLITICAL AND ECONOMIC ENVIRONMENT

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

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). Surveys of top executives around the world show that **sustainability**—economic, political, social, and environmental—has become a significant worldwide issue. Executives who recognize that fact are leading their companies to develop new policies and to invest in sustainability projects with the purpose of benefiting the environment as well as profitability.[97] The opening profile provides a recent example of how political developments can create considerable uncertainty and therefore affect strategic decisions of local firms and multinational corporations. Among the strategic and operational risks global companies report, the top four were government regulation, country financial risks, currency risk, and political and social disturbances;

these were followed by a poor legal system; problems with suppliers, customers, or partners; terrorist attacks; and theft of intellectual property.[98]

From a separate survey by the Aon Risk Solutions Company, we can see the top ten risks as reported by 2,600 risk managers from 60 countries, giving us an overview of how concerns can change over time. The risks of economic slowdown, damage to reputation/brand, and acceleration of changes in market drivers were the top three risks facing organizations according to the 2019 Aon survey.

The Aon report noted that "investors seem to have had the wind knocked out of them by a series of incidents, each impacting the world economy's ability to manage volatility." Some of these incidents include the uncertainty surrounding Brexit, U.S. interest rates, and slowing economic growth in Europe, China, Japan, as well as many emerging markets. The report also identified geopolitical tensions—especially between the United States and China—as a driver of increased risk.[99] That led the researchers to conclude that formal risk management using business analytical tools would be more useful than experience in identifying new risks. According to the 2019 Aon report, the top ten risks overall were:

- Economic slowdown
- Regulatory/legislative changes
- Increasing competition
- Damage to reputation/brand
- Business interruption
- Acceleration of changes in market factors
- Cyber security
- Commodity price risk
- Cash flow/liquidity risk
- Inability to innovate/satisfy customer needs.[100]

Regions view these risks differently. For example, cyber security is the top risk in North America; however, economic slowdown is the top risk in both Latin America and the Middle East. In Europe, acceleration of changes in market factors is most important, while in the Asia-Pacific region, damage to reputation/brand is considered the most important risk.

An additional important aspect of the political environment is the phenomenon of ethnicity—a driving force behind political instability around the world. In fact, many uprisings and conflicts that are thought to be political in nature are actually expressions of differences among ethnic groupings. Often, religious disputes lie at the heart of those differences. Managers must understand the ethnic and religious composition of the host country to anticipate problems of general instability as well as those of an operational nature, such as effects on the workforce, on production and access to raw materials, and on the market.

Political Risk

Clearly, as evidenced by the 2011 Arab Spring uprisings, the 2014 annexation of the Crimean Peninsula by the Russian Federation, and the 2019 political unrest in Venezuela, major political changes can affect the business environment and risk level almost overnight. As far as political risk is concerned, a survey—based on 211 countries and territories—by Aon Risk Solutions (the firm discussed earlier) found that the political risk level is rising in more countries than it is declining. That conclusion was based on the level of exposure to factors such as currency inconvertibility and transfer; strikes, riots, and civil commotion; war; sovereign nonpayment; political interference; supply chain interruption; and legal and regulatory risk.[101] It is clear from the past that firms operating in some countries are exposed to political risks that can drastically affect them with little warning, as illustrated by the opening profile.

The managers of a global firm need to investigate the political risks to which they expose their company in certain countries—and the implications of those risks for the economic success of the firm. **Political risks** are any governmental action or politically motivated event that could adversely affect the long-run profitability or value of a firm. Like many countries in the world, certain countries in the Middle East have faced periods of instability in recent decades. As such, political risk heavily influences business decisions in unstable countries.

In unstable areas, multinational corporations weigh the risks of nationalization or expropriation. **Nationalization** refers to the forced sale of an MNC's assets to local buyers, with some compensation to the firm, perhaps leaving a minority ownership with the MNC.[102] In April 2012, Argentina, under President Cristina Fernandez de Kerchner, announced plans to nationalize Repsol YPF, the Spanish oil company, taking a 51 percent stake in YPF, which accounts for a third of Argentina's oil production.[103] In retaliation, Spain announced that it would restrict imports of biodiesel from Argentina. In Venezuela, nationalization was a key policy of the Hugo Chavez regime. Over the past decade, the state seized farmers' farms, food processing plants, and retailers' supermarket chain stores. Nationalization is not the only driver of food shortages throughout Venezuela. Price controls have forced businesses to operate at a loss or to cease operating. In fact, 75 percent of private businesses in Venezuela had discontinued as of 2018.[104]

Expropriation occurs when a local government seizes and provides inadequate compensation for the foreign-owned assets of an MNC; when no compensation is provided, it is confiscation. In countries that have a proven history of stability and consistency, the risk of expropriation is relatively low; it is highest in countries that experience continuous political upheaval, violence, and change. An event that affects all foreign firms doing business in a country or region is called a **macropolitical risk event**. In many regions, **terrorism** poses a severe and random political risk to company personnel and assets and obviously can interrupt the conduct of business. According to Micklous, terrorism is "the use, or threat of use, of anxiety-inducing . . . violence for ideological or political purposes."[105] The increasing incidence of terrorism around the world concerns MNCs. In particular, the kidnapping of business executives has become quite common. In addition, the random acts of violence around the world have a downward effect on global expansion, not the least because of the difficulty in attracting and retaining good managers in high-risk areas as well as the expense of maintaining security to protect people and assets and the cost of insurance to cover them. Companies that invest in those high-risk areas do so with the expectation of a higher profit premium to offset risk.

An event that affects one industry or company or only a few companies is called a **micropolitical risk event**. Such events have become more common than macropolitical risk events. Such micropolitical action is often called *creeping expropriation*, indicating a government's gradual and subtle action against foreign firms. This situation occurs when a firm hasn't been expropriated, but it takes ten times longer to do anything. Typically, such continuing problems with an investment present more difficulty for foreign firms than do major events that are insurable by political-risk insurers. The following list describes seven typical political risk events.

- Expropriation of corporate assets without prompt and adequate compensation
- Forced sale of equity to host-country nationals, usually at or below depreciated book value
- Discriminatory treatment against foreign firms in the application of regulations or laws
- Barriers to **repatriation** of funds (profits or equity)
- Loss of technology or other intellectual property (such as patents, trademarks, or trade names)
- Interference in managerial decision making
- Dishonesty by government officials, including canceling or altering contractual agreements, extortion demands, and so forth[106]

Political Risk Assessment

International companies must conduct some form of political risk assessment to manage their exposure to risk and minimize financial losses. Dow Chemical, for example, has a program in which it uses line managers trained in political and economic analysis, as well as executives in foreign subsidiaries, to provide risk analyses of each country.

Risk assessment by MNCs usually takes two forms. One uses experts or consultants familiar with the country or region under consideration to monitor important trends and make recommendations. A second and increasingly common means of political risk assessment that MNCs use is the development of internal staff and in-house capabilities: by having staff assigned to foreign subsidiaries, by having affiliates monitor local political activities, or by hiring people with expertise in the political and economic conditions in regions critical to the firm's operations.

Frequently, all means are used, but nothing can replace timely information from people on the front line. For an autonomous international **subsidiary**, most of the impact from political risk (nationalization, terrorism) will be at the level of the ownership and control of the firm because its acquisition by the host country would provide the state with a fully operational business. For global firms, the primary risks are likely to be from restrictions (on imports, exports, currency, and so forth), with the impact at the level of the firm's transfers (or exchanges) of money, products, or component parts.

Managing Political Risk

After assessing the potential political risk of investing or maintaining current operations in a specific country, managers face perplexing decisions on how to manage that risk. On one level, they can decide to suspend their firm's dealings with a certain country at a given point—by the **avoidance** of investment or by the withdrawal of current investment (by selling or abandoning plants and assets). On another level, if they decide that the risk is relatively low in a particular country or that a high-risk environment is worth the potential returns, they may choose to start (or maintain) operations there and to accommodate that risk through **adaptation** to the political regulatory environment. That adaptation can take many forms, each designed to respond to the concerns of a particular local area. Some means of adaptation that Taoka and Beeman suggest are as follows:

- Equity sharing includes the initiation of joint ventures with nationals (individuals or those in firms, labor unions, or government) to reduce political risks.
- Participative management requires the firm to involve nationals actively, including those in labor organizations or government, in the management of the subsidiary.
- Localization of the operation includes the modification of the subsidiary's name, management style, and so forth, to suit local tastes. Localization seeks to transform the subsidiary from a foreign firm to a national firm.
- Development assistance includes the firm's active involvement in infrastructure development (foreign-exchange generation, local sourcing of materials or parts, management training, technology transfer, securing external debt, and so forth).[107]

In addition to avoidance and adaptation, two other means of risk reduction available to managers are dependency and hedging. Some means that managers might use to maintain **dependency**—keeping both the subsidiary and the host nation dependent on the parent corporation—include, for example, maintaining control over key inputs or technology or control over distribution; other means are through expatriate control in key positions.[108] Firms can also minimize loss through **hedging**, which includes, for example, political risk insurance and local debt financing.

Multinational corporations also manage political risk through their global strategic choices. Many large companies diversify their operations both by investing in many countries and by operating through joint ventures with a local firm or government or through local licensees. By involving local people, companies, and agencies, firms minimize the risk of negative outcomes due to political events. (See Chapters 6 and 7 for further discussion of these and other global strategies.)

Managing Terrorism Risk

No longer is the risk of terrorism for global businesses focused only on certain areas such as South America or the Middle East. That risk now has to be considered in countries such as France, England, and the United States, which had previously been regarded as safe. Eighty countries lost citizens in the World Trade Center attack on September 11, 2001. Many companies from Asia and Europe had office branches in the towers of the World Trade Center. According to the 2018 Global Terrorism Index (GTI), Iraq, Afghanistan, Nigeria, Syria, and Pakistan have sat atop the ranking every year since 2013. Other notable countries listed in the 2018 GTI include India (8th), Egypt (9th), the Philippines (10th), Turkey (12th), the United States (20th), the United Kingdom (28th), and France (30th).[109]

As incidents of terrorism accelerate around the world, many companies are increasingly aware of the need to manage the risk of terrorism. For instance, tighter border security following the November 2015 Paris terrorist attack led to increased supply chain and security costs. Also, the 2015–2016 terror attacks in Western Europe cost airlines $2.5 billion in lost revenue.[110]

In high-risk countries, some MNCs develop a benevolent image through charitable contributions to the local community. They also try to maintain low profiles and minimize publicity in the host countries by using, for example, discreet corporate signs at company sites.[111] Some companies have assembled teams to monitor the patterns of terrorism around the world. Almost all MNCs have heightened their security measures abroad—for example, by hiring consultants in counterterrorism to train employees to cope with the threat of terrorism. For many firms, however, the opportunities outweigh the threats, even in high-risk areas.

Economic Risk

Closely connected to a country's political stability is its economic environment—and the relative risk that it may pose to foreign companies. A country's level of economic development generally determines its economic stability and, therefore, its relative risk to a foreign firm. Historically, most industrialized nations have posed little risk of economic instability; less-developed nations pose more risk. However, recently, the level of economic risk in Europe, for example, was a great concern around the world, in particular regarding concerns in the eurozone brought about by debt problems in Greece.

In 2019, the Heritage Foundation published its annual Index of Economic Freedom (excerpted in Table 1-3), which covers 186 countries and is based on 12 specific freedoms such as rule of law, trade freedom, business freedom, investment freedom, and property rights—all of which reduce economic risk. Interestingly, the much-discussed emerging BRICs—Brazil (150), Russia (98), India (129), and China (100)—are way down on the list, indicating that there is quite a risk–return trade-off for investment in those markets. (Further details of all 180 countries on the index are available at www.heritage.org.) More than half of all nations and territories examined in the 2019 Index have institutional environments with at least a moderate degree of economic freedom.[112]

A country's ability or intention to meet its financial obligations determines its economic risk. The economic risk incurred by a foreign corporation usually falls into one of two main

TABLE 1-3 2019 Index of Economic Freedom

Rank: Free	Country	Score
1	Hong Kong	90.2
2	Singapore	89.4
3	New Zealand	84.4
4	Switzerland	81.9
5	Australia	80.9
6	Ireland	80.5
Mostly Free		
7	United Kingdom	78.9
8	Canada	77.7
9	United Arab Emirates	77.6
10	Taiwan	77.3
11	Iceland	77.1
12	United States	76.8
Moderately Free		
35	Botswana	69.5
45	Peru	67.8
55	St. Vincent and the Grenadines	66.8
65	Slovakia	64.5
75	Morocco	62.9
94	Tanzania	60.2

Source: https://www.heritage.org/index/ranking.

categories. Its subsidiary (or other investment) in a specific country may become unprofitable if (1) the government abruptly changes its domestic monetary or fiscal policies, or (2) the government decides to modify its foreign-investment policies. The latter situation would threaten the company's ability to repatriate its earnings and would create a financial or interest-rate risk. Furthermore, the risk of exchange-rate volatility results in currency translation exposure to the firm when the balance sheet of the entire corporation is consolidated and may cause a negative cash flow from the foreign subsidiary. Currency translation exposure occurs when the value of one country's currency changes relative to that of another. The U.S. dollar remained strong relative to Euro and the British Pound in 2018 due, in large part, to what was happening in that part of the world..The U.S. dollar has been strong against other currencies in developing countries, which can have a negative affect because it costs them more to import from the United States, and their exports would bring less revenue. When exchange-rate changes are radical, repercussions are felt around the world.

Because every MNC operating overseas exposes itself to some level of economic risk, often affecting its everyday operational profitability, managers constantly reassess the level of risk that their companies may face in any specific country or region of the world, by carefully tracking economic indicators that they have found to be relevant to the company.[113]

1-3. To recognize the role of the legal environment in international business

THE LEGAL ENVIRONMENT

The prudent global manager consults with legal services, both locally and at headquarters, to comply with host-country regulations and maintain cooperative long-term relationships in the local area. If the manager waits until a problem arises, little legal recourse may be available outside of local interpretation and enforcement. Indeed, this has been the experience of many foreign managers in China, where financial and legal systems remain limited in spite of attempts to show the world a capitalist face. Foreign companies may periodically face issues with debts being repaid by Chinese businesses. The lesson for many foreign companies in China is that they are losing millions because Beijing often does not stand behind the commitments of its state-owned enterprises.

Although no guarantee is possible, the risk of massive losses may be minimized, among other ways, by making sure you get approval from related government offices (national, provincial, and local), by showing that you are not going to run riot over long-term government goals, and by getting loan guarantees from the headquarters of one of Beijing's main banks. Some of the contributing factors in cases that go against foreign companies are often the personal connections—*guanxi*—involved and the fact that some courts offer their services to the business community for profit. Many countries around the world face problems with corruption in the judicial system, and there are demonstrated issues of individuals receiving appointments as judges through corruption and nepotism. This reportedly happens in China as well.

Although the regulatory environment for international managers consists of the many local laws and the court systems in those countries in which they operate, certain other legal issues are covered by international law, which governs relationships between sovereign countries, the basic units in the world political system. One such agreement, which regulates international business by spelling out the rights and obligations of the seller and the buyer, is the United Nations Convention on Contracts for the International Sale of Goods (CISG). This applies to contracts for the sale of goods between countries that have adopted the convention.

Generally speaking, the manager of the foreign subsidiary or foreign operating division will comply with the host country's legal system. Such systems, derived from common law, civil law, or Islamic law (Sharia law), are a reflection of the country's culture, religion, and traditions. Under **common law**, used in the United States and 26 other countries of English origin or influence, past court decisions act as precedents to the interpretation of the law and to common custom. **Civil law** is based on a comprehensive set of laws organized into a code. Interpretation of these laws is based on reference to codes and statutes. About 70 countries, predominantly in Europe (e.g., France and Germany), are ruled by civil law, as is Japan. In Islamic countries, such as Saudi Arabia, the dominant legal system is **Islamic law**; based on religious beliefs, it dominates all aspects of life. Islamic law is followed in approximately 27 countries and combines, in varying degrees, civil, common, and indigenous law.

Contract Law

A **contract** is an agreement by the parties concerned to establish a set of rules to govern a business transaction. Contract law plays a major role in international business transactions because of the complexities arising from the differences in the legal systems of participating countries and because the host government in many developing and state-controlled countries is often a third party in the contract. Both common law and civil law countries enforce contracts, although their means of resolving disputes differ. Under civil law, it is assumed that a contract reflects promises that will be enforced without specifying the details in the contract; under common law, the details of promises must be written into the contract to be enforced. Astute international managers recognize that they will have to draft contracts in legal contexts different from their own, and they prepare themselves accordingly by consulting with experts in international law before going overseas. Whereas Western companies want to spell out every detail in a contract, in some countries the contract may be ignored or changed, and in Asia, "there is no shortcut for managing the relationship."[114] In other words, the contract is in the relationship, not on the paper, and the way to ensure the reliability of the agreement is to nurture the relationship.

Neglect regarding contract law may leave a firm burdened with an agent who does not perform the expected functions, or a firm may be faced with laws that prevent management from laying off employees (which, for example, is often the case in some countries in Europe).

Other Regulatory Issues

Differences in laws and regulations from country to country are numerous and complex. These and other issues in the regulatory environment that concern multinational firms are briefly discussed here.

Countries often impose protectionist policies, such as tariffs and nontariff barriers, quotas, and other import and trade restrictions, to give preference to their own companies and industries. The Japanese have come under much criticism for protectionism, which they use to limit imports of foreign goods while they continue exporting consumer goods (e.g., cars and electronics) on a large scale.

A country's tax system influences the attractiveness of investing in that country and affects the relative level of profitability for an MNC. Foreign tax credits, holidays, exemptions, depreciation allowances, and taxation of corporate profits are additional considerations the foreign investor must examine before acting. Many countries have signed tax treaties (or conventions) that define such terms as "income," "source," and "residency" and spell out what constitutes taxable activities.

The level of government involvement in the economic and regulatory environment varies a great deal among countries and has a varying impact on management practices. In Canada, for example, the government has a significant involvement in the economy. It has a powerful role in many industries, including transportation, petrochemicals, fishing, steel, textiles, and building materials—forming partly owned or wholly owned enterprises. Wholly owned businesses are called Crown Corporations (Petro Canada, Ontario Hydro, Saskatchewan Telecommunications, and so forth), many of which are as large as major private companies. The government's role in the Canadian economy, then, is one of both control and competition. Government policies, subsidies, and regulations directly affect the manager's planning process, as do other major factors in the Canadian legal environment, such as the high proportion of unionized workers. In Quebec, the law requiring official bilingualism imposes considerable operating constraints and expenses. For a foreign subsidiary, this regulation forces managers to speak both French and English and to incur the costs of language training for employees, translators, the administration of bilingual paperwork, and so on.

THE TECHNOLOGICAL ENVIRONMENT

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

The world is going to be data . . . I think this is just the beginning of the data period. We think data is going to be so important to human life in the future . . . Tomorrow [with the Internet of things], everything will be connected.[115]

Jack Ma, 2017 Fortune Global Forum held in Guangzhou, China

Jack Ma, cofounder and Executive Chairman CEO of Alibaba Group, has made several bold predictions for the digital age that will shape business for decades to come. He asserted that data lies at the heart of the digital age. He predicted, "In the next 30 to 40 years, globalization will empower 80 percent of countries, businesses and people that have not benefited from globalization."[116] From Mr. Ma's predictions, it is clear that the digital age will introduce a whole new level of global competition. For instance, he pointed out that "globalization . . . is increasingly in the hands of the people and the 'netpreneurs.'"[117]

The global management implications of the digital age technology are pervasive—both in how companies formulate strategy, organize their activities, and recruit global talent, just to name a few. Moreover, these companies need to integrate technology in various aspects of their business, especially as customers continue to incorporate technology into more aspects of their lives (e.g., purchasing products vis-à-vis mobile phones). Technology disruptions are no longer the exception, but rather the new norm. MNC leaders need to consider the magnitude and scope of these disruptions and how they affect their ability to formulate and implement strategy, as well as recruit and develop talent.

Now that we are in a global information society, it is clear that corporations must incorporate into their strategic planning and their everyday operations the accelerating macroenvironmental phenomenon of the *digital economy*, in which the rapid developments in information and communication technologies (ICTs) are propelling globalization and vice versa. Investment-led globalization is leading to global production networks, which result in global diffusion of technology to link parts of the value-added chain in different countries. That chain may comprise parts of the same firm, or it may comprise suppliers and customers or technology-partnering alliances among two or more firms. Either way, technological developments are facilitating, indeed necessitating, the firm network structure that allows flexibility and rapid response to local needs.

Clearly, the effects of technology on global trade and business transactions cannot be ignored; in addition, the Internet is propelling electronic commerce around the world. The ease of use and pervasiveness of the Internet raise difficult questions about ownership of intellectual property, consumer protection, residence location, taxation, and other issues.

New technology specific to a firm's products represents a key competitive advantage to firms and challenges international businesses to manage the transfer and diffusion of proprietary technology, with its attendant risks. Whether it is a product, a process, or a management technology, an MNC's major concern is the **appropriability of technology**—that is, the ability of the innovating firm to profit from its own technology by protecting it from competitors.

FIGURE 1-2 **Cloud computing imagined.**



alphaspirit/123RF GB Ltd

An MNC can enjoy many technological benefits from its global operations. Advances resulting from cooperative R&D can be transferred among affiliates around the world, and specialized management knowledge can be integrated and shared. However, the risks of technology transfer and piracy are considerable and costly. Although firms face few restrictions on the creation and dissemination of technology in developed countries, less-developed countries often impose restrictions on licensing agreements, royalties, and so forth, as well as on patent protection.

In most countries, governments use their laws to some extent to control the flow of technology. These controls may be in place for reasons of national security. Other countries in earlier stages of development use their investment laws to acquire needed technology (usually labor-intensive technology to create jobs), increase exports, use local technology, and train local people.

The most common methods of protecting proprietary technology are the use of patents, trademarks, trade names, copyrights, and trade secrets. Various international conventions afford some protection in participating countries; more than 80 countries adhere to the International Convention for the Protection of Industrial Property (often referred to as the Paris Union) for the protection of patents. However, restrictions and differences in the rules in some countries not signatory to the Paris Union, as well as industrial espionage, pose continuing problems for firms trying to protect their technology.

One risk to a firm's intellectual property is the inappropriate use of the technology by joint-venture partners, franchisees, licensees, and employees (especially those who move to other companies). Some countries rigorously enforce employee secrecy agreements.

Another major consideration for global managers is the need to evaluate the **appropriateness of technology** for the local environment—especially in less-developed countries. By studying the possible cultural consequences of the transfer of technology, managers must assess whether the local people are ready and willing to change their values, expectations, and behaviors on the job to use new technological methods, whether applied to production, research, marketing, finance, or some other aspect of the business. Often, a decision regarding the level of technology transfer is dominated by the host government's regulations or requirements. In some instances, the host country may require foreign investors to import only their most modern machinery and methods so that the local area may benefit from new technology. In other cases, the host country may insist that foreign companies use only labor-intensive processes, which can help to reduce high unemployment in an area. In still other situations, the digital economy has created access to more customer and user information. This phenomenon raises questions about the ethical use and potential abuse of customer information around the globe. The following "Management in Action" examines Google with respect to innovations, privacy, and safety challenges.

The Globalization of Information Technology

The rapid advancement in IT and its applications around the world has had, and will continue to have, a transformative effect on global business for businesses of all sizes. The speed and accuracy of information transmission are changing the nature of the global manager's job by making geographic barriers less relevant. Indeed, managers and families around the world recognize the necessity of being able to access IT and are giving priority to that access over other lifestyle accoutrements.

Governments can no longer control information completely; political, economic, market, and competitive information is available almost instantaneously to anyone around the world, permitting informed and accurate decision making. Even cultural barriers are being lowered gradually by the role of information in educating societies about one another. Indeed, as consumers around the world become more aware, through various media, of how people in other countries live, their tastes and preferences begin to converge, as the Arab Spring illustrated.

The explosive growth of information technology is both a cause and an effect of globalism. The information revolution is boosting productivity around the world. Sweden is the most networked economy in the world, followed by Singapore, the Netherlands, Norway, and Switzerland according to the 2019 edition of *The Network Readiness Index.* The report assessed 121 economies and ranked their ICT readiness levels to use and benefit from ICT for increased growth and



MANAGEMENT IN ACTION

Google to Set Up German Team to Tackle Privacy and Safety Issues[118]

Google is assembling a team of engineers in Germany to tackle privacy and safety issues on its platforms as big tech companies try to quell a backlash over the harm caused by their products and services.

The team will attempt to make privacy-focused changes for Google's products from a new "safety engineering centre" in Munich, where the company already employs around 750 people. The expansion will see Google hire approximately 100 engineers in Munich by the end of the year, as well as 150 other staff.

"The team will work hand-in-hand with privacy specialists in Google offices across Europe and globally, and the products built there will be used around the world," chief executive Sundar Pichai wrote in a blog post. He added that it was "no accident" the centre would be based in a country well-known for its focus on privacy.

The new centre will open just one week after Google unveils a suite of new products and services at its annual conference that rely on getting to know its customers in even greater detail.

Like Facebook, the company is struggling to balance its advertising focused business, which has grown rapidly on the back of user data and user-generated content on YouTube, with a new emphasis on privacy.

Engineers in Munich have previously built Google's account system, where people can manage settings across email, calendars, photos, documents and YouTube. Mr Pichai said the engineers in Munich had made it easier for users to find privacy controls while browsing the web, adding that these features would also be introduced to Google Maps, the assistant and YouTube.

However, activists have cautioned that default settings still allow Google to collect data on users, while new products such as a "graph" of user's interests and a "smart screen" for the home, which is equipped with cameras, are fundamentally at odds with the principles of privacy.

Meanwhile, a peer-reviewed study of almost 1m Android apps has revealed how data from smartphones are harvested and shared, with nearly 90 per cent of Google Play apps set up to transfer information back to Google.

Earlier this year Google was slapped with a €50m penalty from the French data protection authority for failing to be transparent about how it uses data and not having a legal basis for personalising ads. It is challenging the fine.

Google also said on Tuesday it had set up a €10m grant to fund research on safety issues such as hate crimes online.

Source: © The Financial Times Limited 2019.

development. (Table 1-4 shows the top ten as well as the ranks of selected other countries.) The report stresses the key role of ICT as an enabler of a more economically, environmentally, and socially sustainable world. Other notable countries include Japan (12), Israel (22), UAE (29), Turkey (51), Mexico (57), and South Africa (72).[119]

Technology, in all its forms, is dispersed around the world by MNCs and their alliance partners in many countries. However, some of the information intended for electronic transmission is currently subject to export controls by an EU directive intended to protect private information about its citizens. In addition, some countries, such as China, monitor and limit electronic information flows. So, perhaps IT is not yet borderless but rather is subject to the same norms, preferences, and regulations as human cross-border interactions.

When the choice is left to international managers, experts in economic development recommend that managers make informed choices about appropriate technology. The choice of technology may be capital intensive, labor intensive, or intermediate, but the key is that it should suit the level of development in the area and the needs and expectations of the people who will use it.

Global E-Business

Without doubt, the Internet has had a considerable impact on how companies buy and sell goods around the world—mostly raw materials and services going to manufacturers. Internet-based electronic trading and data exchange are changing the way companies do business while breaking

TABLE 1-4 The Network Readiness Index 2019

Top Ten Rank by Country		Selected Other Ranks	
1	Sweden	Japan	12
2	Singapore	Canada	14
3	Netherlands	France	18
4	Norway	Iceland	21
5	Switzerland	Hong Kong	24
6	Denmark	China	41
7	Finland	Russia	48
8	United States	Brazil	59
9	Germany	Indonesia	76
10	United Kingdom	India	79

Source: Based on selected data from *The Network Readiness Index 2019: Towards a Future-Ready Society*, Portulans Institute: Washington, DC. https://networkreadinessindex.org/wp-content/uploads/2020/01/The-Network-Readiness-Index-2019_VJan2020.pdf.

down global barriers of time, space, logistics, and culture. However, the Internet is not totally open; governments still make sure that their laws are obeyed in cyberspace. This was made apparent early on when France forced Yahoo! to stop displaying Nazi trinkets for sale where French people could view them.[120] The reality is that

> *Different nations, and different peoples, may want a different kind of Internet—one whose language, content, and norms conform more closely to their own.*[121]

There is no doubt, however, that the Internet has introduced a new level of global competition by providing efficiencies through reducing the number of suppliers and slashing administration costs throughout the value chain. **E-business** is "the integration of systems, processes, organizations, value chains, and entire markets by using Internet-based and related technologies and concepts."[122] **E-commerce** refers directly to the marketing and sales process through the Internet. Firms use e-business to help build new relationships between businesses and customers.[123] The Internet and e-business provide a number of uses and advantages in global business, including the following:

- Convenience in conducting business worldwide; facilitating communication across borders, which contributes to the shift toward globalization and a global market
- An electronic meeting and trading place, which adds efficiency in conducting business sales
- A corporate intranet service, merging internal and external information for enterprises worldwide
- Power to consumers as they gain access to limitless options and price differentials
- A link and efficiency in distribution[124]

Although most early attention was on e-commerce, experts now believe the real opportunities are in business-to-business (B2B) transactions. Alibaba (China), for example, is the largest B2B site in the world. In addition, although the scope, complexity, and sheer speed of the B2B phenomenon, including e-marketplaces, have global executives scrambling to assess the impact and their own competitive roles, estimates for growth in the e-business marketplace may have been overzealous because of the global economic slowdown and its resultant dampening of corporate IT spending. Although we hear mostly about large companies embracing B2B, it is noteworthy that a large proportion of current and projected B2B use is by small and medium-sized firms for three common purposes: supply chain, procurement, and distribution channel.

A successful Internet strategy—especially on a global scale—is, of course, not easy to develop. Problems include internal obstacles and politics, difficulties in regional coordination

and in balancing global versus local e-commerce, languages and cultural differences, and local laws.[125] Barriers to the adoption and progression of e-business around the world include lack of readiness of partners in the value chain, such as suppliers. If companies want to have an effective marketplace, they usually must invest in increasing their trading partners' readiness and their customers' capabilities. Other barriers are cultural. In Europe, for example, "Europe's e-commerce excursion has been hindered by a laundry list of cultural and regulatory obstacles, like widely varying tax systems, language hurdles, and currency issues."[126]

In other areas of the world, barriers to creating global e-businesses include differences in physical, information, and payment infrastructure systems. In such countries, innovation is required to use local systems for implementing a web strategy. In Japan, for example, very few transactions are conducted using credit cards. Typically, bank transfers and COD are used to pay for purchases. In addition, some Japanese use convenience stores, such as 7-Eleven Japan, to pay for their online purchases by choosing that option online.[127]

For these reasons, B2B e-business is likely to expand globally faster than B2C (business-to-consumer) transactions such as those by Amazon.com. In addition, consumer e-commerce depends on each country's level of access to computers and the Internet as well as the relative efficiency of home delivery. Clearly, companies who want to go global through e-commerce must localize to globalize, which means much more than just presenting online content in local languages.

> *Localizing . . . also means recognizing and conforming to the nuances, subtleties, and tastes of multiple local cultures, as well as supporting transactions based on each country's currency, local connection speeds, payment preferences, laws, taxes, and tariffs.*[128]

It is clear that e-business is not only a new website on the Internet but also a source of significant strategic advantage. Hoping to capture this strategic advantage, the European Airbus venture—a public and private sector combination—joined a global aerospace B2B exchange for aircraft parts. The exchange illustrates two major trends in global competition: (1) those of cooperative global alliances, even among competitors, to achieve synergies, and (2) the use of technology to enable those connections and synergies. Indeed, "leading B2B firms, including Accenture, DuPont, GE, and IBM, spend significant amounts of money and effort building and managing their brands, and those brands account for a significant portion of their market capitalization."[129] In addition, many small businesses exist almost completely online as B2Bs, purchasing, marketing, and selling their products and services online without ever having to build a physical storefront. Their B2B services can even help small businesses look and feel like a large business. An example of services for small businesses is www.microsoftsmallbusiness.com.[130]

1-5. To explore essential skills for developing your career as a manager in a multinational company

DEVELOPING SKILLS TO ENHANCE YOUR CAREER

If you are not an employee of a multinational company, or an international business major, or you do not plan to work in a multinational company or work for a company in another country, you may think that this section is not applicable to you. However, it is very relevant to you. The lessons learned in this textbook can be useful in your professional and personal life. Indeed, your academic training enables you to develop a set of skills that recruiters have identified as critical to professional success. In this course, you will have the opportunity to learn more than international management concepts, frameworks, and current events. This text provides you with the opportunity to develop five critical employability skills—(1) communication, (2) critical thinking, (3) collaboration, (4) knowledge application/analysis, and (5) business ethics/social responsibility.

Communication

As we discuss in Chapter 4, communication describes the process of sharing meaning by transmitting messages through media such as words, behavior, or material artifacts. In a multinational setting, cross-border communication becomes challenging as individuals may speak and listen in a nonnative language as well as differ with respect to the use of verbal and nonverbal communications. For example, we provide sections on the communication process (Chapter 4) and managing cross-cultural communication (Chapter 4) and culture's effects on management (Chapter 3).

In addition, we have features on communicating in India and the Arab world. In other chapters we provide examples of how individuals and organizations have communicated effectively (e.g., *The Emergence of a Virtual Multinational Enterprise* [Chapter 10]). In addition, we have several application exercises throughout the book that give you the opportunity to improve your communication skills (e.g., *Interview One or More Managers* [Chapter 10]).

Critical Thinking

Critical thinking refers to purpose-driven and goal-oriented thinking that helps to identify and solve problems, make decisions, and critique actions. The end-of-chapter discussion questions, application exercises, and experiential exercises are intended to think about concepts and framework at a deeper level. The cases are intended to facilitate analysis of real-world situations confronted by multinational companies. The cases and chapter features are especially helpful in developing ethics-oriented cognitive skills when examining countries with different laws and norms for labor conditions, labor participation, privacy, product standards, environmental standards, and intellectual property protection.

Collaboration

Collaborative learning occurs when individuals work together on projects, tasks, and problem solving. Several of the application exercises and experiential learning exercises are intended to be group-based. We include a special case, *How to Bring Cross-Cultural Teams Together* (Chapter 11), that emphasizes the cultural challenges confronting cross-cultural teams. In many case analyses, the instructor forms breakout groups in which individuals get together with their unique skill sets and diverse perspectives in order to come up with team-based recommendations to problems facing multinational companies and executives.

Knowledge Application/Analysis

Knowledge application and analysis refers to the ability to learn particular concepts and frameworks and then apply them in various situations. We provide you with case studies at the end of each chapter (e.g., *IKEA Finally Opens in India* [Chapter 7]; *Kelly's Assignment in Japan* [Chapter 9]) to give you the opportunity to analyze situations and make recommendations or critique organizational/executive decisions. We also include applications exercises (e.g., research on monitoring and reporting [Chapter 8]; joint ventures . . . in India or Russia [Chapter 7]) as well as an experiential exercise (*Multicultural Negotiations* [Chapter 5]). Lastly, some of the features provide a great opportunity to apply concepts and framework (e.g., *Ryanair Secures UK Licence* [Chapter 5]; *The Expat Life* [Chapter 10]).

Business Ethics/Social Responsibility

Business ethics are sets of moral principles that shape individual and organizational behavior within their operating environments. Corporate social responsibility refers to social actions (e.g., environmental protection, work conditions) that go above and beyond what is required by law. Chapter 2 focuses on various issues pertaining to CSR and includes features on working conditions, censorship in China; GoodWeave's Global Solution to Child Labor, and financial kickbacks in South Africa. Chapter 2 also includes a case study on Facebook leaks. We have woven CSR into other chapters as well: organizational changes at Volkswagen (Chapter 8), Ford's use of blockchain (Chapter 7), and women in international management (Chapter 10), among others.

CONCLUSION

A skillful global manager cannot develop a suitable strategic plan or consider an investment abroad without first assessing the environment—political, economic, legal, and technological—in which the company will operate. This assessment should result not so much in a comparison of countries as in a comparison of (1) the relative risk and (2) the projected return on investments among these countries for that particular investment. Similarly, for ongoing operations, both the subsidiary manager and headquarters management must continually monitor the environment for

EXHIBIT 1-3 The Environment of the Global Manager

Political Environment	Economic Environment
• Form of government	• Economic system
• Political stability	• State of development
• Foreign policy	• Economic stability
• State companies	• GNP
• Role of military	• International financial standing
• Level of terrorism	• Monetary/fiscal policies
• Restrictions on imports/exports	• Foreign investment
Regulatory Environment	**Technological Environment**
• Legal system	• Level of technology
• Prevailing international laws	• Availability of local technical skills
• Protectionist laws	• Technical requirements of country
• Tax laws	• Appropriability
• Role of contracts	• Transfer of technology
• Protection for proprietary property	• Infrastructure
• Environmental protection	
Cultural Environment (see Part 2)	

potentially unsettling events or undesirable changes that may require the redirection of certain subsidiaries or the entire company. Some of the critical factors affecting the global manager's environment (and therefore requiring monitoring) are listed in Exhibit 1-3.

Risk in the global environment, as discussed in this chapter, has become the new frontier in global business. The skills of companies and the measures taken to manage their exposure to risk on a world scale will soon largely replace their ability to develop, produce, and market global brands as the key element in global competitive advantage.

The pervasive role of culture in international management will be discussed fully in Part 2, with a focus on how the managerial functions and the daily operations of a firm are also affected by a subtle, but powerful, environmental factor in the host country—that of societal culture.

Chapter 2 presents some increasingly critical, and scrutinized, factors in the global environment—those of sustainability, corporate social responsibility (CSR), and ethical behavior. We will consider a variety of questions: What is the role of the firm in the future of other societies and their people? What stakeholders must managers consider in their strategic and operational decisions in other countries? How do the expectations of firm behavior vary around the world, and should those expectations influence the international manager's decisions? What role does long-term global economic interdependence and sustainability play in the firm's actions in other countries?

Summary of Key Points

- Competing in the twenty-first century requires firms to invest in the increasingly refined managerial skills needed to perform effectively in a multicultural environment. Managers need a global orientation to meet the challenges of world markets and rapid, fundamental changes in a world of increasing economic interdependence.
- International management is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage.
- One major direction in world trade is the rise of rapidly developing economies such as China, India, Brazil, Russia (often called the BRIC countries), and South Africa. Other emerging markets include Mexico, Indonesia, and Turkey.

- Drastic worldwide changes in technology, political and economic trends, and terrorism present dynamic challenges to global managers. Global managers must be aware of political risks around the world that can adversely affect the long-run profitability or value of a firm. Managers must evaluate various means to either avoid or minimize the effects of political risk.
- The risk of terrorist activity represents an increasing risk around the world. Managers have to decide how to incorporate that risk factor in their strategic and operational plans.
- Economic risk refers to a country's ability to meet its financial obligations. The risk is that the government may change its economic policies, thereby making a foreign company unprofitable or unable to repatriate its foreign earnings.
- The regulatory environment comprises the many laws and courts of those nations in which a company operates. Most legal systems derive from common law, civil law, or Islamic law.
- Use of the Internet in e-commerce—in particular, in business-to-business (B2B) transactions—and for intracompany efficiencies has become a critical factor in global competitiveness.
- The appropriability of technology is the ability of the innovating firm to protect its technology from competitors and obtain economic benefits from that technology.
- Economic uncertainty comes from various sources such as Brexit. It has profound strategic implications for local firms and multinational corporations seeking to serve customers in an economic region.

Discussion Questions

1-1. Poll your classmates about their attitudes toward globalization. What are the trends and opinions around the world that underlie those attitudes?

1-2. How has the economic downturn affected trends in protectionism and nationalization?

1-3. Discuss examples of recent macropolitical risk events and the effect they have or might have on a foreign subsidiary. What are micropolitical risk events? Give some examples and explain how they affect international business.

1-4. What means can managers use to assess political risk? What do you think is the relative effectiveness of these different methods? At the time you are reading this, what countries or areas do you feel pose political risk sufficient to discourage you from doing business there?

1-5. Can political risk be managed? If so, what methods can be used to manage such risk, and how effective are they? Discuss the lengths to which you would go to manage political risk relative to the kinds of returns you would expect to gain.

1-6. Discuss the importance of contracts in international management and how contracts are viewed in other countries. What steps must a manager take to ensure a valid and enforceable contract?

1-7. Discuss the effects of various forms of technology on international business. What role does the Internet play? Where is all this leading? Explain the meaning of the appropriability of technology. What role does this play in international competitiveness? How can managers protect the proprietary technology of their firms?

1-8. Discuss the risk of terrorism. What means can managers use to reduce the risk or the effects of terrorism? Where in the world, and from what likely sources, would you anticipate terrorism?

Application Exercises

1-9. Do some further research on the technological environment. What are the recent developments affecting businesses and propelling globalization? What problems have arisen regarding use of the Internet for global business transactions, and how are they being resolved?

1-10. Consider recent events and the prevailing political and economic conditions in the Russian Federation. As a manager who has been considering investment there, how do you assess the political and economic risks at this time? What should be your company's response to this environment?

Experiential Exercise

In groups of three, represent a consulting firm. You have been hired by a diversified multinational corporation to advise it regarding the political and economic environment in different countries. The company wants to open one or two manufacturing facilities in Asia. Choose a specific type of company and two specific countries in Asia and present them to the class, including the types of risks that would be involved and what steps the firm could take to manage those risks.

CASE STUDY

Harley-Davidson Sees $120m Hit from Tariffs This Year[131]

New tariffs around the world helped wipe out profits at Harley-Davidson in the final quarter of last year and are expected to cost it up to $120m this year, as the US motorcycle maker becomes one of the highest-profile victims of escalating trade disputes.

Harley set out the costs of new tariffs in Europe, China and the US on Tuesday as it reported disappointing fourth-quarter earnings and forecast lower than expected shipments for 2019, sending its shares down 7 per cent by midday in New York.

It said it planned to minimise the impact of those tariffs by using its plant in Thailand to serve the European and Chinese markets.

As an iconic American brand, Harley-Davidson was made a target for tariffs by China and the EU in retaliation for levies introduced by President Donald Trump. It has also been hit by some of the tariffs imposed by the US, which have increased the costs of components and materials that it imports.

The company faces tariffs of 25 per cent in the EU and China, and 10–25 per cent on some of the components it imports into the US.

Those tariffs around the world cost it about $13m in the fourth quarter, Harley said. Along with restructuring costs of about $23m, that meant the company reported net income of just $495,000 for the quarter.

John Olin, chief financial officer, told analysts on a call that the company expected additional tariff costs on its exports and imports to be approximately $100m–$120m this year, equivalent to about a fifth of the $531m net income it reported for 2018.

That impact is on top of the effect of the Trump administration's new tariffs on steel and aluminum imports. Harley's raw materials costs were up $17m last year, and Mr Olin said "the primary driver of that was the tariffs."

He added that Harley intended to "mitigate" the impact of the European and Chinese tariffs by the end of the year.

The company's new plant in Thailand, heavily criticised by Mr Trump, opened in the third quarter of last year. Mr Olin said that the group intended to "utilise it to make more of our product", targeting international markets including China, following a plan set out in 2017, before the latest round of tariffs had hit.

He said: "We expect to be producing the majority of our motorcycles for the EU, China and Asian markets [in Thailand] by the end of this year." As a result, he added, the cost of tariffs should be much lower in 2020.

In 2018 the group sold 228,051 bikes worldwide, a 6.1 per cent drop from 2017.

Harley projected that it would ship 217,000–222,000 motorbikes this year, representing a further fall of up to 5 per cent. That forecast was below the 228,190 shipments expected by analysts polled by Consensus Metrix, according to Reuters.

"Our initial impression of Harley-Davidson fourth-quarter results was disappointing, underwhelming outlook for '19 motorcycle shipments," said analysts at Stifel.

Matt Levatich, Harley's chief executive, said: "The challenges we experienced during the year reinforced the commitment we have for our More Roads to Harley-Davidson accelerated plan for growth . . . New and different people, riders and non-riders, are taking notice of Harley-Davidson and the thrill of riding."

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Case Questions

1-11. What options does a company have to guard against being caught in a tariff trade war, as was the case in 2019?

1-12. Analyze the tariff trade war with China and its effects on Harley-Davidson.

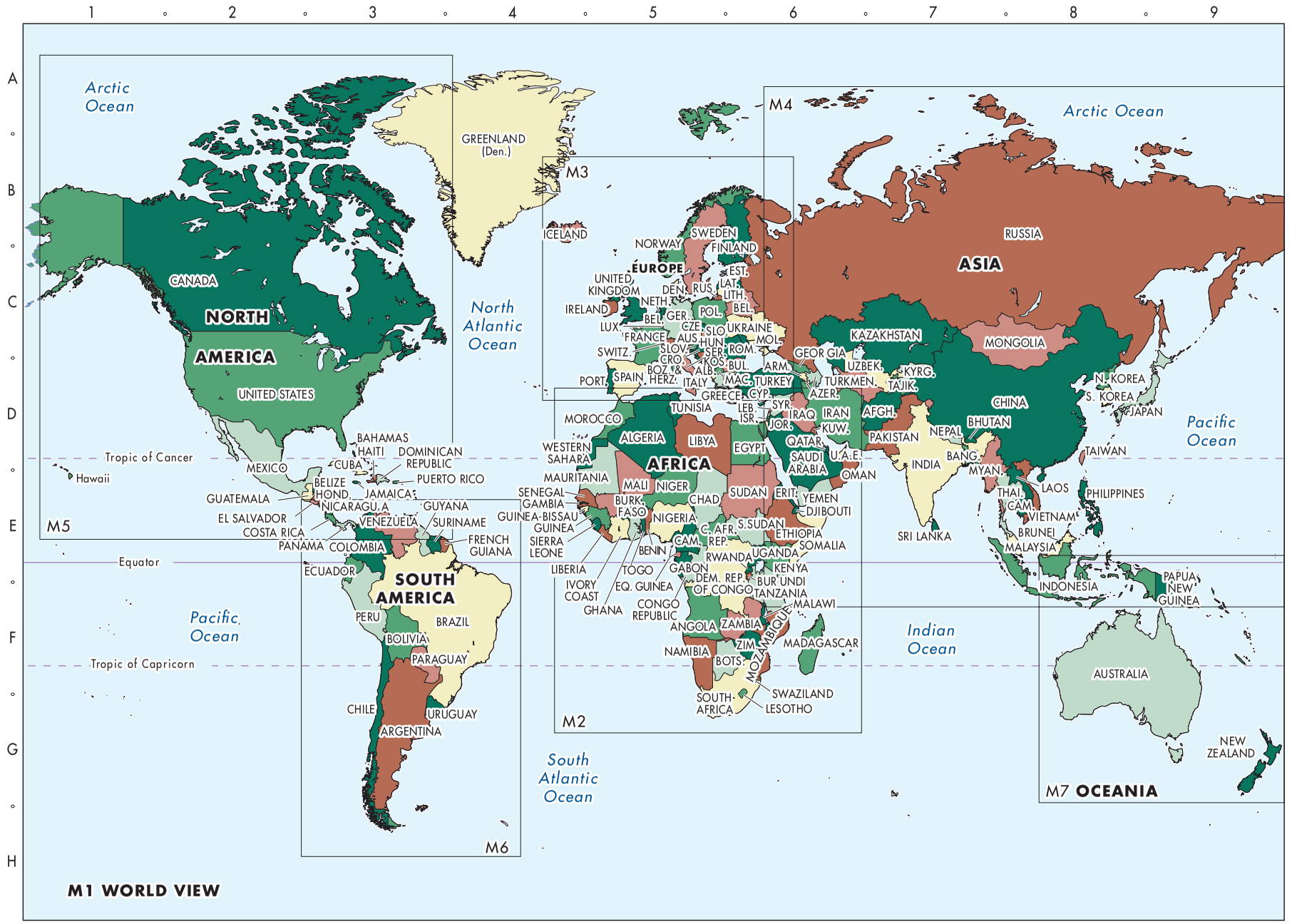
1-13. What obligations does a company like Harley-Davidson have and to whom?

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AUSTRALIA
NEW ZEALAND
M7 OCEANIA
M1 WORLD VIEW

CHAPTER

2 Managing Interdependence

Social Responsibility, Ethics, Sustainability

OBJECTIVES

2-1. To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights

2-2. To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

2-3. To recognize the importance of managing interdependence and include *sustainability* and *shared value* in their long-term plans

Opening Profile: Samsung Finally Apologises to Its Workers around the World Struck Down by Disease

South Korean Company to Offer Compensation to Semiconductor and Display Plant Employees [1]

For over a decade, Samsung has denied that hundreds of workers fell seriously ill in its factories manufacturing chips and LCD displays, stonewalling campaigners and fighting legal claims through the courts.

On Friday, the company finally sought to draw a line under the scandal, making a formal apology to the workers and their families and accepting a compensation plan, drawn up by mediators.

"Our beloved colleagues and their families have suffered for a long time but Samsung Electronics failed to take care of this earlier," said Kim Ki-nam, the company's president in charge of semiconductors.

"Samsung also did not sufficiently and completely manage potential health risks at its chip and liquid-crystal display production lines," he added, admitting fault for the first time. "We offer our sincere apology to them."

Under the arbitration proposal signed on Friday, Samsung will offer up to Won150m ($132,000) to each worker who has contracted cancer or other serious diseases while working at its electronics factories since 1984. The compensation process will start within this year and continue until 2028.

Samsung also donated Won50bn to the state-run Korea Occupational Safety and Health Agency to help improve industrial safety in the country, which has one of the highest industrial death rates in the developed world and a culture of covering up industrial accidents and illnesses.

The agreement marks a breakthrough for the victims and their families who have struggled to win official recognition of the health risks that semiconductor and LCD plants pose to workers.

Their struggle against Samsung began in 2007 when taxi driver Hwang Sang-ki refused to accept a settlement for his 22-year-old daughter who died of leukaemia after working at a Samsung plant for four years.

About 260 Samsung workers have fallen seriously ill over the past decade due to their exposure to toxic chemicals, with fewer than 30 of them granted official financial compensation, according to Sharps, a South Korean labour advocacy group.

"No apology would be enough for our suffering but I will consider it as the company's pledge [to prevent any recurrence]," said Mr Hwang. "Compensation for occupational diseases is important but what counts more is prevention."

(*Continued*)

Mr Hwang has called for Samsung to offer compensation for ailing workers at its subcontractors and overseas factories as well as those at its affiliates such as Samsung Electro-Mechanics, Samsung SDI and Samsung SDS.

Samsung has come under fire at overseas plants for labour issues with UN experts voicing concern in March about the treatment of workers at its smartphone factories in Vietnam.

The agreement comes as Samsung, beset by corruption scandals and allegations of labour sabotage, struggles to repair its tarnished corporate image at home.

The group's billionaire heir, Lee Jae-yong, is serving a suspended sentence for bribing the country's former president, Park Geun-hye, for business favours. He has appealed against the decision.

In September, South Korean prosecutors indicted the company's board chairman, Lee Sang-hoon, and dozens of other senior executives for alleged sabotage of labour unions.

Source: © The Financial Times Limited 2018.

Global interdependence is a compelling factor in the global business environment, creating demands on international managers to take a positive stance on issues of social responsibility and ethical behavior, workplace safety, economic development in host countries, and ecological protection around the world. Managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, from interest groups, from legal and governmental concerns, and from media coverage (as illustrated in the opening profile). The United Nations published guidelines for the responsibilities of transnational corporations and called for companies to be subject to monitoring, verification, and censure. Although many companies agree with the guidelines, they resist the notion that corporate responsibility should be regulated and question where to draw the line between socially responsible behavior and the concerns of the corporation's other stakeholders.[2] In the domestic arena, managers are faced with numerous ethical complexities. In the international arena, such concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, allies, and owners in various countries. However complex, it is clear that for the most part corporations have accepted, acknowledged, and incorporated into their planning process their responsibility toward ethical behavior, human rights issues, and the environment. Unfortunately, what we hear most about is those incidents and examples of poor implementation of those lofty plans, especially in developing countries, and it is those incidents, emphasized in the media, that overshadow the otherwise responsible position of the leaders of those corporations.

This chapter's discussion focuses separately on issues of **corporate social responsibility (CSR)**, which is defined as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law"[3] and **ethical behavior**, though considerable overlap is apparent. The difference between the two is a matter of scope and degree. Whereas ethics deals with decisions and interactions mostly on an individual level, decisions about social responsibility are broader in scope, tend to be made at a higher level, affect more people, and reflect a general stance a company or its decision makers take. Also discussed separately is the topic of sustainability—although it, too, falls under the umbrella of corporate social responsibility and—for more proactive firms—the direction of **creating shared value (CSV)**.

2-1. To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights

THE SOCIAL RESPONSIBILITY OF MNCS

Investing in emerging markets is the best way international investors can instigate change in the sector. We understand that it might be easier to justify an investment in Denmark over Ivory Coast… but if investments do not flow [to emerging and frontier markets], this ensures low ESG [Environment, Social, and Governance] scores stay low for longer. Inaction creates a negative consequence while proactive investments can play a small role in driving a big improvement.[4]

CHARLES ROBERTSON, GLOBAL CHIEF ECONOMIST OF RENAISSANCE CAPITAL

Multinational corporations (MNCs) have been—and to less extent continue to be—at the center of debate regarding corporate social responsibility (CSR), particularly concerning the benefits versus harm wrought by their operations around the world, especially in developing countries. The criticisms of MNCs have been lessened in recent years by the decreasing economic differences among countries, the emergence of developing countries' own multinationals, and the greater emphasis placed on social responsibility by MNCs.

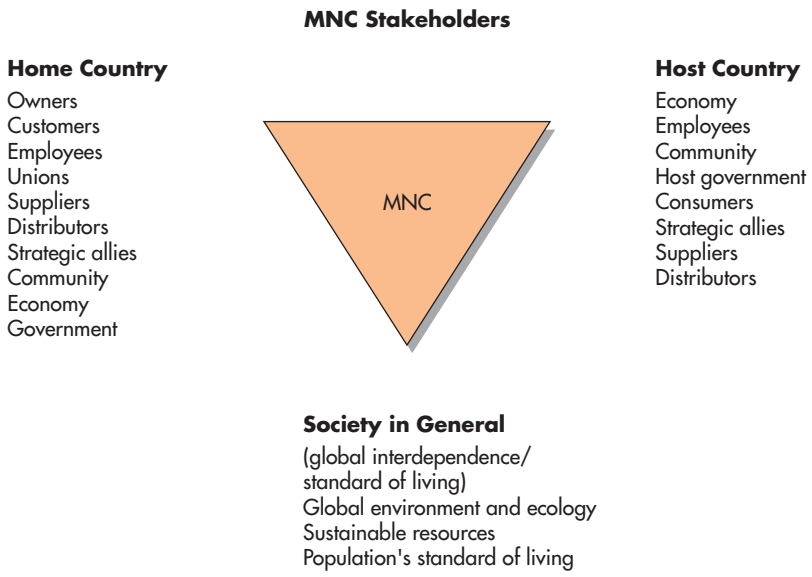
Issues of social responsibility continue to center on poverty and lack of equal opportunity around the world, the environment, consumer concerns, and employee safety and welfare. Many argue that, because MNCs operate in a global context, they should use their capital, skills, and power to play proactive roles in handling worldwide social and economic problems and that, at the least, they should be concerned with host-country welfare. Others argue that MNCs already have a positive impact on developing economies by providing managerial training, investment capital, and new technology as well as by creating jobs and improving infrastructure. Certainly, multinational corporations constitute a powerful presence in the world economy and often have a greater capacity than local governments to induce change. The sales, debts, and resources of some of the largest MNCs exceed the gross national product, the public and private debt, and the resources, respectively, of some nations.

The concept of **international social responsibility** includes the expectation that MNCs concern themselves with the social and economic effects of their decisions. The issue is how far that concern should go and what level of planning and control that concern should take. Opinions on the level of social responsibility that a domestic firm should demonstrate range from one extreme—the only responsibility of a business is to make a profit, within the confines of the law; to produce goods and services; and serve its shareholders' interests[5]—to another extreme—companies should anticipate and try to solve problems in society. Between these extremes are varying positions described as socially reactive, in which companies respond to some degree of currently prevailing social expectations and to the environmental and social costs of their actions, as illustrated in the opening profile. Although most firms comply with national and local laws and regulations, they also might actually locate some operations where those legal requirements are less restrictive or not imposed at all. As an additional layer of responsibility, most firms will formalize programs for ethical compliance—it's hoped for the right reasons—but also to avoid problems. Usually, those organizations will provide guidelines and programs to avoid problems such as sexual harassment cases and the thorny issue of the expectations of bribery when operating abroad. Beyond those rather minimal approaches, firms that take social responsibility seriously attempt to view the perspectives of all stakeholders involved when taking a long-term approach to the firm's ability to continue operations in any location, as discussed below.

The stance toward social responsibility that a firm should take in its international operations, however, is much more complex—ranging from assuming some responsibility for economic development in a subsidiary's host country to taking an active role in identifying and solving world problems. The increased complexity regarding the social responsibility and ethical behavior of firms across borders is caused by the additional stakeholders in the firm's activities through operating overseas as well as the legal and regulatory requirements and expectations prevailing where the firm is operating. As illustrated in Exhibit 2-1, managers are faced not only with considering stakeholders in the host country but also with weighing their rights against the rights of their domestic stakeholders. Most managerial decisions will have a trade-off of the rights of these stakeholders—at least in the short term. For example, a decision to discontinue using children in Pakistan to sew soccer balls means the company will pay more for adult employees and will, therefore, reduce the profitability to its owners. That same decision—while taking a stand for human rights according to the social and ethical expectations in the home country and bowing to consumers' demands—may mean that those children and their families go hungry or are forced into worse working situations. Another decision to keep jobs at home to satisfy local employees and unions will mean higher prices for consumers and less profit for shareholders. In addition, if competitors take their jobs to cheaper overseas factories, a company may go out of business, which will mean no jobs at all for the domestic employees and a loss for the owners.

Clearly, foreign investment in China, for example, has driven spectacular growth, increased wages, and radically lowered the poverty rate. This compares with Bangladesh, with minimal foreign investment and a population continuing in abject poverty.[6] Nevertheless, the campaigns

EXHIBIT 2-1 MNC Stakeholders



of anti-sweatshop activists have resulted in some improvements in workers' lives in other countries, in particular regarding health and safety issues.

In spite of conflicting agendas, there is some consensus about what CSR means at a basic level—that "corporate activity should be motivated in part by a concern for the welfare of some non-owners, and by an underlying commitment to basic principles such as integrity, fairness and respect for persons."[7]

In addition, it is clear that long-term competitive benefits derive from CSR, many of which result from the goodwill, attractiveness, and loyalty of the various stakeholders connected with the company. These may be in the local area, such as government, suppliers, employees, brand reputation, and so on, or far-flung, such as consumers. IKEA is an example of a long-term attitude to CSR. In October 2018, the Swedish home furnishings retailer, with 422 IKEA stores in over 50 markets, celebrated that it had broken ground for its third India IKEA store in Nagasandra, Bengaluru. Two months earlier, IKEA had opened its first IKEA India store in Hyderabad.

According to Peter Betzel, CEO, IKEA India, "With the IKEA store, we will contribute to a better everyday life for all Bengalureans with well designed, functional home-furnishing solution. We will contribute positively to the state's development by creating employment opportunities, investing in skill/competence development, growing local sourcing to meet India and global demands and bringing IKEA's global best practices to grow India's retail and manufacturing sector."[8]

Following the opening of its third IKEA store, company executives reinforce the company's long-term commitment to India. Mr. Betzel further stated, "We will contribute positively to the state's development by creating employment opportunities, investing in skill/competence development, growing local sourcing to meet India and global demands and bringing IKEA's global best practices to grow India's retail and manufacturing sector."[9]

IKEA has redoubled its efforts to source locally in India. For instance, one of the company's top priorities is to source locally available sustainable raw materials such as bamboo, jute, and banana fibers.[10]

It would seem from this development that the company's benevolence and perseverance have paid off.

> *In India, IKEA will strive towards having a positive impact in all we do, be it with supply chain, retail operations or with the range offer which can support a more sustainable life at home. We have also started initiatives to become more energy efficient, waste management (last year 91% of our global waste was recycled and energy recovered) and recycling, community projects and more.*[11]
>
> Susanne Pulverer, store manager (New Delhi), 2018

Manuela Weber suggests that the impact of CSR on business benefits, listed below, can increase the firm's competitiveness and thus economic success.

Business benefits from CSR[12]

- Improved access to capital
- Secured license to operate
- Revenue increases
- Cost decreases
- Risk reduction
- Increase in brand value
- Improved customer attraction and retention
- Improved reputation
- Improved employee recruitment, motivation, and retention

CSR: Global Consensus or Regional Variation?

With the growing awareness of the world's socioeconomic interdependence, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior. Some think that such a consensus is emerging because of the development of a **global corporate culture**—an integration of the business environments in which firms currently operate. This integration results from the gradual dissolution of traditional boundaries and from the many intricate interconnections among MNCs, internationally linked securities markets, and communication networks. Nevertheless, there are commonly acknowledged regional variations in how companies respond to CSR:

> *The U.S. and Europe adopt strikingly different positions that can be traced largely to history and culture. In the U.S., CSR is weighted more towards "doing business right" by following basic business obligations;… in Europe, CSR is weighted more towards serving—or at least not conflicting with—broader social aims, such as environmental sustainability.*[13]
>
> FINANCIAL TIMES

While making good faith efforts to implement CSR, companies operating abroad face confusion about the cross-cultural dilemmas it creates, especially concerning how to behave in host countries, which have their own differing expectations and agendas. Recommendations about how to deal with such dilemmas include:

- Engaging stakeholders (and sometimes nongovernmental organizations, or NGOs) in a dialogue
- Establishing principles and procedures for addressing difficult issues such as labor standards for suppliers, environmental reporting, and human rights
- Adjusting reward systems to reflect the company's commitment to CSR[14]

Although it is very difficult to implement a generalized code of morality and ethics in individual countries, such guidelines do provide a basis of judgment regarding specific situations. Bowie uses the term **moral universalism** to address the need for a moral standard that all cultures accept.[15] Although, in practice, it seems unlikely that a universal code of ethics will ever be a reality, Bowie says that this approach to doing business across cultures is far preferable to other approaches such as ethnocentrism or ethical relativism. With an **ethnocentric approach**, a company applies the morality used in its home country—regardless of the host country's system of ethics.

A company subscribing to **ethical relativism**, on the other hand, simply adopts the local moral code of whatever country in which it is operating. With this approach, companies run into value conflicts, such as continuing to do business in China despite home-country objections to China's continued violation of human rights. In addition, public pressure in the home country often forces the MNC to act in accordance with ethnocentric value systems anyway, such as not

exporting products that are considered harmful in the home country. In addition, in 2011, "facing pressure from universities and student groups, Nike announced an agreement on Monday in which it pledged to pay $1.54 million to help 1,800 workers in Honduras who lost their jobs when two subcontractors closed their factories."[16]

The difficulty, even in adopting a stance of moral universalism, is in deciding where to draw the line. Individual managers must decide at some point, based on their own moral compass, when they believe a situation is simply not right and withdraw their involvement.

One fact, however, is inescapable: in a globalized market economy, CSR has to be part of modern business.

From CSR to Shared Value?

According to Porter and Kramer, the concept of social responsibility in which corporations regard societal issues as legal or image concerns outside of the main business is a short-sighted approach to value creation and therefore to competitiveness.[17] Rather, Creating Shared Value (CSV) expands the pool of economic and social value and so "leverages the unique resources and expertise of the company to create economic value by creating social value."[18] By viewing the growth, profitability, and sustainability of the corporation as intermeshed with societal and economic progress in the markets in which it operates, companies such as Nestlé, Google, and Intel are creating shared value by "reconceiving products and markets; redefining productivity in the value chain; and enabling local cluster development"[19] (clusters of related business in a local area in which the company operates). As another example, Walmart has reduced its environmental footprint by revamping the plastic used in its stores and by reducing its packaging. Also, it has cut 100 million miles from its delivery routes, saving $200 million even as it shipped more products.

Google announced its plan to go all out to establish the company in Europe "as more of a local player that is investing in jobs, in facilities, our physical presence, and all the ancillary things that come with that."[20] Google clearly has developed this new approach in response to challenges on issues including privacy, copyright disputes, antitrust actions, and taxation. "The company is spending hundreds of millions of euro to try to demonstrate that it is a responsible corporate citizen and a valuable contributor to the local economy."[21] In this case, one questions whether this is truly creating shared value or simply practicing CSR in response to Google's negative image and lost opportunities. Nevertheless, Google is still being charged with violating privacy rules in Europe. The following "Under the Lens" examines how shared value can be created even in the most impoverished areas of the world.



UNDER THE LENS

Speciality Products, Support and Shared Value are Key to Success: India[22]

Subsistence farmers are turning their lives around thanks to a coffee co-op, reports *Amy Kazmin*

Ten years ago, the residents of Kabada Boddaput—in southeastern India's remote Araku valley—were impoverished subsistence farmers, living in mud huts and getting by on the millet, yams, pumpkin and greens they grew on their one- to five-acre plots.

Cash was scarce and emergencies meant borrowing from friends and family—debts that might take years to repay. "It was a very terrible situation," recalls Sanyasi Gullela, a farmer. "There were not enough clothes and no money for cattle."

But life has changed dramatically for Kabada Boddaput's tribal farmers—along with around 13,000 others in the Araku valley—since they began cultivating coffee, encouraged by the Naandi Foundation, a Hyderabad-based philanthropic organisation.

Last year, Mr Gullela earned Rs105,000 ($1,640) from coffee, which he grows on 1.3 of his three acres of land, and additional funds from the pepper vines coiling around the surrounding shade trees. In recent years, these earnings have financed four cattle for ploughing and an auto-rickshaw for his son. His neighbour has purchased a second-hand tractor.

Daily life has improved, with the newfound cash used to buy more nutritious food, such as lentils, and new clothes. Some locals have upgraded their mud homes with cement and tiles. "Nowadays, I have

a lot of choices," says G. Tirupati Rao, who grows coffee on two of his 3.5 acres. "What we want we can easily buy from the market. Earlier, we had to compromise."

While around the world coffee has developed a reputation for bringing few tangible benefits to those toiling to grow it, the view in the Araku valley is different. The crop—grown bio-dynamically without costly fertilisers or agrochemicals—has become an unlikely stepping stone to socio-economic progress for some of India's most neglected and marginalised peoples. "Coffee has given dignity to farmers," says Chiranjeevi Naidu, a board member for the Small and Marginal Tribal Farmers Mutually-Aided Co-operative Society, set up in 2006 to process the coffee grown through the Naandi project.

The Araku valley has a history of coffee production dating back to the colonial era, when British planters grew thousands of acres. After independence, India's government-run Coffee Board took over the plantations, employing local people. And the board gave coffee seeds to farmers, although few flourished in the absence of other support.

But many Araku farmers were eager to keep trying. "They said: 'Anything that was valuable in India, the British took control of, so coffee must be valuable'," says Manoj Kumar, Naandi's chief executive officer.

Naandi's corporate donors were less enthusiastic, he recalls. "I've never heard of anyone coming out of poverty through coffee," one told him. But Mr Kumar—who had rather stumbled into the coffee business when he was asked in 2004 to develop "livelihood projects" to help Araku farmers—was undeterred. Naandi promised technical support with cultivation and offered to market the farmers' produce overseas.

Since then, Naandi's agricultural experts have taught Araku's novice growers to produce top-quality organic coffee, some of which is being sold as "speciality" coffee to select roasters and traders from Japan, Korea, and Europe. These high-end buyers—who taste and rate each lot before purchasing—are willing to pay up to Rs700 per kg for the best of the beans. The bio-dynamic agriculture practised by the Araku farmers is labour intensive but requires no costly cash inputs. Farmers enrich the soil through mulching, using leaves, fallen fruits and other freely available organic matter. They use inexpensive, herbal soil additives to enhance soil fertility and fight pests.

They have learnt the discipline of harvesting beans only when they are bright red and fully ripe. For these efforts, co-op members last year received a guaranteed price of Rs375 per kg of top quality, fully-ripened beans.

From that, the co-op—where the beans are processed within 12 hours of being harvested—deducts Rs90 per kg for transport and processing, with Rs280 per kg profit left for the farmer.

This compares with Rs90–Rs110 per kg that Indian farmers typically receive for bulk coffee to be sold on the New York Commodity Exchange.

"If you want to do sustainable coffee at scale, it has to be speciality coffee," says Mr Kumar. "When they buy, they pay more than anyone else will pay."

Problems remain, especially in finding enough buyers willing to pay a premium for all the high-quality coffee the Araku farmers can produce. Last year, co-op members grew 100 tonnes of coffee, but Naandi is working with another 7,000 farmers whose saplings will mature soon, and other villages are pleading to join the initiative.

Mr Kumar believes Araku's coffee output could easily rise to 500 tonnes or more. But the total world market for speciality coffee was just 10m tonnes in 2011—although it is said to be growing fast—and speciality coffee buyers tend to buy in small lots from diverse regions around the world. "I don't have enough high-quality buyers," Mr Kumar admits.

To expand the market for its own speciality coffee, Naandi recently raised $5m from its Indian philanthropists for Araku Originals—its dedicated, for-profit, coffee marketing arm—to market its wares in Europe.

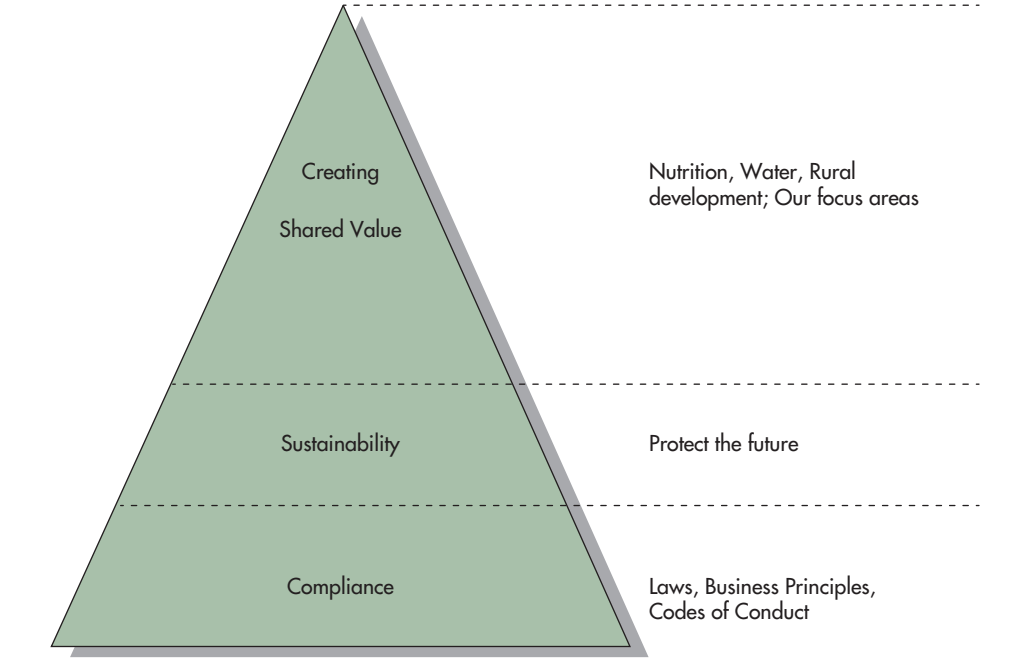
Araku Originals has opened a flagship store in Paris and is also selling its coffee though 34 other gourmet food shops and other upmarket retail outlets across France. The coffee that does not make the grade as speciality coffee is sold as organic, fair trade coffee elsewhere in Europe. "We are a benevolent link to the international market," Mr Kumar says. "It can't just be procured and dumped."

Despite the challenges, Mr Kumar is convinced that coffee can be made a sustainable cash crop for farmers—but only if those involved across the industry are willing to share the profits more generously.

"You need a very clear-cut, shared value business model with the farmer," he adds. "Otherwise, it won't work."

Source: © The Financial Times Limited 2017.

EXHIBIT 2-2 Nestlé Creates Shared Value



Source: http://www.nestle.com/csv/what-is-csv/

Among the increasing number of companies that are transitioning from corporate social responsibility (CSR) to a more strategic perspective known as creating shared value (CSV), Nestlé Corporation stands out for its focus and breadth of action within this realm.

Nestlé, with its head office in Vevey, Switzerland, is the largest food company in the world, with 330,000 employees; 165,000 contractual suppliers; and 456 factories in 86 countries.

In its model, illustrated in Exhibit 2-2, Nestlé shows how it has advanced the company strategy and resources beyond that of social responsibility to that of creating shared value with its stakeholders in a long-term agenda. As you compare the approach in the model for CSV with those typical of CSR, it is clear that Nestlé has evolved from a perspective of responding to outside conditions and pressures to that of internal and community initiatives and integration throughout the company's operations, along with the community.

The Nestlé website explains its CSV philosophy as follows:

> *To create value for our shareholders and our company, we must create value for people in the countries where we are present. This includes the farmers who supply us, the employees who work for us, our consumers and the communities where we work.*[23]
>
> WWW.NESTLE.COM

Nestlé's SAI (sustainable agriculture initiative) has become the gold standard within the global food industry for sustainable sourcing and agriculture, promoting rural development. In fact, recognizing that other global food companies faced the same issues, Nestlé joined forces with companies such as Danone and Unilever in 2003 to consult on how to deal with problems such as scarce resources, quality issues, contaminants, and pollution. Today, Nestlé's focus on sustainable water resources, nutrition, and rural development uses consultation with its stakeholders around the world and incorporates that feedback into strategic development. That focus is incorporated into the firm's strategy and operations through its employees at all levels of the company rather than a directive from a compliance officer.

As an example, Nestlé Bangladesh sources raw materials from local suppliers and farmers to ensure that the farmers get fair prices for their produce and to promote the company's sustainability by reducing dependence on imports. In addition, under the Nestlé Clean Drinking Water project, the company provides water tanks for schools in Gazipur, benefiting more than 43,000 students.

MNC Responsibility toward Human Rights

With almost all tech products now made by contract manufacturers in low-wage nations where sweatshops are common, . . . Hewlett Packard, Dell, IBM, Intel, and twelve other tech companies decided to unite to create the Electronic Industry Code of Conduct (EICC).[24]

BusinessWeek

Whereas many situations regarding the morality of the MNC's presence or activities in a country are quite clear, other situations are not, especially when dealing with human rights. So loud has been the cry about products coming from so-called sweatshops around the world that former President Bill Clinton established an Anti-Sweatshop Code of Conduct, which includes a ban on forced labor, abuse, and discrimination and requires companies to provide a healthy and safe work environment and to pay at least the prevailing local minimum wage, among other requirements. Nike's efforts to address its problems include publishing its entire list of contract manufacturers on the Internet to gain transparency. The company admits that it is difficult to keep track of what goes on at its 800-plus contracted factories around the world.[25]

What constitutes human rights is clouded by the perceptions and priorities of people in different countries. Although the United States often takes the lead in the charge against what it considers human rights violations around the world, other countries point to the homelessness and high crime statistics in the United States. Often the discussion of human rights centers on Asia because many of the products sold in the West are imported from Asia by Western companies using manufacturing facilities located there (see, for example, the accompanying "Comparative Management in Focus" section, which focuses on China). It is commonly held in the West that the best chance to gain some ground on human rights issues is for large MNCs and governments around the world to take a unified stance; many global players now question the morality of trading for goods that have been produced by forced labor or child labor. Although laws in the United States ban prison imports, shady deals between the manufacturers and companies acting as intermediaries make it difficult to determine the origin of many products—and make it easy for companies wanting access to cheap products or materials to ignore the law. However, under pressure from their labor unions (and perhaps their consciences), a number of large, image-conscious companies, such as Reebok and Levi Strauss, have established corporate codes of conduct for their buyers, suppliers, and contractors and have instituted strict procedures for auditing their imports. In addition, some companies are uniting with others in their industry to form their own code for responsible action.[26]



Comparative Management in Focus

Doing Business in China—Censorship, Human Rights, and the Challenge for Multinationals [27]

"China has tightened controls over all aspects of public life and clamped down hard on freedom of expression since President Xi Jinping took over as leader in 2012."[28]

While China has made tremendous economic progress in recent decades, the status of human rights (and the very concept of human rights themselves) remains more nascent.

As of 2019, the pace of economic growth had slowed considerably—nearing a 30-year low. Large numbers of Chinese workers have been staging protests for unpaid compensation. For example, taxi drivers have surrounded government buildings and demanded better treatment. Some construction workers have made extreme threats (e.g., leaping off buildings) if they do not receive back wages. The Chinese Labour Bulletin recorded over 1700 labor disputes in 2018. Government officials have sought to control the protests, and in some cases, detain leading activists.[29] The protests highlight the economic challenges faced by Xi Jinping, who has been a strong proponent of the "Chinese dream," which encapsulates his vision of greater prosperity and fairness throughout China.[30] According to a Shenzhen protester, Zhou Liang, "Nobody cares about us anymore … I sacrificed my health for the company, … and now I can't afford to buy even a bag of rice."[31] The slowing Chinese economy, coupled with more intense competition and burdensome government policies, has made it difficult—even for people who have experienced the Chinese dream.[32]

(*Continued*)

MAP 2-1 China



Although there has been growth in higher-skilled jobs and in services, there is continuing concern among MNCs about the pitfalls of operating in China. These include the uncertain legal climate; the difficulty of protecting intellectual property there; the repression of free speech; and the difficulty of monitoring, let alone correcting, human rights violations in factories. MNCs face considerable pressure in their home markets to address human rights issues in China and elsewhere. Consumers boycott their products, and trade unions in the United States, for example, complain that repression of workers' rights has enabled Chinese companies to push down labor costs, causing considerable loss of manufacturing jobs at home. In addition, whereas the culture of profit has resulted in a market economy in regions of China—reducing the number of state-owned enterprises while increasing joint ventures and private ownership—that culture seems to have led to shortcuts in manufacturing, thus creating problems with products and poor treatment of workers, as illustrated in the accompanying photograph of garment workers. For example, the 2017 China Labour Dynamics Survey revealed that more than 40 percent of the respondents claim to work more than 50 hours per week. In the technology sector, employees often refer to "996" to describe their work life: 9am to 9pm, six days a week.[33]

Freedom of information took a particularly hard hit when "China's education minister ... vowed that 'western values' will never be allowed in the country's classrooms as the Communist Party steps up efforts to consolidate autocratic rule and stave off demands for democracy and universal human rights."[34] The Chinese government has taken an especially hard line as it relates to Internet censorship. The Chinese government restricts and/or denies access to a range of websites using a censorship mechanism commonly referred to as the "great firewall." The government has exerted more control over censorship in recent years in order to suppress online communication and information access—such as curbs on Twitter-style microblogs that have been critical of the government—as well as severe limits on television programs.

Microsoft's Bing search engine, for example, felt the heavy censorship hand of the Chinese government in January 2019 when it was blocked temporarily by the Chinese government's censoring mechanism. Microsoft is the most recent major U.S. technology company to be blocked in China since Facebook's WhatsApp messaging app in 2017. Initially, the Chinese government did not offer an explanation for blocking (and unblocking) the website.[35] Bing, which served a niche market for English-language searches, had a 2 percent share of the Chinese online search market at the time of the blockage—compared to 70 percent for China's Baidu—according to StatCounter.[36] Online censorship in China creates a dilemma for many foreign companies such as Google, which faced a temporary block of its website prior to a complete block, resulting in its exit from China. Nevertheless, Google has been working on a controversial censored version of its search engine in order to appease Chinese government officials, as discussed in the section "Ethics in Uses of Technology."

The Chinese government has also fined individuals and companies for accessing foreign websites. The government has ratcheted up its efforts to quash "virtual private networks," which have been

used to circumvent the government's censorship apparatus in order to access banned websites such as Twitter and Google. The fines follow from the passing of laws in 2017 that permit only "government-approved providers" to operate virtual private networks (VPNs).[37] The newly enacted laws have forced multinationals—sometimes by blocking their private online access— to purchase costly VPN services from the government. In response, Apple removed 674 VPNs from its China App Store.[38]

The latest censorship moves come as a disappointment because it had seemed that China was becoming more conscious of the need to improve its image regarding CSR as it takes a larger economic role on the world stage; indeed, its membership in the WTO obliges the country to act in concert with the policies and values of a free market.[39] The censorship issues have contributed to rising political and economic tensions between the United States and China. U.S. officials have pressed for substantial changes to economic policies especially with respect to protection of intellectual property rights and discriminatory treatment of U.S. multinational enterprises. U.S. officials have also voiced concerns about widespread subsidization of enterprises in particular industrial sectors that puts U.S. companies at a competitive disadvantage.[40]

FIGURE 2-1 Women in Garment Factory in China Garment factory of an unnamed company in China, where women work very long hours.



hxdbzxy/Shutterstock

A considerable number of organizations have developed their own codes of conduct; some have gone further to join others around the world to establish standards to improve the quality of life for workers around the world. For example, the following Management in Action features Goodweave International and its initiatives to eliminate child labor (e.g., its Goodweave label). Some companies have joined with the Council on Economic Priorities (CEP) to establish SA8000 (Social Accountability 8000, on the lines of the ISO9000 manufacturing quality standard). Their proposed global labor standards would be monitored by outside organizations to certify whether plants are meeting those standards, among which are the following:

- Do not use child or forced labor.
- Provide a safe working environment.
- Respect workers' rights to unionize.
- Do not regularly require more than 48-hour workweeks.
- Pay wages sufficient to meet workers' basic needs.[41]

MANAGEMENT IN ACTION

"Impact Beyond Numbers"—GoodWeave's Global Solution to Child Labor [42]

> *GoodWeave envisions a day when no child is made to work instead of going to school, and when freedom, access to education, and the right to childhood are guaranteed.*[43]
>
> GOODWEAVE.ORG, 2018

GoodWeave International has been a key player in terms of setting child labor standards, establishing product certification and worker-protection programs, as well as devising inspection and monitoring programs for informal supply chains. GoodWeave has established a GoodWeave label that provides assurance that a product is child-labor free. GoodWeave works aggressively with the private sector to provide transparency and accountability throughout supply chains.

Goodweave CEO Nina Smith recalled when companies did not acknowledge the presence of child labor in the supply chain. All too often, companies had child labor policies that were not enforced.[44]

> *Today, through dialogue and advocacy, they are reassessing this approach and are beginning to work with us to accept such practices and to clean up their supply chains, including remediating child, forced and bonded labor.*[45]
>
> NINA SMITH. CEO, GOODWEAVE

GoodWeave's strategic imperative for labor rights involves workable solutions that penetrate the many subcontracting layers in order to reach "remote sites and informal homeworkers, who are often intentionally hidden, and ensure their protection and freedom."[46]

Sources: C. Skroupa. *"Impact Beyond Numbers"—GoodWeave's Global Solution to Child Labor*. www.forbes.com; https://goodweave.org/about/our-vision/

In addition, four **international codes of conduct** provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by several institutions and integrated by Getz into their common underlying principles, thereby establishing MNE behavior toward governments, publics, and people, as shown in Exhibit 2-3. (The originating institutions are in parentheses.) Getz concludes, "As international organizations and institutions (including MNEs themselves) continue to refine the codes, the underlying moral issues will be better identified, and appropriate MNE behavior will be more readily apparent."[47] The examples shown in Exhibit 2-3 are excerpted from the codes and show how companies can provide a cooperative, long-term relationship with the local people and governments where they operate.

EXHIBIT 2-3 International Codes of Conduct for MNEs

MNE and Host Governments

Economic and Developmental Policies

- MNEs should consult with governmental authorities and national employers' and workers' organizations to ensure that their investments conform to the economic and social development policies of the host country. (ICC; OECD; ILO; UN/CTC)
- MNEs should not adversely disturb the balance-of-payments or currency exchange rates of the countries in which they operate. They should try, in consultation with the government, to resolve balance-of-payments and exchange rate difficulties when possible. (ICC; OECD; UN/CTC)
- MNEs should cooperate with governmental policies regarding local equity participation. (ICC; UN/CTC)

Political Involvement

- MNEs should refrain from improper or illegal involvement in local political activities. (OECD; UN/CTC)
- MNEs should not pay bribes or render improper benefits to any public servant. (OECD; UN/CTC)
- MNEs should not interfere in intergovernmental relations. (UN/CTC)

MNEs and the Public

Technology Transfer

- MNEs should cooperate with governmental authorities in assessing the impact of transfers of technology to developing countries and should enhance the technological capacities of developing countries. (OECD; UN/CTC)

EXHIBIT 2-3 Continued

- MNEs should not dominate the capital markets of the countries in which they operate. (ICC; UN/CTC)
- MNEs should provide the information necessary for correctly assessing taxes to be paid to host government authorities. (ICC; OECD)
- MNEs should not engage in transfer pricing policies that modify the tax base on which their entities are assessed. (OECD; UN/CTC)
- MNEs should give preference to local sources for components and raw materials if prices and quality are competitive. (ICC; ILO)
- MNEs should reinvest some profits in the countries in which they operate. (ICC)

Laws and Regulations

- MNEs are subject to the laws, regulations, and jurisdiction of the countries in which they operate. (ICC; OECD; UN/CTC)
- MNEs should respect the right of every country to exercise control over its natural resources, and to regulate the activities of entities operating within its territory. (ICC; OECD; UN/CTC)
- MNEs should use appropriate international dispute settlement mechanisms, including arbitration, to resolve conflicts with the governments of the countries in which they operate. (ICC; OECD)
- MNEs should resolve disputes arising from expropriation by host governments under the domestic law of the host country. (UN/CTC)

Employment Practices (excerpts)

- MNEs should cooperate with host governments' efforts to create employment opportunities in particular localities. (ICC)
- MNEs should try to increase employment opportunities and standards in the countries in which they operate. (ILO)
- MNEs should give advance notice of plant closures and mitigate the resultant adverse effects. (ICC; OECD; ILO)
- MNEs should provide standards of employment equal to or better than those of comparable employers in the countries in which they operate. (ICC; OECD; ILO)
- MNEs should pay, at minimum, basic living wages. (ILO)
- MNEs should maintain the highest standards of safety and health, and should provide adequate information about work-related health hazards. (ILO)
- MNEs should develop and adapt technologies to the needs and characteristics of the countries in which they operate. (ICC; OECD; ILO)
- MNEs should conduct research and development activities in developing countries, using local resources and personnel to the greatest extent possible. (ICC; UN/CTC)

Environmental Protection

- MNEs should respect the laws and regulations concerning environmental protection of the countries in which they operate. (OECD; UN/CTC)
- MNEs should cooperate with host governments and with international organizations in the development of national and international environmental protection standards. (ICC; UN/CTC)
- MNEs should supply to appropriate host governmental authorities information concerning the environmental impact of the products and processes of their entities. (ICC; UN/CTC)

MNEs and Persons

Consumer Protection

- MNEs should respect the laws and regulations of the countries in which they operate with regard to consumer protection. (OECD; UN/CTC)
- MNEs should preserve the safety and health of consumers by disclosure of appropriate information, proper labeling, and accurate advertising. (UN/CTC)

Human Rights

- MNEs should respect human rights and fundamental freedoms in the countries in which they operate. (UN/CTC)
- MNEs should not discriminate on the basis of race, color, sex, religion, language, social, national and ethnic origin, or political or other opinion. (UN/CTC)
- MNEs should respect the social and cultural objectives, values, and traditions of the countries in which they operate. (UN/CTC)

Sources: OECD: The Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises; ILO: The International Labor Office Tripartite Declarations of Principles Concerning Multinational Enterprises and Social Policy; ICC: The International Chamber of Commerce Guidelines for International Investment; UN/CTC: The United Nations Universal Declaration of Human Rights, UN Code of Conduct on Transnational Corporations.

ETHICS IN GLOBAL MANAGEMENT

National, as well as corporate, cultures need to be taken into account if multinationals are to enforce their codes across different regions.[48]

FINANCIAL TIMES

2-2. To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

Globalization has multiplied the ethical problems facing organizations. However, business ethics have not yet been globalized. Attitudes toward ethics are rooted in culture and business

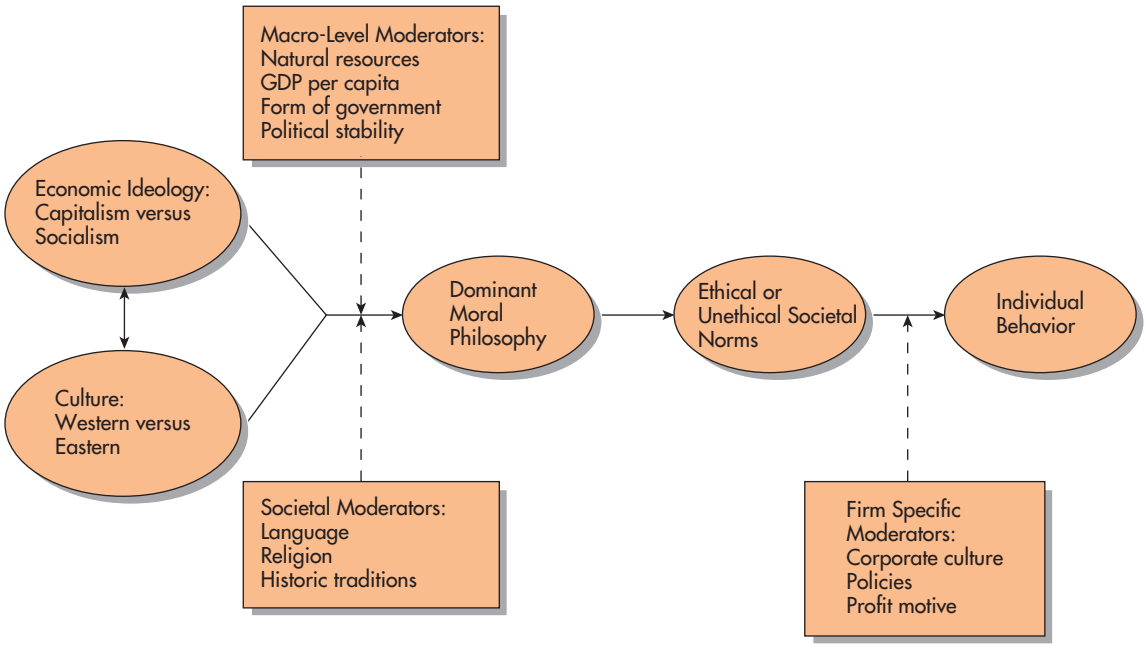
practices. Swee Hoon Ang found, for example, that east Asians considered deception as amoral, and acceptable only if it has a positive effect on larger issues such as the company, the extended family, or the state.[49] For an MNC, it is difficult to reconcile consistent and acceptable behavior around the world with home-country standards. One question, in fact, is whether it should be reconciled. It seems that, although the United States has been the driving force to legislate moral business conduct overseas, perhaps more scrutiny should have been applied to those global MNCs headquartered in the United States, such as Enron and WorldCom, that so greatly defrauded their investors, employees, and all who had business with them.

The term **international business ethics** refers to the business conduct or morals of MNCs in their relationships with individuals and entities. Such behavior is based largely on the cultural value system and the generally accepted ways of doing business in each country or society, as we have discussed throughout this book. Those norms, in turn, are based on broadly accepted guidelines from religion, philosophy, professional organizations, and the legal system. The complexity of the combination of various national and cultural factors in a particular host environment that combine to determine ethical or unethical societal norms is illustrated in Exhibit 2-4. The authors, Robertson and Crittenden, note,

> *Varying legal and cultural constraints across borders have made integrating an ethical component into international strategic decisions quite challenging.*[50]

National legal and cultural differences introduce an ethical dilemma for MNC managers. Should managers of MNC subsidiaries base their ethical standards on those of the host country or those of the home country—or can the two be reconciled? What is the moral responsibility of **expatriates** regarding ethical behavior, and how do these issues affect business objectives? How do expatriates simultaneously balance their responsibility to various stakeholders—to owners, creditors, consumers, employees, suppliers, governments, and societies? The often conflicting objectives of host and home governments and societies also must be balanced.

EXHIBIT 2-4 A Moral Philosophy of Cross-Cultural Societal Ethics



Source: C. Robertson and W. Crittenden, "Mapping moral philosophies: Strategic implications for multinational firms," *Strategic Management Journal* 24 (2003), pp. 385–392, © John Wiley & Sons, Inc. Reproduced with permission.

The approach to these dilemmas varies among MNCs from different countries. Whereas the American approach is to treat everyone the same by making moral judgments based on general rules, managers in Japan and Europe tend to make such decisions based on shared values, social ties, and their perceptions of their obligations. According to many U.S. executives, there is little difference in ethical practices among the United States, Canada, and Northern Europe. According to Bruce Smart, former U.S. Undersecretary of Commerce for International Trade, the highest ethical standards seem to be practiced by the Canadians, British, Australians, and Germans. As he says, "a kind of noblesse oblige still exists among the business classes in those countries"—compared with the prevailing attitude among many U.S. managers that condones "making it" whatever way one can.[51] Another who experienced few problems with ethical practices in Europe is Donald Petersen, former CEO of Ford Motor Company. However, he warns us about countries under a dictatorship where bribery is a generally accepted practice.[52]

Donald Petersen's experience has been borne out by research by Transparency International, a German nongovernmental organization (NGO) that fights corruption. It ranks 180 countries based on perceived levels of public sector corruption. The organization's year 2017 Global Corruption Barometer (selections are shown in Exhibit 2-5) shows the results of research into the extent that business and other sectors of their society are affected by corruption, as perceived by businesspeople, academics, and risk analysts in 69 countries. A primary focus of the research was the relative prevalence of bribery in various spheres of people's lives, including political and business practices.

The 2017 Corruption Perceptions Index shows that more than two-thirds of the 180 countries in the index score below fifty on a scale from 100 (highly clean) to 0 (highly corrupt). These results indicate a serious corruption problem. Overall, New Zealand sits atop the list of least corrupt countries. The data show that countries in Western Europe, Singapore, and Canada

EXHIBIT 2-5 2017 Corruption Perceptions Index—Selected Ranks Each country's ranking is based on its score as it relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 100 (very clean) and 0 (highly corrupt). For example, New Zealand's score was 89, and Mexico's and Russia's scores were 29.

Rank	Score	Country
1	89	New Zealand
2	88	Denmark
3	85	Finland
6	84	Singapore
8	82	Canada
8	82	UK
13	77	Hong Kong
16	75	USA
20	73	Japan
23	70	France
51	54	South Korea
77	41	China
81	40	India
96	37	Brazil
135	29	Mexico
135	29	Russia
178	14	Syria
180	9	Somalia

Source: Based on selected data from the TI Corruption Perceptions Index, 2017, www.transparencyinternational.org, accessed December 22, 2018.

were among the top ten least corrupt countries. Notably, the UK rose from 14th in 2014 to 8th in 2017. Australia, Hong Kong, and Iceland tied for 13th; and the United States ranked 16th. France's rank improved to 23rd (from 26th on 2014), Japan dropped to 20th (from 15th in 2014), South Korea slipped to 51st (from 43rd in 2014), China was 77th (up from 100th in 2014), while Russia's rank was 135th (a one-spot improvement from 2014).[53]

> *The right to information is vital for preventing corruption. When citizens can access key facts and data from governments, it is more difficult to hide abuses of power and other illegal activities—governments can be held accountable.*[54]
>
> Transparency International

The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of ethical standards around the world. Many practices considered unethical or even illegal in some countries are accepted ways of doing business in others.

Bribery

> *There are few other areas where a single employee can with one instance of misjudgment, create huge embarrassment [for the company].*[55]
>
> Financial Times

> *The computer is on the dock, it's raining, and you have to pay $100 [bribe] to get it picked up.*[56]
>
> William C. Norris, Control Data Corporation

MNCs are often caught between being placed at a disadvantage either by refusing to go along with a country's accepted practices, such as bribery, or being subject to criticism at home for using unethical tactics to get the job done. Large companies that have refused to participate have led the way in taking a moral stand because of their visibility; their potential impact on the local economy; and, after all, their ability to afford such a stance. Some other large companies, however, have not always taken a moral stand.

Whereas the upper limits of ethical standards for international activities are set by the individual standards of certain leading companies—or, more realistically, by the moral values of their top managers—it is more difficult to set the lower limits of those standards; that limit is set in each situation by whether the laws are actually enforced in that location.

The bribery of officials is prohibited by law in all countries, but it still goes on as an accepted practice; often, it is the only way to get anything done. In such cases, the MNC managers have to decide which standard of behavior they will follow. What about the $100 bribe to get the computer off the rainy dock? William Norris says he told his managers to pay the $100 because to refuse would be taking things too far. Generally, Control Data did not yield to such pressure, though it said sales were lost as a result.[57]

A specific ethical issue for managers in the international arena is that of **questionable payments**. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs, and ethics in various countries and whether the payments in question are political payments, extortion, bribes, sales commissions, or grease money—payments to expedite routine transactions. Other common types of payments are made to speed the clearance of goods at ports of entry and obtain required certifications. They are called different names in different countries: tokens of appreciation, *la mordida* ("the bite," in Mexico), *bastarella* ("little envelope" in Italy), and *pot-de-vin* ("jug of wine" in France). For the sake of simplicity, all these types of questionable payments are categorized in this text as some form of bribery. In Mexico, for example, companies make monthly payments to the mail carriers, or their mail gets lost.

Most managers perceive bribery as "endemic in business and government in parts of Africa and south and east Asia. Corruption and bribery are considered to be part of the culture and environment of certain markets, and will not simply go away."[58] In some parts of Latin America, for example, customs officers are paid poorly and so are encouraged to take bribes to supplement their incomes. However, developed countries are not immune to bribery—as demonstrated in 2015 when the FIFA president of World Cup Soccer was under criminal investigation for bribery.

The dilemma for many managers operating abroad is how much to adhere to their own ethical standards in the face of foreign customs or how much to follow local ways to be competitive. Certainly, in some societies, gift giving is common to building social and familial ties, and such gifts incur obligation. Nevertheless, a bribe is different from a gift or other reciprocation, and those involved know that by whether it has a covert nature. In his book on bribes, Noonan takes the following position:

> *Bribery is universally shameful. There is not a country in the world that does not treat bribery as criminal on its books. . . . In no country do bribetakers speak publicly of their bribes, nor do bribegivers announce the bribes they pay. No newspaper lists them. No one advertises that he can arrange a bribe. No one is honored precisely because he is a big briber or bribee. No one writes an autobiography in which he recalls the bribes he has taken or paid. . . . Not merely the criminal law—for the transaction could have happened long ago and prosecution be barred by time—but an innate fear of being considered disgusting restrains briber and bribee from parading their exchange. Significantly, it is often the Westerner with ethnocentric prejudice who supposes that a modern Asian or African society does not regard the act of bribery as shameful in the way Westerners regard it.*[59]

However, Americans must be able to distinguish between harmless practices and actual bribery, between genuine relationships and those used as a cover-up. To help them distinguish, the **Foreign Corrupt Practices Act (FCPA)** of 1977 was established, which prohibits U.S. companies from making illegal payments, other gifts, or political contributions to foreign government officials for the purpose of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign governments and to upgrade the image of the United States and its companies operating overseas.

The FCPA covers the activities of foreign firms that are cross-listed in the United States. In 2018, for example, the Security Exchange Commission (SEC) announced that Credit Suisse will pay roughly $30 million to resolve allegations that it breached the FCPA by influencing foreign officials in order to obtain investment banking business in the Asia Pacific region. In 2016, the SEC announced that German-based SAP SE agreed to relinquish $3.7 million in profits to settle charges that it violated the FCPA during its attempts to obtain business in Panama.[60] According to the investigation, a former SAP executive made bribe payments to a Panamanian government official in order to obtain contracts.[61] SAP has remained in the ethical spotlight as discussed in the "Under the Lens" section below.



UNDER THE LENS

SAP Alerts US to South Africa Kickback Allegations [62]

> *The allegations of wrongdoing in our South African business have had a profound impact on our employees, customers and partners, and on the South African public—and we apologise wholeheartedly for this.*[63]
>
> ADAIRE FOX-MARTIN, SAP BOARD MEMBER, 2017

SAP, Europe's largest software company, says it is changing its global sales practices and has alerted the US authorities to allegations that its South African office paid kickbacks to a company linked with the country's influential Gupta family.

In a statement on Thursday apologising for what it described as a "humbling" scandal, the German group said it had "voluntarily disclosed the situation in its South Africa business" to the US Department of Justice and US Securities and Exchange Commission, pledging its "full and complete co-operation."

SAP said it had also begun disciplinary proceedings against three employees in South Africa, after a three-month investigation "uncovered indications of misconduct in issues relating to the management of Gupta-related third parties" in bidding for contracts from government-owned companies.

SAP's approach to US investigators underlines the growing international ramifications of what has become South Africa's biggest post-apartheid political scandal. The ruling African National Congress

(*Continued*)

has been split over allegations that the Gupta family has used a friendship with President Jacob Zuma to exert control over government business.

The FBI recently opened its own probe into US links to the family, whose influence is claimed to extend to appointments to Mr Zuma's cabinet and the awarding of contracts from state-owned companies including Eskom, the power monopoly, and Transnet, a logistics giant. The Guptas and Mr Zuma have always denied the allegations ... SAP said it had not uncovered "any evidence of a payment to a South African government official" in the probe. Adaire Fox-Martin, an SAP board member, said the company had been co-operating with the Justice Department and SEC in the US since July 13. She confirmed the two agencies were still investigating the issue.

"The allegations of wrongdoing in our South African business have had a profound impact on our employees, customers and partners, and on the South African public—and we apologise wholeheartedly for this," she said in a press release.

When reports in local media first emerged in July, SAP had originally responded by calling the allegations "unfounded and unsubstantiated," but it soon placed four managers on leave, seized their electronic devices and launched an investigation.

The South African press had reported an alleged R100m ($7.5m) in kickbacks. SAP allegedly agreed to pay a 10 per cent "sales commission" in 2015 to CAD House, a company ultimately owned by Gupta family members, to secure business from Transnet, South Africa's state-owned port and rail operator, according to the reports.

The three employees SAP is disciplining were among the four placed on leave. The remaining employee "had no material involvement" in the matter and will return to work. SAP, which offers backroom-to-boardroom software to help businesses run their operations, also pledged sweeping changes to its overseas offices. It said it would immediately "eliminate sales commissions on all public sector deals" in countries deemed by Transparency International to have a Corruption Perceptions Index below 50. South Africa's rating is 45.

It will also introduce new controls, due diligence measures and audit practices. In South Africa specifically, SAP is beefing up its legal compliance staff. SAP has promised to publish the findings of its internal probe, which is being carried out by the law firm Baker McKenzie. The investigation is continuing.

Source: © The Financial Times Limited 2018.

Ethics in Uses of Technology

A growing concern among Internet users and companies around the world is **cyber security** (i.e., protection of private information that has been posted online). Facebook has been the subject of a major investigation regarding data protection in Europe after the social media giant revealed yet another data breach involving photos belonging to millions of its users. The Irish data protection commission acknowledged that it had launched a new investigation into Facebook due to the volume of data breaches during the past year. A spokesperson for the Irish data protection commissioner said, "The Irish DPC has received a number of breach notifications from Facebook since the introduction of the [EU's General Data Protection Regulation] GDPR on May 25 2018," a spokesperson said. "With reference to these data breaches, including the breach in question, we have this week commenced a statutory inquiry examining Facebook's compliance with the relevant provisions of the GDPR." (Facebook is discussed further in the end-of-chapter Case Study.)

The ethical use of technology around the world poses a considerable challenge to have consistent practices because of the varied expectations about the use of technological devices and programs as they intersect with people's private lives. The electronic data privacy laws in Europe illustrate this conflict. The EU Directive on Data Protection guarantees European citizens absolute control over data concerning them. A U.S. company wanting personal information must get permission from that person and explain what the information will be used for; the company must also guarantee that the information won't be used for anything else without the person's consent. It appears that Europe is setting the rules. Regulators in France, Germany, and Italy, for example, were focusing on whether Apple's iPhone and iPad violated privacy rules by tracking the location of users. Google, also, had previously started a firestorm in Germany when it was discovered to have been gathering information for its street mapping service from people's unsecured wireless networks. Later, Sony acknowledged a breach

of data of 77 million users of its PlayStation network. Because of such breaches of privacy, Ms. Viviane Reding, the European Justice Commissioner, has proposed extending privacy rules to social media and online banking, shopping, and video games, among others.[64] The United States has no agency dedicated to monitoring issues of data privacy as Europe does. In fact, Google is in a fight with the European regulators, which are pressing for the so-called right to be forgotten rule to be imposed outside of Europe.[65]

Another ethical debate has emerged as some governments such as China restrict access to the Internet. Eight years ago, Google pulled out of China because of the country's restrictions on freedom of speech. However, Google has been secretly developing a heavily censored version of its services in China (i.e., "Dragonfly"). Over one thousand Google employees signed a protest letter complaining that the new censored search engine for China creates ethical dilemmas. Indeed, the protest letter stated, "Currently we do not have the information required to make ethically-informed decisions about our work, our projects, and our employment."[66] The letter also stated, "To make ethical choices, Googlers need to know what we're building. Right now, we don't," said the letter. "Our industry has entered a new era of ethical responsibility: the choices we make matter on a global scale. Yet most of us only learned about project Dragonfly through news reports in early August."[67]

> *As for China, Google and the other tech firms that do business there have some big decisions to make. The era in which multinational corporations can simply fly 35,000 feet over the problems of various nation states is ending.*[68]
>
> Rana Foroohar, Financial Times, August 20, 2018

Chinese firms have also immersed themselves in the center of the censorship debate by trying to develop solutions. For example, Bytedance, a Chinese Internet company, developed the wildly popular Chinese short-video apps Douyin and Tik Tok, which seem to be almost the same. However, Douyin can be downloaded only from a Chinese app store by someone on the mainland, while Tik Tok is accessible only to users outside the country.[69]

Making the Right Decision

How is a manager operating abroad to know what is the right decision when faced with questionable or unfamiliar circumstances of doing business? Usually, the manager or salesperson is faced with wanting to make certain decisions that will benefit her company, her career, or both. That decision, or set of actions, is likely to be profitable for the company and secure new market opportunities. However, there are many other considerations that make it less clear whether to continue to pursue that avenue, in particular in countries or settings that provide less transparency, and often certain pressures, about what to do. If the manager is faced with such a situation, a number of steps can help her clarify the way to proceed.

Steps to an Ethical Decision

- Consult the laws of both the home and the host countries—such as the FCPA. If any of those laws would be violated, then you, the manager, must find some other way to complete the business transaction or withdraw altogether.
- Consult the International Codes of Conduct for MNEs (see Exhibit 2-3). These are broad and cover various areas of social responsibility and ethical behavior; even so, many issues are subject to interpretation. If there is no apparent conflict on these legal grounds, then proceed with further consultation.
- Consult the company's code of ethics (if there is one) and established norms. Note that it is the responsibility of the company to provide guidelines for the actions and decisions its employees make. What kinds of decisions do your colleagues typically make in these kinds of circumstances? If your intended action runs contrary to the norms or the formal code, discontinue that plan. Consult your superiors if you still need clarification. Unfortunately, often the situation is not that clear-cut, or your boss will tell you to use your own judgment. Sometimes your superiors in the home office just want you to complete the transaction to the benefit of the company and don't want to be involved in what you have to do to consummate the deal. Failing clear guidance:

- Weigh stakeholders' rights (see Exhibit 2-1). To whom are you responsible? What are the priorities of responsibilities to those stakeholders? What is the potential benefit versus harm involved in your decision or set of actions? (For example, does the proposed action [rigged contract bid, bribe, etc.] harm anyone? What are the likely consequences of your decision in both the short run and long run? Who would benefit from your contemplated action? Who might be harmed? In the case of a rigged contract bid through bribery, for example, people are put at a disadvantage, especially over the long term, with a pattern of this behavior.)
- Follow your own conscience and moral code. Ask yourself whether you can live with the potential decision and what would be the next step for you if you continue along that path.

It is important to decide where to draw the line in the sand to operate with integrity; otherwise, the line moves further and further away with each transgression. In addition, what can start here with a small bribe or cover-up—a matter of personal ethics—can, over time, and taken together with many people covering up, result in a situation of a truly negligent, and perhaps criminal, stance toward responsibility to society, like that revealed by investigations of the tobacco industry in the United States. Indeed, executives are increasingly being held personally and criminally accountable for their decisions; this is true even for people operating on companies' boards of directors. Criminal charges brought against executives of WorldCom in 2003 and convictions against Enron executives in 2006—as well as international banks such as Citigroup and JP Morgan Chase that disguised Enron's financial woes—reveal the consequences that face MNC executives who engage in misconduct. In May 2018, the former Volkswagen chief executive officer was charged by U.S. authorities with conspiracy following a 2015 scandal in which the company manipulated the emissions for its diesel vehicles in order to falsely comply with national pollution guidelines.[70]

The Volkswagen scandal raises another important issue pertaining to organizational responses after a major ethical or legal scandal. For example, Siemens adopted a proactive approach by overhauling its top management team, extracting money from its former executives, and engaging in extensive governance reform following its "slush-fund" scandal. In contrast, Volkswagen has offered a lackluster response following its emission scandal. Although Volkswagen took measures to cut costs and reduce engineering complexity, for example, it has initiated few salient changes to its governance practices and even sought to divert attention from its own emissions scandal by trying to make it an industry-wide issue (as discussed in the "Under the Lens" feature that follows).[71]



UNDER THE LENS

Volkswagen under the Spotlight

Loopholes in the lab tests: Three years after the Dieselgate scandal auto companies are manipulating emissions data, using 'lawful but awful ways' to game even a new testing regime. Brussels is now trying to make the system more robust.[72]

When Volkswagen was caught cheating diesel emissions tests in 2015, one of the first actions its engineers took was to launch a secret project: to obtain cars from rival manufacturers and conduct tests on their emissions. Its aim was to find evidence of widespread cheating across the industry, so guilt could be spread around and penalties diluted, say two people inside the company.

The Volkswagen Scandal, in other words, might helpfully become the Car Scandal.

Vehicles from Fiat, Hyundai and others were tested for harmful nitrogen oxide emissions by VW engineers at the group's Wolfsburg headquarters from late 2015 to early 2016. The engineers had a simple conundrum: VW had just admitted to equipping 11m cars with software to detect laboratory tests and enable them to enter a low-emissions mode. If VW's best engineers found regulations so onerous that they resorted to deliberate fraud, what had its rivals done? A third person in the company insists there was a more innocent explanation for the tests. Engineers uninvolved in the original cheating had to use rival cars as control variables to better understand their own sophisticated software—some of it supplied by third parties and used by rival brands. "We were not dirtying others' hands to make our own look clean," says this employee.

Volkswagen declined to comment on this previously unreported episode.

What the engineers found shocked them. Rival brands' NOx emissions were considered "a complete disaster." Performance on the road was "completely different to the technical data," says a VW worker briefed on the results. The overall summary of whether rivals were also skewing emissions results was clear: "It's not only VW who is cheating."

What is unclear is whether rivals were deploying the same strategy as VW—using a "defeat device" to illegally trick regulators into believing its cars were green—or if they had simply become better at bending the rules on tests, a problem that still exists with petrol cars today, as the European Commission revealed last month when it disclosed the latest "tricks" carmakers were using to exploit loopholes for incoming 2020 emissions procedures.

The distinction is blurred but important. VW paid the consequences of crossing the line and cheating NOx emissions tests in the US. But the efforts of other carmakers to legally undermine testing for both NOx and CO2 in Europe have never resulted in real penalties.

"Legal optimisation was done on an industrial scale," says Nick Molden, chief executive of Emissions Analytics, which conducts real-world driving emissions tests. "It became so ingrained in how cars were certified that the carmakers didn't understand they had done something wrong ... That's the scandal in Europe: that these actions were not illegal."

Source: © The Financial Times Limited 2018.

MANAGING INTERDEPENDENCE

2-3. To recognize the importance of managing interdependence and include *sustainability* and *shared value* in their long-term plans

Because multinational firms (or other organizations, such as the Red Cross) represent global interdependency, their managers at all levels must recognize that what they do, in the aggregate, has long-term implications for the socioeconomic interdependence of nations. Simply to describe ethical issues as part of the general environment does not address the fact that managers must control their activities at all levels—from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility—for the future benefit of all concerned. Whatever the situation, the powerful long-term effects of MNC and MNE action (or inaction) should be planned for and controlled, not haphazardly considered part of the side-effects of business. The profitability of individual companies depends on a cooperative and constructive attitude toward global interdependence.

Foreign Subsidiaries in the United States

Much of the preceding discussion has related to U.S. subsidiaries around the world. However, to highlight the growing interdependence and changing balance of business power globally, foreign subsidiaries in the United States should also be considered. Since much criticism about a lack of responsibility has been directed toward MNCs with headquarters in the United States, we must think of these criticisms from a global perspective. The number of foreign subsidiaries in the United States has grown and continues to grow dramatically; FDI in the United States by other countries is, in a number of industries, far more than U.S. investment outward. Americans are thus becoming more sensitive to what they perceive as a lack of control over their own country's business.

Things look very different from the perspective of Americans employed at a subsidiary of an overseas MNC. Interdependence takes on a new meaning when overseas managers are calling the shots regarding strategy, expectations, products, and personnel. Often, Americans' resentment about different ways of doing business by foreign companies in the United States inhibits the cooperation that gave rise to the companies' presence in the first place.

Today, managers from all countries must learn new ways, and most MNCs are trying to adapt. In Japan, corporate social responsibility has traditionally meant that companies take care of their employees, whereas in the United States both the public and private sectors are expected to share responsibility for the community. Part of the explanation for this difference is that U.S. corporations get tax deductions for corporate philanthropy, whereas Japanese firms do not; nor are Japanese managers usually familiar with community needs. For these and other reasons, Japanese subsidiaries in the United States have not been active in U.S. philanthropy.

Managing Subsidiary–Host Country Interdependence

When **managing interdependence**, international managers must go beyond general issues of social responsibility and deal with the specific concerns of the MNC subsidiary–host country relationship. Outdated attitudes that focus only on profitability and autonomy are shortsighted and usually result in only short-term realization of those goals. Managers in those companies must learn to accommodate the needs of other organizations and countries:

> *Interdependence rather than independence, and cooperation rather than confrontation are at the heart of that accommodation ... the journey from independence to interdependence managed badly leads to dependence, and that is an unacceptable destination.*[73]

Most of the past criticism levied at MNCs has focused on their activities in less-developed countries (LDCs). Their real or perceived lack of responsibility centers on the transfer in of inappropriate technology, causing unemployment, and the transfer out of scarce financial and other resources, reducing the capital available for internal development. In their defense, those corporations and NGOs help developing countries by contributing new technology and managerial skills, improving the infrastructure, creating jobs, and bringing in investment capital from other countries by exporting products. The infusion of outside capital provides foreign-exchange earnings that can be used for further development. The host government's attitude is often referred to as a love–hate relationship. It wants the economic growth that foreign investment provides, but it does not want the incursions on national sovereignty or the technological dependence that may result. Most criticisms of MNC subsidiary activities, whether in less-developed or more-developed countries, are along the following lines:

- MNCs locally raise their needed capital, contributing to a rise in interest rates in host countries. The majority (sometimes even 100 percent) of the stock of most subsidiaries is owned by the parent company. Consequently, host-country people do not have much control over the operations of corporations within their borders.
- MNCs usually reserve the key managerial and technical positions for expatriates. As a result, they do not contribute to the development of host-country personnel.
- MNCs do not adapt their technology to the conditions that exist in host countries.
- MNCs concentrate their research and development activities at home, restricting the transfer of modern technology and know-how to host countries.
- MNCs give rise to the demand for luxury goods in host countries at the expense of essential consumer goods.
- MNCs start their foreign operations by purchasing existing firms rather than by developing new productive facilities in host countries.
- MNCs dominate major industrial sectors, thus contributing to inflation by stimulating demand for scarce resources and earning excessively high profits and fees.
- MNCs are not accountable to their host nations but only respond to home-country governments; they are not concerned with host-country plans for development.[74]

Specific MNCs have been charged with tax evasion, union busting, and interference in host-country politics. Of course, corporations have both positive and negative effects on different economies. For every complaint about MNC activities (whether about capital markets, technology transfer, or employment practices), we can identify potential benefits (see Exhibit 2-6).

Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and noneconomic) and conflicting concerns, such as the security of proprietary technology, patents, or information. Overall, the resulting trade-offs create an interdependent relationship between the subsidiary and the host government, based on relative bargaining power. The power of large corporations is based on their large-scale, worldwide economies, their strategic flexibility, and their control over technology and production location. The bargaining chips of the host governments include their control of raw materials and market access and their ability to set the rules regarding the role of private

EXHIBIT 2-6 MNC Operations Bring Host Country Benefits and Costs

Benefits	Costs
Capital Market Effects	
• Broader access to outside capital • Economic growth • Foreign-exchange earnings • Import substitution effects allow governments to save foreign exchange for priority projects	• Risk sharing • Increased competition for local scarce capital • Increased interest rates as supply of local capital decreases • Capital service effects of balance of payments
Technology and Production Effects	
• Access to new technology and R&D developments • Employee training in new technology • Infrastructure development and support • Export diversification • Introduction of new management techniques	• Technology is not always appropriate • Plants are often for assembly only and can be dismantled • Government infrastructure investment is higher than expected benefits • Increased pollution
Employment Effects	
• Direct creation of new jobs • Introduction of more humane employment standards • Opportunities for indigenous management development • Income multiplier effects on local community business	• Limited skill development and creation • Competition for scarce skills • Low percentage of managerial jobs for local people • Employment instability because of ability to move production operations freely to other countries

Source: Based on R. H. Mason and R. S. Spich, *Management: An International Perspective* (Homewood, IL: Irwin, 1987), p. 202.

enterprise, the operation of state-owned firms, and the specific regulations regarding taxes, permissions, and so forth.

MNCs run the risk of their assets becoming hostage to host control, which may take the form of nationalism, protectionism, or governmentalism. Under **nationalism**, for example, public opinion is rallied in favor of national goals and against foreign influences. Under **protectionism**, the host institutes a partial or complete closing of borders to withstand competitive foreign products, using tariff and nontariff barriers such as those Japan uses. Under **governmentalism**, the government uses its policy-setting role to favor national interests rather than relying on market forces.[75] This was illustrated by the actions of governments around the world to support their banking systems in 2008 and 2009.

The intricacies of the relationship and the relative power of an MNC subsidiary and a host-country government are situation specific. Clearly, such a relationship should be managed for mutual benefit; a long-term, constructive relationship based on the corporation's socially responsive stance should result in progressive strategic success for the company and economic progress for the host country. The effective management of subsidiary–host country interdependence must have a long-term perspective. Although temporary strategies to reduce interdependence through controls on the transnational flows by firms (for example, transfer-pricing tactics) or by governments (such as new residency requirements for skilled workers) are often successful in the short run, they result in inefficiencies that must be absorbed by one or both parties, with negative long-term results. In setting up and maintaining subsidiaries, managers are wise to consider the long-term trade-offs between strategic plans and operational management. By finding out for themselves the pressing local concerns and understanding the sources of past conflicts, they can learn from mistakes and recognize the consequences of the failure to manage problems. Furthermore,

managers should implement policies that reflect corporate social responsibility regarding local economic issues, employee welfare, or natural resources. At the least, the failure to manage interdependence effectively results in constraints on strategy. In the worst case, it results in disastrous consequences for the local area, for the subsidiary, and for the global reputation of the company.

The interdependent nature of developing economies and the foreign companies operating there is of particular concern when discussing social responsibility because of the tentative and fragile nature of the economic progression in those countries. Corporations (and nongovernmental organizations [NGOs]) must set a high moral standard and lay the groundwork for future economic development. At the minimum, they should ensure that their actions will do no harm. Some recommendations for MNEs operating in and doing business with developing countries are as follows:

- Do no intentional harm. This includes respect for the integrity of the ecosystem and consumer safety.
- Produce more good than harm for the host country.
- Contribute by their activity to the host country's development.
- Respect the human rights of their employees.
- To the extent that local culture does not violate ethical norms, respect the local culture and work with and not against it.
- Pay their fair share of taxes.
- Cooperate with the local government in developing and enforcing just background (infrastructure) institutions (i.e., laws, governmental regulations, unions, and consumer groups, which serve as a means of social control).[76]

Managing Environmental Interdependence and Sustainability

Sustainability lies at the intersection of financial, social and environmental health—described sometimes as the "triple bottom line."[77]

International managers can no longer afford to ignore the impact of their activities on the environment and their stakeholders. The demand for corporations to consider **sustainability** in their CSR plans comes from various stakeholders around the world. A generally accepted definition of **sustainable development** for business enterprises is that of

> *adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today, while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.*[78]
>
> JOURNAL OF SOCIO-ECONOMICS

Existing literature generally agrees on three dimensions of sustainability: (1) economic, (2) social, and (3) environmental. A sustainable business has to take into account "the interests of future generations, biodiversity, animal protection, human rights, life cycle impacts, and principles like equity, accountability, transparency, openness, education and learning, and local action and scale."[79]

A study by Mirvis et al. found that, although most executives agree that sustainability is important to the financial success of their companies, fewer than half of them are making serious commitments to integrate the necessary steps with their business systems. Reasons include a lack of clear view on what comprises sustainability and the difficulty in allocating responsibility in the company for the vast and overlapping concerns of environmental, social, and governance issues. As a result, sustainability often is not internalized in the culture or systems of the company, and competing priorities such as short-term profits intervene.[80] However, companies such as GE, Nike, Nestlé, and Gap are among the world's prominent sustainable organizations and are providing leadership in their transparent models for other organizations to resolve the complex issues involved in implementing sustainability.

A more positive report in 2017 from a survey by McKinsey consultants of 2,711 executives representing the full range of industries and geographic regions shows that many companies are actively integrating sustainability principles with their businesses, and they are doing so by

pursuing goals that go far beyond earlier concern for reputation management. The McKinsey report noted a more mature attitude toward sustainability and its expected benefits than in prior surveys, saying that, "a larger share of respondents than ever before say the top reason for implementing a sustainability agenda is better alignment between an organization's practices and its goals, missions, or values (46 percent in 2017 compared with 30 percent in 2012)."[81] In addition, nearly 60 percent said their companies have an increased level of engagement with sustainability compared with two years earlier, and only 9 percent revealed a decline. The 2017 report shows that 70 percent of the companies in the survey instituted formal governance of sustainability, up from 56 percent in 2014. The survey respondents indicate that technology is playing a growing role in sustainability. For instance, 54 percent of the companies reveal that advances in sustainability-related technologies led to an increase in commitment. Another McKinsey report indicates a significant drop in the cost of sustainability-related technologies—renewable energy, energy storage, digital platforms, and advanced data analytics—thus making it more affordable for companies in general. Another key driver of sustainability engagement is safety and security concerns.[82]

The dilemma for corporations is that they believe they are faced with trying to meet two often contradictory requirements: (1) selling at low prices and (2) being environmentally and socially conscious. However, competitive pressures limit the company's ability to raise prices to cover the cost of socially responsible policies. This is obviously contradictory to the well-being of societies.[83] However, a long-term view is that sustainability is good for business, and many companies, such as BP and Nike, have learned this the hard way.

One example of the turnaround in a company's sustainability efforts is the Coca-Cola company in India. The company struggled to accommodate the rising concerns and protests from local farmers about the company's depletion of water resources. As reported on the *PBS Newshour*,[84] farmers are particularly angry in Kala Dera, in the drought-stricken state of Rajasthan. The Coca-Cola factory is one of 49 across India. The company has invested over $1 billion, building a market for its products in this country. The plant used about 900,000 liters of water in 2007, about a third of it for the soft drinks, the rest to clean bottles and machinery. It is drawn from wells at the plant but also from aquifers Coca-Cola shares with neighboring farmers. The water is virtually free to all users. The farmers say their problems began after the Coca-Cola factory arrived in 1999. At the heart of the issue is water, which is the principal ingredient in almost every Coca-Cola product. Yet in locations where Coca-Cola does not use local water resources, the Coca-Cola brand's pervasiveness influences the negative perception that the company is a massive water user.

According to the farmers:

> *Before, the water level was descending by about one foot per year. Now it's 10 feet every year. We have a 3.5-horsepower motor. We cannot cope. They (Coca-Cola) have a 50-horsepower pump.*[85]
>
> PBS Newshour with Jim Lehrer, November 17, 2008

Coca-Cola agreed to an independent third-party assessment of some of its operations in India, which confirmed that the Rajasthan plant is contributing to a worsening water situation. It recommended that the company bring water in from outside the area or shut the factory down. Coca-Cola rejected that recommendation. For his part, Coca-Cola's India head, Atul Singh, says it would be irresponsible to leave, saying that "walking away is the easiest thing we can do. That's not going to help that community build sustainability."[86]

Atul Singh, who became a group president at Coca-Cola, recommended that Coca-Cola build water facilities not only near its plants, but also in locations where Coca-Cola did not have operations. The new water facilities did not have the company logo. Beyond India, Coca-Cola set a goal of completely replacing the water it uses in its finished products at all its facilities, worldwide. It set this goal for 2020, but it achieved it as of 2015.[87]

> *We need to be Coca-Cola—we need to do more than is expected.*
>
> Atul Singh, 2018

The Coca-Cola example makes clear to global managers that effectively managing environmental interdependence and sustainability includes considering ecological interdependence as well as the economic and social implications of MNC activities. According to Greg Koch, Coca-Cola's director of global water stewardship, "Ultimately, Kerala became a wake-up call for the company to address its responsibility for water 'beyond the four walls of the plant.'"[88]

There is an ever-increasing awareness of, and a mounting concern worldwide about, the effects of global industrialization on the natural environment. Government regulations and powerful interest groups are demanding ecological responsibility regarding the use of scarce natural resources and production processes. MNCs have to deal with each country's different policies and techniques for environmental and health protection. Such variations in approach reflect different levels of industrialization, living standards, government–business relations, philosophies of collective intervention, patterns of industrial competition, and degrees of sophistication in public policy.

In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably. E-waste—from electronic components, computers, and cell phones, for example, all of which are full of hazardous materials—has become a major problem for developing economies, producing sickness and death for its handlers there; this continues in spite of laws against such dumping by U.S. companies and others. Often, companies choose to dispose of hazardous waste in less-developed countries to take advantage of weaker regulations and lower costs. Until we have strict international regulation of trade in hazardous wastes, companies should take it upon themselves to monitor their activities, as Singh and Lakhan demand:

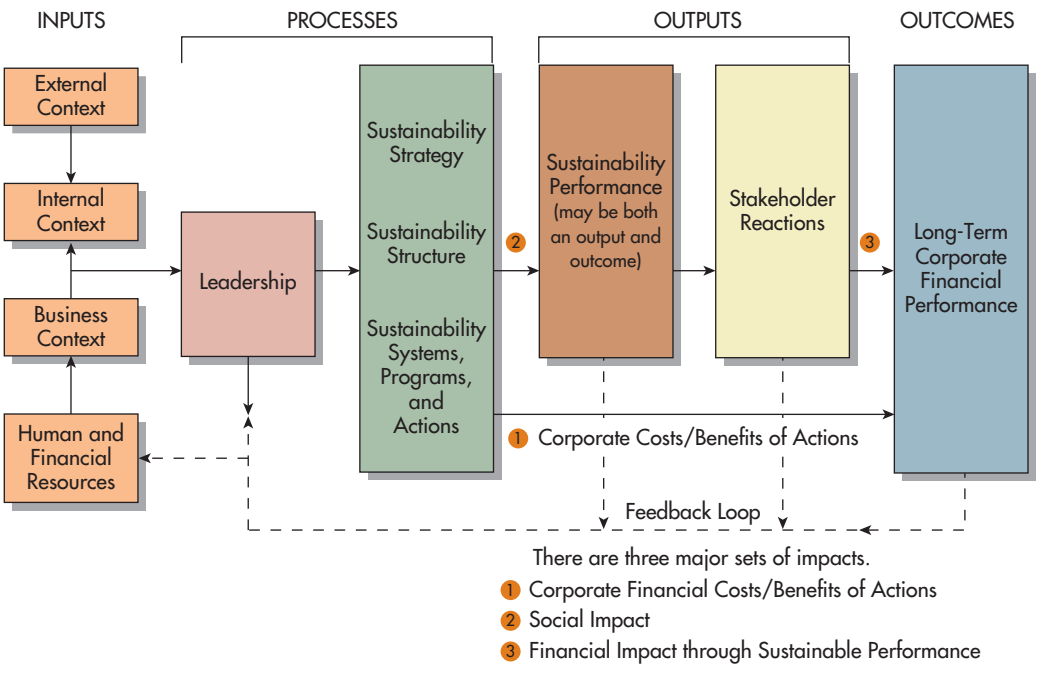
> *To export these wastes to countries which do not benefit from waste-generating industrial processes or whose citizens do not have lifestyles that generate such wastes is unethical. It is especially unjust to send hazardous wastes to lesser-developed countries which lack the technology to minimize the deleterious effects of these substances.*[89]

Implementing Sustainability Strategies

Effective implementation of sustainability strategies, according to Epstein and Buhovac, requires companies to have both formal and informal systems in place: "Companies need the processes, performance measurement, and reward systems (formal systems) to measure success and to provide internal and external accountability. But they also need the leadership, culture, and people (informal systems) to support sustainability implementation. An alignment among the formal and informal systems along with the organizational structure is critical for success."[90]

Epstein's model (Exhibit 2-7) provides a system for examining, measuring, and managing the drivers of corporate sustainability. Essential to success is the commitment of top leadership

EXHIBIT 2-7 Corporate Sustainability Model



Source: Marc J. Epstein, "Implementing Corporate Sustainability: Measuring and Managing Social and Environmental Impacts," *Strategic Finance*, January 2008. © 2008 by IMA, Montvale, NJ, www.imanet.org, used with permission.

and the recognition of sustainability as a process that will benefit the company—i.e., that it is a good business idea. Key to understanding the role of corporate sustainability is the relationship between managers' decisions, their impact on the society and its environment, and financial performance. In Epstein's model, the inputs include the external contexts in which the company operates that are specific to the locations; the internal context of the company's systems and structure; the business context, such as the industry sector, customers, and products; and the human and financial resources available to the corporation for sustainability purposes.[91] Output measures of the success of the corporation's sustainability would include, for example, reduction in energy use or hazardous waste, positive change in human rights complaints, and so on. These could result, among other factors, in cost savings and in increased sales from improved reputation (as was the case, for example, when Nike turned around its human rights reputation after a student embargo on its products).

Multinational corporations already have had a tremendous impact on foreign countries, and this impact will continue to grow and bring about long-lasting changes. Because of interdependence at both the local and global level, it is not only moral but also in the best interest of MNCs to establish a single clear posture toward social and ethical responsibilities worldwide and to ensure that it is implemented. In a real sense, foreign firms enter as guests in host countries and must respect the local laws, policies, traditions, and culture as well as those countries' economic and developmental needs.

CONCLUSION

When research findings and corporate actions indicate differential attitudes toward ethical behavior and social responsibility across cultures, MNCs must take certain steps. For example, they must be careful with overseas assignments if an individual's values are incongruent with those in the host country because this could lead to conflicts with local managers, governmental bodies, customers, and suppliers. As discussed earlier, expatriates, as well as local employees, should be oriented to the legal and ethical ramifications of questionable foreign payments, the differences in environmental regulations, and the local expectations of personal integrity. They should also be supported as they attempt to integrate host-country behaviors with the expectations of the company's headquarters.

Social responsibility, ethical behavior, interdependence, and sustainability are important concerns to be built into management control—not as afterthoughts but as part of the ongoing process of planning and controlling international operations for the long-term benefit of all. The perspective of CSV—creating shared value—encompasses a positive and proactive role in including those concerns in the strategic planning of the organization. Part 2 focuses on the pervasive and powerful influence of culture in the host-country environment in which the international manager operates. Chapter 3 examines the nature of culture. What are its various dimensions and roots? How does culture affect the behavior and expectations of employees, and what are the implications for how managers operating in other countries should behave?

Summary of Key Points

- The concept of international social responsibility (known in business circles as CSR—corporate social responsibility) includes the expectation that MNCs should be concerned about the social and economic effects of their decisions on activities in other countries and that they should build appropriate provisions into their strategic plans to deal with those potential effects.
- Moral universalism refers to the need for a moral standard that is accepted around the world; however, varying cultural attitudes and business practices make this goal unattainable at this time. A number of groups of corporations within industries have collaborated on sets of policies for CSR for both their companies and those in their supply chains. Such collaborations help to raise the standard in host countries and level the playing field for managers within those industries.
- Concerns about MNC social responsibility revolve around issues of human rights in other countries. Many organizations develop codes of conduct that specifically deal with human rights in their operations around the world.

- International business ethics refers to the conduct of managers in their relationships to all individuals and entities with whom they come into contact. Ethical behavior is judged and based largely on the cultural value system and the generally accepted ways of doing business in each country or society. Managers must decide whether to base their ethical standards on those of the host country or those of the home country and whether these different standards can be reconciled.
- MNCs must balance their responsibility to various stakeholders, such as owners, creditors, consumers, employees, suppliers, governments, and societies. Firms with a long-term perspective recognize the need to consider all of their stakeholders in their business plans.
- Managers operating abroad are often faced with differing attitudes toward bribery or other payments that raise significant questions about appropriate moral behavior in either the host nation or other nations, yet bribery or other payments are frequently demanded to conduct business. The Foreign Corrupt Practices Act prohibits most questionable payments by U.S. companies doing business in other countries.
- Managers must control their activities relative to interdependent relationships at all levels—from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility. Issues of sustainability have come to the forefront as firms consider their long-term relationships with host countries.
- The failure to manage interdependence effectively will result in constraints on strategy, at the least, or in disastrous consequences for the local area, the subsidiary, and the global reputation of the company. The perspective of CSV—creating shared value—provides a proactive model to guide companies to incorporate these concerns into their strategic planning.
- Managing environmental interdependence includes the need to consider ecological interdependence as well as the economic and social implications of MNC activities.
- Implementation of sustainability strategies requires the company to have both formal and informal systems to support the goals. Essential to success is the commitment of top leadership and the recognition of sustainability as a process that will benefit the company—that it is a good business idea.
- The organizational response following a legal or ethical scandal is important. Some companies enact major governance changes in order to prevent legal and ethical scandals in the future. Others, unfortunately, fail to take corrective measures, which may lead to more problems in the future.

Discussion Questions

2-1. Discuss the concept of CSR. What role does it play in the relationship between a company and its host country? How does CSV move beyond CSR?

2-2. Discuss the criticisms that have been leveled against MNCs in the past regarding their activities in less-developed countries. What counterarguments are there to those criticisms?

2-3. What does moral universalism mean? Discuss your perspective on this concept. Do you think the goal of moral universalism is possible? Is it advisable?

2-4. What do you think should be the role of MNCs toward human rights issues in other countries? What are the major human rights concerns at this time? What ideas do you have for dealing with these problems? What is the role of corporate codes of conduct in dealing with these concerns?

2-5. What is meant by international business ethics? Should the local culture affect ethical practices? What are the implications of local norms for ethical decisions by MNC managers?

2-6. If you were a manager of a company bound by the Foreign Corrupt Practices Act, how can you reconcile local expectations of questionable payments? What is your stance on the problem of payoffs? How does the degree of law enforcement in a particular country affect ethical behavior in business?

2-7. What do you think are the responsibilities of MNCs toward the global environment? Give some examples of MNC activities that run counter to the concepts of ecological interdependence and sustainability.

2-8. Discuss the ethical issues that have developed regarding the use of IT in cross-border transactions. What new conflicts have developed since the printing of this book? What solutions can you suggest?

Application Exercises

2-9. Do some research to determine the codes of conduct of two familiar companies. Compare the issues that they cover and share your findings with the class. After several students have presented their findings, prepare a chart showing the commonalities and differences of content in the codes presented. How do you account for the differences?

2-10. Examine an MNC that faced a human rights or environmental scandal. Critique the organizational responses of the MNC. What did it do well in the aftermath of the scandal? How could it have improved its response?

Experiential Exercise

Consider the ethical dilemmas in the following situation and decide what you would do. Then meet in small groups of students and come to a group consensus. Discuss your decisions with the class.

You are the VP for global sales of a telecommunications equipment company. The accounting manager of your company recently brought to your attention an unusual charge of a 3 percent commission to a purchasing manager in Russia with whom your company had recently started doing business. One state-owned manufacturing company in Russia (for privacy's sake, we will call the company "R") submitted a bid for a large order of your equipment. You remember being surprised to get the contract with "R" because your company had never been able to do business with it since it started there many years ago. As it turned out, your new sales manager for the region had a relative in "R" who promised to supply him with all of your competitors' bids if he paid him a 3 percent commission on all of the sales to his company. The area manager accepted this arrangement. He got the competing bids and secured the deal with your company.

What would you do, given the following: (1) If you refuse to accept the business without any legitimate reasons (presently, there are none), your company will be blacklisted in that country—which amounts to about 20 percent of gross yearly profit. (2) If you accept the business and do not pay the 3 percent commission, the purchasing manager will make much trouble when he receives your shipment. No doubt he will not release the 5 percent bank guarantee letter about the quality and quantity of the material. (3) If you accept the business and pay the 3 percent commission, you feel that it would malign your company's reputation and your beliefs.

You have three ethical problems here: First, your company has won a rigged bid. Second, you must pay the person who rigged it or he will make life miserable for you. Third, you have to decide what to do with the area manager who accepted this arrangement.

Source: Based on Delaney and D. Sockell, "Ethics in the Trenches," *Across the Board* (October 1990), p. 17.

CASE STUDY

Facebook Faces Fresh Probe After Photo Leak

Tim Bradshaw in London
December 14, 2018

Facebook has been hit with the broadest data protection investigation yet in Europe after the social media group revealed another leak of private photos belonging to millions of people.

The Irish data protection commission said it had opened a new investigation into Facebook because of its high number of data breaches this year.

The social network said on Friday that it had discovered a problem with the way hundreds of third-party developers accessed photos using its app platform. The flaw leaked private photos that Facebook users had uploaded but not chosen to share publicly.

"Because of this bug, some third-party apps may have had access to a broader set of photos than usual for 12 days between September 13 to September 25, 2018," Facebook's engineering director Tomer Bar said. "Currently, we believe this may have affected up to 6.8m users and up to 1,500 apps built by 876 developers."

The Irish data protection commissioner said in response to Facebook's revelation that it had opened an investigation into the Silicon Valley company's compliance with the EU's General Data Protection Regulation—not just on the latest leak but on the broad spread of privacy issues this year.

"The Irish DPC has received a number of breach notifications from Facebook since the introduction of the GDPR on May 25, 2018," a spokesperson said. "With reference to these data breaches, including the breach in question, we have this week commenced a statutory inquiry examining Facebook's compliance with the relevant provisions of the GDPR."

Facebook has been left reeling from a series of privacy and security problems in the wake of the Cambridge Analytica scandal, which has prompted investigations from regulators in the US, Europe and the UK.

In September, Facebook disclosed a cyber attack that it said could have exposed the personal information of tens of millions of its users.

Under GDPR, companies must inform regulators of any data breach within 72 hours of its discovery. Fines can run to as much as 4 per cent of a company's global revenues for the prior year.

Facebook said it was "sorry" the latest photo breach had happened and would release a tool next week to help developers determine which users had been affected. "We will also notify the people potentially impacted by this bug via an alert on Facebook," it said.

Source: © 2018 The Financial Times Limited 2018.

Case Questions

2-11. Who are Facebook's stakeholders? What are the social responsibilities of the company? To what level of CSR or CSV is the company adhering at the time of this case?

2-12. No doubt, much will have transpired since the writing of this case regarding Facebook's privacy challenges. Research and compile an update. What other privacy issues have arisen in Europe, in the United States, and around the world? What has Mark Zuckerberg done about it to placate the public and preserve the brand?

2-13. What is your personal opinion about the problems of privacy from using Facebook?

2-14. What regulations or restrictions for Facebook have been put in place in Europe and the United States? Do you agree with them?

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Case I Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

This case was written by Syeda Maseeha Qumer and Debapratim Purkayastha, IBS Hyderabad.[1]

In March 2017, a federal judge in California dismissed a long-running (12-year) class action lawsuit against Nestlé SA (Nestlé) and two more companies over claims the global chocolate manufacturer facilitated the use of forced child labor in West Africa. Nestlé, one of the world's largest food processing companies, had been grappling with accusations of aiding and abetting child slavery on cocoa plantations in Ivory Coast[2] for more than a decade.

Earlier in 2015, Nestlé surprised many by admitting that it had found forced labor in its seafood supply chain in Thailand. Magdi Batato (Batato), Executive Vice President and Head of Operations at Nestlé, self-reported that Nestle had uncovered child labor exploitation on fishing boats in Thailand that supplied its factories. He reported details of the investigation and also initiated a detailed action plan on how it intended to tackle the issue. The news generated a mixed response from industry observers. Hailing Nestlé's honesty, Brian Griffin, CEO of digital marketing agency Vero PR, said, *"First of all, what Nestlé did was brave, and from a moral perspective, they did the right thing to let stakeholders know about this issue. They will feel some pain from this initially, particularly from a consumer standpoint, and it's not hard to imagine that sales of seafood products may decline. There is no question that the issue must be cleaned up, and that it must happen now. We should appreciate what Nestlé has done to bring even more attention to the issue."*[3] However, Nestlé's critics contended that the company had done this only to fend off growing criticism against it. It had admitted to slavery in seafood, a low-profit area of the company's business, while not doing enough to tackle this problem in its lucrative chocolate business.

In September 2015, three class action lawsuits brought in by consumers in California accused Nestlé of turning a blind eye to human rights abuses by cocoa suppliers in West Africa while falsely portraying itself as a socially and ethically responsible company. Nestlé said it was committed to tackling child labor in its cocoa supply chain, and had been taking action to address the issue which included increasing access to education, stepping up systems of age verification at cocoa farms, and increasing awareness about the company's own code of conduct. Despite Nestlé's assurances, the use of child labor continued and became even more prevalent in its cocoa supply chains. Though Nestlé's commitment to eliminating slavery seemed promising, lawsuits related to slavery in its core business operations questioned such promises, critics said.

The existence of modern slavery within its cocoa supply chain posed ethical and reputational risks for Nestlé. Analysts said addressing slavery would be a critical issue for the company going forward due to the complexity and limited visibility of its supply chain, its reputation for reliability among stakeholders (customers, investors, NGOs), transparency dilemmas, as well as cost and pricing pressures. However, some analysts said Nestlé being a financially sound company, it could do more to stop slave labor and take more control over its supply chain management. According to Marianne Smallwood, a diplomat for the US Agency for International Development, *"In initiating the public examination of its flaws, and in working with an organization like Verite, Nestlé has already gone a more honorable and transparent route than other companies have done. But while it has taken the first step toward being a more responsible company, Nestlé's commitment to funding a long-term strategy—and how it pushes beyond the inevitable roadblocks ahead—will determine its ultimate footprint and legacy."*[4]

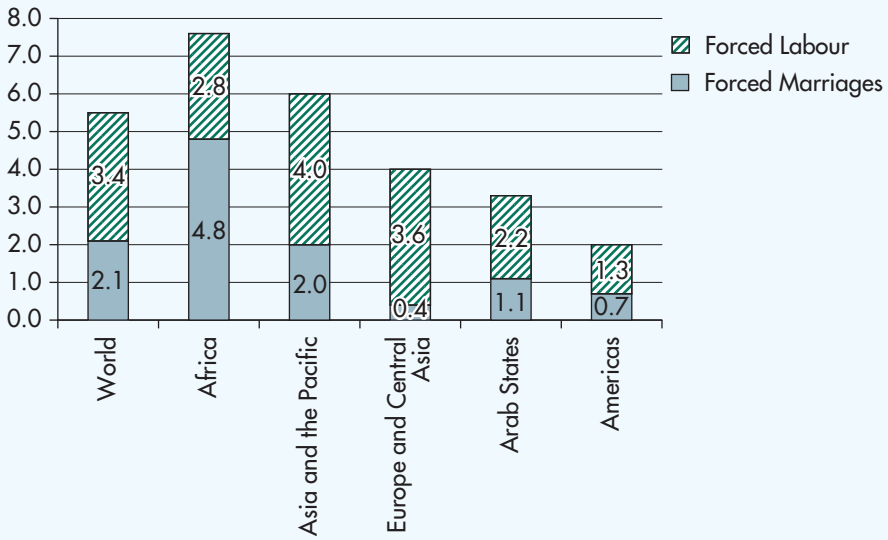
According to Batato, *"Every reasonable person who has gone to Africa, gone to Asia, who has seen the farmers and factories, can tell you that [child labor] does exist. It is part of their life. Do we accept it? No. Are we going to stay quiet and do nothing? No. But making a big declaration that tomorrow morning we are going to see it disappear, sometimes the problem is bigger than us, bigger than a company even the size of Nestlé."*[5] Nevertheless, the critical question before him was: How to eliminate forced labor from Nestlé's supply chains worldover? Could he address the problem and bring real and sustained change in how the company's cocoa supply chains were managed?

Background Note

Nestlé, headquartered in Vevey, Switzerland, was founded in 1866. One of the leading players in the food and beverage categories, the company had a global presence and employed more than 328,000 people as of 2017. Its sales and profits for the year 2016 were CHF 89.5 billion and CHF 8.53 billion respectively.[6]

Though Nestlé was among the world's largest food processing companies and had great consumer brands well known for their quality, critics pointed out that there seemed to be an element of arrogance in its actions.[7] The company had a history of confrontations over a range of issues.[8] There were instances of Nestlé being accused of disregarding its corporate responsibility in many countries in which it operated. The Swiss conglomerate had had its fair share of controversies and ethical dilemmas during its nearly 150-year-long history.[9] Experts pointed out that the history of Nestlé's public relations troubles began in the 1970s with allegations of unethical marketing of baby formula[10] in less developed countries.[11] Since then, Nestlé had continued to get into trouble. For instance, in 2008, it was blacklisted by the Chinese government.[12] Later, it was targeted for the misleading promotion of its bottled water brands as well as for interfering in policies that protected natural water resources.[13]

EXHIBIT I **Prevalence of Modem Slavery (per 1,000 population), by Region and Category**



Source: Adapted from https://www.alliance87.org/global_estimates_of_modern_slavery-forced_labour_and_forced_marriage.pdf.

In the UK, the Ethical Consumer Research Association (ECRA)[14] gave Nestlé an ethical rating, Ethiscore,[15] of 0.5 out of 20. ECRA had found the company to be linked to social ills such as child labor, slavery, rainforest destruction, water extraction, and debt perpetuation. Critics pointed out that in 2005, when it launched the 'Partners Blend' fair trade[16] coffee, Nestlé was termed as the UK's most boycotted and irresponsible corporation.[17]

Modern Slavery in Global Supply Chains

Modern slavery could be described as control by people or organizations over vulnerable individuals in order to obtain personal gain or profit. Modern slavery included forced labor, debt-bondage, child labor, wage exploitation, human trafficking, forced marriage, involuntary domestic servitude, or any other practice wherein victims were engaged in unreasonable work through physical or mental threat. According to the 2016 Global Slavery Index, about 40.3 million people were victims of some form of modern slavery globally. Of these people, about 24.9 million were in forced labor. The rate of modern slavery was reported to be the highest in Africa, with 7.6 victims for every 1,000 people in the region ***(See Exhibit I and Exhibit II).***

Modern slavery had broader social and economic costs, in terms of impeding economic development and perpetuating poverty, said experts. According to them, globalization had led companies to turn to lower-cost suppliers who sourced cheaper raw materials and used low-wage labor in order to maximize profits. According to an ILO report, forced labor generated about US$ 150 billion in illegal profits annually.

EXHIBIT II **Number and Prevalence of Persons in Modern Slavery, by Category and Age**

Number in thousands and prevalence in per thousand

			Forced labor sub-categories					
			Forced labor slavery exploitation	Forced sexual exploitation of adults and commercial sexual exploitation of children	State-imposed forced labor	Total forced labor	Forced marriage	Modern slavery
World		Number	15, 975	4,816	4,060	24,850	15,442	40,293
		Prevalence	2.2	0.7	0.5	3.4	2.1	5.4
Age	Adults	Number	12,995	3,791	3,778	20,564	9,762	30,327
		Prevalence	2.5	0.7	0.7	3.9	1.9	5.8
	Children	Number	2980	1024	282	4286	5679	9965
		Prevalence	1.3	0.4	0.1	1.9	2.5	4.4

Source: Adapted from https://www.alliance87.org/global_estimates_of_modern_slavery-forced_labour_and_ forced_marriage.pdf.

Analysts pointed out that slavery was an abuse of human rights in the pursuit of profits and that corporations had a moral duty not to indulge in or tolerate it. Addressing human rights and labor issues in the supply chain had become a necessity for businesses in the consumer goods industry, they said. This was partly due to rising consumer demand for ethical products. Several governments had enacted legislations which mandated that companies ensure respect for human rights in their supply chains. A number of anti-modern slavery regulations had also come into existence ***(See Exhibit III).*** The California Transparency in Supply Chains Act, signed in 2010 and enacted on January 1, 2012, was one of the first anti-modern slavery regulations. This Act aimed to ensure that *"large retailers and manufacturers provide consumers with information regarding their efforts to eradicate slavery and human trafficking from their supply chains."* The United Nations Guiding Principles on Business and Human Rights (UNGPs) were endorsed by the UN Human Rights Council in June 2011. These were a set of guidelines for States and companies to prevent, address, and remedy human rights abuses committed in business operations. The UNGPs based on the three pillars 'Protect, Respect, and Remedy' had since become the trusted global framework for business and human rights.

The most prominent of anti-slavery regulations was the UK Modern Slavery Act, passed on March 26, 2015. It required businesses with a turnover of more than £36 million annually to produce a 'slavery and human trafficking statement' once a year disclosing what action they had taken to ensure their supply chains were free of slave labor. Experts felt that though the legislation did not impose financial penalties on companies that failed to comply, the adverse effects of being prosecuted for failing to do so could lead to reputational risks and could be more damaging than any fine.

EXHIBIT III **Anti-Modern Slavery Regulations**

Year	Regulation
2000	The United Nations passes the Protocol to Prevent, Suppress, and Punish Trafficking in Persons as part of the Convention against Transnational Organized Crime. It is the first global legally binding treaty with an internationally agreed definition of trafficking in persons.
2002	The International Cocoa Initiative is established as a joint effort of anti-slavery groups and major chocolate companies to protect children and contribute to the elimination of child labor.
2004	The United Nations appoints a Special Rapporteur on Human Trafficking.
2008	The Council of Europe Convention on Action against Trafficking in Human Beings comes into force.
2010	California enacts the California Transparency in Supply Chains Act.
2014	The ILO adopts a protocol on forced labor, bringing its 1930 Convention on Forced Labor into the modern era to address practices such as human trafficking.
2015	Britain's Modern Slavery Act comes into force.
2015	The United Nations adopts 17 Sustainable Development Goals, including a target of ending slavery and eradicating forced labor and human trafficking.

Source: Compiled from various sources

Child Slavery in Nestlé's Cocoa Supply Chain

Nestlé was a leader in the chocolate confectionery industry and used 10% of the world's cocoa production. It worked directly with almost 165,000 direct suppliers and 695,000 individual farmers worldwide for procuring raw materials such as cocoa, dairy, sugar, coffee, etc. Nestlé primarily sourced cocoa from co-ops and farms in Ivory Coast and Ghana. Nestlé purchased around 414,000 tons of cocoa annually for chocolate and confectionery as well as beverages. The cocoa supply chain includes many intermediaries between the farmer and consumer. Small farmers typically sell their cocoa harvest to local middlemen for cash. The middlemen work under contract for local exporters, who, in turn, sell cocoa to international traders and the major international cocoa brands.

Allegations of child labor and human rights abuses in its cocoa and agricultural supply chains had dogged Nestlé for years. Since the late 1990s, Nestlé and its competitors had received negative publicity and media coverage over their use of child slave labor and the lack of transparency within their cocoa supply chain. Though Nestlé's Corporate Business Principles and Supplier Code prohibited both child and forced labor, Nestlé was aware that cocoa beans from Ivory Coast were produced using child labor. While Nestlé and its competitors vied for market share and profits, cocoa farmers suffered due to low income attributed to the fall in the price of cocoa beans. Cocoa bean futures on the Intercontinental Exchange in New York hit US$2,052 per metric ton on February 3, 2017, compared to US$3,422 per metric ton in December 2015. Many farmers felt that child labor was a viable option in order to cut production and work costs. As a result, child slavery had become extremely prevalent throughout the cocoa supply chain, and there had been minimal action taken by the chocolate manufacturing companies to stop the exploitation of these children.

The practice of child labor was rampant in the cocoa industry wherein harvesting and processing of the cocoa plant was left to children, often unpaid and living in slavery ***(See Exhibit IV).*** Some children were sold by their parents to traffickers, while many were kidnapped. Reportedly, they worked from dawn to dusk each day, were denied sufficient food, and locked in a shed at night where they were given a tiny cup in which to urinate.[18] Some children were forced to do unsafe tasks, including carrying heavy loads, using machetes and sharp tools, and applying pesticides and fertilizers. *"The rules and regulations are so lax there that there is no government to step in and stop the atrocities. This horrific state of child slavery is also the perfect cheap labor for candy companies that want to sell you chocolate for dirt cheap prices. Why do you think it only costs $1 for a chocolate bar?"*[18] wrote journalist LJ Vanier.

EXHIBIT IV **Children's Involvement in Child Labour and Hazardous Work, 2000-16**

	Children in Child Labour World (5–17 Years)		Children in Hazardous Work World (5–17 Years)	
	Number (000s)	Prevalence (%)	Number (000s)	Prevalence (%)
2000	245,500	16.0%	170,500	11.1%
2004	222,294	14.2%	128,381	8.2%
2008	215,209	13.6%	115,314	7.3%
2012	167,956	10.6%	85,344	5.4%
2016	151,622	9.6%	72,525	4.6%

Source: Adapted from https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575541.pdf.

The growing awareness about child slaves working in the production of cocoa led to consumers questioning where exactly their chocolate was coming from and who was making it. In 2001, following pressure and outrage from civil society groups, media, and the general public, eight chocolate manufacturing companies in the US including Nestlé, signed the Harkin-Engel protocol[20] to investigate the labor practices and eliminate the worst forms of child labor in the processing of cocoa in Ivory Coast and Ghana by 2005. However, when the 2005 deadline arrived, the companies had yet to eradicate child labor from their supply chains. The target was then extended to 2008. Unable to meet the new self-imposed deadline again, in 2010, the signatories of the protocol started afresh with a treaty called The Declaration of Joint Action to implement the Harkin-Engel Protocol and to reduce the worst forms of child labor by 70% across the cocoa plantations of Ivory Coast by 2020.

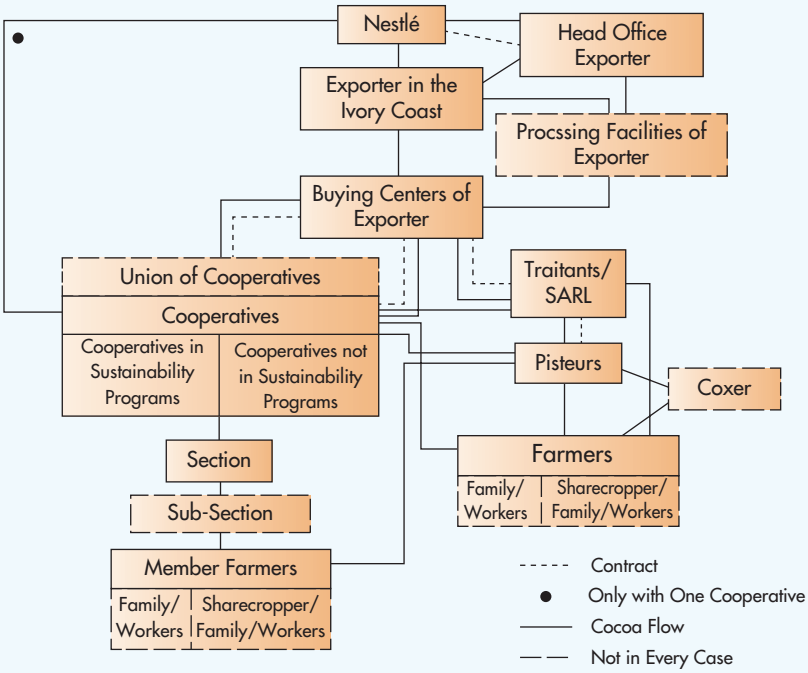
In 2005, a lawsuit was filed against Nestlé, Archer Daniels Midland Co,[21] and Cargill Inc[22] by three former child slavery victims originally from Mali in West Africa who alleged that these companies aided and abetted human rights violations through their active involvement in purchasing cocoa in Ivory Coast. The lawsuit claimed that the companies were aware of the child slavery problem and offered financial and technical assistance to local farmers to procure the cheapest source of cocoa. In court documents, the three plaintiffs claimed that they had been trafficked from their homes and put to work on plantations in Ivory Coast. They described how they had been whipped, beaten, and forced to work for 14 to 16 hours a day before being allowed to retire to their dark rooms. One plaintiff recounted how guards would slice open the feet of any child worker who tried to escape. The lawsuit accused Nestlé of making false assertions to consumers and not disclosing that its suppliers relied on child laborers to procure cocoa at the point of purchase.

Nestlé said that the claims against it should be dismissed as it was committed to the goal of eliminating child labor from its cocoa supply chain. Claiming that the lawsuit was without merit, Nestlé said that "proactive and multi-stakeholder efforts" were required to eradicate child labor, not lawsuits. *"Forced child labor is a complex, global social issue in foreign countries that is not going to be solved by lawsuits in U.S. courts against the very companies that are leading the fight to help eradicate it,"*[23] said Paul Bakus, President of Corporate Affairs, Nestlé USA. After a first dismissal in 2008, the case was examined again and the lawsuit was reinstated by The US court of appeals in San Francisco in 2014 on the grounds that the plaintiffs had valid reasons to accuse Nestlé of pursuing profits more than human well-being.

In October 2009, Nestlé launched a companywide initiative called The Nestlé Cocoa Plan (TNCP) in collaboration with International Cocoa Initiative[24] (ICI) in order to ensure a sustainable future for the cocoa industry worldwide and the communities depending on it. The goal of TNCP was *"to help cocoa farmers run profitable farms, respect the environment, have a good quality of life and for their children to benefit from an education and see cocoa farming as a respectable profession."*[25] To achieve this, Nestlé committed CHF 110 million to the plan for 10 years and pledged to source 230,000 MT of cocoa through TNCP by 2020. Despite the industry's assurances, critics contended that the worst forms of child labor continued in Ivory Coast.

Amid accusations of failing to carry out checks on child labor in its cocoa supply chain, in November 2011, Nestlé commissioned Fair Labor Association (FLA)[26] to assess its cocoa supply chain in Ivory Coast. The goals of the assessment were to map stakeholders involved in Nestlé's cocoa supply chain and to analyze the associated labor risks in its cocoa supply chain. The assessment team mapped the cocoa supply chain in depth including Nestlé's headquarters in Switzerland, R&D in Abidjan and local operations in the Ivory Coast; Tier 1 suppliers of Nestlé and their subsidiaries in West Africa, processing facilities and buying centers in the Ivory Coast; third-party service providers; pisteurs[27]; cooperatives; traitants[28]; farmers; Métayers[29]; Coxers[30] and workers ***(See Exhibit V).*** A team of 20 local and international experts visited a total of seven suppliers, 20 co-operatives, and two co-operative unions, and 87 farms. In all, over 500 interviews were conducted with farmers and other stakeholders in the supply chain, including local community members, local governments, NGOs, suppliers, and Nestlé staff. The FLA released the results of its audit in 2012, finding continued evidence of child labor in the Ivory Coast farms supplying Nestlé. The researchers found 56 workers under the age of 18, of whom 27 were under 15. According to Steve Berman (Berman), managing partner at law firm Hagens Berman Sobol Shapiro LLP, *"They claim they've been taking*

EXHIBIT V Nestlé's Cocoa Supply Chain Map in the Ivory Coast



Source: http://www.fairlabor.org/sites/default/files/documents/reports/cocoa-report-final_0.pdf.

steps. They partner with the Fair Labor Association to investigate, and they claim they're committed to eradicating it, but the fact is the recent reports show the number of children in the cocoa industry has increased. We doubt that Nestlé is taking this very seriously."[31]

Moreover, Nestlé's claims that it had made progress toward meeting the Harkin-Engel Protocol fell flat when a 2015 report from the Payson Center for International Development of Tulane University, sponsored by the US Department of Labor, found that the number of children engaged in cocoa production in Ivory Coast had increased 51% to 1.4 million in 2013–14, compared to 791,181 children engaged in such work in 2008–09. However, Nestlé defended itself stating, *"cocoa supply chain is long and complex–making it difficult for food companies to establish exactly where their cocoa comes from and under what conditions it was harvested."*[32]

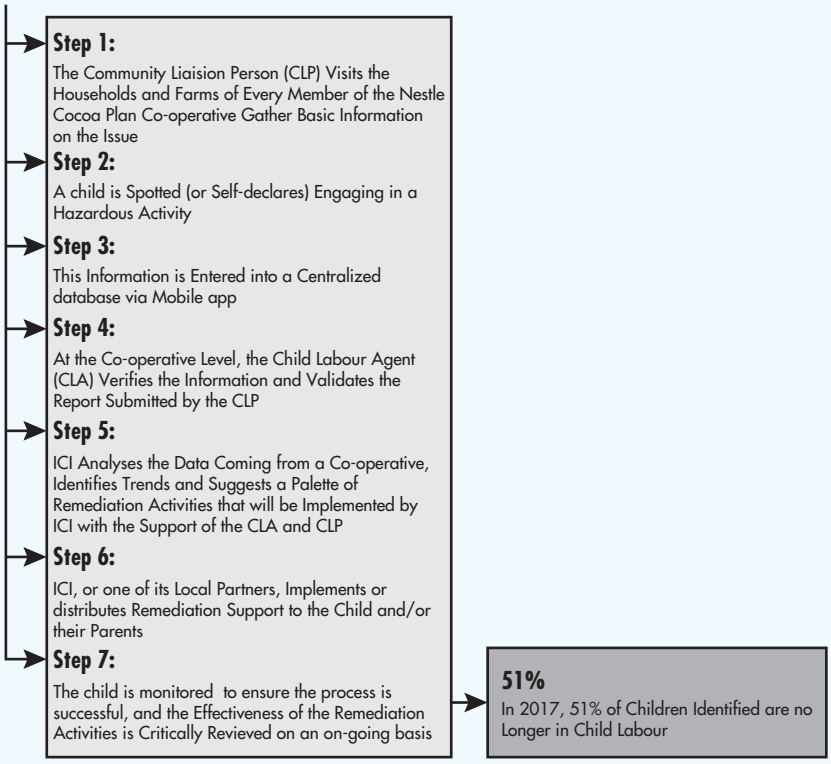
Nestlé's failure to bring transparency into its supply chain again came under the public spotlight in September when consumers filed three class-action lawsuits against Nestlé, The Hershey Co., and Mars Inc. for allegedly using child labor in chocolate production. The lawsuit stated that in violation of California law, the companies did not disclose that their suppliers in Ivory Coast relied on child laborers and instead continued to profit by tricking consumers into indirectly supporting the use of such labor. According to the complaint, *"Nestlé, as one of the largest companies in the world, can dictate the terms by which cocoa beans are produced and supplied to it, including the labor conditions in the supply chain. But through its own inadequate efforts over the course of decades Nestlé is presently not able to trace all of the cocoa beans that make up its Chocolate Products back to the cocoa plantations on which they are grown, much less ensure that the cocoa beans are not the product of child or slave labor. And meanwhile Nestlé continues to profit from the child and forced labor that is used to make its Chocolate Products. This is shameful."*[33]

Nestlé's Initiatives to Address the Issue

Following the findings of the FLA report, Nestlé set out to address child labor by undertaking the 11 recommendations the FLA had made to it which included strengthening the Nestlé Supplier Code, increasing accountability from the various tiers of suppliers, and developing a robust and comprehensive internal monitoring and remediation system. Reiterating the promise made in 2001, Nestlé said it was taking action to progressively eliminate child labor in cocoa-growing areas by assessing individual cases and tackling the root causes. *"The use of child labor is unacceptable and goes against everything Nestlé stands for. Nestlé is committed to following and respecting all international laws and is dedicated to the goal of eradicating child labor from our cocoa supply chain,"*[34] the company said in a statement.

In 2012, Nestlé was the first cocoa purchaser to set up a Child Labor Monitoring and Remediation System (CLMRS) in Ivory Coast in association with ICI ***(See Exhibit VI).*** The system locally recruited 'community liaison people' and 'child labor agents' who worked to raise awareness about child labor in communities, identified children at risk, and reported their findings to Nestlé and its suppliers. By the end of 2015, the system covered 40 cooperatives and 26,000 cocoa farmers.

EXHIBIT VI Child Labor Monitoring & Remediation System



Source: Adapted from www.nestle.com.

In 2016, the CLMRS was extended to a further 29 cooperatives, taking the total to 69. By 2016, CLMRS covered 37,130 farmers and identified 3,933 children who were involved in hazardous tasks on cocoa farms ***(See Exhibit VII).*** Half of the identified children were included in CLMRS and sent to school while income generating activities were developed for their families. Nestlé built 40 schools in Ivory Coast to help end unlawful child labor. Despite this, allegations that the company was not doing enough continued. According to a spokesperson from Nestlé, *"Unfortunately, the scale and complexity of the issue is such that no company sourcing cocoa from Ivory Coast can guarantee that it has completely removed the risk of child labour from its supply chain."*[35]

Earlier in 2010, Nestlé entered into a partnership with the Danish Institute for Human Rights[36] (DIHR) to support its commitment to respecting human rights as stated in the company's Corporate Business Principles. As part of this commitment, Nestlé developed and implemented an 8-pillar Human

EXHIBIT VII Growth of CLMRS

	2015	2016	2017
Number of co-ops in CLMRS	40	69	95
Number of farmers covered by CLMRS	24 470	37 130	65486
Farmers and community members who attended awareness-raising sessions	120 067	193 424	289657
Number of women supported to carry out an income-generating activity	1311	1073	-
Cumulative total of schools built	42	42	-
Number and % of children participating in child labor	5 135 19%	6 065 16%	-
Number and % of child labor cases assisted	3 591 70%	4 680 77%	-
Number of families of children identified in child labor benefiting from income-generating activities	1 167	1 305	-

Source: Adapted from Nestle CSV Full Report 2016 and other sources.

EXHIBIT VIII Nestlé Human Rights Due Diligence Program – Achievements 2016

	HRDD pillar	Achievements
1	Policy commitments	Preparation of the Nestlé Commitment on Labor Rights in Agricultural Supply Chains.
2	Stakeholder engagement	Organized a stakeholder convening in Geneva, which included a specific human rights breakout session with expert stakeholders.
3	Training and awareness	Rolled out human rights training to high-risk countries, training 9573 employees in eight such countries in 2016.
4	Risk evaluation	Having identified 11 salient issues, Nestlé developed detailed action plans for seven of them.
5	Impact assessment	Carried out assessments on Nestlé's tomato supply chains in Spain and Italy and sugarcane supply chain.
6	Governance	Established clear roles and responsibilities at different levels of the company.
7	Partnerships	Engaged with vanilla supplier, MANE, to upscale the company's activities on the ground in Madagascar.
8	Monitoring and reporting	Carried out Human Rights Impact Assessment in Egypt.

Source: Adapted from http://www.nestle.com/csv/communities/respecting-human-rights and sources.

Rights Due Diligence Program (HRDD) with the aim of making Nestlé's approach to human rights strategic, comprehensive, and coordinated ***(See Exhibit VIII).*** As part of the program, Nestlé continued to tackle child labor in its cocoa supply chain in Ivory Coast by focusing on vulnerable groups, especially girls and children of migrant workers. In 2015, Nestlé was one of the early adopters of the UNGP Reporting Framework to effectively manage human rights in its operations. This Framework was based on the global standard of the UNGPs.

In October 2015, Batato[36] was appointed as Executive Vice President and Head of Operations at Nestlé. Batato controlled all 500 of Nestle's manufacturing facilities around the world. He was also responsible for Nestlé's rural development activities and procurement. Nestlé operated a Child Labour and Women's Empowerment Steering Group, chaired by Batato, to identify measures, take decisions and monitor progress.

In 2016, Nestlé increased the amount of cocoa purchased through TNCP to 140,933 tonnes at a cost of about CHF 30 million. By 2017, the company planned to source 150,000 tonnes of cocoa through TNCP and 230,000 tonnes by 2020. The company claimed that its KitKat brand had become the first global confectionery brand to be sourced from 100% certified cocoa. In order to strengthen its cocoa bean supply in a responsible way, Nestlé encouraged its supplying farms to be UTZ[38] certified. The process included farm selection and farmer training in good agricultural practices, health and safety, and care for the environment. Farmer compliance was checked by both Nestlé agronomists and an external auditor.

Nestlé Admits to Forced Labor

Following allegations that it was using slave labor to catch and process fish for its popular Fancy Feast cat food, in early 2015, Nestlé commissioned Verité,[39] a human rights watchdog, to conduct an investigation into six of its production sites in Thailand. Verité conducted a three-month assessment into the possibility of forced labor and human trafficking in Nestlé's Thai supply chain. The investigation was targeted specifically at the vessel-to-market place shrimp and fishmeal supply chain. Verité interviewed more than 100 people, including about 80 workers from Myanmar and Cambodia, as well as boat owners, shrimp farm owners, site supervisors, and representatives of Nestlé's suppliers. It visited fishing ports, fishmeal packing plants, shrimp farms, and docked fishing boats in Thailand. Verite found indicators of forced labor, human trafficking, and child labor present in land and sea-based workers at the sites assessed. These indicators included deceptive recruitment practices, little or no employment protections for workers, restriction on the freedom of movement of workers, and instances of both verbal and physical abuse.

According to the Verité study, workers were either sold as slaves to seafood suppliers in Thailand, or trapped in the fishing industry through false promises and debt bondage. Often trafficked from Thailand's neighboring countries such as Cambodia and Myanmar, the laborers were sold to fishing boat captains needing crews to man their fishing boats, according to the report. The work was strenuous with shifts lasting up to 20 hours a day with little or no pay and refusal to work to a supervisor's satisfaction led to beatings or sometimes even death. *"Sometimes, the net is too heavy and workers get pulled into the water and just disappear. When someone dies, he gets thrown into the water. Some have fallen overboard,"*[40] said a Burmese worker to Verité.

While Nestlé had publicly accepted the findings of the report, Verité said this problem was not unique to Nestlé's supply chain but rather "systemic in nature" within the vulnerable migrant worker communities in Thailand.

Meanwhile, in August 2015, pet food buyers filed a class-action lawsuit against Nestlé for importing fish-based pet food[41] from suppliers in Thailand who used slave labor. According to the lawsuit, *Nestlé* supported a system of slave labor and human trafficking to distribute and market its Purina brand Fancy Feast

cat food while hiding its involvement in human rights violations from the public. Nestlé had partnered with Thai Union Frozen Products PCL to import seafood-based pet food for its Purina pet food brand. Melanie Barber, the plaintiff, alleged that Nestlé had violated consumer protection statutes by failing to disclose that some ingredients in its cat food products contained seafood which was sourced from forced labor. She argued that Nestlé was obliged to make additional disclosures at the point of sale regarding the probability that the product contained seafood sourced from forced labor.

According to Berman, *"By hiding this from public view, Nestlé has effectively tricked millions of consumers into supporting and encouraging slave labor on floating prisons. It's a fact that the thousands of purchasers of its top-selling pet food products would not have bought this brand had they known the truth – that hundreds of individuals are enslaved, beaten or even murdered in the production of its pet food."*[42]

The alleged violations were brought under the California Unfair Competition Law (UCL), the California Legal Remedies Act, and the California False Advertising law. Nestlé applied for the lawsuit to be dismissed, arguing that it could rely on so-called 'safe harbor' provisions, as the company had made specific disclosures on forced labor issues as required by the California Transparency in Supply Chain Acts of 2010.

After fending off allegations, in November 2015, Nestlé took observers by surprise when it publicly admitted that its seafood supply chain was tainted by modern slavery. The company emphasized that *"no other company sourcing seafood from Thailand, the world's third-largest seafood exporter, could have avoided being exposed to the same risks."*[43] In 2015, Batato in a brave move self-reported that Nestlé had uncovered child labor exploitation on fishing boats in Thailand that supplied its factories. According to industry observers, the disclosure came as a surprise as international companies rarely acknowledged abuses in their supply chains. Some analysts felt that Nestlé's voluntary disclosure could boost its ethical image and possibly shift the parameters of what could be expected of businesses when it came to supply chain accountability. *"Nestlé's decision to conduct this investigation is to be applauded. If you've got one of the biggest brands in the world proactively coming out and admitting that they have found slavery in their business operations, then it's potentially a huge game-changer and could lead to real and sustained change in how supply chains are managed,"*[44] said Nick Grono, CEO of NGO the Freedom Fund.

In December 2015, the Central District of California dismissed the lawsuit on the grounds that the California Act had created a 'safe harbor' under which companies were sheltered from liability when they accurately complied with the limited disclosure obligations that the law mandated.

Following Verité's investigation and its own admission, Nestlé launched an action plan on seafood sourced from Thailand which included a series of actions to protect workers from abuses and improve working conditions ***(See Exhibit IX).*** The plan included commitments to establish an emergency response team with various partners to remediate risks and take short-term action to protect workers, a grievance mechanism allowing anonymous reporting, a fishing vessel verification program involving regular third-party verification of randomly selected boats to assess working conditions, and a training program for boat owners and captains based on best practices. Batato, said, *"As we've said consistently, forced labor and human rights abuses have no place in our supply chain. Nestlé believes that by working with suppliers we can make a positive difference to the sourcing of ingredients."*[45] Batato further added

EXHIBIT IX **Responsible Sourcing of Seafood-Thailand Action Plan 2015–2016**

Objective	Action
Incorporate new business requirements into commercial relationship, based on the current signature of the Nestlé Supplier Code.	• Work closely with suppliers to ensure development and implementation of capacity building programs and business requirements that address human rights and labor standards and demonstrate compliance on an ongoing basis. • At a minimum the supplier shall run a traceability system enabling the identification of all potential origins (farms, mills, back to fishing vessels) linked with seafood and other ingredients used as part of product recipes. • Additionally the supplier shall operate a seafood responsible sourcing program to ensure that origins identified are continuously assessed and assisted in meeting business requirements detailed in the Nestlé Responsible Sourcing Guidelines.
Enforce traceable supply chains identifying all potential sources of origins as part of a comprehensive supply chain risk assessment.	• Ensure a verifiable supply chain traceability system as part of a comprehensive supply chain risk assessment that is aligned with industry partners and stakeholders within the Thailand Seafood Industry enabling traceability of seafood ingredients from fishing vessels through the complete supply chain to the receiving manufacturing sites and finished products.
Define and communicate requirements to boat owners and/or captains, including recruitment practices and living/working conditions for boat workers.	• Building on the Marine Catch Purchasing Document, or any other industry recognized best practice, create a set of requirements for boat owners and captains. • Requirements will cover traceability, recruitment practices, fish catching system, living and working conditions for boat workers. • A toolkit composed of Employment Contract Template and rules, Worker ID cards, template to monitor worker's names, working time, salary, and associated deductions if any.

Objective	Action
Implement a training program for boat owners and/or captains.	• In association with industry partners and stakeholders within the Thailand Seafood Industry, create a training hub to generate awareness and provide education to ensure effective worker protections in priority areas as determined by Verite. • The training hub may take the form of a "demonstration boat" or "university" where a training program will be given to electable boat owners/captains. • As reward and enabler for continuous improvement, the program will include a mechanism to apply for financial support to speed up the implementation of best practices learned. • Award financial support in the form of sponsoring or micro credit, for instance, for boat lodging and cooking facilities.
Implement an awareness raising campaign on human rights and labor conditions, targeting primarily boat workers.	• In collaboration with local authority and industry partners and stakeholders in the Thailand Seafood Industry, create an awareness raising campaign addressing the areas of labor standards & health and safety at the workplace. • Campaign to be deployed in locations identified as impactful for migrant workforce & linked with regular boat's docking, including the introduction of a grievance mechanism & providing some immediate tangible personal benefits to workers. • Campaign will incorporate an anonymous reporting system to identify the worst form of labor conditions to be addressed by the Emergency Response Team.
Enable the work of a Migrant Workforce Emergency Response team.	• Identify a third-party partner [e.g. project Issara, to be considered] experienced in protecting individuals from the worst form of labor conditions. • Deploy and empower this partner organization as the Migrant Workforce Emergency Response Team in charge to deploy the necessary assessments to identify individuals in need of immediate assistance.
Create and implement a fishing vessels verification program.	• Implement, at first, an internal audit program verifying working (labor and health and safety at workplace) conditions in fishing vessels for 100% of the fleet used • Along with monitoring of compliance through Key Performance Indicators, randomly select boats on a monthly basis to undergo a third-party verification audit by an independent organization, executed every quarter. • Third-party verification audit should include interview of boat workers and establish the history of their working career in the region and country
Dedicate resources.	• Appoint an executive from Nestlé to implement the action plan. His profile will include coordination with relevant parties, management of implementation activities, establishment of KPIs and dashboard, effective use of internal and financial resources, representation to relevant industry parties and stakeholders.
Collaborate and scale up.	• Leverage opportunities for collaboration with industry partners and stakeholders with the Thailand Seafood Industry and seek to become a member of the Shrimp Sustainable Supply Chain Taskforce, share progress on implementation of action plan and learning, contribute to testing of innovative solutions and continuously seek to expand implementation to other supply schemes and locations in South East Asia. • Achieve similar aims as part of the Good Labor Practices Working Group, convened by Government of Thailand and supported by the International Labor Organization.
Publicly report.	• Report publicly on progress, including challenges and failures identified with how to best resolve and solutions to address. This should include ongoing monitoring of business partners' supply chain management systems by independent third-party assessments and identification of risks and issues to be addressed.

Source: Adapted from "Responsible Sourcing of Seafood –Thailand Action plan 2015–2016, "https://www.nestle.com

that it would be neither a quick nor an easy endeavour, but the company planned to achieve significant progress going forward.

By the end of 2016, over 99% of the seafood ingredients that Nestlé sourced from its seafood supply chain in Thailand were traceable back to fishing vessels and farms due to actions taken as part of the plan. Nestlé worked with Verité, its supplier Thai Union, the Royal Thai Government, and the Southeast Asian Fisheries Development Center (SEAFDEC) to develop a training program to educate fishing vessel owners, captains, and crew members on living and working conditions onboard the boats, and on workers' rights. In March 2016, Nestlé partnered with the Issara Institute, a not-for-profit body focusing on worker voice and grievance mechanisms, to help workers voice their concerns.

Experts said Nestlé's disclosures and commitment to change served as an example to other companies in industries in which labor trafficking and slavery were rampant. Praising Nestlé for self-policing and public reporting, Mark Lagon, president of nonprofit anti-trafficking organization Freedom House, said, *"It's unusual and exemplary. The propensity of the PR and legal departments of companies is not*

to 'fess up, not to even say they are carefully looking into a problem for fear that they will get hit with lawsuits."[46]

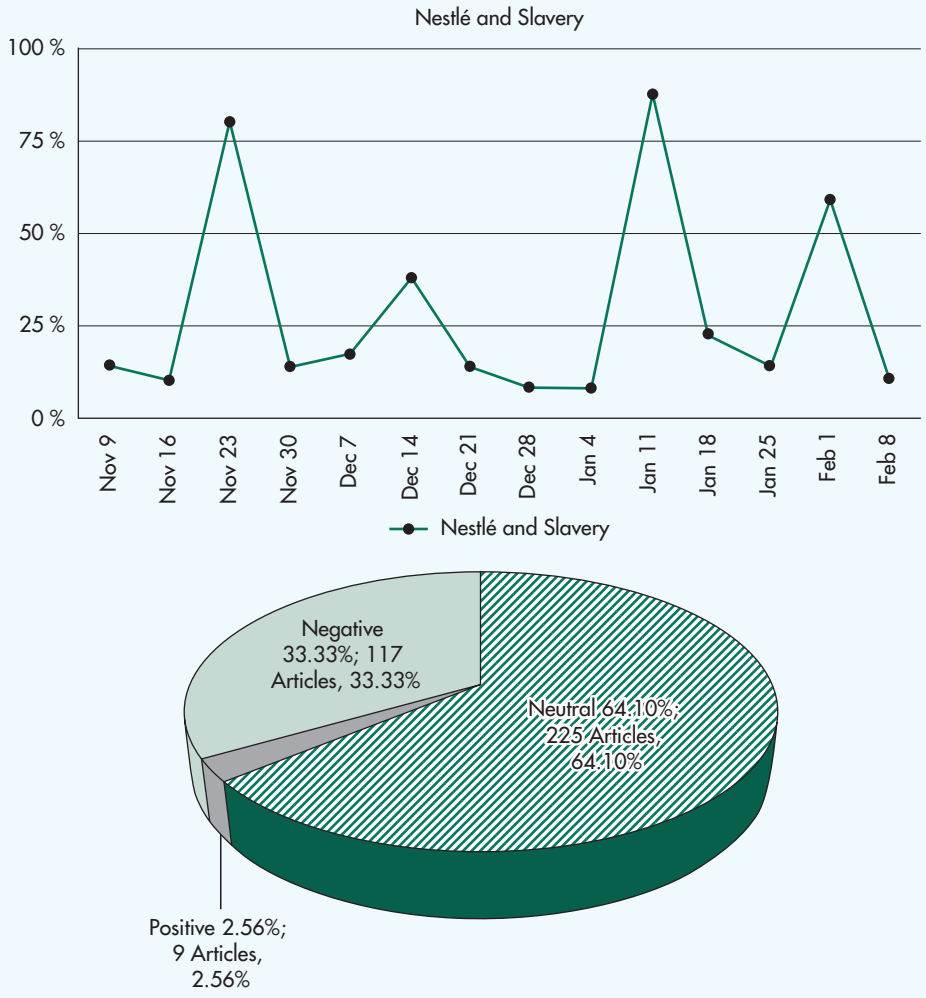
Criticism

Though Nestlé was applauded for its admission of forced labor within its seafood supply chain and its move toward transparency, some analysts felt that this was just an attempt by the company to cover up bigger allegations of child labor in its profitable chocolate making business. They felt that in order to escape the charges of being an unethical company, Nestlé had admitted to slavery in seafood suppliers, a low-profit area of the company's business, in Thailand. Some critics saw Nestlé's actions as a public relations stunt to alleviate the criticism it had received for abetting child slavery in Ivory Coast. *"For me there is a big issue with one part of Nestlé saying, 'OK we have been dragged along with everyone else to face the issue of slavery in Thailand and so let's take the initiative and do something about it', and at the same time fighting tooth and nail through the courts to avoid charges of child slavery in its core operations in the Ivory Coast,"*[47] remarked Andrew Wallis, CEO of anti-human trafficking charity Unseen UK. Analysts said that this apparent double standard had raised doubts among civil society activists and customers regarding Nestlé's true motives. Critics said by its admission, Nestlé had left consumers falsely confident in the 'goodness' of its products.

Some anti-trafficking advocates remained highly skeptical of Nestlé's actions and saw the move toward transparency as a tactic to deflate other pending civil litigation suits in its cocoa supply chains. They said Nestlé had been falsely assuring customers that it would eliminate child and forced labor in its Ivory Coast supply chain since 2001 and in the meantime an entire generation of children in West Africa had been suffering due to Nestlé's false promises.

Nestlé's admission that it had found slavery in its supply chain in Thailand was greeted with a negative reaction from both traditional and social media. According to the LexisNexis Newsdesk[48] analysis, mentions of Nestlé in relation to slavery rose steeply with 20 to 90 articles per week, discussing slavery in the company's supply chain. According to the sentiment chart, more than a third of the coverage was entirely negative, while only 2.5% was positive ***(See Exhibit X).***

EXHIBIT X **Nestlé's Media Coverage Related to Slavery**



Source: Adapted from https://bis.lexisnexis.co.uk/blog/posts/human-trafficking-awareness/reputational-risks-are-greater-than-ever-for-brands-associated-with-slavery.

Some analysts contended that Nestlé's efforts to eliminate child labor from its global cocoa supply chain were not credible because of its inadequately transparent self-monitoring system. For instance, they pointed out that the company provided incomplete and insufficient information regarding the details of TNCP and its certification schemes and had omitted material information related to TNCP's distribution and progress in the rest of its global cocoa supply chain. Some analysts pointed out that the FLA investigation was not an accurate representation of the conditions on Nestlé's cocoa farms because a majority of Nestlé's cocoa farms (about 75%) were not part of TNCP. They also said that there was significant discrepancy between Nestlé's grand official policies and statements to combat slavery and the nominal actions it took. Nestlé had yet to develop a concrete plan outlining when it would source entirely sustainable cocoa. They said that TNCP was only a greenwashing ploy aimed at making Nestlé appear to be ethically responsible.

The Way Forward

Nestlé received some respite in March 2017, when US district judge Stephen V. Wilson dismissed the case on child slavery in Africa on the ground that the complaint *"seeks an impermissible extraterritorial application of the Alien Tort Statue which means companies can be sued in the US for actions outside the country but only when some conduct touches and concerns the US with sufficient force."*[49] He said that the former child slaves could not sue in the US over wrongdoing that had occurred in Africa. The judge said that the plaintiffs' attempt to single out CSR initiatives as evidence that Nestlé was knowingly aiding and abetting child slavery was counter-productive because it would freeze companies' speech and prevent them from taking up such initiatives in the future. He said, *"Even worse, relying on corporate social responsibility programs as 'relevant conduct' would also chill corporations from creating these programs. Corporations would be incentivized to allow human rights abuses to occur without shedding light on the issue or trying to combat it out of fear they will displace the presumption and be held responsible."*[50]

Going forward, analysts said that identifying and tackling the menace of modern slavery in its cocoa supply chain would not be an easy task for Nestlé. Nestlé's cocoa supply chain was complex, and regulating the co-operatives and farms could be tough for the senior management, they said. It would be challenging to continually follow up on the work of co-operatives given their remote locations, they added. Though Nestlé had monitoring systems in place to communicate supplier policies and conduct audits, they often covered only tier one suppliers at the top of the value chain, while forced labor was mostly found in the bottom tiers. Moreover, cost and pricing pressures, supplier engagement, and transparency dilemmas were some of the issues Nestlé had to deal with while addressing slavery. *"The problem is, we can't just stop using a supplier. People ask why we don't boycott them. We did that in the case of palm oil. We delisted suppliers. We delisted coffee suppliers in South America who were using child labour. But it doesn't always solve the bigger problem. There is no one-size fits all solution. If we took the view to delist every single supplier who is doing the wrong thing today, it will not improve the situation. It will cut the income of those who rely on this income. It is lose-lose. But, with our size, we believe we can change things over time,"*[51] *said Batato.*

Modern slavery was considered as a criminal activity often actively hidden by perpetrators, making it difficult to detect. Third-party auditors appointed by Nestlé might struggle to get full access to facilities and victims would be unwilling to speak up fearing retribution.

Another challenge would be driving workers toward community awareness-raising sessions. Some families were often resistant to change as they had few livelihood alternatives. Moreover, the isolation of some of the farms and villages was a challenge in itself. Supplying school kits and providing literacy classes to women were all the more difficult as a result. Some researchers found that though Nestlé's code of conduct prohibited the use of child labor in its supply chain, awareness of the code was low among farmers. Moreover, the farmers did not attend training sessions either due to lack of interest or lack of time. "*Being a leader in our industry . . . we do understand we can influence the supply chains we work with, and that's what we do. We recognize it is a difficult issue to deal with,"*[52] said Marco Goncalves, Nestlé's chief procurement officer.

Analysts said that given its global scale and financial prowess, Nestlé could play a crucial role in driving significant changes and abolishing slavery from the global cocoa supply chain. Going forward, the question before Nestlé was what more the company could do to ensure its cocoa supply chain was free from slavery. How could it assure consumers that its products did not come at the expense of innocent people who went through untold suffering. Could Nestlé have a positive impact on the chocolate industry through its honest revelations and by raising the bar on labor protection? Should the company take a clear leadership position on this issue given its influence? If so, how should Nestlé go about doing this?

Case Questions

1. What is modern slavery? Where does it fit in with a company's CSR strategy?
2. What are the conditions enabling slavery in cocoa supply chains in Ivory Coast?
3. Why is tackling the issue of modern slavery so important for a company like Nestlé?
4. Investigate the existence of modern slavery in Nestlé's supply chains and its efforts to address the issue.
5. Discuss the key challenges Nestlé faced while addressing modern slavery in its cocoa supply chain.
6. What more should Nestlé do to mitigate the risk of modern slavery in its cocoa supply chain

Endnotes

1. This was compiled from published sources and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
2. Ivory Coast, also known as Côte d'Ivoire, is a tropical country in southern West Africa. It is the world's largest producer of cocoa, the raw ingredient used in making chocolates.
3. Faaez Samedi, "Nestlé Admits Forced Labor is Part of its Seafood Supply Chain," www.campaignlive.co.uk, November 27, 2015.
4. Marianne Smallwood "Slavery Found within Nestle's Seafood Supply Chain ... Now What?"www.triplepundit.com, December 14, 2015.
5. Mark Hawthorne, "One Step at a Time, Nestle Slowly Changes its Ways, "www.smh.com.au, February 24, 2017.
6. "Annual Results 2016," www.nestle.com.
7. "Nestle's 12 Dark Secrets Worldwide!"www.theequalizerpost .wordpress.com, November 18, 2010.
8. Jon Entine, "Greenpeace and Social Media Mob Nestlé," www.blog .american.com, March 31, 2010.
9. "Nestlé's 12 Dark Secrets Worldwide!" www.theequalizerpost .wordpress.com, November 18, 2010.
10. Baby formula is food manufactured for supporting the adequate growth of infants.
11. "Starbucks as Fairtrade-lite and Nestlé on the Blacklist," www .faircompanies.com, October 8, 2008.
12. "PepsiandNestléBacklistedforWaterPollutioninChina,"www.polarisinstitute .org/pepsi_and _nestle_backlisted_for_water_pollution_in_china
13. "Nestlé's Sinking Division," www.polarisinstitute.org/nestl%C3 %A9%E2%80%99s_sinking_division
14. The ECRA is a not-for-profit, multi-stakeholder co-operative, dedicated to the promotion of universal human rights, environmental sustainability, and animal welfare.
15. The Ethiscore is a numerical rating that differentiates companies based on the level of criticism that they have attracted. Generally, an Ethiscore of 15 would be the best, while 0 would be the worst.
16. Fair trade coffee is one that is obtained directly from the growers. It usually retails at a higher price than standard coffee.
17. "Starbucks as Fairtrade-lite and Nestlé on the Blacklist," www .faircompanies.com, October 8, 2008.
18. Abby Haglage, "Lawsuit: Your Candy Bar Was Made by Child Slaves," www.thedailybeast.com, September 30, 2015.
19. LJ Vanier, "Hershey, Nestle and Mars Use Child Slaves to Make Your Chocolate," http://thespiritscience.net, October 18, 2015.
20. In 2001, the Chocolate Manufacturers Association of the US signed the protocol for the growing and processing of cocoa beans and their derivative products in a manner that complied with ILO Convention 182 concerning the prohibition and immediate action for the elimination of the worst forms of child labor.
21. The Archer Daniels Midland Co is a US-based global food processing and commodities trading corporation.
22. Based in Minnesota, US, Cargill Inc is a provider of food, agriculture, financial, and industrial products and services worldwide.
23. Daniel Fisher, "Cue The Documentary: Nestlé Still Fighting Slavery Lawsuit by Foreign Plaintiffs," www.forbes.com, October 7, 2016.
24. Established in 2012, The International Cocoa Initiative (ICI) is a multi-stakeholder partnership between cocoa companies, labor unions, and NGOs in order to eliminate the worst forms of child labor and forced labor in the growing and processing of cocoa beans.
25. www.nestle.com.au/creating-shared-value/social-impact/the-nestl %C3%A9-cocoa-plan.
26. Fair Labor Association is a non-profit multi-stakeholder initiative that works with major companies to improve working conditions in their supply chains.
27. Pisteurs are individuals commissioned to buy cocoa beans from farmers.
28. Traitants are middlemen, licensed by the government, who trade cocoa beans. Traitants may source beans either from cooperatives or from pisteurs.
29. Métayers are sharecroppers who manage a cocoa farm on behalf of its owner.
30. Coxers are individuals who live in the villages and inform pisteurs when there is a harvest ready to be collected.
31. Abby Haglage, "Lawsuit: Your Candy Bar Was Made by Child Slaves," www.thedailybeast.com, September 30, 2015.
32. "Nestle 'to Act over Child Labour in Cocoa Industry'," www.bbc.com, November 28, 2011.
33. "Nestle - Truth in Advertising," www.truthinadvertising.org, September 28, 2015.
34. Ellen Wulfhorst, "U.S. Supreme Court Gives Boost to Child Slave Labor Case Against Nestle," www.reuters.com, January 14, 2016.
35. Joe Sandler Clarke, "Child Labour on Nestlé Farms: Chocolate Giant's Problems Continue," www.theguardian.com, September 2, 2015.
36. The Danish Institute for Human Rights is Denmark's independent state-funded human rights institution.
37. Previously, Batato served as the CEO and Managing Director of Nestle Pakistan Limited from June 6, 2012 to September 1, 2015 and May 25, 2012 to September 1, 2015 respectively. He has extensive experience in the manufacturing and technical area, combined with business experience in both developed and emerging markets.
38. UTZ Certified is a program and a label for sustainable farming.
39. Verité is a Massachusetts-based non-profit organization that advocates workers' rights worldwide.
40. James Tennent, "Nestlé Admits Forced Labour, Trafficking, and Child Labour in its Thai Seafood Supply," www.ibtimes.co.uk, November 24, 2015.
41. The fishmeal used to feed farmed shrimp and a prawn is made from fish caught by migrant workers. The US is the biggest customer of Thai fish, and pet food is among the fastest growing exports from Thailand. In 2014, Thai Union shipped more than 28 million pounds of seafood-based cat and dog food for some of the top brands sold in America including Iams, Meow Mix, and Fancy Feast.
42. "Nestle Accused of Using Slave-Caught Fish in Cat Food," www .nationmultimedia.com, August 28, 2015.
43. Annie Kelly, "Nestlé Admits Slavery in Thailand While Fighting Child Labour Lawsuit in Ivory Coast," www.theguardian.com, February 1, 2016.
44. "Control Over Supply Chain a Must," www.pressreader.com, November 5, 2016.
45. Annie Kelly, "Nestlé Admits Slavery in Thailand While Fighting Child Labour Lawsuit in Ivory Coast," www.theguardian.com, February 1, 2016.
46. Marthe Mendoza, "Nestle Confirms Labor Abuse among its Thai Seafood Suppliers," www.ap.org, November 23, 2015.
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Case 2 'Enrich Not Exploit': Can New CSR Strategy Help Body Shop Regain Glory?

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On February 2, 2016, The Body Shop International Plc. (Body Shop), a UK-based retailer of natural-based and ethically-sourced beauty products, unveiled a new global CSR strategy to reassert its leadership in ethical business. The commitment, entitled 'Enrich Not Exploit', outlined 14 new sustainability targets to be achieved by 2020 that touched all areas of the business. According to Jeremy Schwartz (Schwartz), Chairman and CEO of Body Shop, *"The Body Shop can be both a force for good and a successful, profitable business. 40 years ago [founder] Anita Roddick set out a challenge for The Body Shop to tackle the big issues of her time. We're now tackling the big issues of today, We want our Enrich Not Exploit™ commitment to inspire a new generation of customers, supporters and especially millennials who truly care about how a company operates. Re-establishing The Body Shop as a leader will come from delivering our ambitious aim to be the world's most ethical and truly sustainable global business."*[2]

Founded in 1976 by Dame Anita Roddick (Roddick), Body Shop was regarded as a pioneer of modern CSR. Since its inception, the beauty retailer, which was strongly associated with the social activism of Roddick, had endorsed and championed various social issues that complemented its core values–opposition to animal testing, developing community trade, building self-esteem, campaigning for human rights, and protection of the planet. Through these initiatives, Body Shop had cultivated a loyal customer base. But following its acquisition by beauty care giant L'Oréal SA (L'Oréal) in March 2006, both Body Shop and Roddick came under severe criticism. Loyal customers felt betrayed as Roddick had previously been quite vocal in her criticism of companies like L'Oreal that tested their cosmetics on animals, exploited the sexuality of women, and sold their products by making women feel insecure. After its acquisition, the fortunes of Body Shop took a sharp downturn. With a host of new competitors jumping on the natural products bandwagon and offering their own green cosmetic lines, its sales plummeted. The beauty retailer's operating margin narrowed, reaching a seven-year low in 2015. Body Shop's ethical message also faded and by the company's own admission it had been comparatively quieter on the sustainability front over a period of time.

To re-establish itself as the world's most ethical and truly sustainable global business, Body Shop announced a new CSR commitment with the focus on people, products, and the planet. According to Christopher Davis (Davis), International Director of Corporate Responsibility and Campaigns at Body Shop, the new sustainability commitment would broaden Body Shop's appeal to the next generation of customers and revive its image as a pioneering force in ethical retail. However, some analysts felt the new CSR goals were not exceptional. *"With leading companies such as Marks & Spencer, Unilever, Smurfit Kappa and Skanska all placing sustainability at the heart of their business strategies, all formally disclosing their objectives and targets, and all committed to driving best practice right through their entire supply chains, the 14 goals of The Body Shop don't seem particularly extraordinary,"*[3] remarked Senior Corporate Sustainability Adviser, Darina Eades. So going forward what could Schwartz and Davis do to distinguish Body Shop from its rivals who were more actively involved in CSR than before? Would the new CSR approach help the beauty retailer in regaining its past glory as a leader of ethical business practices in retail and boost sales?

The Body Shop (1976–2006)

In March 1976, Anita Roddick and her husband Gordon set up their first Body Shop store at Brighton, UK. The store sold around 15 lines of homemade cosmetics made with natural ingredients such as jojoba oil, rhassoul mud, etc. From its very early days, Body Shop was associated with the social activism of Roddick, who was critical of what she called the environmental insensitivity of industry and wanted a change in standard corporate practices. By the late 1970s, the company had a number of franchisee stores throughout the UK.

Roddick gave the company's products brand names such as, 'Tea Tree Oil Facial Wash', 'Mango Dry Mist', etc. Urine sample bottles, the cheapest packaging available at the time, were used as containers. All labels were hand-written. Unlike other branded cosmetics, the packaging of its products contained detailed descriptions of the ingredients and their properties. The company never 'sale' priced its products but customers who returned product containers for refilling were offered a 15% discount. In addition to providing product information, a number of leaflets and posters on recycled paper provided information about the social causes the company believed in and encouraged its customers to get involved. Customers were greeted with employees wearing T-shirts bearing a social message. The windows of Body Shop stores featured bills of local charity and community events.

Under Roddick's leadership, Body Shop set a new standard, "retailing with a conscience" on a large scale. The company sourced the ingredients for its products from indigenous farmers in developing countries. The company promoted recycling, used natural ingredients in its products, and avoided selling products tested on animals. Body Shop's core brand identity was its "profits-with-a-principle" philosophy and the brand was closely associated with the social justice agenda.

This was a revolutionary idea at the time, and Body Shop developed a loyal customer base.

In 1978, Body Shop's first foreign franchisee opened in Brussels, Belgium, and shortly after, it entered North America. In April 1984, the stock of Body Shop opened for the first time on London's Unlisted Securities Market, at 95 pence. By the time it obtained a full listing on the London Stock Exchange in January 1986, the stock was selling at 820 pence.

In the 1980s, Body Shop was quite vocal on environmental issues and it launched the 'Save the Whales' campaign. It also teamed up with Amnesty International[4] and from the 1990s became vocal in its support for international human rights. In 1990, The Body Shop Foundation, the charitable arm of the company, was established to fund human rights, animal welfare, and environmental protection groups and projects globally.

During the 1980s and 1990s, Body Shop had its share of critics who accused the company of hypocrisy as they felt that it was making profits under the guise of endorsing social equality. On the other hand, some shareholders complained that instead of maximizing profits, the company was diverting money into "social work" projects. However, the company showed strong growth through the 1980s and at its height, in 1991, it was worth £700 million. In 1993, the firm banned any products tested on animals. Body Shop was regarded as one of the first firms in the world to publish a proper report on its social responsibility initiatives, having published its first 'Values Report' in 1996.[5]

However, problems surfaced for Body Shop in the early 1990s as many "me too" retailers mushroomed in the UK, running businesses on a similar green agenda. Competitors such as Boots and Sephora encroached on Body Shop's market niche by offering their own natural health and beauty products. Body Shop's international expansion strategy too did not achieve much success. In the US, it faced major reverses as Bath & Body Works emerged as a tough competitor.

Though Body Shop continued to grow in size, its market value was on the decline. The board had also got tired of Roddick's radicalism and her combative stance on globalization. In 1998, Roddick was forced to step down as CEO and Patrick Gournay (Gournay) replaced her. However, she continued to carry out PR functions for Body Shop. In 1999, Body Shop exited manufacturing and wholesaling, and focused on retailing. The Body Shop At Home, the direct-selling arm of the retailer, was launched in the UK (1994), Canada (1995), Australia (1997), and the US (2001). But problems persisted.

In 2002, both Roddick and Gordon stepped down as co-chairmen, but Roddick was retained as a creative consultant of the company. Gournay also quit and was replaced by Peter Saunders, who had earlier been the CEO of Body Shop's North American operations. Body Shop started working on repositioning itself to the 'masstige'[6] sector of the consumer market. The re-positioning exercise began to bear fruit and the company was back to profits. By March 2006, Body Shop had 2,085 branches globally including 304 in the UK. Its brand portfolio consisted of more than 600 products.

Takeover by L'Oréal

On March 17, 2006, Body Shop announced that it had agreed to be taken over by French cosmetics giant L'Oréal in a £652 million (US$ 1.14 billion) deal. Commenting on the acquisition, Lindsay Owen-Jones, chairman and CEO of L'Oréal, said, *"We have always had great respect for The Body Shop's success and for the strong identity and values created by its outstanding founder, Dame Anita Roddick. A partnership between our companies makes perfect sense. Combining L'Oreal's expertise and knowledge of international markets with The Body Shop's distinct culture and values will benefit both companies."*[7]

Post-acquisition, Body Shop continued to operate independently within the L'Oréal Group. The management team of Body Shop was retained and reported directly to the CEO of L'Oréal. Roddick continued to act as a consultant till she passed away in September 2007.

Following the deal with L'Oréal, Body Shop and Roddick faced an angry backlash. Body Shop was regarded by many as one of the pioneers of modern CSR. On the other hand, L'Oréal was viewed by activists as the face of modern consumerism – a company that tested its cosmetics on animals, exploited the sexuality of women, and sold its products by making women feel insecure. Body Shop's critics said they felt betrayed by the deal as Roddick had previously been highly critical of companies like L'Oréal.[8] She had vociferously accused the cosmetic industry of making women feel insecure and particularly criticized L'Oréal for its alleged policy of employing only "sexy" saleswomen on its counters. To make matters worse, 26% of L'Oréal was owned by Nestlé, one of the most boycotted companies in the world for its alleged unethical business practices and aggressive promotion of baby milk in developing countries. The move sparked calls for boycotts from animal welfare activists, who feared L'Oréal would destroy what remained of the Body Shop's eco-friendly ethos. There were also questions raised about whether L'Oréal was trying to improve its image and buy CSR through this deal.

Some customers called for a boycott of Body Shop's products as they felt that the company had sold out its values and principles. Some of them vowed never to shop at Body Shop again. A consumer said, *"The Body Shop used to be my high street 'safe-house,' a place where I could walk into and know that what I bought was okay, that people were actually benefiting from my purchase. Now the people benefiting are the overpaid, underworked 'fat-cat' CEOs of animal-testing L'Oreal and baby-milk-selling Nestle. By buying from the Body Shop, you are now no longer supporting ethical consumerism. If I want legitimate fair-trade, non-animal tested products, I can find them easily, at the same price, elsewhere."*[9]

Body Shop and Roddick defended the deal saying that L'Oréal would not compromise Body Shop's ethics and that the merger would give Body Shop a chance to spread its values to L'Oréal. Roddick agreed that she had had an issue with L'Oréal over animal testing earlier, but she was now convinced that the company was sincere in its commitment to this issue. L'Oréal also announced that it would not dilute Body Shop's ethical stance and committed itself to upholding the values of the company.

Body Shop's Core Values

According to Davis, Roddick was ahead of her time in establishing Body Shop as an ethical beauty business.[10] Speaking about this, Schwartz said, *"The Body Shop courageously pioneered new ways of thinking, acting and speaking out as a company. Our ground-breaking campaigns were ahead of their time and changed laws on animal testing, domestic violence and human trafficking. We were the first in beauty to use community trade and we still have the strongest programme in the industry. We are small, but we lead."*[11]

The CSR strategy of Body Shop was based on five core values ***(See Exhibit I)***:

Support Community Fair Trade

Launched in 1987, Community Fair Trade (CFT) was Body Shop's own independently verified fair trade initiative to help marginalized communities improve their lives and alleviate poverty. The objectives of CFT were to source high-quality ingredients, gifts, and accessories in a fair way; to provide benefits to smallholders, artisans, and their communities; and to share stories that inspired the company's mission. Through

EXHIBIT I Core Values of Body Shop

ACTIVATE SELF ESTEEM
1995 — UK stores carried 'What Women Want' cards, receiving 14,000 responses in three months. These were published in a report and book and influenced wider campaigning on women's issues.
1998 — Developed a self-esteem campaign featuring the body-positive Ruby doll, to challenge stereotypes and spark debate.
2013 — Self-esteem related to disability became one of three funding priorities for The Body Shop Foundation.
AGAINST ANIMAL TESTING
1989 — Started campaigning to end animal testing in cosmetics, the first cosmetics company to do so.
1998 — Following the sustained campaign, the UK government banned animal testing of cosmetic products and ingredients.
2004 — Campaigning by Body Shop and BUAV (British Union for the Abolition of Vivisection) contributed to a European Union ban on animal testing in cosmetic products.
2009 — The European Union banned animal testing of cosmetic ingredients.
2013 — Sale and import of animal tested products and ingredients was banned in the EU. The company's campaign continued to collect 1 million signatures in support of Cruelty Free International for a global ban on animal testing in cosmetics.
COMMUNITY FAIR TRADE
1987 — The CFT program was started with sourcing 'footsie' massage rollers from an education and employment charity in India, which became a best-selling line.
1989 — Bought Nepalese sustainable paper gifts made from plants clogging local waterways, leading to new employment for people and seed funding for community projects,
1993 — Sourced its first CFT ingredient–sesame seed oil.
1994 — Roddick discovered shea butter from Tamale, northern Ghana.
1999 — Sourced organic cotton Moisturising Gloves and Socks from Mauritius.
2007 — Awarded 'The Big Tick' Business in the Community (BITC) Supply Chain Award.
2008 — First to use fair trade organic alcohol in cosmetics.
2009 — CFT program certified by The Institute for Marketecology (IMO).
2011 — Established the Global Shea Alliance, bringing industry members together to improve benefits for producers and increase the number of women involved in the trade.
2013 — BITC named The Body Shop International Responsible Business 2013, based on its CFT program.
DEFEND HUMAN RIGHTS
1991 — Supported the 'Tie a Yellow Ribbon' campaign, which led to the release of kidnapped journalist John McCarthy after five years of captivity allegedly by militant groups in Lebanon.

Continued

DEFEND HUMAN RIGHTS
1993 – Its 'Free the Ogoni 19' Campaign was supported in 17 countries, raising awareness of people persecuted for protesting against oil exploitation in Nigeria.
1998 — The 'Make Your Mark' campaign with Amnesty International to highlight the plight of human rights defenders collected over 3 million signatures and helped secure the release of 17 prisoners.
2000 — It established the Human Rights Award for grassroots human rights activists.
2004–2008 — The global 'Stop Violence in the Home' campaign raised awareness, generated funds for women's crisis centers, and helped make domestic violence illegal in Indonesia.
2008–2010 — In partnership with MTV International, Body Shop raised £2 million for the Staying Alive Foundation to raise HIV and AIDS awareness among young people.
2009–2012 — Its 'Stop Sex Trafficking of Children and Young People' campaign mobilized 7 million people to demand action and 24 governments committed to introducing new legislation.
PROTECT THE PLANET
1986 — Launched the 'Save the Whale' campaign in partnership with Greenpeace; Set up an Environmental Projects Department to coordinate its campaigns and commercial practices.
1989 — The 'Stop the Burning' campaign collected almost 1 million signatures to help save the Brazilian rainforest
1993 — Banned PVC in its packaging
2002 — Its 'Choose Positive Energy' campaign with Greenpeace promoted renewable energy, presenting over 6 million signatures to the World Summit for Sustainable Development
2004 — Was a founder member of the Roundtable on Sustainable Palm Oil (RSPO) – set up to promote the use and growth of sustainable palm oil.
2007 — All of Body Shop products became 100% vegetarian.
2012 — The company launched its Pulse stores.

Source: Adapted from Body Shop 2015 Value Report and other sources.

CFT, Body Shop sourced products from under developed communities for a fair price in a sustainable way. Annually, Body Shop's CFT offered a stable income to thousands of workers and developed communities by building schools and health care centers, providing clean water, and offering education scholarships.

Body Shop developed a set of Fair Trade Guidelines in 1994 ***(see Exhibit II).*** The company conducted participatory audits, and provided its CFT suppliers with information and feedback to assist them in maximizing long-term benefits. It helped suppliers to reduce their dependence on Body Shop by helping them gain access to wider markets and sharing its best practices with them. With Body Shop being acquired by L'Oréal, eight of Body Shop's CFT raw materials were being used by other brands of L'Oréal as part of their Solidarity Sourcing program.[12]

By 2013, Body Shop's CFT worked with 25 suppliers in 21 countries, buying over 1,200 tonnes of ingredients and 2.2 million gift and accessory items from across the world. In 2014, Body Shop sourced CFT organic argan oil from six Moroccan co-operatives, thereby providing 334 rural women with a regular income, giving them financial independence, reducing relocation, and supporting local economic development. In 2014–2015, Body Shop spent about £21 million on purchasing over 3 million kilos of CFT ingredients. It worked with 25,000 CFT producers and farmers in 21 countries.

Activate Self-Esteem

Body Shop valued people and their work and challenged what it called the "unrealistic beauty ideal presented by the beauty industry." The beauty retailer supported and built self-esteem, particularly among women, through its human rights campaigns and income-generating projects linked to its CFT initiative as well as in-store and in the media. Its campaigns on self-esteem took off in a big way in 1995 when it launched a "Women's Rights Campaign" during the

EXHIBIT II Body Shop's Fair Trade Guidelines

Community: We are looking to work with established community organizations which represent the interests of their people.
Community in Need: We target those groups who are disadvantaged in some way, those whose opportunities are limited.
Benefits: We want the primary producers and their wider community to benefit from the trade –socially as well as economically.
Commercial Viability: It has to make good commercial sense meaning that price, quality, capacity and availability are carefully considered.
Environmental Sustainability: The trade has to meet The Body Shop standards for environmental and animal protection.

Source: Adapted from www.thebodyshop.com/bodyshop/values/support_community_trade.jsp.

fourth UN World Conference on Women. As a part of the campaign, the retailer collected more than a million signatures in support of the issue from people in 25 countries. In 1997, it launched a campaign based on 'Ruby', a realistic doll which represented real women as opposed to dolls such as 'Barbie'.

In its ads, Body Shop used language and images that showed respect for women. Every poster displayed in-store and every image on the company's website adhered to certain guidelines such as avoiding altering the size or body shape of its models and not featuring ultra-thin or very young models, as was the norm in beauty advertising. Body Shop promoted diversity, acceptance, and empowerment in its workplace and maintained equal opportunities standards. Employees were groomed through volunteering, training, and personal development programs. In 2013, self-esteem related to disability became one of the funding priorities for The Body Shop Foundation.

Defend Human Rights

Using its global presence, Body Shop campaigned for human rights in the media and in its stores. It also partnered with its suppliers to expand ethical trade practices that respected workers' rights. Body Shop conducted and supported many human rights campaigns. For instance, in 1998, to celebrate the 50th Anniversary of the Universal Declaration of Human Rights, it launched a joint worldwide campaign with Amnesty International to highlight the plight of human rights defenders around the world, encouraging customers to 'Make Your Mark' for human rights. About three million people signed up for this campaign.

Body Shop's 'Stop Sex Trafficking of Children and Young People' campaign that ran between September 2009 and March 2012 in partnership with ECPAT International[13] made a tremendous impact globally. The campaign called on governments to protect young survivors of trafficking and offer specialized services to the survivors. In all, the campaign presented 36 national petitions to governments and the UN. In response to the petition campaign, 14 countries changed their policies and laws and 8 countries committed to adopting international standards to protect children from sex trafficking.

In 2014–2015, Body Shop started diversity and inclusion training for its employees at its international headquarters in the UK. It worked with suppliers in more than 20 countries to improve workers' rights and supply chain ethics. Body Shop was a founding member of the Ethical Trade Initiative and ensured that its suppliers complied with its ethical trade standards and shared good practices with other retailers and local partners ***(See Exhibit III).***

In 2014, Body Shop raised over £200,000 for War Child[14] by selling pre-packed Christmas gifts. The funds raised supported the education of 6,000 children displaced by war in Afghanistan, Jordan, the Democratic Republic of the Congo, and Sudan. During Christmas 2015 and Ramadan 2016, Body Shop raised funds of about £210,000 through the sale of special gift sets in order to help Water Aid and fund projects including a water, sanitation, and hygiene program in Arba Minch Zuria, Ethiopia, where 40% of people did not have access to clean water.

EXHIBIT III Body Shop's Ethical Trade Standards

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labor is not used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practiced
- Regular employment is provided
- No harsh or inhumane treatment is allowed

Source: Adapted from www.thebodyshopinternational.com.

Against Animal Testing

Body Shop ensured that none of its products were tested on animals and that its ingredients were procured from suppliers who did not test their ingredients on animals for any cosmetic purpose. Some of the animal-derived ingredients it used such as honey were harvested without causing harm to the animals. Reportedly, all the Body Shop products and ingredients underwent extensive testing to ensure that they were safe and effective, while also remaining cruelty-free. The company used three main assessment methods involving computer data, laboratory-created tissues, and people[15] to make its products safe and effective.

Along with customers and animal protection groups, Body Shop campaigned for a change in laws on the testing of animals for cosmetics purposes in the UK, Europe, the Netherlands, Germany, and Japan. In 1996, Body Shop presented the European Union with a petition signed by over 4,000,000 people, which at the time was the largest petition against animal testing. Body Shop was also instrumental in the UK government's decision in 1998 to ban animal testing for cosmetic products and ingredients. In addition to this, the company's campaigns also resulted in finished product test bans in Germany and the Netherlands. In 1997, Body Shop was one of the first international cosmetics companies to comply with the Humane Cosmetic Standards.[16] In 2006, Body Shop received the Best Cruelty-free Cosmetics Award from PETA.[17] In 2008, it received the Lifetime Achievement Award from the Royal Society for the Prevention of Cruelty to Animals.[18]

In 2012, Body Shop relaunched its 'Against Animal Testing' campaign in partnership with Cruelty Free International.[19] On March 11, 2013, after the anti-animal testing campaign had gone on for more than 20 years, the European Union banned the sale and import of animal-tested products and ingredients. The same year, Body Shop was named International Responsible Business of 2013 by the prestigious Business in The Community Organisation, a group of not-for-profit organizations.

Protect the Planet

Body Shop was an early pioneer in green business and the company constantly explored ways to run its business in a more environmentally sustainable way. In 1986, Body Shop began its campaign for the protection of the planet and developed its first international environmental policy in 1992. In 2002, Body Shop ran a global campaign with Greenpeace International to promote renewable energy.

In order to reduce CO_2 emissions, Body Shop rolled out increasingly energy-efficient Pulse[20] stores, which used low-energy LED lighting and more recycled materials. The retailer reduced energy consumption in its stores through Building Management Systems (BMS) that automatically controlled heating and lighting in the stores. The company set a target of reducing CO_2 emissions from stores by 50% between 2010 and 2020. By 2015, just over 50% of all Body Shop stores sourced renewable energy. In order to reduce its carbon footprint, Body Shop encouraged third-party contractors who transported its products globally to adopt more sustainable practices such as using low-emission vehicles and adopting ways to move more products in fewer journeys. According to the company, Body Shop reduced its airfreight by 35% from 2011 to 2013.

Body Shop had set a target of 25% reduction in water use by 2020. Between 2010 and 2013, it achieved a 37% reduction in water use, surpassing its 2020 target. The company also committed to reducing the amount of landfill waste it generated. Starting in 2010, Body Shop rolled out waste management programs on its sites in the UK and the US and educated staff on issues such as bins removal, recycling, and composting.

To minimize its environmental impact, Body Shop sourced sustainable materials for use in its products, packaging, and stores. In June 2014, Body Shop began reformulating its facial skincare products to contain naturally derived exfoliants in line with its body products. By the end of 2015, all Body Shop products were free from polyethylene microbeads,[21] which addressed the concerns of some key stakeholders who were worried about the presence of non-biodegradable materials in the marine food chain. Body Shop was one of the founder members of the Roundtable on Sustainable Palm Oil[22] (RSPO) set up in 2004 to promote the growth and use of sustainable palm oil. It was the first cosmetics company to source sustainably harvested palm oil for use in its products.

On the packaging front, Body Shop introduced 100% recycled PET bottles and also increased the usage of glass packaging as research showed that glass had high recycling rates among consumers. In 2015, the company replaced the plastic vac forms used in gift packaging with corrugated cardboard, thereby reducing the use of plastic by 154 tonnes. All of Body Shop's wood-derived packaging, accessories, and shop fit materials were Forest Stewardship Council[23] (FSC) certified, implying that they were sourced from sustainable forests. Between 2012 and 2014, Body Shop planted and protected more trees through its Wood Positive program started in association with the World Land Trust.[24] Through this initiative, Body Shop protected 200 hectares of forest and restored 89 hectares of habitat in Mexico, Ecuador, and Brazil.

Criticism

Though Body Shop was considered the poster child of CSR, it began facing increased scrutiny from environmental groups of its activities and claims. Environmental watchdogs such as McSpotlight[25] and Greenpeace UK accused Body Shop of exploiting consumers by championing various agendas, while not being any different from other corporate entities in its pursuit of profit. Business ethics expert Jon Entine (Entine) reported that the Charity Commission for England and Wales records did not show any charitable contributions from the company in its first 11 years of operation. In the subsequent years, its contribution to charity was less than 1.5% of pretax profits, which was the average contribution made by US corporates. Entine also alleged that the company was making false claims that its products were natural and that there was extensive use made of petrochemicals in the preparation of Body Shop's products. He quoted many ex-employees who had claimed that the stories put out to customers about various products were totally fabricated.[26]

However, Body Shop clarified that it was not using ingredients in its cosmetics that had been tested on animals for cosmetic purposes after December 31, 1990. It further pointed out that most of the ingredients used in cosmetic and toiletry products had been animal tested for some purpose at some time in their history, and it would be almost impossible to sell products whose ingredients had never been tested on animals. McSpotlight dismissed the company's CFT practices as a mere marketing ploy as it accounted for less than 1% of sales of Body Shop products.[27] Its CFT was also viewed as patronizing and was said to have created tensions and divisions within indigenous communities and undermined self-sufficiency and self-dependence. The retailer was also accused of paying exploitative wages and of adopting an anti-trade union stance.

Some environmental groups accused Body Shop of marketing products by making people feel insecure about their looks, in the same way that other firms did to sell their personal care products. Some critics pointed out that the visual on the home page of Body Shop was no different from the idealized body images of beauty projected by the cosmetics industry.

Critics felt that there was a huge gap between the image projected by the company and its actual practice. Retail analyst Richard Ratner felt that Body Shop's "anti-city" attitude was hypocritical for a company that raised funds by listing on the London Stock Exchange.[28] The company was also accused of being very aggressive in its response to any form of criticism and of trying to intimidate its critics through invectives and/or lawsuits.

According to some critics Bodyshop engaged heavily in CSR to the point that it had deviated from its business strategy, lost its direction and jeopardized the long-term mission and vision of the company. According to them, Body Shop succumbed to corporate greed at the expense of consumers and

EXHIBIT IV

Retail Sales of Body Shop [1]

					2014 / 2015 Growth	
€ Millions	2013	2014	2015	2015 weight	Like-For-Like	Reported Figures
Western Europe	544.8	562.0	595.2	38.2%	+2.8%	+5.9%
North America	168.6	179.1	178.7	11.5%	–10.2%	–0.2%
New Markets	685.5	734.3	785.7	50.4%	+1.9%	+7.0%
Total	1,398.9	1,475.3	1,559.6	10%	+0.7%	+5.7%

Consolidated Sales

€ MILLIONS	2013	2014	2015	Like-For-Like 2014/2015 Growth
Retail sales [1]	1,398.9	1,475.3	1,559.6	+0.7%
Retail sales with a comparable store base [2]	1,306.6	1,319.8	1,402.7	+0.1%
Consolidated sales	835.8	873.8	967.2	0.9%

[1] Total sales to consumers through all channels, including franchisees and e-commerce.

[2] Total consumer sales made by stores and e-commerce websites that were continuously present between January 1 and December 31, 2015 and the same stores and websites present in 2014 and 2013, and for the same periods for 2014 and 2013, including franchisees.

Source: Adapted from www.loreal-finance.com/eng/brands/the-body-shop.

thereafter started to lose that special bond with its customers that had previously made them loyal to the brand.[29] Where Body Shop's staunchest critics were concerned, its acquisition by L'Oreal was vindication of their stand that Body Shop was nothing more than a green washer.

Time for Change

Since its acquisition by L'Oréal, Body Shop's performance had been dismal as it struggled to post profits. In 2010, Body Shop's net sales were £754 million, accounting for just 4% of L'Oréal's net sales. According to some analysts, the beauty retailer had lost its edge as rivals jumped on the ethical products bandwagon and devoured its market share. Competitors such as Lush, The Body Deli, and Skin & Tonic made similar green claims and benefitted from the growing demand for natural-beauty products. As a result, Body Shop was languishing at a crossroads with a steady decline in sales, according to some analysts.[30]

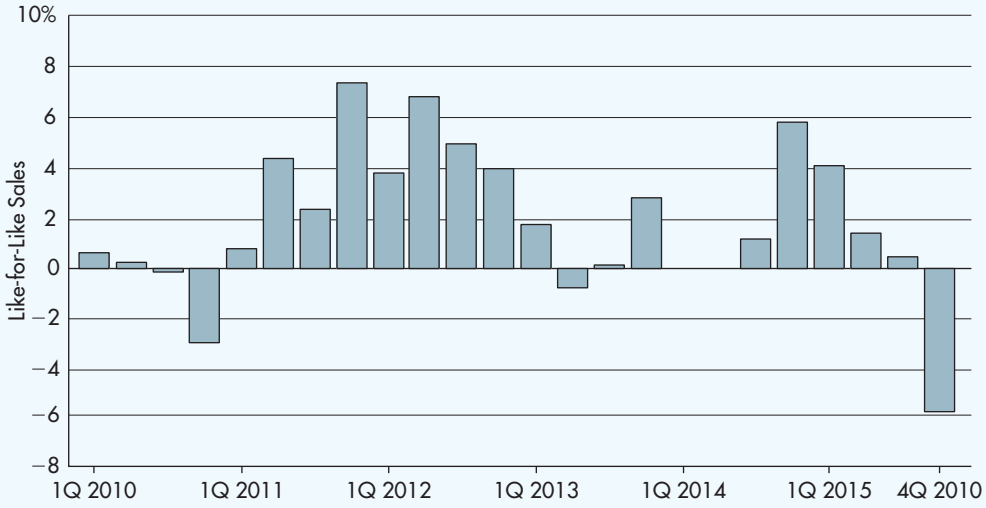
To revive the ailing company, in September 2013, Schwartz,[31] who was then the country manager for L'Oréal UK and Ireland, was asked to step in as CEO of Body Shop. Schwartz reoriented the business around skincare, introduced new products such as 'Drops of Youth' creams and lotions, and hired consultants to advise customers about products that suited them. He also added more expensive ranges such as 'Spa of the World' and the 'Hawaiian Kukui' cream priced between £10 and £23. After Schwartz took over the company, skincare sales grew at more than 10% annually. However, the surge in sales was short lived.

In Q4 2015, Body Shop reported its worst quarterly sales performance with sales dropping 5.8% while all of L'Oréal's other divisions surpassed expectations. In 2015, Body Shop's sales reached €967 million, a mere 3.8% of L'Oreal's total sales. The company's operating margin plunged to a seven-year low of 5.7% in 2015, down from 8.1% in 2007 ***(See Exhibit IV and Exhibit V).*** The retailer attributed the drop in sales mainly to the tough markets in Asia, notably Hong Kong, and poor holiday sales in North America. However, observers pointed out that Body Shop lacked in innovation and a core selling proposition to its customers.[32]

According to Andrew Wood, an analyst at investment management firm Sanford C. Bernstein, & Company LLC, Body Shop was the weakest business of L'Oreal, and a major disappointment for the French cosmetics maker as its poor performance had dragged down the overall results of the group[33] ***(See Exhibit VI).*** Generally, bigger companies acquired small, ethically driven competitors to transfer some of their environmental knowledge and skills into their own global supply chains. Similarly, L'Oréal too had felt it had a lot to gain from the ethical retailer but was surprised to learn how poor the environmental systems were at the Body Shop, said analysts.[34] Though Body Shop sourced its materials ethically, L'Oréal had, by this point, developed better mechanisms for monitoring its supply chain and achieving its environmental goals, they pointed out.

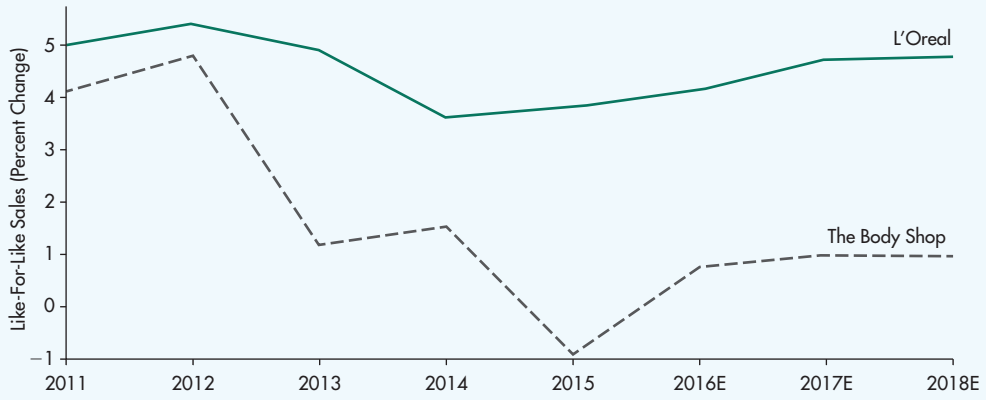
Body Shop was one of the first global businesses to practice fair trade and conduct social and environmental campaigns. Davis said that while Body Shop had maintained these

EXHIBIT V Body Shop's Quarterly Sales Growth (2010–2015)



Source: Adapted from www.bloomberg.com/news/articles/2016-02-12/body-shop-s-terrible-quarter-is-l-oreal-s-sole-blemish-chart.

EXHIBIT VI Growth of L'Oréal vs. Body Shop



Source: Adapted from www.bloomberg.com/news/articles/2016-04-07/body-shop-heads-back-to-the-body-shop-to-repair-battered-margins.

values all the while, they were less distinctive in 2016 than in 1976.[35] Critics contended that after its lackluster performance, the management at Body Shop was more focused on improving its financial position. By Body Shop's own admission it had been comparatively quieter on the CSR front over a period of time. However, defending the company, Kate Levine, director of commitment and corporate communications, Body Shop, said, *"That doesn't mean we haven't been doing things. We had a Stop Sex Trafficking campaign which delivered seven million signatures to the UN and changed laws in 20 countries. And in 2013 we were instrumental in changing laws on animal testing. We just haven't talked about it in the way we were in the past."*[36]

The challenges facing the world had changed significantly over the years. Schwartz felt businesses had an important role to play in tackling the environmental challenges facing the planet and its people. According to him, the key challenge facing Body Shop was how to orient itself in the new global landscape marked by climate change, habitat destruction, species depletion, and the growing economic inequality and rebuild itself as a sustainable global business. Schwartz wanted to refocus Body Shop to meet the challenges facing the planet and its people in a more reliable and strategic way and re-establish Body Shop as the world's most ethical and sustainable global business. He wanted to reconnect the company with its values and attract a new generation of customers. Hoping to find inspiration, Schwartz flew down to South America on an intellectual journey with a team of colleagues. Standing on the edge of the Amazon River, he asked himself questions like – What does the future hold? And how can Body Shop be an original, progressive company? *"The idea of a company that made money but is also a force for good was laughed at 40 years ago. That's now mainstream ... Lots of people are doing corporate social responsibility now, from BMW to Coke. They have copied us. Anita was*

a pioneer, but we can't just say we are doing this [already]. We have to find a brand new thought,"[37] said Schwartz.

Formulating a New CSR Strategy

The work on the new CSR commitment began in 2013. Christopher Davis[38] was promoted from head of campaigns to Director of International Corporate Responsibility and Campaigns at Body Shop. He was responsible for developing and overseeing the implementation of the company's global corporate responsibility and campaign strategy. As the head of CSR, Davis wanted to maintain the legacy of founder Roddick. Nearly for two years (2013–2015), Davis and his team undertook a comprehensive review of Body Shop's business across all areas and 67 countries. Their agenda was not looking at what competitors were doing or at the past performance of Body Shop, but instead refocusing the company to meet the challenges facing the planet and its people in a more planned way. The team spent some months talking to a range of academics, thought leaders, and campaigners in order to know what the real issues facing the world were. They wanted to use the scale and networks of Body Shop to address the critical problems facing the Earth.

In order to develop a new systemic framework for sustainability, the management at Body Shop adopted the Future-Fit Business Benchmark,[39] which became a starting point for developing the company's own seven long-term sustainability goals ***(See Exhibit VII).*** Based on the sustainability objectives and by mapping the world's challenges and where Body Shop would have the most positive impact, Davis and his team formulated a new CSR philosophy under the name 'Enrich Not Exploit' with emphasis on three core pillars – People, Products, and Planet. The new commitment replaced the earlier five core values of Body Shop.

The new strategy was developed in close partnership with Body Shop's parent L'Oréal and was integrated in its 'Sharing Beauty With All' sustainability strategy and its four pillars – Innovating Sustainably, Producing Sustainably, Living Sustainably, and Developing Sustainably. According to Davis, the new commitment complemented L'Oréal's sustainability strategy while taking forward the essence of Body Shop's founding principles to meet the challenges of a new era. "*Our new Commitment combines all the experience and knowledge of our expert people with new advances in science and technology. It means understanding how our business is contributing to our existence on the planet, understanding what we need to change to contribute to a sustainable future by working backwards from a visionary end point to the here and now and asking ourselves what comes next. We'll continue to work in partnership with suppliers, NGOs, academics, governments and other businesses to deliver the innovation and changes needed to make our ambitions a reality,"*[40] he said.

EXHIBIT VII Body Shop's 7 Long-Term Sustainability Goals (2016)

1. Source all inputs in ways that have no negative social or environmental impact
2. Emit no substances which could harm the environment or society
3. Ensure the presence of the business does not cause disruption to ecosystems
4. Meet needs without any environmental impact, during product use and at end of life
5. Create a working environment within which all employees can flourish
6. Help to create thriving communities wherever the business operates
7. Engage and empower customers to act in the best interests of people and the environment

Source: Adapted from Body Shop 2015 Value Report

Enrich Not Exploit

On February 2, 2016, Body Shop unveiled its new global CSR strategy. The new commitment, entitled 'Enrich Not Exploit', was aimed at making Body Shop the world's most ethical and truly sustainable global business. As part of the new campaign, Body Shop had set several targets touching all areas of the business that it planned to achieve by 2020. Davis said the commitment was intended to make Body Shop the "innovative troublemaker" within the L'Oréal group. "*This commitment is kind of a statement that The Body Shop is back and that this is the kind of company that we want to be, and that we can be. Our goal is to be different and to be what The Body Shop always has been, which is the agitator, the experimenter,"*[41] he said.

The new sustainability framework included 14 specific, measurable CSR targets based on a commitment to enrich people, products, and the planet. The goals included doubling Body Shop's CFT to 40 ingredients, regenerating 75 million square metres of habitat to help communities live more sustainably, powering 100% of Body Shop stores with renewable energy, developing and delivering new sustainable packaging innovations, and ensuring 100% of its natural ingredients were traceable and sustainably sourced, protecting 10,000 hectares of forest and other habitat ***(See Exhibit VIII).*** Schwartz implemented systems, training, and reporting companywide to monitor progress against these new targets. He also set up a new internal advisory group and several inter-departmental working groups to ease communication and establish new ways of working across the business.

Body Shop aimed to broaden the brand's appeal to the next generation of customers with this new CSR approach. *"Today's millennial generation doesn't know the heritage of The Body Shop the way that some of us do. They didn't grow up with the Save the Whales campaign or wearing white musk [from The Body Shop]. Although they don't know this heritage, I think a lot of the interests are aligned. People are interested in brands that have a social impact, brands that are transparent and brands that do good,"*[42] said Jayme Jenkins, vice-president, marketing & corporate responsibility, Body Shop Canada. The company also planned to drive the new commitment further

EXHIBIT VIII 'Enrich Not Exploit' Targets

Target	How the Target is Measured
TARGET 1: Double CTP from 19 to 40 ingredients and help enrich the communities that produce them	• By tracking the number of ingredients that have attained CT status and are currently in production.
TARGET 2: Help 40,000 economically vulnerable people access work around the world	• Through regular supplier reporting and auditing process to record the number of people employed.
TARGET 3: Engage 8 million people in Enrich Not Exploit™ mission, creating its biggest campaign ever	• By counting the number of people who sign petitions. • By tracking the number of national and international institutions the company lobbies for change.
TARGET 4: Invest 250,000 hours of its skills and know-how to enrich the biodiversity of its local communities	• By measuring the number of hours employees contribute in their local communities. • By sharing stories of employees' community achievements globally to show the positive impact of the company's community involvement.
TARGET 5: Ensure that 100% of our natural ingredients are traceable and sustainably sourced, protecting 10,000 hectares of forest and other habitats	• 100% traceability & sustainability: Tracking the proportion of renewable raw materials after confirming the country of origin, establishing legal compliance, assessing social and environmental risks, and ensuring accountability. • Protecting 10,000 hectares: Dividing the tonnage of renewable raw materials purchased from relevant habitats by the area required to generate this volume of material. This approach is the best practice for monitoring and evaluating the conservation benefit of non-timber forest products.
TARGET 6: Reduce year on year the environmental footprint of all our product categories	• By evaluating every ingredient in use to understand how biodegradable it is and the level of dilution required to avoid any negative environmental impact (its water footprint). These two indicators will enable comparing of the environmental impact of every formulation the company produces. • By calculating averages for each formula type or category, which will become the target for new formulas to meet or exceed. • By recalculating the averages annually, in order to improve the environmental footprint of Body Shop products.
TARGET 7: Publish our use of ingredients of natural origin, ingredients from green chemistry, and the biodegradability and water footprint of our products	• By tracking the amount and percentage of product information published on the company's website, both by the number of products covered and the type of information.
TARGET 8: Develop an innovation pipeline that delivers pioneering cosmetic ingredients which are sustainably sourced from biodiversity hotspots and help to enrich these areas	• By tracking the number of ingredients sourced in line with the company's rigorous selection criteria: - proven cosmetic benefit - feedstock that is traceable to a biodiversity hotspot - help protect biodiversity - not currently used by Body Shop - relatively unknown in the rest of the cosmetics industry.
TARGET 9: Build Bio-bridges, protecting and regenerating 75 million square meters of habitat and helping communities to live more sustainably	• This campaign will be accredited by the Climate, Community and Biodiversity Alliance (CCBA), demonstrating its climate, social, and biodiversity benefits. • To comply with this accreditation, Body Shop needs to report impact; primarily areas protected, impact on local biodiversity and community engagement in addition report on areas it protected annually.
TARGET 10: Reduce the environmental footprint of our stores every time we refurbish or redesign them	• Using the best practice Material Scoring Mechanism and Low Impact Sustainability Tool (LIST) from the Buildings Research Establishment (BRE) to rate the environmental credentials of all shop fixtures. • All countries of operation of Body Shop will report twice annually on their store energy consumption and stores' energy source.
TARGET 11: Develop and deliver three new sustainable packaging innovations	• Body Shop will require any packaging innovations it uses to deliver improved environmental results.
TARGET 12: Ensure that 70% of our product packaging does not contain fossil fuels	• Review the company's existing packaging and calculate the amount of fossil-fuel based materials the company currently uses. • Measure the company's progress against the target every six months and report the percentage of packaging materials it uses by material type, recycled material content, and whether the raw material is from a fossil fuel or alternative carbon source.

Target	How the Target is Measured
TARGET 13: Power 100% of our stores with renewable or carbon-balanced energy	• All its countries of operation will report twice annually on how their stores are powered.
TARGET 14: Reduce by 10% the energy use in all our stores	• Tracking energy usage in stores, by country.

Source: Adapted from https://www.thebodyshop.com/en-gb/commitment/manifesto.

by engaging with key stakeholders across the globe including Future Fit Foundation, the University of Brighton, and the Cambridge Institute for Sustainability. This would allow the company to explore and learn how effectively the sustainable development could be applied across the business.

Marketing the New Commitment

One of the biggest challenges for the management of Body Shop was to involve all 23,000 employees of the company across 65 countries in this new initiative. To make employees aware of the new commitment, the company created a teaser video and a full-length film outlining its ambitions and how each employee could contribute. Employees were also provided with booklets and factsheets to keep them informed and help them spread the word about the new strategy. Besides, the company organized workshops and conferences to ensure that employees and franchise holders were fully involved. At these events, employees had the opportunity to hear inspiring speakers and informally question senior managers about specific aspects of the commitment. *"The Commitment is an evolution of Anita Roddick's values-led approach; it is very ambitious and to succeed it needs everyone to be clear and get behind it. By reaching out to our people – especially our store staff and our marketing teams – we also reach customers and share and engage them with our new story and new ambition for our company. It is vital our message has a big impact on those who visit our stores and engage with our digital community to ensure we keep our business healthy and profitable,"*[43] said Davis.

In order to be transparent about its business practices and to showcase the progress of its new CSR targets, beginning 2016, Body Shop planned to publish annual commitment reports in addition to internal management reporting. Across all the countries of its operation, the retailer would measure performance and progress in waste production, water use, and energy consumption, including use of renewable energy. According to Davis, regular reviews of the company's performance against clear policies and indicators would help the top management make changes where necessary and be effective.

The new commitment was mostly promoted in-store. Body Shop made some cosmetic changes to its stores including the introduction of a vibrant yellow colour-scheme and an eye-catching front window featuring a specially designed logo of the commitment. It placed one square meter of faux-grass at the checkout point of its stores on which the customer stood to see what the company was helping to build as they paid their bills. Webcams were installed inside the stores to show how and where ingredients were being grown. As part of the initiative, the company planned to make customer transactions completely paperless and cashless at its stores in the future. Schwartz and his team were working on a system where customers could pay through their phones and immediately receive a receipt and loyalty points to the same device. In the long term, Schwartz planned to invest heavily in redesigning Body Shop's stores and making every retail outlet eco-friendly by using locally sourced SSC-certified wood, sustainable materials in its flooring, LED lighting, and non-toxic paints.

In order to promote the commitment among customers, Body Shop planned to create video, in-store, and social media content. With 65% of its customers aged below 35 years, the brand began increasingly testing social media channels like Snapchat, Instagram, and Pinterest to promote its new CSR strategy. *"What we want consumers to think is 'I want this and I know when I buy it no person, animal or plant has been exploited and I'm buying it from a company doing a good thing,"*[44] said Kate Levine, director of commitment and corporate communications, Body Shop.

In June 2016, as part of its new CSR strategy, Body Shop launched a campaign called 'Help Reggie Find a Date', a Bio-Bridges planting program in Vietnam, which would connect rainforests that had been deforested to help endangered animals find a mate and enable them to breed and flourish. The campaign featured an endangered red-shanked douc monkey called Reggie, drawing attention to the need to build a bridge between the two islands cut off from each other where the monkeys lived. Davis, who related the project to a "dating service for endangered species", said it could drive consumer engagement to the company's improved CSR commitment. The campaign was also launched on dating app Tinder featuring Reggie's profile, wherein users could learn more about the Bio-Bridges program. Every purchase made at Body Shop (in stores or online) from July 2016 to September 2016 would fund one square meter of rainforest bio-bridge. Through this initiative, Body Shop aimed to restore 14.5 million square meters of rainforest in Khe Nuoc Trong, Vietnam, and aimed to regenerate and reconnect 75 million square meters of damaged forests by 2020 in partnership with the World Land Trust.[45]

In February 2016, Body Shop entered into a research partnership with Newlight Technologies LLC[46] to make its packaging free from greenhouse gases that would otherwise pollute the atmosphere. The partnership was part of Body Shop's new commitment to reduce its use of oil-based plastic packaging by 70% by 2020. The initiative would also see Body Shop become the first company to industrialize AirCarbon[47] in the beauty

industry. In October 2016, Body Shop collaborated with Ben Eine, one of the most renowned street artists in the world, to redesign its limited edition Hemp Hand Protector. The product featured the artist's typography spelling out the message "change" on the front of the product. For every tube of this product and Almond Hand & Nail Cream sold, £1.50 was donated to The Body Shop Foundation. More than 200,000 hand creams were sold globally and the company raised £325,000 to fund innovative social and environmental projects.

Can Body Shop Regain Its Former Glory?

In the first quarter ended March 31, 2016, Body Shop reported sales of €200.1 million compared to €192.4 million in the corresponding quarter of 2015. It delivered growth of +2.1% like-for-like and +4.0% based on reported figures ***(see Exhibit IX).*** According to analysts, going forward, one of the biggest challenges for Body Shop would be tough competition from the ever-increasing numbers of sustainable brands in the cosmetic marketplace. However, Davis was positive that the renewed CSR strategy would help Body Shop scale new heights. *"The vast majority of companies are actively embracing a sustainability strategy. If everyone is doing it, can we really suggest it is a source of competitive advantage or would better be described as a licence to operate? I think and hope there is space for companies who do things radically differently to stand out but to do this, I think you have to be pretty radical, opinionated and very creative. I hope our new plan does this at The Body Shop – that's our vision."*[48]

However, some analysts contended that offering natural products with sustainable credentials was not enough to spur sales as consumers were seeking cosmetics that offered dermatological benefits in addition to being ethical. They felt that Body Shop was more focused on its environmental message than on innovation.[49]

Moreover, some analysts felt that its new CSR goals were not outstanding and did not completely align with the strategy of the parent company, L'Oréal. Corporate responsibility advisor Julien Goy commented, *"I would say that these goals are very good by themselves, but there is the context missing. Context related to the mother company, related to the sector, related to sustainable development."*[50]

Schwartz said that moving forward, the new commitment would not only be a part of Body Shop's business strategy, but would also be central to the development and success of the company. He was optimistic that the new commitment would help Body Shop reclaim its past glory as a pioneer in ethical retail and emerge as the world's most ethical and truly sustainable global business. *"Because Anita is no longer with us, and she was the spokesman for the company, our voice has not been as loud and as clear as we wanted it to be. Our goal is to get more people to reconsider and re-understand what The Body Shop is about. We've got the products; we've got the stores; we've got the service. What we've got to get is people talking again,"*[51] he said.

EXHIBIT IX **L'Oréal's Sales by Operational Division and Geographic Zone**

	Quarterly Sales		Growth	
€ Million	**1Q 2015**	**1Q 2016**	**Like-for-like**	**Reported**
By Operational Division				
Professional Products	852.6	854.3	2.5%	0.2%
Consumer Products	3,078.3	3,106.0	3.9%	0.9%
L'Oréal Luxe	1,753.7	1,831.4	5.5%	4.4%
Active Cosmetics	559.2	560.7	4.5%	0.3%
Cosmetics Divisions total	6,243.9	6,352.4	4.2%	1.7%
By Geographic Zone				
Western Europe	2,100.4	2,127.5	2.0%	1.3%
North America	1,622.0	1,715.9	4.3%	5.8%
New Markets, of which:	2,521.5	2,509.0	6.1%	–0.5%
- Asia, Pacific	1,476.1	1,510.4	4.5%	2.3%
- Latin America	460.2	409.0	8.5%	–11.1%
- Eastern Europe	396.6	390.6	9.5%	–1.5%
- Africa, Middle East	188.7	198.9	8.0%	5.4%
Cosmetics Divisions total	6,243.9	6,352.4	4.2%	1.7%
The Body Shop	**192.4**	**200.1**	**2.1%**	**4.0%**
Group total	6,436.3	6,552.4	4.2%	1.8%

Source: Adapted from www.loreal-finance.com/eng/news/first-quarter-2016-sales-1059.htm.

Case Questions

1. How did Body Shop emerge as a champion of CSR while challenging industry norms? How important a contribution did Roddick make to the creation of Body Shop?
2. How did the acquisition by L'Oréal affect the ethical image of Body Shop? Discuss the problems Body Shop faced following the takeover.
3. Critically analyze Body Shop's new CSR approach.
4. Do you think the revamped strategy will help Body Shop regain its lost glory as a leader in ethical business? What possible challenges could Schwartz and Davis face going forward and how can they be tackled?

Endnotes

1. This case was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. This case was a Runner Up in the 2017 oikos Global Case Writing Competition (Corporate Sustainability track), organized by oikos International, Switzerland. © 2017, IBS Center for Management Research. All rights reserved. To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: casehelpdesk@ibsindia.org www.icrmrindia.org

2. "At Forty, The Body Shop Launches Pioneering New Commitment in Drive to be the World's Most Ethical and Sustainable Global Business," www.prnewswire.com, February 10, 2016.

3. Darina Eades, "The Pioneer of CSR Launches a New CSR Strategy," http://darinaeades.com, February 12, 2016.

4. Amnesty International is one of the leading and most respected human rights organizations in the world.

5. "Is This the First Ever Corporate Social/Environmental Report?" www.mallenbaker.net, February 2003.

6. The term 'masstige' (Mass-market combined with prestige) covers relatively low-priced retail goods that are sold under the banner of a prestigious brand name.

7. "L'Oréal Buys Body Shop for £652m," www.theguardian.com, March 17, 2006.

8. Fiona Walsh and Julia Finch, "£600m - Because it's Worth it," www.guardian.co.uk, February 24, 2006.

9. "Has the Body Shop Sold Out?" www.newconsumer.org, April 2006.

10. https://www.thebodyshop.com/medias/Values-Report-2015.

11. Sheila Shayon, "Enrich Not Exploit: The Body Shop Turns 40 with Renewed CSR Strategy," http://brandchannel.com, February 11, 2016.

12. Through its Solidarity Sourcing program, the L'Oréal Group opens up its purchasing process and calls for tenders from small new suppliers who employ people from economically vulnerable communities and enable them to have access to income. The stated aim was to work with these suppliers to build commercial partnerships that were equitable and sustainable, creating economic and social value.

13. ECPAT International is a Bangkok-based global network of 90 civil society organizations' in 82 countries fighting against sexual exploitation of children.

14. War Child is a global charity for children affected by war.

15. Body Shop tests its products using patch testing, which involves placing a very small amount of product on a person's skin to ensure that it is safe and effective, usually at the final stage.

16. The Humane Cosmetics Standard is an internationally recognized standard for cosmetic products to confirm that they have not been tested on animals.

17. People for the Ethical Treatment of Animals (PETA) is the largest animal rights organization in the world.

18. The Royal Society for the Prevention of Cruelty to Animals (RSPCA) is a UK-based charity that works for the welfare of animals.

19. Cruelty Free International is an international organization working to end animal testing for cosmetics globally.

20. Launched in 2012, Pulse Stores are Body Shop's sustainable concept stores with a boutique feel. The store design combines technology with nature and offers a vibrant retailing environment wherein customers are invited to discover the innovations, to take the time to try out the sensorial products, and to learn about the story behind ingredients. By the end of 2013, Body Shop had rolled out over 800 Pulse stores across the globe.

21. Microbeads are little beads that are put in scrubs to remove dry skin, but then they go through the water and end up in the sea and are consumed by fish. Such fish are unsafe for human consumption.

22. Roundtable on Sustainable Palm Oil is a not-for-profit association whose members represent the oil palm growers, palm oil processors and traders, consumer goods manufacturers, retailers, banks and investors, environmental/nature conservation NGOs, and social/development NGOs.

23. The Forest Stewardship Council is an international non-profit organization that protects forests by setting standards for responsible forest management.

24. World Land Trust is a UK-based international conservation charity, which protects the most biologically important and threatened habitats in the world.

25. McSpotlight is a website that highlights the alleged exploitation of animals, people, and the environment by the McDonald's fast-food restaurant chain.

26. "Body Shop's Packaging Starts to Unravel," *Australian Financial Review*, www.jonentine.com, December 18, 2002.

27. Gerard Bodeker and Marc Cohen, *Understanding the Global Spa Industry*, Routledge, August 20, 2010.

28. "Dame Anita's Radical Approach," www.news.bbc.co.uk, July 17, 2003.

29. P. V. Gutierrez Zarate, "The CSR Dilemma: An Analysis of the Complicated Relationship between Firms and Society," http://arno.uvt.nl, July 9, 2012.

30. "Guest Opinion: The Body Shop Experiment with Entrepreneurship and CSR," www.endeavor.org, July 9, 2013.

31. Schwartz held senior marketing positions at Sainsbury's and Coca-Cola before joining News International where he was commercial director and CMO. Prior to joining Body Shop, he was general manager at L'Oréal for brands including Maybelline and Garnier.

32. "Guest Opinion: The Body Shop Experiment with Entrepreneurship and CSR," www.endeavor.org, July 9, 2013.

33. Paul Jarvis, "Body Shop's 'Terrible Quarter' is L'Oreal's Sole Blemish: Chart," www.bloomberg.com, February 12, 2016.

34. Alexander C. Kaufman and Jo Confino, "What Ever Happened to the Body Shop?" www.huffingtonpost.in, December 8, 2015.

35. https://www.thebodyshop.com/medias/Values-Report-2015.

36. Jennifer Faull, "How Marketing Will Help The Body Shop Become the World's Most Ethical and Sustainable Brand," www.thedrum.com, February 22, 2016.

37. Sarah Butler, "Body Shop Boss Goes Back to the Rainforest," www.theguardian.com, February 13, 2016.

38. Prior to joining Body Shop, Christopher Davis was responsible for International Corporate Relations and Global Development at The International Save the Children Alliance. Davis is also a Director of the MTV Staying Alive Foundation, a global movement focusing on raising HIV and Aids awareness among young people.

39. The Future-Fit Business Benchmark (co-developed by Bob Willard and Geoff Kendall) defines a set of goals that together identify the level of performance any truly sustainable company must achieve across all critical social and environmental dimensions, irrespective of its size or sector. It also provides a set of KPIs on which progress toward each goal can be measured.

40. "At Forty, The Body Shop Launches Pioneering New Commitment in Drive to be the World's Most Ethical and Sustainable Global Business," www.prnewswire.com, February 10, 2016.
41. Madeleine Cuff, "The Body Shop Freshens up Climate Commitments with New Strategy to Become 'Truly Sustainable' Global Business," www.businessgreen.com, February 10, 2016.
42. Rebecca Harris, "The Body Shop Goes Back to Ethical Roots," www .marketingmag.ca, February 16, 2016.
43. Liam Doud, "Leadership Series: Christopher Davis, The Body Shop," www.ethicalcorp.com, February 10, 2016.
44. Jennifer Faull, "How Marketing Will Help The Body Shop Become the World's Most Ethical and Sustainable Brand," www.thedrum.com, February 22, 2016.
45. World Land Trust is a UK-based non-profit environmental organization that works to protect some of the world's most threatened habitats.
46. Based in California, Newlight Technologies is a cleantech firm that has developed, patented, and commercialized the world's first commercially scaled carbon capture technology able to produce high-performance thermoplastics from air and methane emission.
47. AirCarbon is a thermoplastic that behaves in the same way as normal plastics but uses methane and carbon dioxide as its foundation rather than oil.
48. Liam Doud, "Leadership Series: Christopher Davis, The Body Shop," www.ethicalcorp.com, February 10, 2016.
49. "Guest Opinion: The Body Shop Experiment with Entrepreneurship and CSR," www.endeavor.org, July 9, 2013.
50. "The + and – of The Body Shop's New CSR Programme," www.linkedin .com, March 31, 2016.
51. Lubna Hamdan, "Natural Beauty: Body Shop's Jeremy Schwartz," www.arabianbusiness.com, April 1, 2016.

PART

2 The Cultural Context of Global Management

PART OUTLINE

CHAPTER 3
Understanding the Role of Culture

CHAPTER 4
Communicating across Cultures

CHAPTER 5
Cross-Cultural Negotiation and Decision Making



CHAPTER

3 Understanding the Role of Culture

OBJECTIVES

- **3-1.** To understand how culture affects all aspects of international management
- **3-2.** To be able to distinguish the major value dimensions that define cultural differences among societies or groups
- **3-3.** To understand the interaction between culture and the use of the Internet
- **3-4.** To be able to develop a working cultural profile typical of many people within a certain society as an aid to anticipating attitudes toward work, negotiations, and so on
- **3-5.** To gain some insight into different management styles around the world

Opening Profile: Social Media Bring Changes to Saudi Arabian Culture[1]

Why is Arabic the fastest-growing language of all time on Twitter and Riyadh ranked #10 globally of the cities with the most tweets? What is behind such a rapid growth of this increasingly tech-savvy population?

As of December 2017, the number of Internet users in Saudi Arabia has reached 90.2% penetration. With 18 million Facebook users (53.6% penetration), social media is becoming more widespread.[2] Each day, more than 90 million videos are viewed on YouTube, more than 3 million people are on Twitter, and more than 840,000 are on LinkedIn, with email usage becoming passé. It is clear that not only do these platforms present important avenues for international businesses to communicate and engage with customers, but also that cultural and lifestyle factors are involved. Because 70 percent of the Saudi population is under 30 and most own smartphones, many are turning to Twitter and YouTube. In addition, social interaction is sometimes monitored and restricted by patrolling religious police. For some young people, then, Twitter represents an escape from social restrictions, especially for women. More recently, however, Twitter was used by Princess Reema bint Bandar to convey that amendments had been made to labor and civil laws to lift restrictions on women and allowing them to drive and travel independently, as well as more rights in family matters.[3] Perhaps, then, more open dialog between men and women has changed the power structure and created opportunities for everyone to participate in a broad array of roles.

However, the young people are not the only ones using Twitter; the use of such media is spreading to all sectors of society—government officials, the royalty, sheikhs, and those in industry. In addition, the Saudi government, which is an absolute monarchy with no parliament or political parties, does review online activity to gather intelligence and monitor public opinion. As such, there are lines that

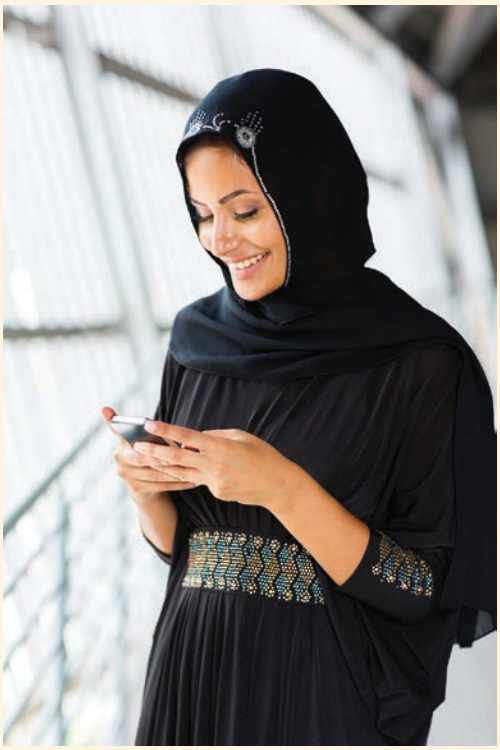
cannot be crossed, such as criticizing religion or allowing accounts that promote adultery and homosexuality. On the other hand, it has become apparent that government authorities can conceal little because information is now rapidly disseminated through social media, so now those authorities are more likely to use the media to give their version of events or updates to get ahead of the rumors and, in particular, quell political dissent.

Clearly, social media have presented a virtual world as a force for modernity in Saudi Arabia and cause powerful interactions with cultural mores; it is a matter of personal judgment whether those changes are viewed as progressive, but it is also clear that there is no turning back.

Questions

1. Discuss the role of social media in societal culture. Is this virtual world, with no geographic boundaries, presenting a normalizing effect across those boundaries? Is that a positive or a negative effect?
2. Is societal culture and lifestyle as intricately intertwined with religion in your country as it is in Saudi Arabia?
3. Discuss other countries where social media are having a radical effect on cultural expectations.

FIGURE 3-1 Saudi Arabian Woman Using a Smartphone



Mark Schwettmann/Shutterstock

This chapter's opening profile describes the interaction between social media and culture. It is clear that the widespread use of social media both helps people become familiar with other cultures and ways of life and, perhaps, smooth out the differences. In this chapter, we discuss how an understanding of the local culture and business environment can give managers an advantage in competitive industries. Foreign companies—no matter what their size—ignore those aspects to their peril. Such differences in culture and the way of life in other countries necessitate that managers develop international expertise to manage on a contingency basis according to the host-country environment. Powerful, interdependent factors in that environment—-political, economic, legal, technological, and cultural—influence management strategy, functions, and processes.

> *Cultural Intelligence: an outsider's seemingly natural ability to interpret someone's unfamiliar and ambiguous gestures in just the way that person's compatriots and colleagues would.*[4]
>
> HARVARD BUSINESS REVIEW

There is further discussion of how to adapt to different cultures in Chapter 4. First, we need to gain an understanding of what culture is, what the variables are that will enable us to adapt, and how those variables affect the manager's job. Clearly, it is important for anyone wishing to be successful when working with people in other countries to be able to plan how to relate to and adapt to people from different cultures.[5] Managers have often seriously underestimated the significance of cultural factors. According to numerous accounts, many blunders made in

international operations can be attributed to a lack of cultural sensitivity.[6] Examples abound. Scott Russell, senior vice president for human resources at Cendant Mobility in Danbury, Connecticut, recounts the following:

An American company in Japan charged its Japanese HR manager with reducing the workforce. The Japanese manager studied the issue but couldn't find a solution within cultural Japanese parameters; so when he came back to the Americans, he reduced the workforce by resigning—which was not what they wanted.[7]

Cultural sensitivity, or **cultural empathy**, is the awareness of and an honest caring about another individual's culture. Such sensitivity requires the ability to understand the perspective of those living in other (and very different) societies and the willingness to put oneself in another's shoes.

International managers can benefit greatly from understanding the nature, dimensions, and variables of a specific culture and how these affect work and organizational processes. This cultural awareness enables them to develop appropriate policies and determine how to plan, organize, lead, and control in a specific international setting. Such a process of adaptation to the environment is necessary to implement strategy successfully. It also leads to effective interaction in a workforce of increasing cultural diversity, in both the United States and other countries.

Company reports and management studies make it clear that a lack of cultural sensitivity costs businesses money and opportunities. One study of U.S. multinational corporations found that poor intercultural communication skills still constitute a major management problem. Managers' knowledge of other cultures lags far behind their understanding of other organizational processes.[8] In a synthesis of the research on cross-cultural training, Black and Mendenhall found that up to 40 percent of expatriate managers leave their assignments early because of poor performance or poor adjustment to the local environment. About half of those who remain are considered only marginally effective. Furthermore, they found that cross-cultural differences are the cause of failed negotiations and interactions, resulting in losses to U.S. firms of more than $2 billion a year for failed expatriate assignments alone.[9]

Other evidence indicates, however, that cross-cultural training is effective in developing skills and enhancing adjustment and performance. In spite of such evidence, U.S. firms do little to take advantage of such important research and incorporate it into their ongoing training programs, whose purpose is ostensibly to prepare managers before sending them overseas. Too often, the importance of such training in developing cultural sensitivity is realized much too late.

This chapter provides a conceptual framework with which companies and managers can assess relevant cultural variables and develop cultural profiles of various countries. This framework is then used to consider the probable effects of cultural differences on an organization and their implications for management. To do this, the powerful environmental factor of cultural context is examined. The nature of culture and its variables and dimensions are first explored, and then specific differences in cultural values and their implications for the on-the-job behavior of individuals and groups are considered. Cultural variables, in general, are discussed in this chapter. The impact of culture on specific management functions and processes is discussed in later chapters as appropriate. We emphasize throughout this book that no one style or management practice or culture is deemed overall to be better than others; rather, any manager from any region or society needs to find the most effective way to achieve objectives that works in that particular situation or locale.

3-1. To understand how culture affects all aspects of international management

CULTURE AND ITS EFFECTS ON ORGANIZATIONS

People from different parts of the world, coming from different cultural backgrounds, are now working and communicating together. Thus, for many businesses, it is very important for managers and staff to understand cultural diversity.[10]

Societal Culture

As generally understood, the **culture** of a society comprises the shared values, understandings, assumptions, and goals that are learned from earlier generations, imposed by present members of a society, and passed on to succeeding generations. This shared outlook results, in large part,

in common attitudes, codes of conduct, and expectations that subconsciously guide and control certain norms of behavior.[11] One is born into, not with, a given culture and gradually internalizes its subtle effects through the socialization process. Culture results in a basis for living grounded in shared communication, standards, codes of conduct, and expectations.[12] Over time, cultures evolve as societies adapt—by choice or otherwise—to transitions in their external and internal environments and relationships. Globalization, in all its forms of personal and business contacts and information crossing borders, brings about changes that result in **cultural diffusion**. When immigrants adopt some aspects of the local culture while keeping aspects of their culture of origin, this process is called **creolization**. Some countries, such as France, fiercely protect their culture against outside influences and insist that immigrants assimilate into their society and respect their values.[13]

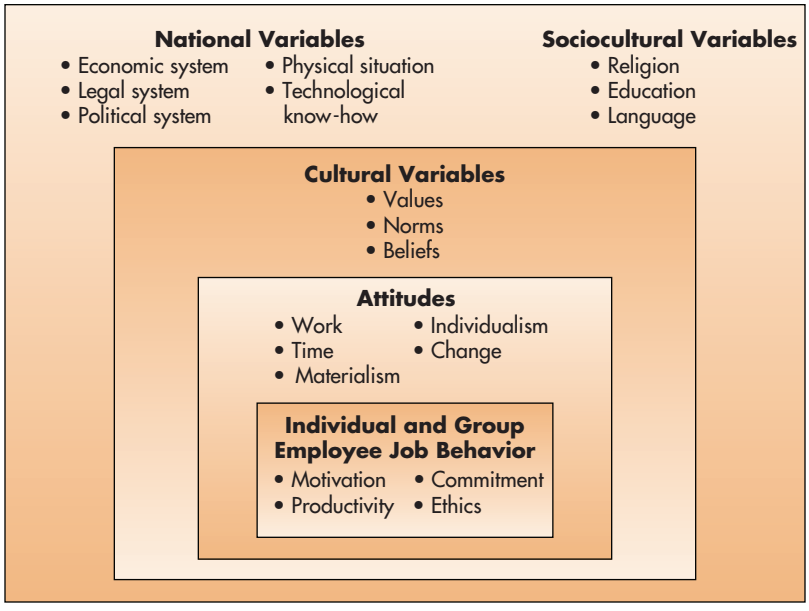
A manager assigned to a foreign subsidiary must expect to find large and small differences in the behavior of individuals and groups within that organization. As depicted in Exhibit 3-1, these differences result from the societal, or sociocultural, variables of the culture, such as religion and language, as well as from prevailing national variables such as economic, legal, and political factors. National and sociocultural variables, thus, provide the context for the development and perpetuation of cultural variables. These cultural variables, in turn, determine basic attitudes toward work, time, materialism, individualism, and change. Such attitudes affect an individual's motivation and expectations regarding work and group relations, and they ultimately affect the outcomes that can be expected from that individual.

Organizational Culture

Compared to societal culture, which is often widely held within a region or nation, **organizational culture** varies a great deal from one organization, company, institution, or group to another. Organizational culture represents those expectations, norms, and goals held in common by members of that group. For a business example, consider Apple, whose organizational culture is very organic, or loose and informal, with its employees typically wearing casual clothes and interacting informally.

Research shows that societal culture tends to be stronger than organizational culture, so that employees working with or for a foreign company may not easily fall into the new organizational culture.[14] Clearly, there is a relationship between organizational culture and societal (national) culture, both of which can cause disputes in the workplace at all levels, including the management of cross-border alliances.

EXHIBIT 3-1 Environmental Variables Affecting Management Functions



Culture's Effects on Management

Clearly, societal culture affects organizational culture, and there are often interaction effects, as illustrated by the comments of a Japanese CEO when asked how he would characterize his company's corporate culture:

> *The positives: trust, loyalty, teamwork, long-term commitment. The negatives: resistance to change and an overly domestic focus. That's why I tell my people to embrace change and be world class.*[15]
>
> KENICHI WATANABE, NOMURA GROUP

Which organizational processes—technical and otherwise—are most affected by cultural differences, and how they are affected, is the subject of ongoing cross-cultural management research and debate.[16] Oded Shenkar suggests that we should

> *[c]onsider cultural differences as having the potential for both synergy and disruption, [and that] this point cannot be overstated as it lies at the intersection of strategic logic and operational challenges that underline the FDI, expatriate adjustment, auditing and other international-business issues.*[17]
>
> ODED SHENKAR, JOURNAL OF INTERNATIONAL BUSINESS STUDIES

Further, Shenkar poses that, rather than focusing on how *different* two cultures are—that is, cultural distance (CD)—in reality, it is the *interaction* between them that is the working issue in international management; this is because cultural distance has little effect on management until the two cultures come in contact with each other. He proposes that we focus on the concept of friction instead of distance by considering how the relevant people and organizational processes would interact and what the effects would be on the relative success of the international business venture.[18] Moreover, each situation is unique and may involve people from several cultures meeting in a location relative to one of them, creating a specific, multidimensional arena for understanding and communicating. Throw in the local business practices and the corporate cultures of each, and you have a complex scenario to navigate. An example might be an American preparing to meet in Russia with the German subsidiary manager there. As Nardon and Steers point out, several combinations of factors might complicate each specific global encounter, such as:

> The broad cultural and institutional context based on local geography or the firm's industry, for example.
>
> The organizational culture, as discussed earlier, which may or may not conflict with the culture and business practices in the specific locale of interaction.
>
> The situational context, which includes factors such as the physical setting, the types of positions members have in their firms, each person's individual characteristics and cross-cultural preparation, and the method of interactions at the time.[19]

Many researchers have acknowledged the need to recognize and adapt to the overall situational context.[20] Many companies, such as Walmart, have found that their success in some countries was definitely not transferrable to others. For managers to be successful around the world, there is no doubt that

> *[i]t requires **contextual intelligence**: the ability to understand the limits of our knowledge and to adapt that knowledge to an environment different from the one in which it was developed.*[21]
>
> TARUN KHANNA, HARVARD BUSINESS REVIEW

Some argue that the effects of culture are more evident at the individual level of personal behavior than at the organizational level because of convergence. **Convergence** describes the phenomenon of shifting individual management styles to become more similar to one another. The convergence argument is based on the belief that the demands of industrialization, worldwide coordination, and competition tend to factor out differences in organizational-level processes such as choice of technology and structure. In a study of Japanese and Korean firms, Lee, Roehl, and Choe found that globalization and firm size were sources of convergence of management styles.[22] At the individual level, the research we will discuss in this chapter and throughout the

book clearly shows that whereas an assertive, take-charge management style typically works best in the West, people across Asia usually respond better to a more subtle leadership style in which the manager works behind the scenes to accomplish goals; then again, Latino cultures tend to prefer a paternal management style and look up to leaders who command respect by virtue of their position in society.[23] These factors are discussed in more detail later in this chapter.

The effects of culture on specific management functions are particularly noticeable when we attempt to impose our own values and systems on another society. Exhibit 3-2 gives some examples of the values typical of U.S. culture, compares some common perspectives held by people in other countries, and shows which management functions might be affected, clearly implying the need for the differential management of organizational processes. For example, American managers plan activities, schedule them, and judge their timely completion based on

EXHIBIT 3-2 The Role of Cultural Variables in Enacting Management Functions: A Comparison of Some Typical Views of People in the United States with Other Commonly Held Perspectives around the World

Management Function	Aspects of U.S. Culture*	Other Perspectives
Strategic planning, scheduling events and operations	People can affect what happens in the future.	What happens in the future is determined by the will of God (fatalistic attitude).
Sustainability management; productivity	It is acceptable for people to interfere with nature and make changes to their environment.	People should live within the given environment and adjust to it without interference.
Leadership and motivation	Leadership is shared and participative.	Leadership is often paternal and/or authoritative.
Planning, social responsibility, human resource management.	Employees' goals should be realistic.	Idealism is valued regardless of what is "reasonable."
Motivation and reward system	Hard work is valued and will accomplish our objectives (Puritan ethic).	The will of God, good fortune, play an important part in success as well as hard work.
Negotiating and bargaining	People should follow up on their commitments and their word.	A commitment only indicates an intention to perform, but may be changed as developments occur.
Long-and short-range planning	It is important to effectively use one's time (time is money that can be saved or wasted).	Relationships and personal concerns can take priority over meetings and schedules.
Loyalty, commitment, and motivation	A primary obligation of an employee is to the organization.	The individual employee has a primary obligation to his or her family and friends.
Motivation and commitment to the company	People know that their jobs are impermanent and that they or their employers may end that commitment at any time.	Employment is for a lifetime.
Employment, promotions, and reward	The best-qualified people should be hired.	Nepotism is practiced. Family, friendship, and other considerations take precedence in employment.

*Aspect here refers to a belief, value, attitude, or assumption that is part of a culture in that a large number of people in that culture share it.

Source: Based on *Managing Cultural Differences* by Philip R. Harris and Robert T. Moran, 5th ed. © 2000 by Gulf Publishing Company, Houston, TX. Used with permission. All rights reserved.

the belief that people influence and control the future rather than assuming that events will occur only at the will of Allah, as managers in an Islamic nation might believe.

Many people in the world understand and relate to others only in terms of their own culture. This unconscious reference point of one's own cultural values is called a **self-reference criterion**. The result of such an attitude is illustrated in the following story.

> *Once upon a time there was a great flood, and involved in this flood were two creatures, a monkey and a fish. The monkey, being agile and experienced, was lucky enough to scramble up a tree and escape the raging waters. As he looked down from his safe perch, he saw the poor fish struggling against the swift current. With the very best of intentions, he reached down and lifted the fish from the water. The result was inevitable.*[24]

The monkey assumed that its frame of reference applied to the fish and acted accordingly. Thus, international managers from all countries must understand and adjust to unfamiliar social and commercial practices—especially the practices of that mysterious and unique nation, the United States. Japanese workers at a U.S. manufacturing plant learned to put courtesy aside and interrupt conversations with Americans when there were problems. Europeans, however, are often confused by Americans' apparent informality, which then backfires when the Europeans do not get work done as the Americans expect.

As a first step toward cultural sensitivity, international managers should understand their own cultures. This awareness helps guard against adopting either a parochial or an ethnocentric attitude. **Parochialism** occurs, for example, when a person in France expects those from or in another country to fall automatically into patterns of behavior common in France. **Ethnocentrism** describes the attitude of those who operate from the assumption that their ways of doing things are best—no matter where or under what conditions they are applied. Companies both large and small have demonstrated this lack of cultural sensitivity in countless subtle (and not so subtle) ways with varying disastrous effects.

Procter & Gamble (P&G) was one such company. In an early Japanese television commercial for Camay soap, a Japanese woman is bathing when her husband walks into the bathroom. She starts telling him about her new beauty soap. Her husband, stroking her shoulder, hints that he has more on his mind than suds. The commercial, which had been popular in Europe, was a disaster in Japan. For the man to intrude on his wife "was considered bad manners," said Edwin L. Artzt, P&G's then vice chairman and international chief. "And the Japanese didn't think it was very funny." P&G has learned from its mistakes and now generates about half of its revenue from foreign sales.[25]

After studying his or her own culture, the manager's next step toward establishing effective cross-cultural relations is to develop cultural sensitivity. Managers not only must be aware of cultural variables and their effects on behavior in the workplace, but also must appreciate cultural diversity and understand how to build constructive working relationships anywhere in the world. The following sections explore cultural variables and dimensions. Later chapters suggest specific ways in which managers can address these variables and dimensions to help build constructive relationships.

Given the great variety of cultures and subcultures around the world, how can a student of cross-cultural management, or a manager wishing to be culturally savvy, develop an understanding of the specific nature of a certain people? With such an understanding, how can a manager anticipate the probable effects of an unfamiliar culture within an organizational setting and thereby manage human resources productively and control outcomes?

One approach is to develop a cultural profile for each country or region with which the company does or is considering doing business. Developing a cultural profile requires some familiarity with the cultural variables universal to most cultures. From these universal variables, managers can identify the specific differences found in each country or people—and, hence, anticipate their implications for the workplace.

Managers should never assume that they can successfully transplant American, or Japanese, or any other country's styles, practices, expectations, and processes. Instead, they should practice a basic tenet of good management—**contingency management**. Contingency management requires managers to adapt to the local environment and people and manage accordingly. That adaptation can be complex because the manager may confront differences not only in culture but also in business practices. The need for managers to adapt to local conditions, particularly within a joint venture, was illustrated by Baruch Shimoni in his research of Thai and Israeli managers of two MNCs headquartered in Sweden and the United States. He found that the firms'

local management cultures ran into each other and produced new hybrid forms of management cultures.[26] Shimoni found that the managers developed a hybrid management style that was between their own and the corporation's management practices. Whereas the Thai culture focuses on harmonious personal relationships and avoidance of confrontation, in the Israeli office practices focused on informal relationships, performance, work processes, and supervision.[27]

Over time, the Thai managers (Chindakohrn and Hansa) and the Israeli managers (Tamir and Shuki) came to adapt their feelings and management style to create a hybrid style suited to the situation. As Hansa said, "I try to compromise. Working together, get your opinion, what you want, what you think, then I make decisions … you [I] have to be very quick and execute immediately… I try to change myself, to be adopting to this [the MNC's] kind of character, culture."[28]

Influences on National Culture

Managers should recognize, of course, that generalizations in cultural profiles will produce only an approximation, or stereotype, of national character. Many countries comprise diverse **subcultures** whose constituents conform only in varying degrees to the national character. In Canada, distinct subcultures include Anglophones and Francophones (English-speaking and French-speaking people, respectively) and indigenous Canadians.

Above all, good managers treat people as individuals, and they consciously avoid any form of **stereotyping**. However, a cultural profile is a good starting point to help managers develop some tentative expectations—some cultural context—as a backdrop to managing in a specific international setting. It is useful, then, to look at what cultural variables have been studied and what implications can be drawn from the results.

Before we can understand the culture of a society, we need to recognize that there are subsystems in a society that are a function of where people live; these subsystems influence, and are influenced by, people's cultural values and dimensions and thus affect their behaviors, both on and off the job. Harris and Moran identified eight categories that form the subsystems in any society.[29] This system's approach to understanding cultural and national variables—and their effects on work behavior—is consistent with the model shown in Exhibit 3-1 that shows those categories as a broad set of influences on societal culture. Those categories are the *kinship* system of relationships among families; the *education system*; the *economic* and *political systems*; the *associations* that make up formal and informal groups; the *health system*; attitudes toward *recreation* and leisure; and—perhaps most important—*religion* (further discussed in the accompanying "Under the Lens" feature).



UNDER THE LENS

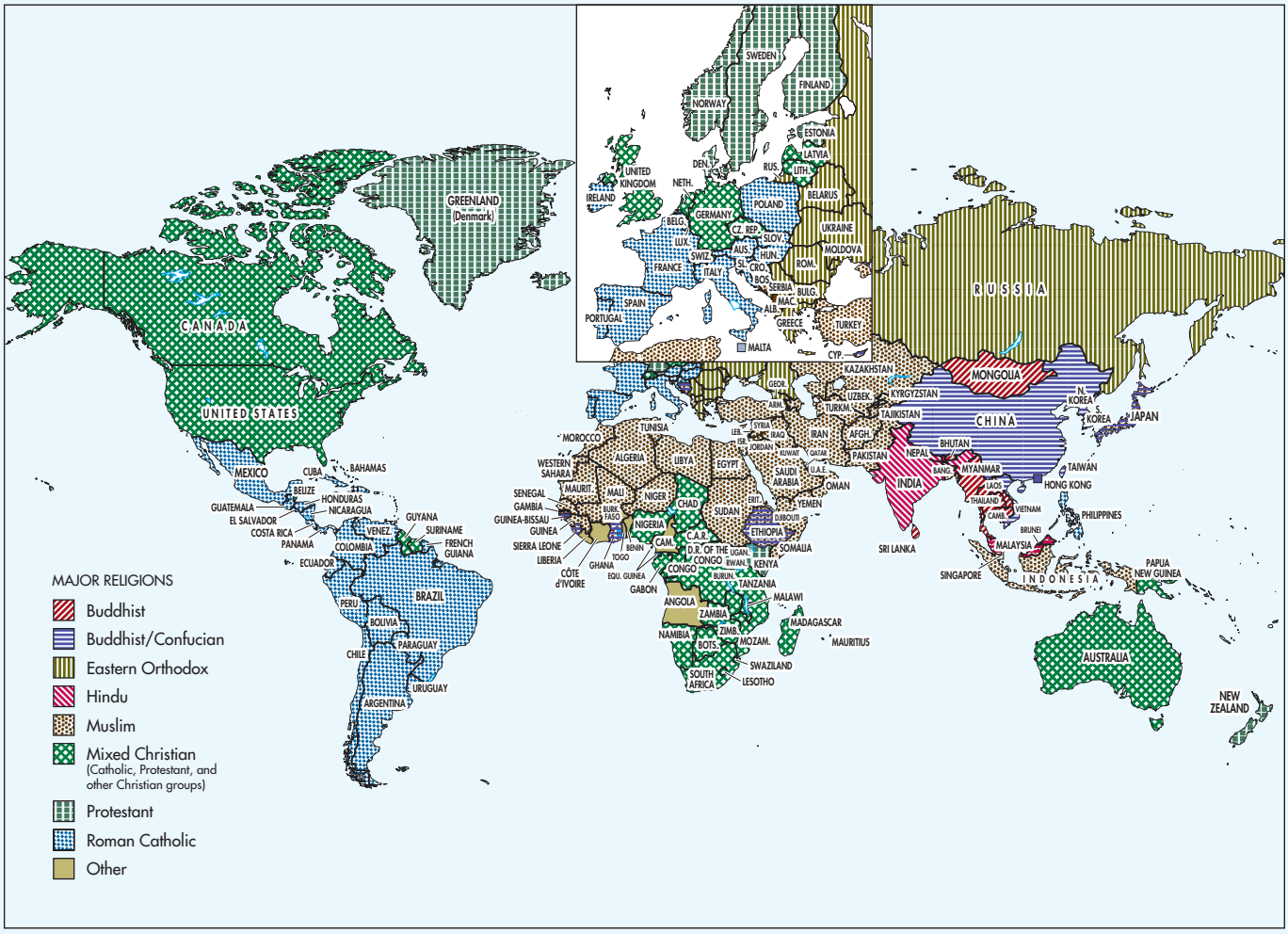
Religion and the Workplace

Since the basis of a religion is shared beliefs, values, and institutions, it is closely aligned with the accepted underpinnings of societal culture; thus, religion and culture are inextricably linked. As such, religion underlies both moral and economic norms and influences everyday business transactions and on-the-job behaviors. The connections between culture and work behavior for employees and managers in various countries are discussed throughout this book. Here we note specifically that managers in the home country or abroad must recognize both the legal religious rights in the workplace and the value of such diversity in the workplace. Days off for religious holidays, accommodation for prayers, dietary requirements, and so on, are the more obvious considerations. In addition, foreign managers abroad must be particularly sensitive to the local religious context and the expectations and workplace norms of employees and others because those managers will be immersed in that context in dealing with employees, clients, suppliers, and others. Failure to do so will minimize or negate the goals of the firm in that location.

Most readers of this book are familiar with the major religions of the world (see Map 3-1), and an in-depth discussion of religions is beyond the focus here. (The four religions with the largest number of followers are Christianity, with 33.1% of world population; Islam, with 20.4%; Hinduism, with 13.5%; and Buddhism, with 6%. These figures are approximate because, of course, they are changing every day.)[30] What we do focus on as we progress through the chapters are the ways in which religion intersects with culture and affects business interactions, expectations, operations, motivations, and leadership, including attitudes toward work, time, ethics, and decision-making.

(*Continued*)

MAP 3-1 Major World Religions



Source: Data from various sources, including the U.S. Bureau of the Census international database, U.S. State Department Reports, UN Human development report.

Hinduism is over 5,000 years old and typically involves worship of many gods. Prayer is usually a private matter in one's own home. The traditional caste system, now illegal, still tends to affect the labor markets. As another example of the effects of religion in the workplace, a Western manager operating in some areas or enterprises in India might note the employees' lack of sensitivity to time. As noted by Agam Nag, that attitude is attributed to the religious belief and the philosophical background: "It has been variously traced to the concept of immortality of soul and reincarnation in Hinduism that gives a sense of infiniteness to life and hence time."[31] Nag explains that the lack of sensitivity to time cuts across all religions in India, including the endless variations of Hinduism as well as many other religions such as Islam, Christianity, and Sikhism.[32] Clearly, religious belief is only one dimension of Indian culture to explain the way they view time. However, we can also observe the influence and competitiveness of foreign companies operating in the cities in India, such as the many companies in the information technology industry that are operating there. Their young, educated workforce has adapted to the competitiveness and expectations in those companies, resulting in a meld of their traditional value system and the practical approach typical of Western companies. Foreign firms in India and elsewhere are reaping the benefits of this rapidly growing and highly effective workforce.[33]

Christianity originated in the Middle East and is now over 2,000 years old. Christians believe in one God. Christianity is based on the life and death of Jesus Christ, the son of God, and preaches love, the value of human life, self-discipline, and ethics. There are four principal denominations: Orthodox, Pentecostal, Protestant, and Roman Catholic. Roman Catholicism predominates in the Americas and

Western Europe. Orthodox Christians mostly live in Eastern Europe. Foreign corporations in Christian locales can assume that most employees and other contacts behave largely according to the Ten Commandments. In Europe, employees typically have a number of days off for religious holidays. In the United States, religious holidays are typically limited to Christmas and Easter; however, there should be respect for people not wanting to work on Sundays. One wonders, also, if the Protestant ethic of hard work, saving, and efficiency, common in the West and the basis of capitalism, is spreading because of global competition and the influence of foreign companies.

Islam was discussed in the opening profile. Muslims believe that there is only one god, Allah, and that the prophet Muhammad was his final messenger. Their lives are based on the Qur'an and Muslim law (Sharia). Businesses can be affected by the Sharia law against receiving or paying interest. As a further example of how religious beliefs affect the workplace, respect for Islam requires companies operating in Muslim countries to make provisions—in time and space allocation—for employees to pray five times a day. This is true, also, in countries and cities such as in the United Kingdom where there is a large Muslim population. In addition, out of respect for Ramadan, a month during which Muslims must fast from dawn until dusk, managers must expect and plan for productivity to go down in the event that contractual obligations are scheduled. Businesspeople not familiar with Islam might become frustrated by the lack of precision regarding scheduling and contracts attributable to the perspective that things will happen in good time as Allah wills. However, the Islamic work ethic is a commitment toward fulfillment and the individual's obligation to society, so there is considerable respect for workers and business motives.[34] In addition, managers operating in Muslim countries must take care to avoid conflict with the prescribed gender roles in their hiring and placement practices. More recently, however, attitudes toward women's roles are changing, resulting in more job opportunities for women.

Buddhism, founded in India 2,500 years ago, remains the dominant religion of the Far East and is increasingly popular in the West. Buddhism emphasizes compassion and love and the ways in which suffering in the world can be relieved by righteous living and the cycle of rebirth. There is a high regard for others as if they are all part of the family and an ethical consideration of one's actions upon the well-being of others. Buddhism promotes a strong work ethic, persistence, and hard work and frowns on laziness. There are likely to be positive outcomes in the work environment by emphasizing teamwork and responsibility. Foreign managers should acknowledge and respect, for example, that employees expect to have a shrine on the wall or floor with a statue of Buddha and cups holding food and drink as offerings.[35]

CULTURAL VALUE DIMENSIONS

3-2. To be able to distinguish the major value dimensions that define cultural differences among societies or groups

Cultural variables result from unique sets of shared values among different groups of people. Most of the variations between cultures stem from underlying value systems, which cause people from different cultures to behave differently under similar circumstances. **Values** are a society's ideas about what is good or bad, right or wrong—such as the widespread belief that stealing is immoral and unfair. Values determine how individuals will probably respond in any given circumstance. As a powerful component of a society's culture, values are communicated through the eight subsystems previously described and are passed from generation to generation. Interaction and pressure among these subsystems (or more recently, from foreign cultures) may provide the impetus for slow change. The dissolution of the Soviet Union and the formation of the Commonwealth of Independent States is an example of extreme political change resulting from internal economic pressures and external encouragement to change.

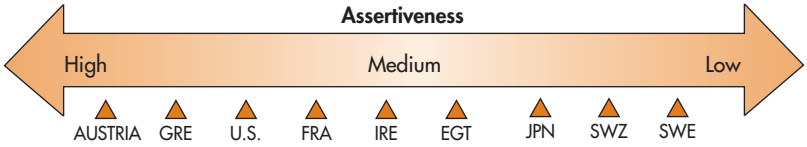
Project GLOBE Cultural Dimensions

Recent research results on cultural dimensions have been made available by the GLOBE (Global Leadership and Organizational Behavior Effectiveness) Project team. The team comprises 170 researchers who have collected data over seven years on cultural values and practices and leadership attributes from 18,000 managers in 62 countries. Those managers were from a wide variety of industries and sizes of organizations from every corner of the globe. The team identified nine cultural dimensions that distinguish one society from another and have important managerial implications:

assertiveness, future orientation, performance orientation, humane orientation, gender differentiation, uncertainty avoidance, power distance, institutional collectivism versus individualism, and in-group collectivism. Only the first four are discussed here; this avoids confusion for readers because the other five dimensions are similar to those researched by Hofstede, which are presented in the next section. (Other research results from the GLOBE Project are presented in subsequent chapters where applicable, such as in the Leadership section in Chapter 11.) The descriptions are as follows, along with selected rankings based on the GLOBE results shown in the accompanying bar charts.[36]

ASSERTIVENESS

This dimension refers to how much people in a society are expected to be tough, confrontational, and competitive versus modest and tender. Austria and Germany, for example, are highly assertive societies that value competition and have a can-do attitude. This compares with Sweden and Japan, less assertive societies, which tend to prefer warm and cooperative relations and harmony. The GLOBE team concluded that those countries have sympathy for the weak and emphasize loyalty and solidarity.

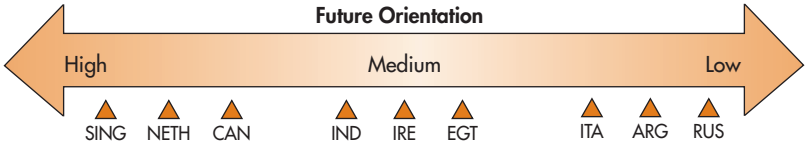


*Not to scale—indicates relative magnitude.

Source: Based on results from the GLOBE project.

FUTURE ORIENTATION

This dimension refers to the level of importance a society attaches to future-oriented behaviors such as planning and investing in the future. Switzerland and Singapore, high on this dimension, are inclined to save for the future and have a longer time horizon for decisions. This perspective compares with societies such as Russia and Argentina, which tend to plan more in the shorter term and place more emphasis on instant gratification.

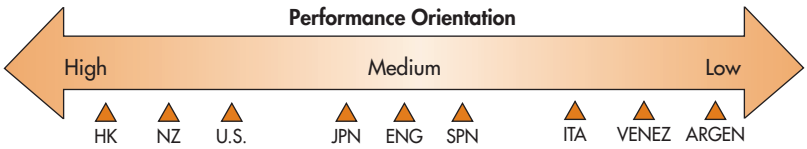


*Not to scale—indicates relative magnitude.

Source: Based on results from the GLOBE project.

PERFORMANCE ORIENTATION

This dimension measures the importance of performance improvement and excellence in society and refers to whether people are encouraged to strive for continued improvement. Singapore, Hong Kong, and the United States score high on this dimension; typically, this means that people tend to take initiative and have a sense of urgency and the confidence to get things done. Countries such as Russia and Italy have low scores on this dimension; they hold other priorities ahead of performance, such as tradition, loyalty, family, and background, and they associate competition with defeat.



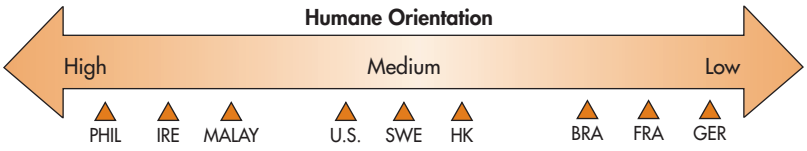
*Not to scale—indicates relative magnitude.

Source: Based on results from the GLOBE project.

HUMANE ORIENTATION

This dimension measures the extent to which a society encourages and rewards people for being fair, altruistic, generous, caring, and kind. Highest on this dimension are the Philippines, Ireland, Malaysia, and Egypt, indicating a focus on sympathy and support for vulnerable members of society. In those societies, paternalism and patronage are important, and people are usually friendly and tolerant and value harmony. This compares with Spain, France, and the former West Germany, which scored low on this dimension; people in these countries give more importance to power and material possessions as well as self-enhancement.

Clearly, research results such as these are helpful to managers seeking to be successful in cross-cultural interactions. Anticipating cultural similarities and differences allows managers to develop the behaviors and skills necessary to act and decide in a manner appropriate to the local societal norms and expectations.



*Not to scale—indicates relative magnitude.

Source: Based on results from the GLOBE project.

Cultural Clusters

Gupta et al., from the GLOBE research team, also analyzed their data on the nine cultural dimensions to determine where similarities cluster geographically. Their results support the existence of ten cultural clusters: South Asia, Anglo, Arab, Germanic Europe, Latin Europe, Eastern Europe, Confucian Asia, Latin America, sub-Saharan Africa, and Nordic Europe. They point out the usefulness to managers of these clusters:

> *Multinational corporations may find it less risky and more profitable to expand into more similar cultures rather than those which are drastically different.*[37]

These clusters are shown in Exhibit 3-3. According to Gupta et al., the Germanic cluster tends to be masculine, assertive, individualistic, and result-oriented. This compares with the Latin American cluster, which tends to exhibit high power distance, low performance orientation, uncertainty avoidance, and collectivism.

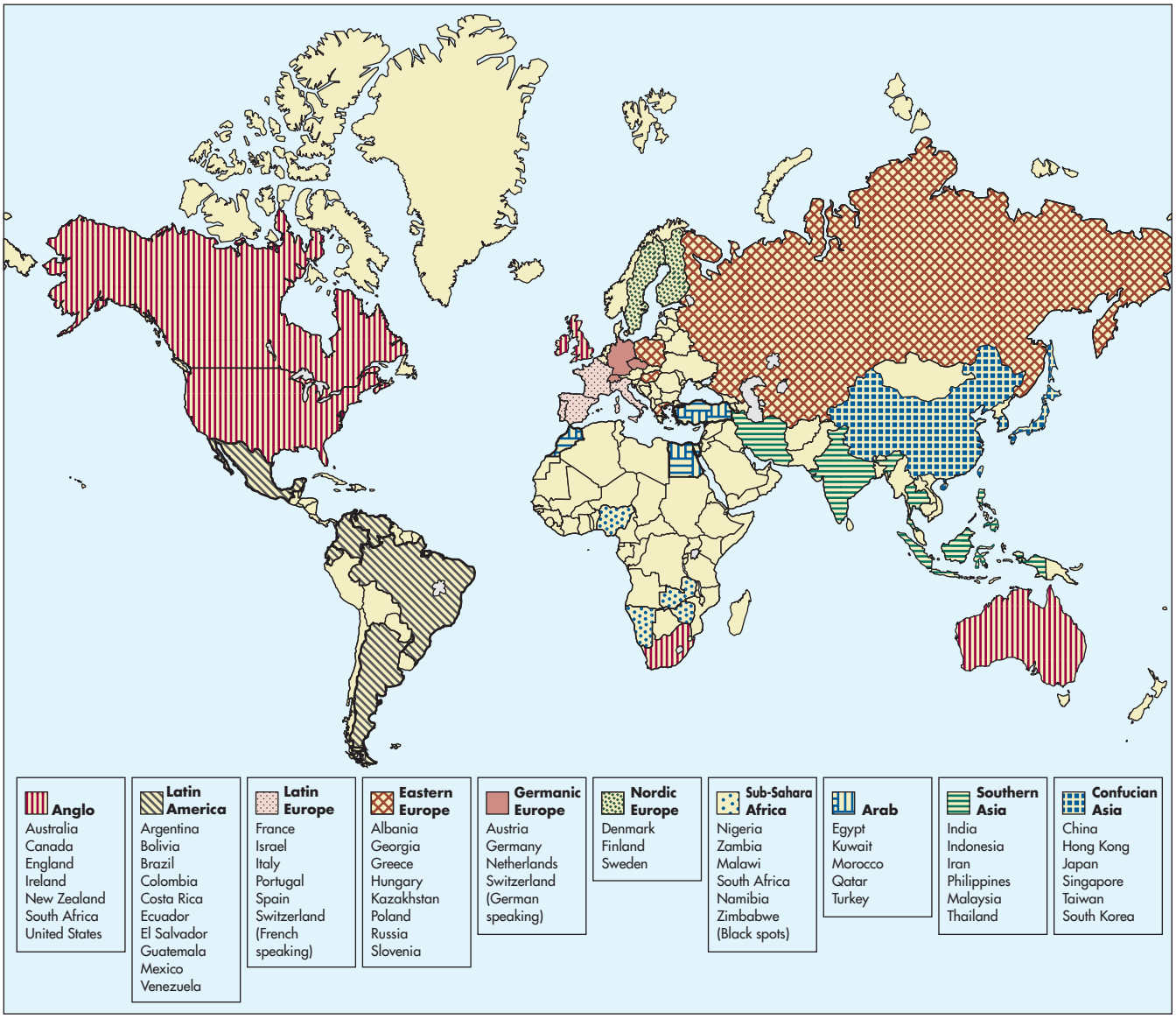
> *Latin American societies tend to enact life as it comes, taking its unpredictability as a fact of life, and not overly worrying about results.*[38]

Most researchers feel that there is a relationship between geographic cultural clusters and their similar economic systems, histories, or environmental characteristics.[39]

Hofstede's Value Dimensions

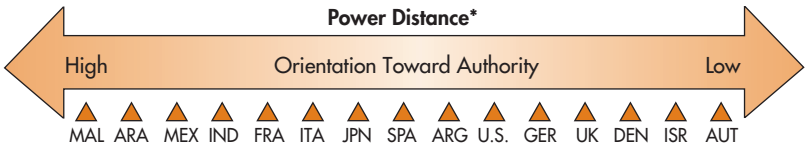
Earlier research resulted in a groundbreaking framework for understanding how basic values underlie organizational behavior; Geert Hofstede developed this framework based on his research on more than 116,000 people in 50 countries. He proposed four value dimensions: power distance, uncertainty avoidance, individualism, and masculinity.[40] We should be cautious when interpreting these results, however, because his research findings are based on a sample drawn from one multinational firm, IBM, and because he does not account for within-country differences in multicultural countries. Although we introduce these value dimensions here to aid in the understanding of different cultures, their relevance and application to management functions will be discussed further in later chapters.

EXHIBIT 3-3 Geographic Culture Clusters



Source: Data from V. Gupta, P. J. Hanes, and P. Dorfman, *Journal of World Business* 37, No. 1 (2002), p. 13.

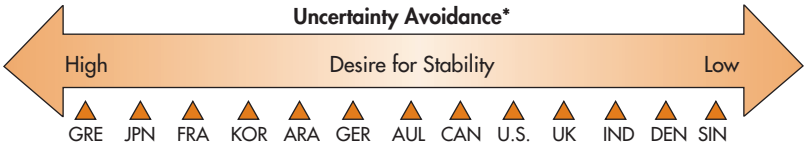
The first of Hofstede's value dimensions, **power distance**, is the level of acceptance by a society of the unequal distribution of power in institutions. What are the attitudes toward hierarchy and the level of respect for authority? How reluctant are employees to express disagreement with their managers? In the workplace, inequalities in power are normal, as evidenced in hierarchical boss–subordinate relationships. However, the extent to which subordinates accept unequal power is societally determined. In countries where people tend to display high power distance (such as Malaysia, the Philippines, and Mexico), employees acknowledge the boss's authority simply by respecting that individual's formal position in the hierarchy, and they seldom bypass the chain of command. This respectful response results, predictably, in a centralized structure and autocratic leadership. In countries where people tend to display low power distance (suchas Austria, Denmark, and Israel), superiors and subordinates are apt to regard one another as equal in power, resulting in more harmony, open communication of ideas, and better cooperation. Clearly, an autocratic management style is not likely to be well received in low power distance countries.



*Not to scale—indicates relative magnitude.
Note: ARA = Arab Countries
AUT = Austria

Source: Data based on G. Hofstede, "National Cultures in Four Dimensions," *International Studies of Management and Organization* (Spring–Summer, 1983).

The second value dimension, **uncertainty avoidance**, refers to the extent to which people in a society feel threatened by ambiguous situations. Countries with a high level of uncertainty avoidance (such as Japan, Portugal, and Greece) tend to have strict laws and procedures to which their people adhere closely, and a strong sense of nationalism prevails. In a business context, this value results in formal rules and procedures designed to provide more security and greater career stability. Managers have a propensity for low-risk decisions, employees exhibit little aggressiveness, and lifetime employment is common. In countries with lower levels of uncertainty avoidance (such as Denmark, Great Britain, and, to a lesser extent, the United States), nationalism is less pronounced, and protests and other such activities are tolerated. Consequently, company activities are less structured and less formal, some managers take more risks, and high job mobility is common.



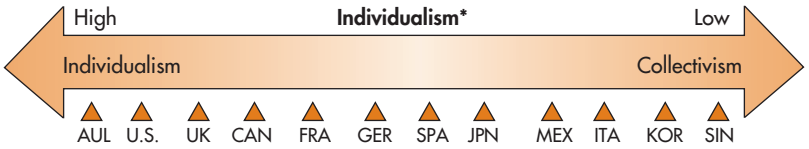
*Not to scale—indicates relative magnitude.
Note: AUL = Australia

Source: Data based on G. Hofstede, 1983.

The third of Hofstede's value dimensions, **individualism** (also referred to as individualism-collectivism), refers to the tendency of people to look after themselves and their immediate families with less emphasis on the needs of society; the primary focus is on the individual or the nuclear family. In countries that prize individualism (such as the United States, Great Britain, and Australia), democracy, individual initiative, and achievement are highly valued; the relationship of the individual to organizations is one of independence on an emotional level, if not on an economic level.

In countries such as Pakistan and Panama, where low individualism prevails—that is, where **collectivism** predominates—there is more emphasis on group achievements and harmony and the importance of the extended family or group. In such societies, there are tight social frameworks, emotional dependence on belonging to the organization, and a strong belief in group decisions. People from a collectivist country, such as Japan, believe in the will of the group rather than that of the individual, and their pervasive collectivism exerts control over individual members through social pressure and the fear of humiliation. The society valorizes harmony and saving face, whereas individualistic cultures generally emphasize self-respect, autonomy, and independence. Hiring and promotion practices in collectivist societies are based on paternalism rather than achievement or personal capabilities, which are valued in individualistic societies. Other management practices (such as the use of quality circles in Japanese factories) reflect the emphasis on group decision-making processes in collectivist societies. The individualism–collectivism dimension, then, relates to the manner in which members of a group relate to one another and work together.[41]

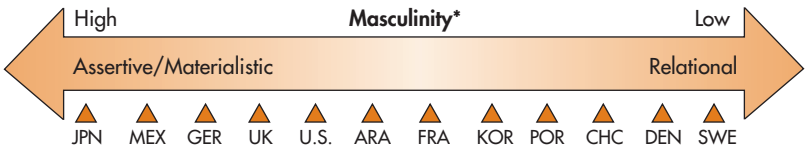
Hofstede's findings indicate that most countries scoring high on individualism have both a higher gross national product and a freer political system than those countries scoring low on individualism—that is, there is a strong relationship among individualism, wealth, and a political system with balanced power. Other studies have found that the output of individuals working in a group setting differs between individualistic and collectivist societies. In general, Americans tend to work and conduct their private lives independently, valuing individual achievement, accomplishments, promotions, and wealth above any group goals. In many other countries, individualism is not valued (as discussed previously in the context of Hofstede's work). In China, for example, much more of a "we" consciousness prevails, and the group is the basic building block of social life and work. For the Chinese, conformity and cooperation take precedence over individual achievement, and the emphasis is on the strength of the family or community—the predominant attitude being, "We all rise or fall together." Chinese cultural values subordinate personal interests to the greater goal of helping the group succeed. However, more recently, one sees the younger generation in the cities adopting more of a capitalist and individualistic attitude toward their jobs as global competition increases, and as more western companies operate there and hire locals.



*Not to scale—indicates relative magnitude.

Source: Data based on G. Hofstede, 1983.

The fourth value dimension, **masculinity** (also referred to as masculinity-femininity), refers to the degree of traditionally masculine values. In highly masculine societies (Japan, Mexico and Austria, for example), social gender roles are distinct such that men are expected to be "assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with the quality of life."[42] In organizations located in masculinity societies, one finds considerable job stress, and organizational interests generally encroach on employees' private lives. In countries with high femininity (such as Denmark, Sweden, and the Netherlands), social gender roles tend to overlap such that "[b]oth men and women are supposed to be modest, tender, and concerned with the quality of life." [43] In organizations located in femininity societies, one finds less conflict and job stress, more women in high-level jobs, and a reduced need for assertiveness. The United States lies somewhat in the middle, according to Hofstede's research. American women typically are encouraged to work, and families often are able to get some support for child care (through day-care centers and maternity leaves).



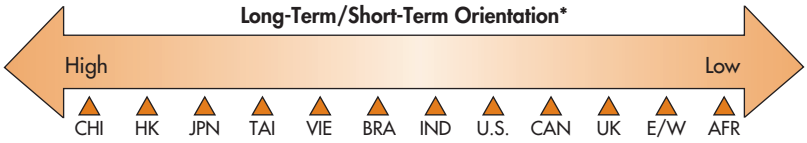
*Not to scale—indicates relative magnitude.

Source: Data based on G. Hofstede, 1983.

The four cultural value dimensions Hofstede proposed do not operate in isolation; rather, they are interdependent and interactive—and thus complex—in their effects on work attitudes and behaviors.

LONG-TERM/SHORT-TERM ORIENTATION

Later research in 23 countries, using a survey developed by Bond and colleagues called the Chinese Value Survey, led Hofstede to develop a fifth dimension, long-term/short-term orientation—also called *Confucian dynamism*.[44] He defined long-term orientation as "the extent to which a culture programs its members to accept delayed gratification of their material, social, and emotional needs."[45] Examples of long-term Confucian values include: adapting traditions to changed conditions, exhibiting a strong propensity to save and invest, demonstrating thriftiness, and persevering in achieving results. Alternatively, short-term Confucian values are fulfilling social obligations, showing respect for tradition, and protecting one's face. In other words, managers in most Asian countries are more future-oriented, so they strive toward long-term goals; they value investment in the future and are prepared to sacrifice short-term profits. However, managers in countries such as Great Britain, Canada, and the United States place a higher value on short-term results and profitability and evaluate their employees accordingly.



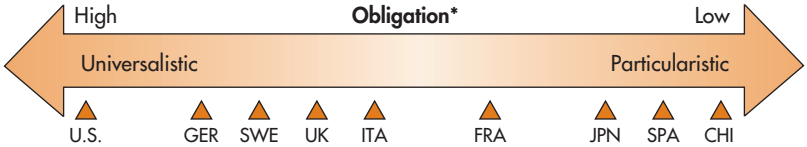
*Not to scale—indicates relative magnitude.

Source: Data based on G. Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations,* 2nd ed. (Thousand Oaks, CA: Sage, 2001).

Trompenaars's Value Dimensions

Fons Trompenaars also researched value dimensions; his work was spread over a ten-year period, with 15,000 managers from 28 countries representing 47 national cultures. Some of those dimensions, such as individualism, people's attitude toward time, and relative inner- versus outer-directedness, are similar to those discussed elsewhere in this chapter and others, and so are not presented here. Other selected findings from Trompenaars's research that affect daily business activities are explained next, along with the placement of some of the countries along those dimensions, in approximate relative order.[46] If we view the placement of these countries along a range from personal to societal, based on each dimension, some interesting patterns emerge.[47] One can see that the same countries tend to be at similar positions on all dimensions with the exception of the emotional orientation.

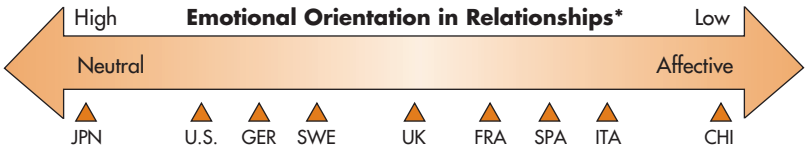
In Trompenaars's dimension of **universalism versus particularism**, we find that the universalistic approach applies rules and systems objectively without consideration for individual circumstances, whereas the particularistic approach—more common in Asia and Spain, for example—puts the first obligation on relationships and is more subjective. Trompenaars found, for example, that people in particularistic societies are more likely to pass on insider information to a friend than those in universalistic societies.



*Not to scale—indicates relative magnitude.

Source: Data based on F. Trompenaars, 1993.

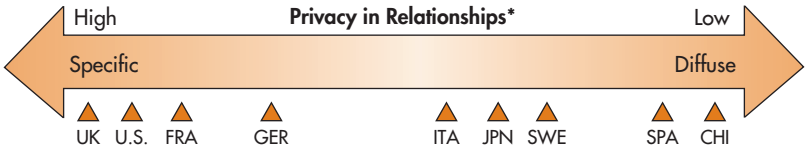
In the **neutral versus affective** dimension, the focus is on the emotional orientation of relationships. The Italians, Greeks, Mexicans, and Chinese, for example, would openly express emotions, even in a business situation, whereas the British, Germans, and Japanese would consider such displays unprofessional; they, in turn, would be regarded as hard to read.



*Not to scale—indicates relative magnitude.

Source: Data based on F. Trompenaars, 1993.

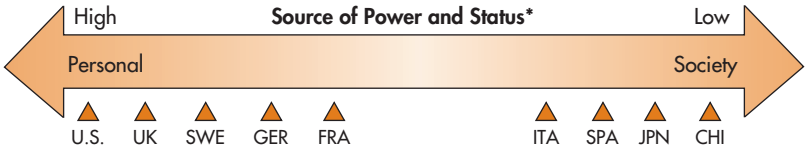
As far as involvement in relationships goes, people tend to be either **specific or diffuse** (or somewhere along that dimension). Managers in specific-oriented cultures—the United States, United Kingdom, France—separate work and personal issues and relationships; they compartmentalize their work and private lives, and they are more open and direct. In diffuse-oriented cultures—Sweden, China—work spills over into personal relationships and vice versa.



*Not to scale—indicates relative magnitude.

Source: Data based on F. Trompenaars, 1993.

In the **achievement versus ascription** dimension, the question that arises is, "What is the source of power and status in society?" In an achievement society, the source of status and influence is based on individual achievement—how well one performs the job and what level of education and experience one has to offer. Therefore, women, minorities, and young people usually have equal opportunity to attain position based on their achievements. In an ascription-oriented society, people ascribe status based on class, age, gender, and so on; one is more likely to be born into a position of influence. Hiring in Indonesia, for example, is more likely to be based on who you are (e.g., your status and relational ties) than is the case in Germany or Australia.



*Not to scale—indicates relative magnitude.

Source: Data based on F. Trompenaars, 1993.

It is clear, then, that a lot of what goes on at work can be explained by differences in people's innate value systems as described by Hofstede, Trompenaars, and the GLOBE researchers. Awareness of such differences and how they influence work behavior can be very useful to you as a future international manager.

Consequence or Cause?

At this point, it is worth considering the results of a study by Steel and Taras, published in 2010, in which they challenge the view held by Hofstede and others of culture as the cause, and not the effect, of variations in cultural values. Steel and Taras argue that the opposite can be true, that "culture is a consequence of certain individual and national-level factors."[48] They conclude that the research results provide a basis for explaining variations in cultural values within and between countries and that "cultures are determined by a set of individual and country level factors and are likely to change in response to a change in the culture-determining factors."[49] Examples of the factors they considered are macrofactors such as wealth and freedom and microfactors such as

age, gender, education, and socioeconomic status. Steel and Taras stress, therefore, that we should not rely on national averages to draw conclusions about individuals.[50] Other researchers also hold this broader concept of the origins of cultural behavior; Meuthel and Hoegl, for example, state that "we extend the traditional view of culture as an exclusive country-level determinant to a more comprehensive view that integrates social institutions such as the education system, economic freedom, and civil liberties."[51]

Clearly, the origins, causes, and effects of cultural variables are complex, but the fact remains that culture plays a key role in the workplace, and international managers must be aware of that role and manage accordingly.

Critical Operational Value Differences

After studying various research results about cultural variables, it helps to identify some specific culturally based variables that cause frequent problems for managers around the world. Important variables are those involving conflicting orientations toward time, task-relationship, change, material factors, and individualism. We try to understand these operational value differences because they strongly influence a person's attitudes and probable responses to work situations.

TIME

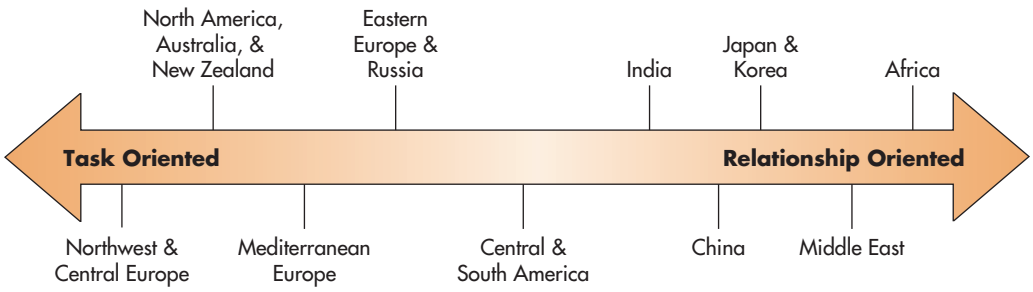
Americans often experience much conflict and frustration because of differences in the concept of time around the world—that is, differences in temporal values. To Americans, time is a valuable and limited resource; it is to be saved, scheduled, and spent with precision, lest we waste it. The clock is always running—time is money. Therefore, deadlines and schedules have to be met. When others are not on time for meetings, Americans may feel insulted; when meetings digress from their purpose, Americans tend to become impatient. Similar attitudes toward time occur in Western Europe and elsewhere.

In many parts of the world, however, people view time from different and longer perspectives, often based on religious beliefs (such as reincarnation, in which time does not end at death), on a belief in destiny, or on pervasive social attitudes. In Latin America, for example, a common attitude toward time is *mañana,* a word that literally means "tomorrow." A Latin American person using this word, however, usually means an indefinite time in the near future. Similarly, the word *bukra* in Arabic can mean "tomorrow" or "some time in the future." Although Americans usually regard a deadline as a firm commitment, Arabs often regard a deadline imposed on them as an insult. They believe that important things take a long time and therefore cannot be rushed. To ask an Arab to rush something, then, is to imply that you have not given him an important task or that he would not treat that task with respect. International managers have to be careful not to offend people—or lose contracts or employee cooperation—because they misunderstand the local language of time.

TASK VERSUS RELATIONSHIP ORIENTATION

Schuster and Copeland developed a Culture Classification Model based on time, task orientation and relationship orientation.[52] They contended that the importance placed on tasks versus relationships in making business decisions affects how time is used. As shown in Figure 3-2, cultures

FIGURE 3-2 Culture Classification Model



Source: C. Schuster & M. Copeland. 1996. *Global business practices: Adapting for success*. Thomson, p. 13.

on the left side of the continuum tend to place more emphasis on the task and allocate their time in accordance with task-specific criteria. In general, Northwest and Central European countries tend to be the most task-oriented when making business decisions. In contrast, cultures on the right side of the continuum tend to devote more time to establishing and maintaining business relationships. African and Middle Eastern countries tend to be the most relationship-oriented countries, followed by Japan and Korea. It is important to note that while these classifications hold in general, individuals vary within cultures and therefore may deviate from the country-specific expectations of the Culture Classification Model, or any national culture model for that matter. For example, bicultural individuals—that is, people who embrace the norms and values of two cultures—may deviate from cultural expectations of a given country. Nevertheless, it is critical for the foreign businessperson to recognize and respect cultural differences in order to function effectively with business associates in other countries.

For example, in Northwest and Central Europe, the principal goal of business activities is to accomplish a task in a manner that is most efficient and effective. Time tends to be a critical element of these cultures and is reflected in different business activities such as meetings. In these task-oriented countries, business meetings tend to have fixed starting and ending times that are expected to be respected. Discussions that have not reached conclusion are not continued during that meeting. That is, extending the discussion beyond the allotted meeting time is not permitted. Instead, another meeting is scheduled or the business will be concluded via correspondence. Business practices tend to be formal so use titles such as Mister, Ms., Doctor, or Professor. The structure of meetings tends to be very formal and announced in advance of the meeting. Meeting organizers will circulate an agenda prior to the meeting. The agenda actually functions as a vehicle to measure the efficiency of the meeting and professionalism of its attendees.[53]

CHANGE

Because they are based largely on long-standing religious beliefs, values regarding the acceptance of change and the pace of change can vary immensely among cultures. Western people generally believe that an individual can exert some control over the future and can manipulate events, particularly in a business context—that is, individuals feel they have some internal control. In many non-Western societies, however, control is considered external; people generally believe in destiny or the will of their God and, therefore, adopt a passive attitude or even feel hostility toward those introducing the evil of change. In societies that place great importance on tradition (such as Japan), one small area of change may threaten an entire way of life. However, the younger generations are becoming more exposed to change through globalization, technology, and media exposure. International firms are agents of change throughout the world. Some changes are more popular than others are.

MATERIAL FACTORS

In large part, Americans consume resources at a far greater rate than most of the rest of the world. Their attitude toward nature—that it is there to be used for their benefit—differs from the attitudes of Indians and Koreans, for example, whose worship of nature is part of their religious beliefs. Whereas Americans often value physical goods and status symbols, many non-Westerners find these things unimportant; they value the aesthetic and the spiritual realm. Such differences in attitude have implications for management functions such as motivation and reward systems because the proverbial carrot must be appropriate to the employee's value system.

INDIVIDUALISM

In general, Americans tend to work and conduct their private lives independently, valuing individual achievement, accomplishments, promotions, and wealth above any group goals. In many other countries, individualism is not valued (as discussed previously in the context of Hofstede's work). In China, for example, much more of a "we" consciousness prevails, and the group is the basic building block of social life and work. For the Chinese, conformity and cooperation take precedence over individual achievement, and the emphasis is on the strength of the family or community—the predominant attitude being, "We all rise or fall together." In China, the stability of society is based on relationships that involve: mutual obligations (e.g., a junior person respects and obeys a senior person; the senior person protects a junior person); *guanxi* (friendships with

continual exchange of favors that bind people together); face (i.e., protection of one's dignity, self-respect and prestige); harmony (i.e., relating to others in a harmonious way); and adjusting/adapting to the environment.[54]

International managers often face conflicts in the workplace because of differences in these basic values of time, task-relationship orientation, change, materialism, and individualism. If these operational value differences and their likely consequences are anticipated, managers can adjust expectations, communications, work organization, schedules, incentive systems, and so forth to provide for more-constructive outcomes for the company and its employees.

THE INTERNET AND CULTURE

3-3. To understand the interaction between culture and the use of the Internet

As of June 30, 2018, South Korea had 92.6% of its population who were internet users—compared with 34.1% for India, 82.4% for Thailand, and 56.7% for China.[55]

WWW.INTERNETWORLDSTATS.COM

With over 4.2 billion Internet users across the globe as of June 2018,[56] we would be remiss if we did not acknowledge the contemporary phenomenon of the increasingly pervasive use of the Internet in society, for it seems to be encroaching on many of the social variables discussed earlier—in particular, associations, education, and the economy, as well as politics. From 2000 to 2018, English Internet user growth increased by 649 percent to 1.055 billion users. However, Chinese Internet use growth increased 2,390 percent over the same time period to 804 million users. Spanish Internet users experienced a 1,758 percent increase (to 337 million users) while Arabic Internet users increased by 8,616 percent to 219 million users.[57]

At the same time that the Internet is affecting culture, culture is also affecting how the Internet is used. One of the pervasive ways that culture is determining how the Internet may be used in various countries is through the local attitude to **information privacy**—the right to control information about oneself, as observed in the following quote.

You Americans just don't seem to care about privacy, do you?[58]

SWEDISH EXECUTIVE

Although Americans collect data about consumers' backgrounds and what they buy, often trading that information with other internal or external contacts, the Swedes, for example, are astounded that this is done, especially without governmental oversight.[59] The Swedes are required to register all databases of personal information with the Data Inspection Board (DIB), their federal regulatory agency for privacy, and to get permission from that board before that data can be used.

In May 2018, the EU adopted the General Data Protection Regulation (GDPR), which will serve as the primary data protection legislation for EU member countries. It will increase harmonization of data protection albeit other data protection laws remain in force, especially in the areas of healthcare and financial activities. With the adoption of the GDPR, Sweden will have a new Data Protection Act (DPA), which complements the GDPR in terms of areas that are subject to national laws.[60]

The manner in which Europe views information privacy has its roots in culture and history, leading to a different value set regarding privacy. The preservation of privacy is considered a human right, perhaps partially because of an internalized fear about how personal records were used in war times in Europe. In addition, research by Smith on the relationship between levels of concern about privacy and Hofstede's cultural dimensions revealed that high levels of uncertainty avoidance were associated with the European approach to privacy, whereas higher levels of individualism, masculinity, and power distance were associated with the U.S. approach.[61]

It seems, then, that societal culture and the resultant effects on business models can render the assumptions about the global nature of information technology incorrect. U.S. businesspeople, brought up on a strong diet of the market economy, need to realize that they will often need to localize their use of IT to different value sets about its use. This advice applies in particular to the many e-commerce companies doing business overseas. With 75 percent of the world's Internet market living outside the United States, multinational e-businesses are learning the hard way that their websites must reflect local markets, customs, languages, and currencies to be successful in foreign markets. Different legal systems, financial structures, tastes, and experiences necessitate

attention to every detail to achieve global appeal. In other words, e-businesses must localize in order to globalize, which means much more than translating online content to local languages.

One problem area often beyond the control of e-business is the cost of connecting to the Internet for people in other countries. Other practical problems in Asia, as well as in Germany, the Netherlands, and Sweden, include the method of payment, which in most of these places still involves cash or letters of credit and written receipts. Dell tackled this problem by offering debit payments from consumers' checking accounts. Some companies have learned the hard way that they need to do their homework before launching sites aimed at overseas consumers. Dell, for example, committed a faux pas when it launched an e-commerce site in Japan with black borders on its website; black is considered negative in the Japanese culture, so many consumers took one look and didn't want anything else to do with it. Dell executives learned that the complexity of language translation into Japanese was only one area in which they needed to localize.

As much as cultural and societal factors can affect the use of the Internet for business, it is also clear that IT can impose dramatic changes on culture and society. In addition, cultural preferences and legal institutions may seek to influence attitudes toward work, as illustrated by the accompanying "Under the Lens" feature about South Korea's workaholic culture, as well as the following "Management in Action" feature about work culture in India.



UNDER THE LENS

Seoul Fights Back against Workaholic Culture: Labour Law[62]

Overworked South Koreans are set to get a break from this week when a new labour law imposing a cap on working hours comes into effect, in an effort to improve employees' work-life balance.

"Worabael"—a portmanteau of worklife balance—has become a buzzword in South Korea, one of the most overworked nations in Asia, as companies with more than 300 employees and public institutions are forced to cut the maximum weekly work hours from 68 to 52.

South Korea is notorious for its workaholic culture, which has contributed to its rapid industrialisation over the past half a century and transformed the once war-torn country into the world's 11th-largest economy.

The country is home to the longest working hours and highest suicide rate in the developed world. South Koreans put in an average of 2,024 hours in 2017, the second-most after Mexico among members of the Organisation for Economic Cooperation and Development (OECD). But the long hours have not translated into better productivity, with the country's per-hour productivity ranking near the bottom.

The change in working hours was a campaign promise of President Moon Jae-in, who was elected last year on a populist platform of improving the lives of ordinary South Koreans by guaranteeing their "right to rest".

Mr Moon has secured a 16 per cent increase in the minimum wage this year, the largest jump since 2000. From this month, South Koreans are allowed 40 hours of regular work and 12 hours of overtime after parliament passed the revised bill in February. A business owner violating the new law can face up to two years in prison or a fine of up to Won20m ($17,945) but the government gave a six-month grace period from the penalties. The new law will gradually reach smaller businesses by 2021, with only five sectors including transport and healthcare exempt.

The change will cost Korean businesses an additional Won12tn a year to maintain the same levels of production, according to the Korean Economic Research Institute.

Ruling Democratic party lawmakers and labour unions have welcomed the changes, as the government hopes that reduced working hours will create jobs and boost productivity. Government officials even believe it will help increase the falling birth rate, which hit a record low last year in the fast ageing society.

"We should make the utmost effort to help the new system take root as it will bring 'Worabael' to our society," said Choo Mi-ae, the ruling party leader.

But the new law is facing opposition especially from small and midsized enterprises suffering from labour shortages. Critics say the change will widen the income gap between workers as those at SMEs, which offer 90 per cent of jobs in Korea, are unable to make up for lower wages with overtime pay.

"Instead of a life with an evening, it can be a life with another part-time job," the opposition Liberty Korea party said in a statement.

Kim Tae-gi, a professor of economics at Dankook University, said: "For most SMEs, it means rising labour costs and worsening profitability while their workers will have to accept lower pay for reduced working hours."

The country is home to the longest working hours and highest suicide rate in the developed world.

Source: © The Financial Times Limited 2018.



MANAGEMENT IN ACTION

A Cultural Revolution Is Changing India, One Open-Plan Office at a Time: Office Life Modernisation

The business day used to be a formal affair, with late starts and early finishes for senior staff. But no longer. [63]

When Gaurav Chopra set up IndiaLends, his Delhi-based financial services company, he was determined to import some of the relatively informal work culture he had encountered during the eight years he spent in the UK.

Out went office cubicles and in came open-plan seating arrangements. Out went communicating with bosses only via their assistants and in came regular face-to-face meetings.

That was three years ago. But no matter how hard he has tried to encourage colleagues to adopt a more relaxed, western-style of working, he has found some habits impossible to change.

"When I first started at the London School of Economics, I managed to offend some of my professors by calling them 'Sir'," he says. "It was a pleasant surprise to me at that time, and so when I started my company in India I asked my employees to call me by my first name.

But even now, some employees still address Mr Chopra as "Sir", no matter how much he tries to stop them.

The deferential culture he describes is, in part, a legacy of colonial rule that ended in 1947. For nearly 100 years, the British imposed their hierarchical, Victorian-era civil service on the Indian system of government.

In the decades after independence, that culture was copied by private companies. Not only were there strict hierarchies, but also those at the top were allowed to arrive late, leave early and take long lunch breaks — a habit that still exists in many Indian public sector organisations.

"Everyone knows that if a government office says it will open at a certain time, no one will be there by then," says Mr Chopra. "And if it is due to close at 5pm, you can be sure no one will be in the office by 5.01pm."

Since the country started to open its markets in the early 1990s, however, corporate office life has changed substantially, with office-based service jobs increasing particularly quickly. In 1991, the year liberalisation started, services accounted for just over 40 per cent of the country's gross domestic product. Last year, that figure was about 55 per cent.

The arrival of multinational companies such as Nestlé, Microsoft and Citigroup, coupled with the sudden growth in the IT services sector, brought a new style of corporate workplace and a new way of working. Gone are the late starts and early finishes: a survey by Manpower Group in 2016 found young Indians work harder than anyone else in the world, clocking up an average of 52 hours a week.

"Hard work is generally measured by the number of hours you put in at the office," says Prakash Rao, chief experience officer at PeopleStrong, a human resources services company. "If you leave on time, your colleagues start to wonder whether you have enough work to do."

Amit Veer, vice-president of payments at Paytm, a financial technology start-up, says he works from 9.30am to 8pm. "But given that my commute takes one hour 15 minutes in the morning and two hours in the evening, it is a very long day."

Gone, too, are workspaces strictly segregated by seniority. India's new breed of start-ups have pioneered flatter hierarchies and more informal ways of working.

Paytm, for example, has mimicked San Francisco's culture by creating an open-plan office where Vijay Shekhar Sharma, the chief executive and billionaire company founder, sits among his colleagues at a desk indistinguishable from theirs.

The Indian corporate workplace has now become so established it has been given the ultimate mark of recognition: its own spin-off of the BBC sitcom The Office, the UK programme format that became a hit in the US and eight other countries. Instead of David Brent, regional manager of Wernham Hogg, Indian audiences will watch Jagdeep Chaddha and his colleagues at Wilkins Chawla, a company based in Faridabad, a town outside New Delhi.

Even in the face of rapid technological and cultural change, however, certain elements of the traditional Indian office have remained. The lunch hour, for example, is still an hour. Even in the most dynamic start-ups, workers decamp en masse for their meal.

"Lunchtime is the one unmovable part of the day," says one western worker in a New Delhi office. "It is where food, office gossip, and complaints about the bosses are all shared."

Another common feature of the Indian workplace is that there is little, if any, respect for the separation between work and family life. Employees describe being called up at any time of the day and at weekends, and some are forced to come into the office on a Saturday if they are behind on deadlines.

(*Continued*)

Mr Rao says: "In my previous job, customers expected to be able to contact me at any time of day or night. There were times when I would get a call at two o'clock in the morning and would be expected to take it."

Krishna Rathi, general manager of Paytm's entertainment business, says he does not have a regular day off each week. "Our busiest days are Friday and Saturday, when most people go to the cinema, and I have to be on hand to respond to customers' problems throughout the weekend."

Some see a link between such demands and the habit of many senior people in Indian organisations of turning up very late for meetings or not attending at all. "There is no sense of respecting other people's time," Kishore Jayaraman, president of Rolls-Royce in India and south Asia, told the FT this year.

Many Indian start-ups have tried to do away with scheduled meetings altogether. "It is quite an unstructured office," says Neha Agarwal, general manager of investments at Paytm. "If you want to work with someone, you just walk up to their desk and ask them. And if they are not there, our mobile numbers are all printed above our workstations."

But the changes brought about by new companies are also causing their own problems for those who are used to more traditional ways of doing business.

"One of the big problems we have is recruiting senior people," says Mr Chopra. "It takes time for them to understand the workplace we are trying to create." Candidates, he adds, are often perplexed when they ask which office they will be allocated, and he has to explain "there are none".

Source: © The Financial Times Limited 2018.

3-4. To be able to develop a working cultural profile typical of many people within a certain society as an aid to anticipating attitudes toward work, negotiations, and so on

DEVELOPING CULTURAL PROFILES

Managers can gather considerable information about cultural variables from current research, personal observation, and discussions with people. From these sources, managers can develop cultural profiles of various countries—composite pictures of working environments, people's attitudes, and norms of behavior. As we have previously discussed, these profiles are often highly generalized; many subcultures, of course, may exist within a country. However, managers can use these profiles to anticipate drastic variances in motivation, communication, ethics, loyalty, and individual and group productivity that may be encountered in a given country. More such homework may have helped Walmart's expansion efforts into Germany and South Korea, from which it withdrew in 2006.

Starbucks is a multinational enterprise that has achieved success in Japan. In 1996, Starbucks opened its first outlet in Japan. Now it has nearly 1,300 outlets in all 47 Japanese prefectures as of August 2017. The Starbucks brand has earned a reputation for "fast-casual coffee shops" in Japan. According to Norio Adachi, a director at Starbucks Coffee Japan Ltd.'s corporate affairs department, the recipe for Starbucks' ongoing success in Japan has been "respect for the culture of the local community."[64] In a bold initiative to become embedded in the local culture, Starbucks dropped its standard-issue decor in order to establish a Japanese-style coffeehouse in Kyoto in June 2017. [65]

> *Japanese consumers like to try new things … so when something new comes from a foreign country, it often gets attention on TV. And people will stand in a long line in front of the store without hesitation… But in a market where the next new thing comes and goes in the blink of an eye, a company needs more than just novelty to survive for more than twenty years.*[66]
>
> Norio Adachi, director at Starbucks Coffee Japan Ltd.'s corporate affairs department

It is relatively simple for Americans to pull together a descriptive profile of U.S. culture, even though regional and individual differences exist, because Americans know themselves and because researchers have thoroughly studied U.S. culture. The results of one such study by Harris and Moran are shown in Exhibit 3-4, which provides a basis of comparison with other cultures and, thus, suggests the likely differences in workplace behaviors.

It is not so easy, however, to pull together descriptive cultural profiles of peoples in other countries unless one has lived there and been intricately involved with those people. Still, managers can make a start by using what comparative research and literature are available. The accompanying "Comparative Management in Focus" feature provides brief, generalized country profiles based on a synthesis of research, primarily from Hofstede[67] and England,[68] as well as

EXHIBIT 3-4 **Americans at a Glance**

1. *Goal and achievement oriented*—Americans think they can accomplish anything, given enough time, money, and technology.
2. *Highly organized and institutionally minded*
3. *Freedom-loving and self-reliant*—a belief that all persons are equal; they admire self-made people.
4. *Work-oriented and efficient*—a strong work ethic; conscious of time and efficient in doing things.
5. *Friendly and informal*—informal in greeting and dress; a noncontact culture (avoid embracing in public).
6. *Competitive and aggressive*—driven to achieve and succeed in play and business.
7. *Values in transition*—traditional family values are undergoing transition.
8. *Generosity*—Americans are a sharing people.

Source: Based on excerpts from *Managing Cultural Differences* by Philip R. Harris and Robert T. Moran, 5th ed. © 2000 by Gulf Publishing Company, Houston, TX.

from numerous other sources.[69] These profiles illustrate how to synthesize information and gain a sense of the character of a society—from which implications may be drawn about how to adapt to and learn from that society to manage more effectively. More extensive implications and applications related to managerial functions are drawn in later chapters.

Recent evidence in Japan points to some convergence with Western business culture resulting from Japan's economic contraction and subsequent bankruptcies. Focus on the group, lifetime employment, and a pension has given way to a more competitive business environment with job security no longer guaranteed and an emphasis on performance-based pay. This has led Japan's salarymen to recognize the need for personal responsibility on the job and in their lives. Although only a few years ago emphasis was on the group, Japan's long economic slump seems to have caused some cultural restructuring of the individual. Corporate Japan is changing from a culture of consensus and groupthink to one touting the need for an "era of personal responsibility" as a solution to revitalize its competitive position in the global marketplace.[70]

> *To tell you the truth, it's hard to think for yourself . . . [but, if you don't] . . . in this age of cutthroat competition, you'll just end up drowning.*[71]
>
> AKIO KUZUOKA, AN EMPLOYEE FOR FORTY YEARS AT A JAPANESE COMPANY, *WALL STREET JOURNAL* INTERVIEW



Comparative Management in Focus

Profiles in Culture—Japan, Germany, Latin America

JAPAN

The traditional Japanese business characteristics of politeness and deference have left companies without the thrusting culture needed to succeed internationally.[72]

With intense global competition, many Japanese companies are recognizing the need for more assertiveness and clarity in their business culture to expand abroad. As a result, Japanese employees are recognizing the need to manage their own careers as companies move away from lifetime employment to be more competitive. Only a handful of large businesses, such as Toyota, Komatsu, and Canon, have managed to become indisputable global leaders by maintaining relationships as a foundation for their operations around the world.[73] For the majority of Japanese, the underlying cultural values still predominate—at least for now.

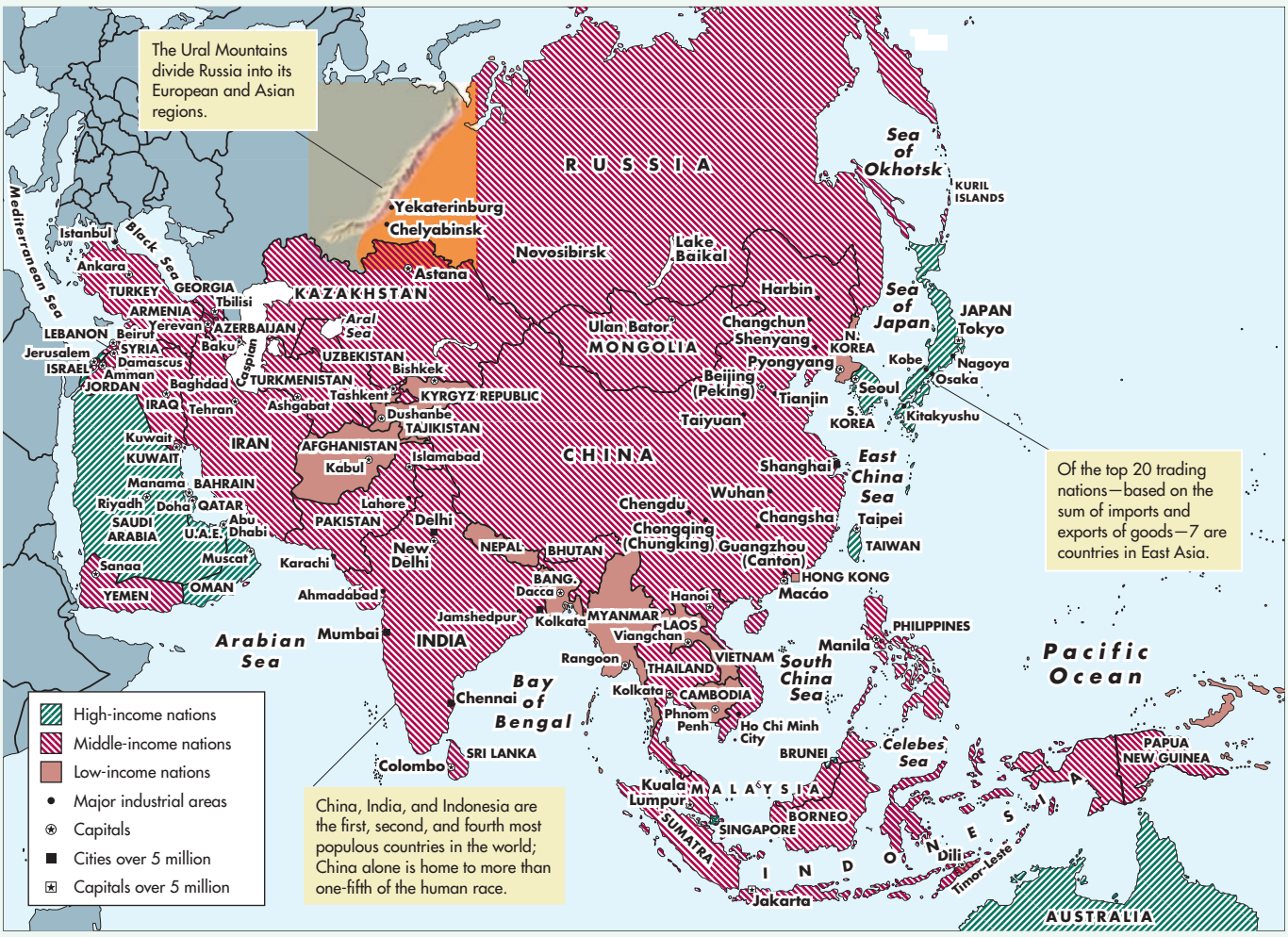
Japanese culture is strong, formal, and largely homogeneous and inculcated to the young through the teachings and expectations conveyed by the extended family. Much of Japanese culture—and the

(*Continued*)

basis of working relationships—can be explained by the principle of *wa*, "peace and harmony." This principle, embedded in the value the Japanese attribute to *amae* ("indulgent love"), probably originated in the Shinto religion, which focuses on spiritual and physical harmony. *Amae* results in *shinyo*, which refers to the mutual confidence, faith, and honor necessary for successful business relationships. Japan ranks high on pragmatism, masculinity, and uncertainty avoidance and fairly high on power distance. At the same time, much importance is attached to loyalty, empathy, and the guidance of subordinates. The result is a mix of authoritarianism and humanism in the workplace, similar to a family system. These cultural roots are evident in a homogeneous managerial value system, with strong middle management, strong working relationships, strong seniority systems that stress rank, and an emphasis on looking after employees. The principle of *wa* carries forth into the work group—the building block of Japanese business. The Japanese strongly identify with their work groups and seek to cooperate with them. The emphasis is on participative management, consensus problem solving, and decision making with a patient, long-term perspective. Open expression and conflict are discouraged, and it is of paramount importance to avoid the shame of not fulfilling one's duty. These elements of work culture result in a devotion to work, collective responsibility, and a high degree of employee productivity. In meetings, punctuality is essential; the meeting should start with a bow or handshake, then an exchange of business cards (*meishi*) using both hands, and then reading the card before you put it in your pocket. Titles and last names should be used, and some small talk should take place before business.[74] Do not invade the personal space of the Japanese, and avoid any confrontation or nonverbal excess. In addition, it is important to avoid singling out any one Japanese person because it is a group process.

The Japanese culture values patience, or *nintai*, which, can be used effectively to extract additional concessions during negotiations with Western companies. From Japan's history with Confucianism, people tend to be **obligation oriented**—compared to **rights oriented** in the USA. That is, a Japanese person's actions are influenced by obligations of *on* and *giri* to others. The need to repay these obligations motivates a Japanese person's social life. An "*on*" refers to a lifelong indebtedness, typically to the emperor, a parent, or a sensai. This form of indebtedness is never considered

MAP 3-2 Japan/Asia



to be fully repaid. A "*giri*" refers to short-term obligations to friends, work colleagues, and other persons of equal or lower status to oneself.[75]

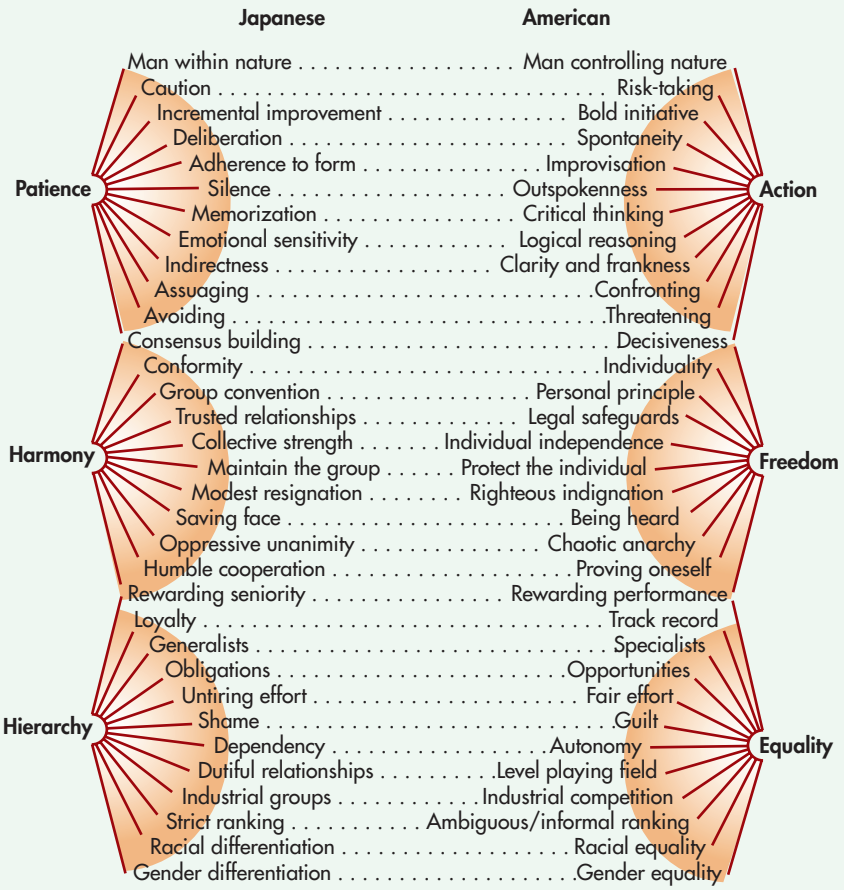
Professor Nonaka, a specialist in how companies tap the collective intelligence of their workers, discusses a similar Japanese concept of *ba*: an interaction among colleagues on the job that leads to knowledge-sharing. He says that

> *Ba can occur in a work group, a project team, an ad hoc meeting, a virtual e-mail list, or at the frontline point of contact with customers. It serves as a petri dish in which shared insights are cultivated and grown.*[76]

The message is clear that, in Japan, companies that give their employees freedom to interact informally are likely to benefit from new ideas and collaboration.

If we extend this cultural profile to its implications for specific behaviors in the workplace, we can draw a comparison with common American behaviors. Most of those American behaviors seem to be opposite to those of their Japanese counterparts; it is no wonder that many misunderstandings and conflicts in the workplace arise between Americans and Japanese (see Exhibit 3-5). For example, a majority of the attitudes and behaviors of many Japanese stems from a high level of collectivism, compared with a high level of individualism common to Americans. This contrast is highlighted in the center of Exhibit 3-5—"Maintain the group" compared with "Protect the individual." In addition, the strict social order of the Japanese permeates the workplace in adherence to organizational hierarchy and seniority and in loyalty to the firm. This contrasts markedly with the typical American responses to organizational relationships and duties based on equality. In addition, the often blunt, outspoken American businessperson offends the indirectness and sensitivity of the Japanese, for whom the virtue

EXHIBIT 3–5 The American-Japanese Cultural Divide



Source: R. G. Linowes, "The Japanese Manager's Traumatic Entry into the United States: Understanding the American–Japanese Cultural Divide," *Academy of Management Executive* 7, No. 4 (1993), p. 24.

(*Continued*)

of patience is paramount, causing the silence and avoidance that so frustrates Americans. As a result, Japanese businesspeople tend to think of American organizations as having no spiritual quality and little loyalty to employees, and they think of Americans as assertive, frank, and egotistic. Their American counterparts, in turn, respond with the impression that Japanese businesspeople have little experience and are secretive, arrogant, and cautious.[77] Westerners doing business in Japan need to be aware of the importance of *giri*—the expectations of reciprocity in relationships and how to behave. Managers should inform themselves in particular about the practice of gift-giving and the relationship of the type of gift suitable for the relative status of the parties involved; gift giving is accepted practice, but make sure it is not too big or it will be an embarrassment and may be considered an attempt to bribe.

GERMANY

The reunited Germany is somewhat culturally diverse inasmuch as the country borders several nations. Generally, Germans rank quite high on Hofstede's dimension of individualism, although their behaviors seem less individualistic than those of Americans. They score fairly high on uncertainty avoidance and masculinity and have a relatively small need for power distance. These cultural norms show up in the Germans' preference for being around familiar people and situations; they are also reflected in their propensity to do a detailed evaluation of business deals before committing themselves.

Christianity underlies much of German culture—more than 96 percent of Germans are Catholics or Protestants. This may be why Germans tend to like rule and order in their lives and why there is a clear public expectation of acceptable and unacceptable ways to act. Public signs everywhere in Germany dictate what is allowed or *verboten* (forbidden). Germans are very strict with their use of time, whether for business or pleasure, frowning on inefficiency or tardiness.

In business, Germans tend to be assertive, but they downplay aggression. Decisions are typically centralized, although hierarchical processes sometimes give way to consensus decision making. However, strict departmentalization is present in organizations, with centralized and final authority at the departmental manager level. Employees do not question the authority of their managers. German companies typically have a vertical hierarchical structure with detailed planning and standardized rules and procedures; the emphasis is on order and control to avoid risk.

> *In the business setting, Germans look for security, well-defined work procedures, rules, established approaches, and clearly defined individual assignments. In short, the German business environment is highly structured. "Ordnung" (order) is the backbone of company life.*[78]

What the Germans call *Ordnung* (the usual translation is "order," but it is a much broader concept) is the unwritten road map of how to live one's life. "A group of Germans lined up on an empty street corner, even in the middle of the night, waiting for a light to change before crossing, is one of the favorite first impressions taken away by visiting Americans, who are usually jaywalking past as they observe it."[79] For self-reliant Americans, the German adherence to precise rules and regulations is impressive but often stifling.

Hall and Hall describe the German preference for closed doors and private space as evidence of the affinity for compartmentalization in organizations and in their own lives. They also prefer more physical space around them in conversation than do most other Europeans, and they seek privacy so as not to be overheard.[80] German law prohibits loud noises in public areas on weekend afternoons. Germans are conservative, valuing privacy, politeness, and formality; they usually use last names and titles for all except those close to them. Business interactions are specifically task-focused and not for relationship-building. Meetings are formal and require written documents in both English and German. Deference is given to people of authority on both sides. There is a strict protocol, including the order of people entering the room and getting seated (e.g., rank and age). It all requires patience with the protocol and formality, and you should wait to sit until it is indicated to do so. The Germans do not respond well to displays of emotions and promises, and any confrontational behavior will backfire. Once a contract is in place, it will be strictly followed.[81]

Most Germans prefer to focus on one task or issue at a time, that task taking precedence over other demands; strict schedules are important, as is punctuality, both showing respect for all concerned. Overall, Germany is what Walker et al. call a doing-oriented culture—that is, a task and achievement orientation of work first, pleasure second.[82] Such cultures include Switzerland, Germany, Austria, the Netherlands, and the Scandinavian countries. (This compares with being-oriented cultures—such as those of Belgium, France, Greece, Ireland, and most Latin American countries—where the general predisposition is more toward work to live, rather than live to work. Priority is given to affiliation and personal qualities in being-oriented cultures.)

In negotiations, Germans want detailed information before and during discussions, which can become lengthy. They give factors such as voice and speech control much weight. However, since Germany is a low-context society, communication is explicit, and Americans find negotiations easy to understand.[83] On the other hand, Germans communicating with businesspeople from a high-context culture such as that in Japan will be perceived as abrupt, insensitive, and indifferent. (Low-context refers to a direct communication style, compared with a high-context, indirect style. This variable

is further explained in Chapter 4.) Whereas most Asians, for example, will be implicit and indirect, always aware of the need to save face for everyone concerned, most Germans are very direct and straightforward; tact and diplomacy takes second place to voicing their opinions.

LATIN AMERICA

Latin America is not one homogeneous area, of course; rather, it comprises many diverse, independent nations (most commonly referred to as those territories in the Americas where the Spanish or Portuguese languages prevail: Mexico; most of Central and South America; and Cuba, the Dominican Republic, and Puerto Rico in the Caribbean). Businesspeople are most likely to go to the rapidly developing economies of Chile and Brazil and, of course, to Mexico. (Portuguese is the language in Brazil.) Christianity—predominantly Roman Catholicism—prevails throughout Latin America. Latin America is the second most important emerging area economically, after Southeast Asia, with a GDP about half of China's and three times that of India.[84]

For our purposes here, although we acknowledge some regional cultural differences, we can draw upon the similarities of Latin American culture and business practices as a starting point in developing a helpful profile. Indeed, Latin America is relatively homogeneous culturally. Some of these generalities are discussed in the following paragraphs.

Using Hofstede's dimensions, we can generalize that most people are high on power distance and uncertainty avoidance, fairly high on masculinity, low on individualism, and tend to have a comparatively short-term orientation toward planning.

Latin Americans are typically being-oriented—with a primary focus on relationships and enjoying life in the present—as compared with the doing-oriented German (and mostly Western) culture discussed earlier. For Latin Americans, work lives and private lives are much more closely integrated than those of Westerners, so they emphasize enjoying life and have a more relaxed attitude toward work; because of that, Westerners often stereotype them as lazy rather than realizing that it is simply a different attitude toward the role of work in life. Connected with that attitude is the tendency to be rather fatalistic—that is, a feeling that events will be determined by God—rather than a feeling of their own control or responsibility for the future.

Most people in those countries have a fluid orientation toward time and tend to be multifocused, as discussed earlier in this chapter. Planning, negotiations, and scheduling take place in a relaxed and loose time framework; those processes take second place to building a trusting relationship and reaching a satisfactory agreement.[85] Communication is based on their high-context culture (this concept is discussed further in Chapter 4). This means that communication tends to be indirect and implicit, based largely on nonverbal interactions and the expectation that the listener draws inference from understanding the people and the circumstances without the need to be blunt or critical. Westerners need to take time, to be subtle and tactful, and to be incremental in discussing business to avoid being viewed as pushy and thus cutting off the relationship. Maintaining harmony and saving face is very important, as is the need to avoid embarrassing the other people involved. Managers must avoid any public criticism of employees, and any reprimand should be by way of suggestion.

Communication is also very expressive and demonstrative; courtesy, formality, and good manners are respected and lead to very complimentary and hospitable expressions to guests. Latin Americans tend to stand closer and touch more often than most Westerners, exuding the warmth and hospitality that is typical in the region.

Hierarchy prevails in all areas of life, from family to institutions such as government and the workplace. Each level and relationship is expected to show deference, honor, and respect to the next person or level. Status is conveyed by one's position and title and the formality of dress and etiquette. Traditional managers have the respect of their position and are typically autocratic and paternal. Loyalty is to the superior as a person. Employees expect to be assigned tasks with little participation involved, although younger managers who have been educated in Europe or the United States are starting to delegate. However, although most Latin Americans can show some flexibility in structure, Chile is probably the most order-oriented country; managers there are very high on uncertainty avoidance and try hard to minimize risk and strictly adhere to social and business norms.[86]

Relationships have priority whether among family, friends, or business contacts. Loyalty among family and friends leads to obligations, and often nepotism, which can lead to varying levels of quality in the work performance and less initiative than a Western businessperson might expect. Business is conducted through social contacts and referrals—that is, success does not depend as much on what you know as on whom you know. Latin Americans do business with people with whom they develop a trusting relationship, so it behooves businesspeople, here as in much of the world, to take time to develop a friendly, trusting relationship before getting down to business.

Western managers need to develop a warm attitude toward employees and business contacts and cultivate a sense of family at work; they should communicate individually with employees and colleagues and develop a trusting relationship.

3-5. To gain some insight into different management styles around the world

CULTURE AND MANAGEMENT STYLES AROUND THE WORLD

As an international manager, after you have researched the culture of a country in which you may be going to work or do business, and after you have developed a cultural profile, it is useful then to apply that information to develop an understanding of the expected management styles and ways of doing business that predominate in that region or in that type of business setting. The nearby feature, "Under the Lens: Doing Business in Brazil—Language, Culture, Customs, and Etiquette," illustrates the relationship between culture and management. Two further examples then follow in the sections titled "Saudi Arabia" and "Chinese Small Family Businesses."

UNDER THE LENS

Doing Business in Brazil—Language, Culture, Customs, and Etiquette

FIGURE 3-3 Christ the Redeemer statue overlooking Rio de Janeiro



Source: michaeljung/Shutterstock

FIGURE 3-4 Brazilian Flag



Source: CPJ Photography/Fotolia

FACTS AND STATISTICS

Location Eastern South America bordering Argentina, 1,224 km; Bolivia, 3,400 km; Colombia, 1,643 km; French Guiana, 673 km; Guyana, 1,119 km; Paraguay, 1,290 km; Peru, 1,560 km; Suriname, 597 km; Uruguay, 985 km; and Venezuela, 2,200 km

Capital Brasília

Climate Mostly tropical but temperate in south

Population 210,867,954 (2018 est.)

Ethnic Makeup White (includes Portuguese, German, Italian, Spanish, and Polish) 55%; mixed white and black, 38%; black, 6%; other (includes Japanese, Arab, Amerindian), 1%

Religions Christianity 87%

Government Federative republic

LANGUAGE IN BRAZIL

Language is one of the strongest elements of Brazil's national unity. Nearly 100 percent of the population speaks Portuguese. The only exceptions are some members of Amerindian groups and pockets of immigrants, primarily from Japan and South Korea, who have not yet learned Portuguese. The principal families of Indian languages are Tupí, Arawak, Carib, and Gê.

There is about as much difference between the Portuguese spoken in Brazil and that spoken in Portugal as between the English spoken in the United States and that spoken in the United Kingdom. Within Brazil, there are no dialects of Portuguese, only moderate regional variation in accent, vocabulary, and use of personal nouns, pronouns, and verb conjugations. Variations tend to diminish because of mass media, especially the national television networks that the majority of Brazilians view.

BRAZILIAN SOCIETY AND CULTURE

Brazilian Diversity

- Brazil is a mixture of races and ethnicities, resulting in rich diversity.
- Many original Portuguese settlers married native women, which created a new race called "mestizos."
- "Mulattoes" are descendants of the Portuguese and African slaves.
- Slavery was abolished in 1888, creating, over time, a further blurring of racial lines.
- Unlike many other Latin American countries that have a distinct Indian population, Brazilians have intermarried to the point that it sometimes seems that almost everyone has a combination of European, African, and indigenous ancestry.

BRAZILIAN FAMILY VALUES

- The family is the foundation of the social structure and forms the basis of stability for most people.
- Families tend to be large (although family size has been diminishing in recent years), and the extended family is quite close.
- The individual derives a social network and assistance in times of need from the family.
- Nepotism is considered a positive thing because it implies that employing people one knows and trusts is of primary importance.

ETIQUETTE AND CUSTOMS IN BRAZIL

Meeting Etiquette

- Men shake hands while maintaining steady eye contact when greeting one another.
- Women generally kiss each other, starting with the left and alternating cheeks.
- Hugging and backslapping are common greetings among Brazilian friends.
- If a woman wishes to shake hands with a man, she should extend her hand first.

Gift-Giving Etiquette

- If invited to a Brazilian's house, bring the hostess flowers or a small gift.
- Orchids are considered a very nice gift, but avoid purple ones.
- Avoid giving anything purple or black, because these are mourning colors.
- Handkerchiefs are also associated with funerals, so they do not make good gifts.
- Gifts are opened when received.

(*Continued*)

Dining Etiquette

If you are invited to a Brazilian's house:

- Arrive at least 30 minutes late if the invitation is for dinner.
- Arrive up to an hour late for a party or large gathering.
- Brazilians dress with a flair and judge others on their appearance. Casual dress is more formal than in many other countries. Always dress elegantly and err on the side of overdressing rather than underdressing.
- If you did not bring a gift to the hostess, flowers the next day are always appreciated.

BUSINESS ETIQUETTE AND PROTOCOL IN BRAZIL

Relationships and Communication

Brazilians need to know whom they are doing business with before they can work effectively.

- Brazilians prefer face-to-face meetings to written communication because it allows them to know the person with whom they are doing business.
- The individual they deal with is more important than the company.
- Because this is a group culture, it is important not to do anything to embarrass a Brazilian.
- Criticizing an individual causes that person to lose face with the others in the meeting.
- The person making the criticism also loses face because he or she has disobeyed the unwritten rule.
- Communication is often informal and does not rely on strict rules of protocol. Those who feel they have something to say will generally add their opinion.
- It is considered acceptable to interrupt someone who is speaking.
- Face-to-face, oral communication is preferred over written communication. At the same time, when it comes to business agreements, Brazilians insist on drawing up detailed legal contracts.
- Lunch is a very important meal in Brazil. It is a great way to build relationships with coworkers and clients.

Business Negotiations

- Expect questions about your company because Brazilians are more comfortable doing business with people and companies they know.
- Wait for your Brazilian colleagues to raise the business subject. Never rush the relationship-building time.
- Brazilians take time when negotiating. Do not rush them or appear impatient.
- Expect a great deal of time to be spent reviewing details.
- Often, the people you negotiate with will not have decision-making authority.
- It is advisable to hire a translator if your Portuguese is not fluent.
- Use local lawyers and accountants for negotiations. Brazilians resent an outside legal presence.
- Brazilian business is hierarchical. Decisions are made by the highest-ranking person.
- Brazilians negotiate with people, not companies. Do not change your negotiating team or you may have to start over from the beginning.

Business Meeting Etiquette

- Business appointments are required and can often be scheduled on short notice; however, it is best to make them 2 to 3 weeks in advance.
- Confirm the meeting in writing. It is not uncommon for appointments to be canceled or changed at the last minute.

- In São Paulo and Brasília, it is important to arrive on time for meetings. In Rio de Janeiro and other cities, it is acceptable to arrive a few minutes late for a meeting.
- Do not appear impatient if you are kept waiting. Brazilians see time as something outside their control, and the demands of relationships take precedence over adhering to a strict schedule.
- Meetings are generally rather informal.
- Expect to be interrupted while you are speaking or making a presentation.
- Avoid confrontations. Do not appear frustrated with your Brazilian colleagues.

DRESS ETIQUETTE

- Brazilians pride themselves on dressing well.
- Men should wear conservative, dark-colored business suits. Three-piece suits typically indicate that someone is an executive.
- Women should dress appropriately for the situation.

BUSINESS CARDS

- Business cards are exchanged during introductions with everyone at a meeting.
- It is advisable, although not required, to have the other side of your business card translated into Portuguese.
- Present your business card with the Portuguese side facing the recipient.

Sources: https://thebrazilbusiness.com/article/dining-culture-in-brazil, August 20, 2020. https://www.brazil.org.za/traditional-customs.html, August 20, 2020. https://www.everyculture.com/Bo-Co/Brazil.html, August 20, 2020. www.kwintessential.co.uk/resources/global-etiquette/brazil-country-profile.html, September 5, 2011. Used with permission of www.kwintessential.co.uk.

Saudi Arabia

Understanding how business is conducted in the modern Middle East requires an understanding of the Arab culture because the Arab peoples are the majority there, and most of them are Muslim. As discussed in the opening profile, the Arab culture is intertwined with the pervasive influence of Islam. Even though not all Middle Easterners are Arab, Arab culture and management style predominate in the Arabian Gulf region. Shared culture, religion, and language underlie behavioral similarities throughout the Arab world. Islam permeates Saudi life—Allah is always present, controls everything, and is frequently referred to in conversation.[87] Employees may spend more than two hours a day in prayer as part of the life pattern that intertwines work with religion, politics, and social life.

Arab history and culture are based on tribalism, with its norms of reciprocity of favors, support, obligation, and identity passed on to the family unit, which is the primary structural model. Family life is based on closer personal ties than in the West. Arabs value personal relationships, honor, and saving face for all concerned; these values take precedence over the work at hand or verbal accuracy. Outsiders must realize that establishing a trusting relationship and respect for Arab social norms has to precede any attempts at business discussions. Honor, pride, and dignity are at the core of shame societies such as the Arabs. As such, shame and honor provide the basis for social control and motivation.[88] Circumstances dictate what is right or wrong and what constitutes acceptable behavior.

Saudi business culture generally tends to avoid displays of what could be considered weakness. It is sometimes difficult for Westerners to get at the truth because of the Arab need to avoid showing weakness; instead, Arabs present a desired or idealized situation. Shame is also brought on someone who declines to fulfill a request or a favor; therefore, a business arrangement is left open if something has yet to be completed.

The communication style of Middle Eastern societies is high context (that is, implicit and indirect), and their use of time is polychronic; many activities can be taking place at the same time, with constant interruptions commonplace. The imposition of deadlines is considered rude, and

EXHIBIT 3-6 Behavior That Will Likely Cause Offense in Saudi Arabia

- Introducing business subjects too soon.
- Commenting on a man's wife or female children over 12 years of age.
- Raising colloquial questions that may be considered as an invasion of privacy.
- Using disparaging or swear words and off-color or obscene attempts at humor.
- Talking about religion, politics, or Israel.
- Bringing gifts of alcohol or using alcohol, which is prohibited in Saudi Arabia.
- Requesting favors from those in authority or esteem, for it is considered impolite for Arabs to say no.
- Pointing your finger at someone or showing the soles of your feet when seated.

Source: Based on excerpts from P. R. Harris and R. T. Moran, *Managing Cultural Differences*, 5th ed. (Houston: Gulf Publishing, 2000).

business schedules take a backseat to the perspective that events will occur sometime when Allah wills (*bukra insha Allah*). Arabs give primary importance to hospitality; they are cordial to business associates and lavish in their entertainment, constantly offering strong black coffee (which you should not refuse) and banquets before considering business transactions. Westerners must realize the importance of personal contacts and networking, socializing and building close relationships and trust, practicing patience regarding schedules, and doing business in person. Exhibit 3-6 gives some selected actions and nonverbal behaviors that may offend Arabs. The relationship between cultural values and norms in Saudi Arabia and managerial behaviors is illustrated in Exhibit 3-7.

EXHIBIT 3-7 The Relationship between Culture and Managerial Behaviors in Saudi Arabia

Cultural Values	Managerial Behaviors
Tribal and family loyalty	Work group loyalty
	Paternal sociability
	Careful selection of employees
	Nepotism
Arabic language	Business as an intellectual activity
	Access to employees and peers
	Management by walking around
	Conversation as recreation
Close and warm friendships	People orientation
	Theory Y management
	Avoidance of judgment
Islam	Sensitivity to Islamic virtues
	Observance of the Qur'an and Sharia
	Work as personal or spiritual growth
	Adherence to norms
Honor and shame	Conflict avoidance
	Positive reinforcement
	Private correction of mistakes
	Avoidance of competition
	Responsibility
Polychronic use of time	Right- and left-brain facility
	Action oriented
	Patience and flexibility
Male domination	Separation of sexes
	Open work life; closed family life

Source: Based on excerpts from P. R. Harris and R. T. Moran, *Managing Cultural Differences,* 5th ed. (Houston: Gulf Publishing, 2000).

Chinese Family Small Businesses

The predominance of small businesses in China and the region highlights the need for managers from around the world to gain an understanding of how such businesses operate. Many small businesses—most of which are family or extended-family businesses—become part of the value chain (suppliers, buyers, retailers, etc.) within industries in which foreign firms may compete.

Some specifics of Chinese management style and practices in particular are presented here as they apply to small businesses. (Further discussion of the Chinese culture continues in Chapter 5 in the context of negotiation.) It is important to note that no matter the size of a Chinese company, but especially in small businesses, it is the all-pervasive presence and use of guanxi that facilitate business transactions in China. *Guanxi* means "connections"—the network of relationships the Chinese cultivate through friendship and affection; it entails the exchange of favors and gifts to provide an obligation to reciprocate favors. Those who share a *guanxi* network share an unwritten code.[89] The philosophy and structure of Chinese businesses comprise paternalism, mutual obligation, responsibility, hierarchy, familialism, personalism, and connections. Autocratic leadership is the norm with the owners using their powers—but caring for people may predominate over efficiency.

According to Lee, the major differences between Chinese management styles and those of their Western counterparts are human-centeredness, family-centeredness, centralization of power, and small size.[90] Their human-centered management style puts people ahead of a business relationship and focuses on friendship, loyalty, and trustworthiness.[91] The family is extremely important in Chinese culture, and any small business tends to be run like a family.

Globalization has resulted in ethnic Chinese businesses (in China or other Asian countries) adapting to more competitive management styles. They are moving away from the traditional centralized power structure in Chinese organizations that comprised the boss and a few family members at the top and the employees at the bottom, with no ranking among the workers. In fact, family members no longer manage many Chinese businesses. Frequently, the managers are those sons and daughters who have studied and worked overseas before returning to the family company—or even foreign expatriates. Examples of Chinese capitalism responding to change and working to globalize through growth are Eu Yan Sang Holdings Ltd., the Hiap Moh Printing businesses, and the Pacific International Line.[92]

As Chinese firms in many modern regions in the Pacific Rim seek to modernize and compete locally and globally, a tug of war has begun between the old and the new: the traditional Chinese management practices and the increasingly imported Western management styles. As Lee discusses, this struggle is encapsulated in the different management perspectives of the old and young generations. A two-generational study of Chinese managers by Ralston et al. also found generational shifts in work values in China. They concluded that the new generation manager is more individualistic, more independent, and less risk averse in the pursuit of profits. However, they also found the new generation holding on to their Confucian values, concluding that the new generation may be viewed as "crossverging their Eastern and Western influences, while on the road of modernization."[93]

CONCLUSION

This chapter has explored various cultural values and how managers can be prepared to understand them with the help of some general cultural profiles. The following chapters focus on application of this cultural knowledge to management in an international environment (or, alternatively in a domestic multicultural environment)—especially as relevant to cross-cultural communication (Chapter 4), negotiation and decision making (Chapter 5), and motivating and leading (Chapter 11). Culture and communication are essentially synonymous. What happens when people from different cultures communicate, and how can international managers understand the underlying process and adapt their styles and expectations accordingly? For the answers, read the next chapter.

Summary of Key Points

- The culture of a society comprises the shared values, understandings, assumptions, and goals that are passed down through generations and imposed by members of the society. These unique sets of cultural and national differences strongly influence the attitudes and expectations—and therefore the on-the-job behavior—of individuals and groups.
- Managers must develop cultural sensitivity to anticipate and accommodate behavioral differences in various societies. As part of that sensitivity, they must avoid parochialism—an attitude that assumes one's own management techniques are best in any situation or location and that other people should follow one's patterns of behavior.
- From his original research in 50 countries, Hofstede proposed four underlying value dimensions that help identify and describe the cultural profile of a country and affect organizational processes: power distance, uncertainty avoidance, individualism, and masculinity. In his later research, Hofstede explored the concept of Confucian Dynamism (i.e., long-term versus short-term orientation) to explain the cultural variation of the types of decisions people make.
- Through his research, Fons Trompenaars confirmed some similar dimensions and found other unique dimensions: obligation, emotional orientation, privacy, and source of power and status.
- The GLOBE project team of 170 researchers in 62 countries concluded the presence of a number of other dimensions and ranked countries on those dimensions, including assertiveness, performance orientation, future orientation, and humane orientation. Gupta et al. from that team found geographical clusters on nine of the GLOBE project cultural dimensions.
- On-the-job conflicts in international management frequently arise out of conflicting values and orientations regarding time, change, material factors, and individualism.
- Managers can use research results and personal observations to develop a character sketch, or cultural profile, of a country. This profile can help managers anticipate how to motivate people and coordinate work processes in a particular international context.

Discussion Questions

3-1. What is meant by the culture of a society, and why is it important for international managers to understand it? Do you notice cultural differences among your classmates? How do those differences affect the class environment? How do they affect your group projects?

3-2. Discuss the types of operational conflicts that could occur in an international context because of different attitudes toward time, change, material factors, and individualism. Give examples relative to specific countries.

3-3. Discuss how the Internet and culture interact. Which most affects the other, and how? Give some examples.

3-4. Discuss collectivism as it applies to the Japanese workplace. What managerial functions does it affect?

3-5. Discuss the role of Islam in cross-cultural relations and business operations.

Application Exercises

3-6. Develop a cultural profile for one of the countries in the following list. Form small groups of students and compare your findings in class with those of another group preparing a profile for another country. Be sure to compare specific findings regarding religion, kinship, recreation, and other subsystems. What are the prevailing attitudes toward time, change, material factors, and individualism?

Republic of South Africa
People's Republic of China
Mexico
France
India

3-7. In small groups of students, research Hofstede's findings regarding the four dimensions of power distance, uncertainty avoidance, masculinity, and individualism for one of the following countries in comparison to the United States. (Your instructor can assign the countries to avoid duplication.) Present your findings to the class. Assume you are a U.S. manager of a subsidiary in the foreign country and explain how differences on these dimensions are likely to affect your management tasks. What suggestions do you have for dealing with these differences in the workplace? Now assume you are a Brazilian manager.

Italy
Denmark
South Korea
Russia

Experiential Exercises

3-8. A large Baltimore manufacturer of cabinet hardware had been working for months to locate a suitable distributor for its products in Europe. Finally invited to present a demonstration to a reputable distributing company in Frankfurt, it sent one of its most promising young executives, Fred Wagner, to make the presentation. Fred not only spoke fluent German but also felt a special interest in this assignment because his paternal grandparents had immigrated to the United States from the Frankfurt area during the 1920s. When Fred arrived at the conference room where he would be making his presentation, he shook hands firmly, greeted everyone with a friendly *guten tag,* and even remembered to bow the head slightly as is the German custom. Fred, an effective speaker and past president of the Baltimore Toastmasters Club, prefaced his presentation with a few humorous anecdotes to set a relaxed and receptive atmosphere. However, he felt that his presentation was not well received by the company executives. In fact, his instincts were correct, for the German company chose not to distribute Fred's hardware products. What went wrong?

3-9. Bill Nugent, an international real estate developer from Dallas, had made a 2:30 P.M. appointment with Mr. Abdullah, a high-ranking government official in Riyadh, Saudi Arabia. From the beginning, things did not go well for Bill. First, he was kept waiting until nearly 3:45 P.M. before he was ushered into Mr. Abdullah's office. When he finally did get in, several other men were also in the room. Even though Bill felt that he wanted to get down to business with Mr. Abdullah, he was reluctant to get too specific because he considered much of what they needed to discuss sensitive and private. To add to Bill's sense of frustration, Mr. Abdullah seemed more interested in engaging in meaningless small talk than in dealing with the substantive issues concerning their business. How might you help Bill deal with his frustration?

3-10. Tom Forrest, an up-and-coming executive for a U.S. electronics company, was sent to Japan to work out the details of a joint venture with a Japanese electronics firm. During the first several weeks, Tom felt that the negotiations were proceeding better than he had expected. He found that he had very cordial working relationships with the team of Japanese executives, and in fact, they had agreed on the major policies and strategies governing the new joint venture. During the third week of negotiations, Tom was present at a meeting held to review their progress. The meeting was chaired by the president of the Japanese firm, Mr. Hayakawa, a man in his mid-forties, who had recently taken over the presidency from his 82-year-old grandfather. The new president, who had been involved in most of the negotiations during the preceding weeks, seemed to Tom to be one of the strongest advocates of the plan that had been developed to date. Hayakawa's grandfather, the recently retired president, also was present at the meeting. After the plans had been discussed in some detail, the octogenarian past president proceeded to give a long soliloquy about how some of the features of this plan violated the traditional practices on which the company had been founded. Much to Tom's amazement, Mr. Hayakawa did nothing to explain or defend the policies and strategies that they had taken weeks to develop. Feeling extremely frustrated, Tom then gave a fairly strong argument in defense of the plan. To Tom's further amazement, no one else in the meeting spoke up in defense of the plan. The tension in the air was quite heavy, and the meeting adjourned shortly thereafter. Within days, the Japanese firm completely terminated the negotiations on the joint venture. How could you help Tom understand better this bewildering situation?

Source: Gary P. Ferraro, *The Cultural Dimensions of International Business*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1994).

CASE STUDY

An Australian Manager in an American Company

"Qantas Flight 23 to Sydney is now boarding. Please have your boarding passes and passports ready for the attendant at the gate."

Les Collins picked up his briefcase and started toward the jet way. He paused to look around the waiting area and, as had been the case so often here in Houston, he saw nothing to indicate that he was in a foreign country. Certainly the accents were different from in Sydney, but the language was English and readily understandable. This superficial familiarity, he concluded, must help explain why he had had difficulties adjusting to his role at the Global Oil Company office in Houston.

Global Oil Company, or GOC, was headquartered in Houston, Texas, with partners and subsidiaries in countries around the world. Les had worked at GOC's Sydney office for eight years before being offered the chance to work at Houston headquarters for two years. His boss, Jim Branson, had encouraged Les to apply for the job in Houston because he knew it would enhance Les's chances for promotion within GOC-Australia. Although Les's family—his wife and two middle school-age children—was not very enthusiastic about the move, he reluctantly applied for the job because he knew it was critical to his success at GOC.

As he settled back in his seat on the flight to Sydney, Les thought back to the day he arrived in Houston over a year ago. Les had left Sydney on a hot, humid day in January and arrived 30 hours later to find Houston almost closed down due to a sleet and ice storm. That juxtaposition of

seasons probably should have alerted him that there would be many differences between Australia and the United States. When he hailed a taxi outside the terminal at IAH, the driver looked at him in amazement when Les opened the door to the front seat and sat down next to the driver.

During his first few weeks at the Houston office, everything seemed to go well. He met with his staff to introduce himself and his goals for his two-year assignment. Everyone seemed friendly enough, although he didn't get much feedback at that meeting or in subsequent meetings on his request for their ideas and input on how he could fit in and be effective. Thinking that maybe he needed to get to know the staff in a more informal setting, he invited them to join him after work one day at a local pub. Several staff members begged off, citing personal commitments, and the three senior managers who did come were clearly uncomfortable and left after about 30 minutes of awkward conversation.

Over the next six months, Les stayed busy learning operations for his area at GOC headquarters. He met often with his Houston boss, Tom Sanchez, to discuss the changes Tom wanted Les to help him realize during his tenure there.

"I'm counting on you, Les, to help me bring the staff around on the changes we've discussed. Your group hasn't moved nearly as fast as I think they could and that's partly due to the staff's reluctance to change the ways they've always done things. I'm confident that a new leader, especially someone from a completely different country, will convince them of the soundness of what I'm proposing.

"Keep me posted on your progress," Tom concluded, as he walked Les to the reception area outside his office.

One of the things Les noticed soon after arriving in Houston was how many more management levels the U.S. operation had than comparable offices in Australia. The hierarchy seemed excessive to Les, and he sought to break down some of the communication barriers he perceived by meeting with all staff members in one large meeting.

At one of these meetings, Les brought up the proposed changes in procedures that he had discussed with Sanchez. "I know that some of you may not be in favor of the changes we're proposing and I'd like to know your reasons for this. Let's have an open discussion of the changes in general and see where our major disagreement lies."

After a few minutes of silence, one of the senior managers explained his reasons for resisting a change in their reporting procedures for expenses. "I'm not sure that the new method will capture a true picture of expenses and outlay if we change what we're doing now. I'm not opposed to making changes that improve our work—I just am not convinced that the new method will be better."

"Okay, I'd like to hear from others on that specific change. Let's table this discussion," Les said.

The managers and staff at the table looked at each other in confusion at that point. No one said anything for several minutes, and Les concluded that no one else had an objection or concern on this particular point. The meeting continued for another hour as Les moved through the list of changes he was charged with making and when no one offered much objection or proposed any alternatives, he concluded that his predecessor and Sanchez had misinterpreted the staff's resistance to the changes.

A week later, in a meeting with Bill Crosby, one of the senior managers in his department, Les decided to get his manager's views on how to involve junior managers in decisions and how to encourage their ideas on various topics.

"I notice that in most meetings only the senior managers seem to participate in discussions," Les began. "I'm eager to have more input on some ideas I have for a new marketing plan, and I'm wondering how I can get junior managers and staff to contribute in our meetings."

Bill hesitated before saying, "Sometimes staff are reluctant to put forward ideas when their bosses are in the same meeting. Perhaps you should have some of the senior managers solicit ideas in their own staff meetings and then bring these to the meeting with you."

"But what about the synergy we can create if we have people from different levels discussing an idea together? Especially if the idea will affect the work staff are expected to do. I think there's too much separation of people by level in our department. I'd like to eliminate some of the impediments to collaboration that hierarchy creates," Les said. "What are your thoughts on how to do that?"

"I'll need to take some time to think about that," Bill said. "Maybe we can talk about it in our next one-on-one."

Later that day, during lunch with one of his peers in the company cafeteria, Bill brought up his discussion with Les. "He wants to eliminate some of the barriers that the hierarchy puts in

the way of collaboration," Bill began. "What exactly do you think he means by collaboration? We all get along just fine as far as I can see. We cooperate when we need to. And I really don't know how to get staff to speak their minds if they don't want to. I don't feel comfortable forcing anybody to be part of a discussion in a meeting if they prefer to just listen."

At the next all-staff meeting, Les began by handing out a sheet with five topics on it. "Rather than following one of our regular agendas today, I thought we might do a little brainstorming on the topics I've outlined here. As you can see, these topics all relate to marketing, and what we come up with in our discussion can go a long way toward finalizing that plan.

"And here's a twist on our usual meeting protocol: instead of my leading the discussion, I'm going to assign one of these topics to five people and let you take over the discussion."

In thinking about the meeting afterward, Les decided that although it hadn't been a complete success, he thought he had made some progress in getting increased participation. When one of the senior managers requested a meeting a couple of days later, Les was surprised at the manager's comments about the meeting.

"I'm sure you were sincere in your request for ideas from everybody but I need to tell you that you made a lot of people very uncomfortable. Staff are not used to leading a discussion with senior managers present. When that staff member is leading a brainstorming session and has to tell a manager that he's out of order because he's criticizing someone's idea, you're putting the staff member in a really awkward position."

"I guess I don't understand," Les said. "The whole point of doing what I did was to break down the barriers that make people feel uncomfortable. I think everybody has good ideas, and I'm trying to figure out how I can get them to share those ideas. I thought putting people in different roles would be helpful."

At his next meeting with Tom Sanchez, Les expressed his frustration with achieving as much as he hoped for when he started.

"It just seems as though I'm being stonewalled at every turn. In fact, I've heard that several people are thinking of transferring to another department," Les said. "What am I missing? I've done things just like I do at GOC-Sydney, but the results are not the same.

"Maybe I can make some progress when I get back after vacation. Sometimes three weeks away helps give a different perspective on things."

"Yes, Les," Tom began, "we'll need to talk about this when you get back from vacation. Three weeks is a pretty long time for a senior manager to be gone, but I know you and your family have plans to visit a lot of the national parks in the west, so I reluctantly approved your request. Have a good trip and I'll talk with you when you get back."

When Les returned from vacation, Tom Sanchez was out of the office for a week and they didn't have a chance to meet before Les got word that his mother had passed away suddenly and that he needed to return to Sydney for the funeral. As he headed for Sydney, Les wondered how he could explain to his former boss in Sydney the problems he was having at GOC headquarters.

Case Questions

3-11. Using Geert Hofstede's cultural characteristics, compare Australia and the United States on various measures. As you'll see, the two countries are fairly similar, but there are some differences that may help explain Les Collins's apparent lack of success in the American setting. Which of these do you think is the most significant and why?

3-12. What could GOC have done to prepare Collins for his assignment in the United States? Outline an action plan for companies to use in preparing executives—and their families—for international assignments.

3-13. Articulate and evaluate your own opinion about the degree of distance prevalent in U.S. companies between managers and their direct reports. Who is protected by this management style? What adverse organizational impacts might result from this style?

Source: Linda Catlin. Ms Catlin is an organizational anthropologist and the co-author of *International Business: Cultural Sourcebook and Case Studies*. She consults with clients on projects related to crosscultural business communications, organizational culture, and organizational change dynamics. Her clients include the Mayo Clinic, the Kellogg Foundation, General Motors, Ascension Health, and BASF. Linda Catlin, Claymore Associates. Used with permission.

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CHAPTER

4 Communicating Across Cultures

OBJECTIVES

- **4-1.** To recognize the communication process and how cultural differences can cause noise in that process
- **4-2.** To appreciate the cultural variables that affect communication for both the sender and the listener
- **4-3.** To be aware of the impact of IT on cross-border communications
- **4-4.** To learn how to manage cross-cultural business communications successfully

Opening Profile: The Impact of Social Media on Global Business

Brands have gone all in on Instagram.[1]

ALEXA TONNER, COFOUNDER OF SOCIAL MEDIA MARKETING AGENCY COLLECTIVELY, APRIL 5, 2019

Managers in international business or non-profit enterprises around the world are grappling with the question of how to benefit from the burgeoning use of social media networks—through the Internet, video, audio, and phone—both external and internal to the organization. The networks, such as Facebook, are directly and indirectly linking people and business around the world. (Facebook, for example, had 2.49 billion monthly users around the world as of 4th quarter 2019).[2] eMarketer forecasts that Instagram will make up 6 per cent of global mobile ad spending this year, and one-fifth of Facebook's ad revenues.[3]

Another challenge to the effective use of social media is how to measure the effectiveness of each source as a benefit to the company, given the considerable investment their use would require. Firms such as Target, Dell, and Burger King are trying to find what works best for them as social media applications such as Google+, Facebook, LinkedIn, YouTube, blogs, microblogs such as Twitter, etc., have changed the way consumers interact with companies and friends about brands and services—with both positive and negative feedback.[4]

For early-stage companies looking to develop a following, Instagram has helped provide a "level playing platform" because it shows users the posts and ads it thinks they will like most, rather than those from the biggest brands…

…brands could still build a following for free on social media if they "create great content and gain buzz."[5]

DEBRA WILLIAMSON, ANALYST AT EMARKETER, 2019

Global business managers are realizing that these social media are potential sources of rich information, outside the normal chain of communication, that their companies could use to find out more about what customers want, how new ideas might be received, what competitors are doing, what problems might be lurking and how to deal with them, and so on. As an example, K. Ananth Krishnan, the chief technology officer (CTO) of Tata Consultancy Services, stated, "I see an enterprise's move to 'Being Digital' as an inflexion point in its evolution."[6] Krishnan further notes, however, "You cannot offer to others what you don't have in abundance in yourself! To me, any enterprise that wants to meet the demands of its digital native consumers, should start 'thinking' digitally, not just 'adopt' digital."[7]

FIGURE 4-1 Social Media



Source: arrow/Fotolia

Social media trends

As firms seek to refine how they will use social media to implement their strategies, several trends have emerged. According to Social Media Marketing, privacy and security top the list. Data breaches at Facebook have called into question cybersecurity at many social media platforms.[8] The second most salient trend involves video usage. A study conducted by Cisco indicated that 75 percent of mobile traffic will be achieved via video.[9] The third social media trend entails a heavier focus on augmented reality (AR). In June 2016, Snapchat offered the first AR social media app.[10] Cosmetics firm L'Oreal developed AR apps that enabled potential customers to try makeup and hairstyles before purchasing any products. The L'Oreal AR app was well received, leading to a strong increase in sales.[11] The fourth trend is the internet as the primary source of news content. The fifth trend pertains to data and artificial intelligence (AI) usage. With rising concerns about fake news, AI will be able to better segment data in order to provide the best information content possible.[12]

Regardless of how companies interact with and use social media networks, it is clear that they are here to stay, that they can have considerable impact on global businesses. Social media users worldwide increased from 0.97 billion to an estimated 2.82 billion over the period 2010 to 2019. Moreover, social media usage is expected to reach 3.09 billion by 2021.[13] In China, for example, roughly 708 million people use social media, which is very popular because it is less likely to be monitored by the government.[14] In 2019, Chinese consumers spent an estimated 6 hours and 39 minutes with media daily, of which 3 hours, 54 minutes involved digital (i.e., 58.8% of time spent with media), which includes internet activities as well as non-internet activities on mobile devices.[15] There is no Facebook or Twitter. In spite of the complexities and challenges, the sheer numbers of users present considerable opportunity for marketing across the globe.

Cultural communications are deeper and more complex than spoken or written messages. The essence of effective cross-cultural communication has more to do with releasing the right responses than with sending the "right" messages.[16]

HALL AND HALL

As the opening profile suggests, communication in all its forms is a critical factor in the cross-cultural management issues discussed in this book, particularly those of an interpersonal nature, involving motivation, leadership, group interactions, and negotiation. Culture is conveyed and perpetuated through communication in one form or another. Culture and communication are so intricately intertwined that they are, essentially, synonymous.[17] By understanding this relationship, managers can move toward constructive intercultural management. Nardon et al. point out that although global managers cite multicultural communication as a serious challenge, at the same time, it can open up important sources of business opportunity. "It is through communication that relationships are formed, conflicts are resolved, and innovative ideas are created and shared."[18]

Managers doing business around the world invariably complain that cross-cultural communication challenges have led to lost business, unintended offenses, and embarrassment—in particular in countries where it is crucial to develop relationships and trust. Communication, whether in the form of writing, talking, listening, or through the Internet, is an inherent part of a manager's role and takes up the majority of a manager's time on the job. Studies by Mintzberg demonstrate the importance of oral communication; he found that most managers spend between 50 and 90 percent of their time talking to people.[19] The ability of a manager to communicate effectively across cultural boundaries will largely determine the success of international business transactions or the output of a culturally diverse workforce. It is useful, then, to break down the elements involved in the communication process, both to understand the cross-cultural issues at stake and to maximize the opportunities to establish common meaning among the parties communicating.

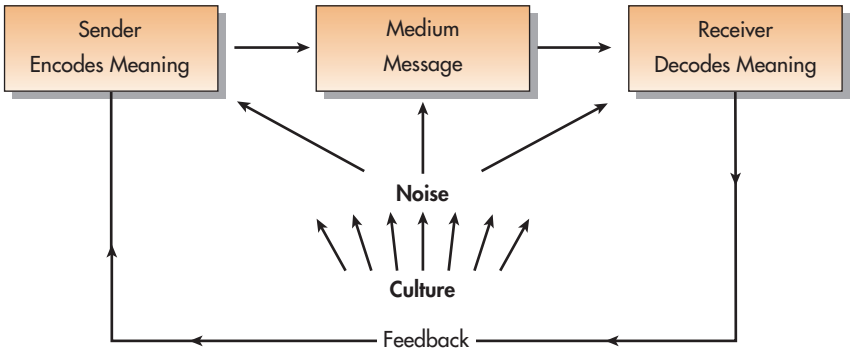
4-1. To recognize the communication process and how cultural differences can cause noise in that process

THE COMMUNICATION PROCESS

The term **communication** describes the process of sharing meaning by transmitting messages through media such as words, behavior, or material artifacts. Managers communicate to coordinate activities, to disseminate information, to motivate people, and to negotiate future plans. It is of vital importance, then, for a receiver to interpret the meaning of a particular communication in the way the sender intended. Unfortunately, the communication process (see Exhibit 4-1) involves stages during which meaning can be distorted. Anything that undermines the communication of the intended meaning is typically referred to as **noise**.

The primary cause of noise is that the sender and the receiver each exists in a unique, private world thought of as her or his life space. The context of that private world, largely based on culture, experience, relations, values, and so forth, determines the interpretation of meaning in communication. People filter, or selectively understand, messages consistent with their own expectations and perceptions of reality and their values and norms of behavior. The more dissimilar the cultures of those involved, the greater the likelihood of misinterpretation. In this way, as Samovar, Porter, and Jain state in their book, *Understanding Intercultural Communication,* cultural factors pervade the communication process:

EXHIBIT 4-1 The Communication Process



Culture not only dictates who talks with whom, about what, and how the communication proceeds, it also helps to determine how people encode messages, the meanings they have for messages, and the conditions and circumstances under which various messages may or may not be sent, noticed, or interpreted. In fact, our entire repertory of communicative behaviors is dependent largely on the culture in which we have been raised. Culture, consequently, is the foundation of communication. And, when cultures vary, communication practices also vary.[20]

Communication, therefore, is a complex process of linking up or sharing the perceptual fields of sender and receiver; the perceptive sender builds a bridge to the life space of the receiver.[21] After the receiver interprets the message and draws a conclusion about what the sender meant, he or she will, in most cases, encode and send back a response, making communication a circular process.

The communication process is rapidly changing, however, as a result of technological developments; therefore it is propelling global business forward at a phenomenal growth rate. These changes are discussed later in this chapter.

Cultural Noise in the Communication Process

In Japanese there are several words for "I" and several words for "you" but their use depends on the relationship between the speaker and the other person. In short, there is no "I" by itself; the "I" depends on the relationship.[22]

Because the focus in this text is on effective cross-cultural communication, it is important to understand what cultural variables cause noise in the communication process. This knowledge of **cultural noise**—the cultural variables that undermine the communication of intended meaning—will enable us to take steps to minimize that noise and so improve communication.

When a member of one culture sends a message to a member of another culture, **intercultural communication** takes place. The message contains the meaning the encoder intends. When it reaches the receiver, however, it undergoes a transformation in which the influence of the decoder's culture becomes part of the meaning.[23] Exhibit 4-2 provides an example of intercultural communication in which the meaning got all mixed up. Note how the attribution of behavior differs for each participant. **Attribution** is the process by which people look for an explanation of another person's behavior. When they realize that they do not understand another person, they tend, say Hall and Hall, to blame their confusion on the other's "stupidity, deceit, or craziness."[24]

In the situation depicted in Exhibit 4-2, the Indian employee becomes frustrated and resigns after experiencing communication problems with his manager. How could this outcome have been avoided? We do not have much information about the people or the context of the situation, but we can look at some of the variables that might have been involved and use them as a basis for analysis.

THE CULTURE–COMMUNICATION LINK

4-2. To appreciate the cultural variables that affect communication for both the sender and the listener

The following sections examine underlying elements of culture that affect communication. The degree to which one is able to communicate effectively largely depends on how similar the other person's cultural expectations are to our own. However, cultural gaps can be overcome by prior learning and understanding of those variables and how to adjust to them.

Trust in Communication

Effective communication, and therefore effective collaboration in alliances across national boundaries, depends on the informal understandings among the parties that are based on the trust that has developed between them. However, the meaning of trust, and how it is developed and communicated, varies across societies. In China and Japan, for example, business transactions are based on networks of long-standing relationships based on trust rather than on the formal contracts and arm's-length relationships typical of the United States. When there is trust between parties, implicit understanding arises within communications. This understanding has numerous

EXHIBIT 4-2 Cultural Noise in International Communication[25] The vice president for operations of a German manufacturing company headquartered in Munich became concerned about satisfying an important client in France with an order that he had outsourced to a subsidiary in India. He decided to visit the local manager and confirm the importance of delivering the order on time. The following is what transpired in his interaction with the local production manager in India.

Behavior		Attribution	
Manager:	"What can be done to make sure this project is completed on time?"	Manager:	I am giving him some responsibility.
		Employee:	Doesn't he know what to do? He is the boss. Why is he asking me?
Employee:	"I don't know. What do you suggest?"	Manager:	Can't he take responsibility?
		Employee:	I asked him for instructions.
Manager:	"You know the scheduling and staffing situation here better than me."	Manager:	I want to train him to make some decisions.
		Employee:	What kind of manager is he? Well, he expects me to say something.
Employee:	"I'll hire another worker, then we should be ready in two weeks."	Manager:	One more worker is totally insufficient; he doesn't know how to schedule properly. I need a definite deadline commitment—not "should be ready."
Manager:	"Hire three workers and give them a deadline of three weeks. Are we agreed on that deadline?"	Manager:	I offer a contract.
		Employee:	These are my orders: three weeks.
The manager returned to his office in Munich, confident that the project would be completed on time and the order delivered on schedule, which he conveyed to the client. After four weeks, the customer called to complain that he had not received the order. The German VP immediately called the Indian employee:			
Manager:	"Why hasn't the order been sent out as we agreed?"	Manager:	I am holding him responsible for our agreement.
		Employee:	He wants to know why it is not ready.
Employee:	"It will be completed next week."	(Both attribute that it is not ready.)	
Manager:	"But you told me it would be sent out in three weeks."	Manager:	I must teach him to take responsibility for deadlines.
		Employee:	This person does not know how to manage; it was not possible to complete the project in three weeks. I am going to get another job where the boss knows how to manage!

benefits in business, including encouraging communicators to overlook cultural differences and minimize problems. It allows communicators to adjust to unforeseen circumstances with less conflict than would be the case with formal contracts, and it facilitates open communication in exchanging ideas and information.[26] From his research on trust in global collaboration, John Child suggests the following guidelines for cultivating trust:

- Create a clear and calculated basis for mutual benefit. There must be realistic commitments and good intentions to honor them.
- Improve predictability: Strive to resolve conflicts and keep communication open.
- Develop mutual bonding through regular socializing and friendly contact.[27]

What can managers anticipate with regard to the level of trust in communications with people in other countries? If trust is based on how trustworthy we consider a person to be, then it must vary according to that society's expectations about whether that culture supports the norms and values that predispose people to behave credibly and benevolently. Are there differences across societies in those expectations of trust? Research on 90,000 people in 45 societies by the World Values Study Group provides some insight on cultural values regarding predisposition to trust. When we examine the percentage of respondents in each society who responded that "most people can be trusted," we can see that the Nordic countries and China had the highest predisposition to trust, followed by Canada, the United States, and Britain, whereas Brazil, Turkey, Romania, Slovenia, and Latvia had the lowest level of trust in people.[28]

Trust in the Digital Age

> *Many leading communications, media and technology companies recognize the dual importance of building digital trust* both as a company, and as an enabler of the overall digital economy, making it critical for all companies in these industries to act now or be left behind.*[29]
>
> WWW.ACCENTURE.COM

The global consulting firm Accenture defines digital trust as "the confidence placed in an organization to collect, store, and use the digital information of others in a manner that benefits and protects those to whom the information pertains." The digital age has reshaped the way companies communicate with customers around the world. In order to communicate effectively, companies have leveraged digital technologies that have increased the volume and speed with which companies and customers now share data. Accenture stresses four pillars of digital trust in order to develop trust with consumers regarding a brand: *Security* (e.g., virus protection and data encryption); *Accountability* (e.g., global and regional data standards); *Privacy* (e.g., company data policies and third-party data sharing); and *Benefit/Value* (e.g., customer value, brand value, and loyalty).[30]

The GLOBE Project

Results from the GLOBE research on culture, discussed in Chapter 3, provide some insight into culturally appropriate communication styles and expectations for the manager to use abroad. GLOBE researchers Javidan and House make the following observations.[31] For people in societies that ranked high on performance orientation—for example, the United States—presenting objective information in a direct and explicit way is an important and expected manner of communication; this contrasts with people in Russia or Greece—societies that ranked low on performance orientation—for whom hard facts and figures are not readily available or taken seriously. In those cases, a more indirect approach is preferred. People from countries ranking low on assertiveness, such as Sweden, also recoil from explicitness; their preference is for much two-way discourse and friendly relationships.

People ranking high in the humane dimension, such as those from Ireland and the Philippines, make avoiding conflict a priority and tend to communicate with the goal of being supportive of people rather than of achieving objective results. This contrasts with people from France and Spain, whose agenda is achievement of goals.

The foregoing provides examples of how to draw implications for appropriate communication styles from the research findings on cultural differences across societies. Astute global managers have learned that culture and communication are inextricably linked and that they should prepare themselves accordingly. Most will also suggest that you carefully watch and listen to how your hosts are communicating and then follow their lead.

Cultural Variables in the Communication Process

On a different level, it is also useful to be aware of cultural variables that can affect the communication process by influencing a person's perceptions; some of these variables have been identified by Samovar and Porter and discussed by Harris and Moran and others.[32] These variables are as follows: attitudes; social organization; thought patterns; roles; language (spoken or written); nonverbal communication (including kinesic behavior, proxemics, paralanguage, and object language); and time. Although these variables are discussed separately in this text, their effects are interdependent and inseparable—or, as Hecht, Andersen, and Ribeau put it, "Encoders and

decoders process nonverbal cues as a conceptual, multichanneled gestalt."[33] Understanding communication and cultural differences can be instrumental in developing strong business relationships throughout the world. In the discussion that follows, we seek to gain an appreciation for the context of communicating and managing in India, as outlined in the feature, "Under the Lens: Communicating in India—Language, Culture, Customs, and Etiquette."

UNDER THE LENS

Communicating in India—Language, Culture, Customs, and Etiquette

FACTS AND STATISTICS

Location Southern Asia, bordering Bangladesh, 4,053 km; Bhutan, 605 km; Burma, 1,463 km; China, 3,380 km; Nepal, 1,690 km; and Pakistan, 2,912 km

Capital New Delhi

Climate Varies from tropical monsoon in south to temperate in north

Population 1.354 billion (as of 2018)[34]

FIGURE 4-2 Map of India



Source: Bardocz Peter/Shutterstock

FIGURE 4-3 Indian Flag



Source: Malgorzata Kistryn/Fotolia LLC

Ethnic Makeup Indo-Aryan, 72%; Dravidian, 25%; Mongoloid and other, 3% (2000)
Religions Hindu, 79.8%; Muslim, 14.2%; Christian, 2.3%; Sikh, 1.7%; other groups, including Buddhist, Jain, and Parsi, 2.0% (2011 census)
Government Federal republic

LANGUAGES IN INDIA

The different states of India have different official languages, some of them not recognized by the central government. Some states have more than one official language. Bihar in east India has three official languages—Hindi, Urdu, and Bengali—that are all recognized by the central government. But Sikkim, also in east India, has four official languages, of which only Nepali is recognized by the central government. Besides the languages officially recognized by central or state governments are other languages that don't have this recognition, and their speakers are waging political struggles to obtain this recognition. The central government decided that Hindi was to be the official language of India, and therefore, it also has the status of official language in the states.

INDIAN SOCIETY AND CULTURE

Doing Business in India

India has quickly become a leading global startup hub; many entrepreneurs from both local and multinational corporations have given rise to a burgeoning tech scene. Add to that the increasing number of multinational companies already doing business there or attempting to expand there directly or by joining with local Indian companies, it is clear that managers need to prepare themselves with a better understanding of life in India - its people, its culture, and how to do business there. A few points below can help managers to prepare.

Hierarchy

- The influences of Hinduism and the tradition of the caste system have created a culture that emphasizes established hierarchical relationships.
- Indians tend to be conscious of social order and their status relative to other people, whether family, friends, or strangers.

(*Continued*)

FIGURE 4-4 Indian engineering students with their university professor



Source: CRS PHOTO/Shutterstock

- All relationships involve hierarchies. In schools, teachers are highly respected and viewed as the source of knowledge. The patriarch, usually the father, is considered the leader of the family. The boss is seen as the source of ultimate responsibility in business. Every relationship has a clear-cut hierarchy that must be observed for the social order to be maintained.

The Role of the Family

- People typically define themselves by the groups to which they belong rather than by their status as individuals. Someone is deemed to be affiliated to a specific state, region, city, family, career path, religion, and so on.
- This group orientation stems from the close personal ties Indians maintain with their family, including the extended family.
- The extended family creates a myriad of interrelationships, rules, and structures. Along with these mutual obligations comes a deep-rooted trust among relatives.

Just Can't Say No

- Indians do not like to express "no," whether verbally or nonverbally.
- Rather than disappoint you, for example, by saying something isn't available, Indians will offer you the response that they think you want to hear.
- This behavior should not be considered dishonest. An Indian would be considered terribly rude if he did not attempt to give a person what had been asked.
- Because they do not like to give negative answers, Indians may give an affirmative answer but be deliberately vague about any specific details. This will require you to look for nonverbal cues, such as a reluctance to commit to an actual time for a meeting or an enthusiastic response.

Etiquette and Customs in India

Meeting Etiquette

- Religion, education, and social class all influence greetings in India.
- This is a hierarchical culture, so greet the eldest or most senior person first.
- In social settings, when leaving a group, each person must be bade farewell individually.
- Shaking hands is common, especially in the large cities among the more educated who are accustomed to dealing with Westerners.
- Men may shake hands with other men, and women may shake hands with other women; however, there are seldom handshakes between men and women because of religious beliefs. If you are uncertain, wait for him or her to extend his or her hand.

Naming Conventions

Indian names vary based on religion, social class, and region of the country. The following are some basic guidelines to understanding the naming conventions.

Hindus

- In the north, many people have both a given name and a surname.
- In the south, surnames are less common, and a person generally uses the initial of his or her father's name in front of their own name.
- The man's formal name is their name s/o (son of) and the father's name. Women use d/o to refer to themselves as the daughter of their father.
- At marriage, women drop their father's name and use their first name with their husband's first name as a sort of surname.

Muslims

- Many Muslims do not have surnames. Instead, men add the father's name to their own name with the connector "bin," so "Abdullah bin Ahmed" is "Abdullah, the son of Ahmed."
- Women use the connector binti.
- The title Hajji (m) or Hajjah (f) before the name indicates that the person has made his or her pilgrimage to Mecca.

Sikhs

- Sikhs all use the "Singh" name. It is either adopted as a surname or as a connector name to the surname.

Gift-Giving Etiquette

- Indians believe that giving gifts eases the transition into the next life.
- Gifts of cash are given to friends and members of the extended family to celebrate life events such as birth, death, and marriage.
- It is not the value of the gift, but the sincerity with which it is given, that is important to the recipient.
- If invited to an Indian's home for a meal, it is not necessary to bring a gift, although one will not be turned down.
- Do not give frangipani or white flowers because they are used at funerals.
- Yellow, green, and red are lucky colors, so try to use them to wrap gifts.
- A gift from a man should be said to come from both him and his wife, mother, sister, or some other female relative.
- Hindus should not be given gifts made of leather.
- Muslims should not be given gifts made of pigskin or alcoholic products.
- Gifts are not opened when received.

Dining Etiquette

- Indians entertain in their homes, restaurants, private clubs, or other public venues, depending on the occasion and circumstances.
- Although Indians are not always punctual themselves, they expect foreigners to arrive close to the appointed time.
- Take off your shoes before entering the house.
- Dress modestly and conservatively.
- Politely turn down the first offer of tea, coffee, or snacks. You will be asked again and again. Saying no to the first invitation is part of the protocol.

There are diverse dietary restrictions in India, and these may affect the foods that are served:

- Hindus do not eat beef, and many are vegetarians.
- Muslims do not eat pork or drink alcohol.
- Sikhs do not eat beef.
- Lamb, chicken, and fish are the most commonly served main courses for nonvegetarian meals because they avoid the meat restrictions of the religious groups.

(*Continued*)

Table manners are somewhat formal, but this formality is tempered by the religious beliefs of the various groups.

- Much Indian food is eaten with the fingers.
- Wait to be told where to sit.
- If utensils are used, they are generally a tablespoon and a fork.
- In social settings, guests are often served in a particular order; the guest of honor is served first, followed by the men, and the children are served last. Women typically serve the men and eat later.
- You may be asked to wash your hands before and after sitting down to a meal.
- Always use your right hand to eat, whether you are using utensils or your fingers.
- In some situations, food may be put on your plate for you, whereas in other situations, you may be allowed to serve yourself from a communal bowl.

Business Etiquette and Protocol in India

Relationships and Communication

- Indians prefer to do business with those they know.
- Relationships are built on mutual trust and respect.
- In general, Indians prefer to have long-standing personal relationships prior to doing business.
- It may be a good idea to go through a third-party introduction. This gives you immediate credibility.

Business Meeting Etiquette

- Be aware of India's cultural diversity; be cautious about making generalizations.
- If you will be traveling to India from abroad, it is advisable to make appointments at least one month and, preferably, two months in advance.
- It is a good idea to confirm your appointment one week ahead and then again that morning because meetings can be cancelled at short notice.
- The best time for a meeting is late morning or early afternoon. Reconfirm your meeting the week before and call again that morning; it is common for meetings to be cancelled at the last minute.
- Keep your schedule flexible so that it can be adjusted for last-minute rescheduling of meetings.
- You should arrive at meetings on time because Indians are impressed with punctuality.
- Small talk at the beginning of a business meeting is fairly common and may include questions about your family.
- Always send a detailed agenda several days in advance of your meeting. Send back-up materials, charts, and other data as well. This allows everyone to review and become comfortable with the material prior to the meeting.
- Follow up a meeting with an overview of what was discussed and the next steps.
- When entering a business meeting, it is appropriate to greet the most senior person first.

Business Negotiating

- Indians are nonconfrontational. It is rare for them to disagree overtly, although this is beginning to change in the managerial ranks.
- Decisions are reached by the person with the most authority.
- Decision making is a slow process.
- If you lose your temper, you lose face and prove you are unworthy of respect and trust.
- Delays are to be expected, especially when dealing with the government.
- Most Indians expect concessions in both price and terms. It is acceptable to expect concessions in return for those you grant.
- Never appear overly legalistic during negotiations. In general, Indians do not trust the legal system, and someone's word is sufficient to reach an agreement.
- Do not disagree publicly with members of your negotiating team.
- Successful negotiations are often celebrated by a meal.

Dress Etiquette

- Business attire is conservative.
- Men should wear dark-colored, conservative business suits.
- Women should dress conservatively in suits or dresses.
- The weather often determines clothing. In the hotter parts of the country, dress is less formal, although dressing as previously suggested for the first meeting will indicate respect.

Titles

- Indians revere titles such as Professor, Doctor, and Engineer.
- Status is determined by age, university degree, caste, and profession.
- If someone does not have a professional title, use the honorific title "Sir" or "Madam."
- Titles are used with the person's name or the surname, depending on the person's name. (See Social Etiquette for more information on Indian naming conventions.)
- Wait to be invited before using someone's first name without the title.

Business Cards

- Business cards are exchanged after the initial handshake and greeting.
- If you have a university degree or any honor, put it on your business card.
- Use the right hand to give and receive business cards.
- Business cards need not be translated into Hindi.
- Always present your business card so the recipient may read the card as it is handed to him or her.

Sources: Updated and adapted from https://businessculture.org/indian-business-culture/business-meeting-etiquette/, August 19, 2020; https://www.aii.unimelb.edu.au/blog/20-essential-tips-for-doing-business-with-india/; https://www.forbes.com/sites/ajayyadav/2016/08/18/how-startup-culture-in-india-differs-from-the-u-s/#5cd439b1bedb; www.kwintessential.co.uk/resources/global-etiquette/India-country-profile.html, September 5, 2011. Used with permission of www.kwintessential.co.uk.

ATTITUDES

We all know that our attitudes underlie the way we behave and communicate and the way we interpret messages from others. Ethnocentric attitudes are a particular source of noise in cross-cultural communication. In the incident described in Exhibit 4-2, both the employee and the manager are clearly attempting to interpret and convey meaning based on their own experiences of that kind of transaction. The manager is probably guilty of stereotyping the Indian employee by quickly jumping to the conclusion that he is unwilling to take responsibility for the task and the scheduling.

This problem, **stereotyping**, occurs when a person assumes that every member of a society or subculture has the same characteristics or traits. Stereotyping is a common cause of misunderstanding in intercultural communication. It is an arbitrary, lazy, and often destructive way to find out about people. Astute managers are aware of the dangers of cultural stereotyping and deal with each person as an individual with whom they may form a unique relationship.

SOCIAL ORGANIZATIONS

Our perceptions can be influenced by differences in values, approach, or priorities relative to the kind of social organizations to which we belong. These organizations may be based on one's nation, tribe, or religious sect, or they may consist of the members of a certain profession. Examples of such organizations include the Academy of Management and the United Auto Workers (UAW).[35]

THOUGHT PATTERNS

The logical progression of reasoning varies widely around the world and greatly affects the communication process. Managers cannot assume that others use the same reasoning processes, as illustrated by the experience of a Canadian expatriate in Thailand, related in a book by Harris and Moran.

While in Thailand a Canadian expatriate's car was hit by a Thai motorist who had crossed over the double line while passing another vehicle. After failing to establish that the fault lay with the Thai driver, the Canadian flagged down a policeman. After several minutes of seemingly futile discussion, the Canadian pointed out the double line in the middle of the road and asked the policeman directly, "What do these lines signify?" The policeman replied, "They indicate the center of the road and are there so I can establish just how far the accident is from that point." The Canadian was silent. It had never occurred to him that the double line might not mean "no passing allowed."[36]

In the Exhibit 4-2 scenario, perhaps the manager at the head office did not realize that the local production manager had a different rationale for his time estimate for the job. Because the local employee was not used to having to estimate schedules, he just took a guess, which he felt he had been forced to do.

ROLES

Societies differ considerably in their perceptions of a manager's role. Much of the difference is attributable to their perceptions of who should make the decisions and who has responsibility for what. In the Exhibit 4-2 example, the manager of the firm which is outsourcing the production assumes that his role as manager is to delegate responsibility, to foster autonomy, and to practice participative management. He prescribes the role of the employee without any consideration of whether the employee will understand that role. The local employee's frame of reference leads him to think that the manager is the boss and should give the order about when to have the job completed. He interprets the manager's behavior as breaking that frame of reference, and therefore he feels that the boss is "stupid and incompetent" for giving him the wrong order and for not recognizing and appreciating his accomplishments. The manager should have considered what behaviors the local workers would expect of him and then either should have played that role or discussed the situation carefully, in a training mode.

LANGUAGE

Spoken or written language, of course, is a frequent cause of miscommunication, stemming from a person's inability to speak the local language, a poor or too-literal translation, a speaker's failure to explain idioms, or a person missing the meaning conveyed through body language or certain symbols. Even among countries that share the same language, problems can arise from the subtleties and nuances inherent in the use of the language, as noted by George Bernard Shaw: "Britain and America are two nations separated by a common language." This problem can exist even within the same country among different subcultures or subgroups.[37]

Many international executives tell stories about lost business deals or lost sales because of communication blunders.

When Pepsi Cola's slogan "Come Alive with Pepsi" was introduced in Germany, the company learned that the literal German translation of "come alive" is "come out of the grave."

A U.S. airline found a lack of demand for its "rendezvous lounges" on its Boeing 747s. They later learned that "rendezvous" in Portuguese refers to a room that is rented for prostitution.[38]

More than just conveying objective information, language also conveys cultural and social understandings from one generation to the next. Examples of how language reflects what is important in a society include the 6,000 Arabic words that describe camels and their parts and the 50 or more classifications of snow the Inuit, the Eskimo people of Canada, use.

Inasmuch as language conveys culture, technology, and priorities, it also serves to separate and perpetuate subcultures. In India, 14 official and many unofficial languages are used, and more than 800 languages are spoken on the African continent.

Because of increasing workforce diversity around the world, the international business manager will have to deal with a medley of languages. For example, assembly-line workers at the Ford plant in Cologne, Germany, speak Turkish and Spanish as well as German.

In Malaysia, Indonesia, and Thailand, many of the buyers and traders are Chinese. Not all Arabs speak Arabic; in Tunisia and Lebanon, for example, French is the language of commerce.

International managers need either a good command of the local language or competent interpreters. The task of accurate translation to bridge cultural gaps is fraught with difficulties: Joe Romano, a partner of High Ground, an emerging technology-marketing company in Boston, found out on a business trip to Taiwan how close a one-syllable slip of the tongue can come to torpedoing a deal. He noted that one is supposed to say to the chief executive "Au-ban," meaning "Hello, No. 1. Boss." Instead, he accidentally said "Lau-ban ya," which means "Hello, wife of the boss." Essentially, Mr. Romano called him a woman in front of 20 senior Taiwanese executives, who all laughed; but the boss was very embarrassed because men in Asia have a very macho attitude.[39]

Even the direct translation of specific words does not guarantee the congruence of their meaning, as with the word "yes" used by Asians, which usually means only that they have heard you, and, often, that they are too polite to disagree. The Chinese, for example, through years of political control, have built into their communication culture a cautionary stance to avoid persecution by professing agreement with whatever opinion was held by the person questioning them.[40]

Sometimes even a direct statement can be misinterpreted instead as an indirect expression, as when a German businesswoman said to the Algerian counterpart, "My partner would love something like that watch your friend was wearing last night. It was fascinating." The next day the Algerian gave her a box with the watch in it as a gift to her partner. She realized she needed to be careful how she expressed such things in the future—such as asking where that kind of jewelry is sold.[41]

In much of the world, politeness and a desire to say only what the listener wants to hear create noise in the communication process. Often, even a clear translation does not help a person understand what is meant because the encoding process has obscured the true message. With the poetic Arab language—replete with exaggeration, elaboration, and repetition—meaning is attributed more to how something is said than to what is actually said.

For the manager and the local employee cited in Exhibit 4-2, it is highly likely that the manager could have picked up some cues from the employee's body language that probably implied problems with the interpretation of meaning. How might body language have created noise in this case?

Second Language Use

A large number of business professionals speak more than one language. As a result, there are circumstances in which they will communicate with their counterparts in a nonnative language, in particular the English language. English is used frequently as a language for business professionals. Learning a second language—especially English—offers many challenges along the way. The English vocabulary is rich—full of many synonyms, as well as words that are spelled and pronounced the same with distinct meanings (e.g., crude), and words that are spelled differently, pronounced the same, yet have distinct means (e.g., for and four).[42] When communicating with a business professional who is less skilled at speaking a second (or third) language, the native language speaker needs to communicate without complex terms. Indeed, a culturally intelligent individual will adapt their language—word choice and style—to the level of the nonnative speaker.[43] Some best practices for speaking with a non-native speaker include:[44]

- Pronounce words clearly
- Avoid slang
- Use shorter sentences
- Distribute written summaries of a presentation
- Use more pauses and take more breaks
- Repeat important information—even with different words to explain the same point
- Encourage nonnative speakers to repeat concepts to ensure comprehension

Both native and non-native English speakers must accept responsibility for their utterances, and ensure that they are speaking as clearly and concisely as possible.

B. Clark, Aviation English Research Project, 2017

Language experts have estimated that for each person speaking English as a native language, four people speak it as a second or third language. Even more, most English communications that take place across the globe—whether professional or personal—involve nonnative speakers.[45] Nowhere is English speaking more prevalent, and perhaps more important, than in the airline industry where pilots must communicate in controllers on international flights. In a report authorized by the UK Civil Aviation Authority, native English speakers tend to talk too fast, use metaphors excessively, and lack understanding of the challenges of communicating in a nonnative language.[46] Although the report focused on the airlines industry, comprehension problems for non-native English speakers also occur with British, Australian, and American speakers. For example, business professionals have informed researchers that conference calls in English were progressing well until "a Canadian or New Zealander came on to the line," as emphasized in the quote above.[47] Indeed, imprecise use of the English language can cause misunderstanding even among native English speakers, as noted by George Bernard Shaw's quote "The British and the Americans are two great peoples divided by a common tongue." The following "Under the Lens" elaborates on the perceptions of native and non-native English speakers.



UNDER THE LENS

Native English Speakers Must Learn How They Come Across[48]

The last time I wrote about the widespread use of English, a reader commented that those who didn't speak it as a first language often struggled at work.

"Non-native speakers are at their biggest disadvantage when emotions come into play," the reader wrote. "In a heated debate, those able to use cynicism, sarcasm or other weapons requiring linguistic mastery have an unfair advantage - and I have seen such unfair advantage being used many times. It can determine the course of corporate careers. Like mine."

The comment reminded me of two leaders who had made similar points about native English speakers' advantages.

The first was Steve Biko, the apartheid-era South African student leader, who split from white leftwing students because he believed blacks needed to develop self-reliance.

Biko, who died in police custody in 1977, spoke excellent English, but it was not his mother tongue. He was acutely aware of being at a disadvantage in English-speaking company. He spoke before his death of the frustration of talking to articulate, intelligent, native English speakers.

"You may be intelligent, but not as articulate," he said.

In these conversations, a non-native speaker could start to feel intellectually inadequate. "You tend to feel that that [English-speaking] guy is better equipped than you mentally," he said.

A very different leader, Percy Barnevik, the founding chief executive of ABB, the Swedish-Swiss company that adopted English as its corporate language, also spoke of the danger of "mistaking facility with English for intelligence or knowledge".

But does it follow, as the Financial Times reader asserted, that English speakers use their linguistic mastery to dominate discussions deliberately, inserting sarcasm where necessary?

I asked two non-native English-speaking FT readers who have emailed me in the past what they thought.

"Actually, I would tend to say the opposite," Quentin Toulemonde, a Frenchman working in financial services in London, told me. "In an argument, I can pretend not to understand - to force my interlocutor to rephrase, which can perturb him.

"Furthermore, foreigners have a more limited vocabulary which allows them to use stronger and almost tactless words, and to be excused for that."

Ivan Tejeda, a Spanish reader who has worked in the UK, Italy and France, said he had made strenuous efforts to learn about the local culture as a way of improving his ability to talk to colleagues at work. In the UK, this included watching comedy television programmes such as Fawlty Towers and The Office.

He had to make an effort in non-English speaking environments too. When he worked in Italy, he kept up with the local football news as it often came up in office conversation.

He did not think native English speakers dominated work discussions on purpose. "I think what your reader is describing is more related to the empathy process than the deliberate use of sarcasm by English speakers."

Both these readers' English is excellent, so they are perhaps not representative of most people in international companies who have to work in the language.

I have certainly seen English-speaking holidaymakers try to use the language to bludgeon waiters, bus drivers or hotel receptionists into giving them what they wanted.

I do not think I have ever seen it work. And I have never seen such bullying in a business environment. What I have seen is English speakers not being understood because their language is too quick, too garbled or overly colloquial.

Of all the communication and public speaking skills, talking to non-native English speakers is one of the most under-appreciated.

It does not come naturally to most English speakers, but, like all skills, it can be learnt. Rephrasing points in different ways helps. So do avoiding complex metaphors and watching people's faces to see whether you are being understood.

Because so few native English speakers speak another language these days they have little idea how hard it can be to operate in one.

A failure to understand how you are coming across diminishes your impact, and can lead some to believe you are being cruel and sarcastic.

Source: © Financial Times Limited 2016.

Nonverbal Communication

Clearly, as explained by Roger Axtel in his book *Essential Do's and Taboos*,[49] the nonverbal signal that, in the United States, is interpreted as "okay" is absolutely not "okay" in many countries. Axtel gives the example of when Vice President Richard Nixon flew to Brazil in an attempt to improve relations between the two countries. As reported in the newspapers, when Nixon stepped off the plane in Sao Paulo, he gave the "A-okay" sign—with both hands! The crowd at the airport booed—of course—given the meaning in Brazil (a private part of a woman's body); not surprisingly, photos of this incident were in the paper the next day!

Behavior that communicates without words (although it often is accompanied by words) is called **nonverbal communication**. People will usually believe what they see over what they hear—hence the expression, "A picture is worth a thousand words." Studies show that these subtle messages account for between 65 and 93 percent of interpreted communication.[50] Even minor variations in body language, speech rhythms, and punctuality, for example, often cause mistrust and misperception of the situation among cross-national parties.[51] The media for such nonverbal communication can be categorized into four types: (1) kinesic behavior, (2) proxemics, (3) paralanguage, and (4) object language.

The term **kinesic behavior** refers to communication through body movements—posture, gestures, facial expressions, and eye contact, as illustrated in the accompanying "Under the Lens: Communicating Italian Style" feature. Although such actions may be universal, often their meaning is not. Because kinesic systems of meaning are culturally specific and learned, they cannot be generalized across cultures. Most people in the West would not correctly interpret many Chinese facial expressions; for example, sticking out the tongue expresses surprise, a widening of the eyes shows anger, and scratching the ears and cheeks indicates happiness.[53] Research has shown for some time, however, that most people worldwide can recognize displays of the basic emotions of anger, disgust, fear, happiness, sadness, surprise, and contempt.[54]

As illustrated previously, visitors to other countries must be careful about their gestures and how they might be interpreted. For example, people in Japan may point with their middle finger, which is considered an obscene gesture to others. To Arabs, showing the soles of one's feet is an insult; recall the reporter who threw his shoe at President Bush in late 2008 during his visit to Iraq. This was, to Arabs, the ultimate insult.

Many businesspeople and visitors react negatively to what they feel are inappropriate facial expressions, without understanding the cultural meaning behind them. In his studies

UNDER THE LENS

Communicating Italian Style[52]

When traveling around Europe, you will probably notice that Italians use the most body language when communicating; they seem to be walking down the street mumbling while their hands are going all over wildly, typically while on their *telefonini.* In fact, it is difficult for the person listening on the phone to interpret sometimes because the speaker's hand gestures and other nonverbal signals are invisible. Their hands convey much meaning, and Italians commonly make about 250 gestures when talking and doing other things simultaneously such as conversing on the cell phone. Examples are that of wagging the hands downward, meaning "come here"; slowly drawing a circle with the hand, meaning "whatever"; pressing a finger into the cheek, meaning that something tastes good; and brushing the back of the hand outward across the chin meaning "I don't give a damn." Gestures can convey that the person feels pride, or shame, or desperation, or fear, giving more meaning than the words alone. Of course, gestures are culture-specific (varying also according to the area within Italy, those in the south tending to be louder and more effusive than those in the north) so you should be careful to be aware that their meanings may differ significantly around the world and may cause offense. Women should realize that flirtatious behavior from Italian men is common and part of their culture. This behavior, along with the close-talking nature of Italians, including sitting close and perhaps lightly touching the arm of the other person, can make it uncomfortable for women who are used to more personal space in communicating.

Italians tend to be gregarious and loud but interrupt one another anyway. They are uncomfortable with silence but do not seem to lack interesting subjects to discuss, such as their architecture and art, Italian history and football, and especially their families.

Italians' dress is conservative and chic and formal for business meetings. One is expected to use formal titles and last names until requested to do otherwise; and women use their maiden names in business. Present your business cards face up, and be sure to read theirs before putting them away.

One is expected to shake hands with everyone present when arriving and when leaving, and it is customary to kiss friends on both cheeks, left first. Eye contact is essential when talking to an Italian; otherwise, you would be viewed as unfriendly and perhaps untrustworthy. Italians do not observe personal space when conversing, so one should expect close contact and much hand movement even with business contacts. People from reserved cultures such as the British will likely be perceived as disinterested by Italians since they tend to be very emotionally engaged with the conversation.

of cross-cultural negotiations, Graham observed that the Japanese feel uncomfortable when faced with the Americans' eye-to-eye posture. They are taught since childhood to bow their heads out of humility, whereas the automatic response of Americans is, "look at me when I'm talking to you!"[55]

Subtle differences in eye behavior (called *oculesics*) can throw off a communication badly if they are not understood. Eye behavior includes differences not only in eye contact but also in the use of eyes to convey other messages, whether or not that involves mutual gaze. For example, during speech, Americans will look straight at you, but the British keep your attention by looking away. The British will look at you when they have finished speaking, which signals that it is your turn to talk. The implicit rationale for this is that you can't interrupt people when they are not looking at you.[56]

It is helpful for U.S. managers to be aware of the many cultural expectations regarding posture and how they may be interpreted. In Europe or Asia, a relaxed posture in business meetings may be taken as bad manners or the result of poor upbringing. In Korea, you are expected to sit upright, with feet squarely on the floor, and to speak slowly, showing a blending of body and spirit.

Proxemics deals with the influence of proximity and space on communication—both personal space and office space or layout. Americans expect office layouts to provide private space for each person and, usually, a larger and more private space as one goes up the hierarchy. In much of Asia, the custom is open office space with people at all levels working and talking in close proximity to one another. Space communicates power in both Germany and the United States, evidenced by the desire for a corner office or one on the top floor. The importance of

French officials, however, is made clear by a position in the middle of subordinates, communicating that they have a central position in an information network, where they can stay informed and in control.[57]

Do you ever feel vaguely uncomfortable and start moving backward slowly when someone is speaking to you? This is because that person is invading your bubble—your personal space. Personal space is culturally patterned, and foreign spatial cues are a common source of misinterpretation. When someone seems aloof or pushy, it often means that she or he is operating under subtly different spatial rules.

Hall and Hall suggest that cultural differences affect the programming of the senses and that space, perceived by all the senses, is regarded as a form of territory to be protected.[58] South Americans, southern and eastern Europeans, Indonesians, and Arabs have **high-contact cultures**, preferring to stand close, touch a great deal, and experience a close sensory involvement. Latin Americans, for example, have a highly physical greeting such as putting their arms around a colleague's back and grabbing him by the arm. On the other hand, North Americans, Asians, and northern Europeans have **low-contact cultures** and prefer much less sensory involvement, standing farther apart and touching far less. They have a distant style of body language. In France, a relationship-oriented culture, good friends greet members of the opposite sex with a peck on each cheek; a handshake is a way to make a personal connection.

Interestingly, high-contact cultures are mostly located in warmer climates, and low-contact cultures in cooler climates. Americans are relatively nontouching, automatically standing at a distance so that an outstretched arm will touch the other person's ear. Standing any closer than that is regarded as invading intimate space. However, Americans and Canadians certainly expect a warm handshake and maybe a pat on the back from closer friends, though not the very warm double handshake of the Spaniards (clasping the forearm with the left hand). The Japanese, considerably less **haptic** (touching), do not shake hands; an initial greeting between a Japanese businessperson and a Spanish businessperson would be uncomfortable for both parties if they were untrained in cultural haptics. The Japanese bow to one another—the depth of the bow revealing their relative social standing.

> *Imagine the smartphone app that would ask your identity, the identity of the other greeter, where you both are and how many times you have greeted each other. It would then propose a compromise—a namaste followed by a handshake, perhaps, or a bow punctuated by a slap on the back.*[59]

When considering high- and low-contact cultures, we can trace a correlation between Hofstede's cultural variables of individualism and collectivism and the types of kinesic and proxemic behaviors people display. Generally, people from individualistic cultures are more remote and distant, whereas those from collectivist cultures are interdependent; they tend to work, play, live, and sleep in close proximity.[60]

The term **paralanguage** refers to how something is said rather than the content—that is, the rate of speech, the tone and inflection of voice, other noises, laughing, or yawning. The culturally aware manager learns how to interpret subtle differences in paralanguage, including silence. Silence is a powerful communicator. It may be a way of saying "no," of being offended, or of waiting for more information to make a decision. There is considerable variation in the use of silence in meetings. Whereas Americans become uncomfortable after 10 or 15 seconds of silence, Chinese prefer to think the situation over for 30 seconds before speaking. The typical scenario between Americans and Chinese, then, is that the American gets impatient, says something to break the silence, and offends the Chinese by interrupting his or her chain of thought and comfort level with the subject.[61]

The term **object language**, or **material culture**, refers to how we communicate through material artifacts, whether architecture, office design and furniture, clothing, cars, or cosmetics. Material culture communicates what people hold as important. In the United States, for example, someone wishing to convey his important status and wealth would show guests his penthouse office or expensive car. In Japan and China, a businessman presents his business card to a new contact and expects the receiver to study it and appreciate his position. The cards are called name cards in China and are an essential aspect of doing business—a way to build networks. The

exchange of cards occurs as soon as you meet, and visitors should be careful to get an appropriate translation for their cards.[62] In Mexico, a visiting international executive or salesperson is advised to take time out, before negotiating business, to show appreciation for the surrounding architecture, which Mexicans prize. The importance of family to people in Spain and much of Latin America would be conveyed by family photographs around the office and, therefore, an expectation that the visitor would enquire about the family.

TIME

Another variable that communicates culture is the way people regard and use time (see also Chapter 3). To Brazilians, relative punctuality communicates the level of importance of those involved. To Middle Easterners, time is something controlled by the will of Allah.

To initiate effective cross-cultural business interactions, managers should know the difference between *monochronic time systems* and *polychronic time systems* and how they affect communications. Hall and Hall explain that in **monochronic cultures** (Switzerland, Germany, and the United States), time is experienced in a linear way, with a past, a present, and a future, and time is treated as something to be spent, saved, made up, or wasted. Classified and compartmentalized, time serves to order life. This attitude is a learned part of Western culture, probably starting with the Industrial Revolution. Monochronic people, found in individualistic cultures, generally concentrate on one thing at a time, adhere to time commitments, and are accustomed to short-term relationships.

In contrast, **polychronic cultures** tolerate many things occurring simultaneously and emphasize involvement with people. Two Latin friends, for example, will put an important conversation ahead of being on time for a business meeting, thus communicating the priority of relationships over material systems. Polychronic people—Latin Americans, Arabs, and those from other collectivist cultures—may focus on several things at once, be highly distractible, and change plans often.[63]

The relationship between time and space also affects communication. Polychronic people, for example, are likely to hold open meetings, moving around and conducting transactions with one party and then another, rather than compartmentalizing meeting topics, as do monochronic people.

The nuances and distinctions regarding cultural differences in nonverbal communication are endless. The various forms are listed in Exhibit 4-3; wise intercultural managers will take careful account of the role that such differences might play.

What aspects of nonverbal communication might have created noise in the interactions between the manager and the Indian employee in Exhibit 4-2? Undoubtedly, some cues could have been picked up from the kinesic behavior of each person. It was the responsibility of the manager, in particular, to notice any indications from the employee that could have prompted him to change his communication pattern or assumptions. Face-to-face communication permits the sender of the message to get immediate feedback, both verbal and nonverbal, and thus to have some idea as to how that message is being received and whether additional information is needed. What aspects of the Indian employee's kinesic behavior or paralanguage might have been evident to a more culturally sensitive manager? Did both parties' sense of time affect the communication process?

EXHIBIT 4-3 Forms of Nonverbal Communication

- Facial expressions
- Body posture
- Gestures with hands, arms, head, etc.
- Interpersonal distance (proxemics)
- Touching, body contact
- Eye contact
- Clothing, cosmetics, hairstyles, jewelry
- Paralanguage (voice pitch and inflections, rate of speech, and silence)
- Color symbolism
- Attitude toward time and the use of time in business and social interactions
- Food symbolism and social use of meals

Context

East Asians live in relatively complex social networks with prescribed role relations; attention to context is, therefore, important for their effective functioning. In contrast, westerners live in less constraining social worlds that stress independence and allow them to pay less attention to context.[64]

RICHARD E. NISBETT

A major differentiating factor that is a primary cause of noise in the communication process is that of context—which actually incorporates many of the variables discussed earlier. The **context** in which the communication takes place affects the meaning and interpretation of the interaction. Cultures are known to be high- or low-context cultures, with a relative range in between.[65] In **high-context cultures** (Asia, the Middle East, Africa, and the Mediterranean), feelings and thoughts are not explicitly expressed; instead, one has to read between the lines and interpret meaning from one's general understanding. Two such high-context cultures are the South Korea and Arab cultures. In such cultures, key information is embedded in the context rather than made explicit. People make assumptions about what the message means through their knowledge of the person or the surroundings. In these cultures, most communication takes place within a context of extensive information networks resulting from close personal relationships. See the following "Management in Action" feature for further explanation of the Asian communication style.

In **low-context cultures** (Germany, Switzerland, Scandinavia, and North America), where personal and business relationships are more compartmentalized, communication media have to be more explicit. Feelings and thoughts are expressed in words, and information is more readily available. Westerners focus more on the individual and therefore tend to view events as the result of specific agents, whereas Easterners view events in a broader and longer-term context.[66]

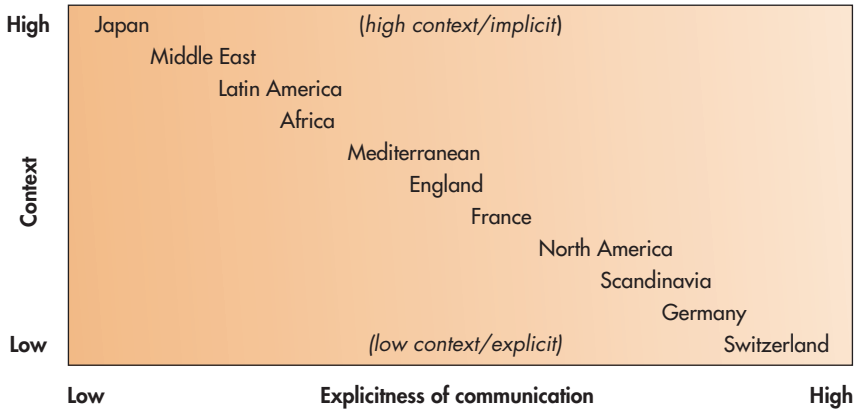
In cross-cultural communication between high- and low-context people, a lack of understanding may preclude reaching a solution, and conflict can arise. Germans, for example, will expect considerable detailed information before making a business decision, whereas Arabs will base their decisions more on knowledge of the people involved—the information is present, but it is implicit. People in low-context cultures, such as those in Germany, Switzerland, Austria, and the United States, convey their thoughts and plans in a direct, straightforward communication style, saying something like, "We have to make a decision on this today." People in high-context cultures, such as in Asia and, to a lesser extent in England, convey their thoughts in a more indirect, implicit manner; this means that someone from Germany needs to have more patience and tact and be willing to listen and watch for clues—verbal and nonverbal—about his or her colleagues' wishes.

People in high-context cultures expect others to understand unarticulated moods, subtle gestures, and environmental clues that people from low-context cultures simply do not process. Misinterpretation and misunderstanding often result.[67] People from high-context cultures perceive those from low-context cultures as too talkative, obvious, and redundant. Those from low-context cultures perceive high-context people as secretive, sneaky, and mysterious. Research indicates, for example, that Americans find talkative people more attractive, whereas the Koreans—a high-context people—perceive less-verbal people as more attractive. Finding the right balance between low- and high-context communications can be tricky, as Hall and Hall point out: "Too much information leads people to feel they are being talked down to; too little information can mystify them or make them feel left out."[68] Exhibit 4-4 shows the relative level of context in various countries.

The following "Management in Action" discusses miscommunications that can arise when speaking or hearing a nonnative language. As it explains, the nuances of speakers' and listeners' cultural tendencies (e.g., high versus low context) can be extremely important to (mis)understanding cross-border communications.

The importance of understanding the role of context and nonverbal language to avoid misinterpretation is illustrated in the accompanying feature, "Comparative Management in Focus: Communicating with Arabs."

EXHIBIT 4-4 Cultural Context and Its Effects on Communication



Source: Based on information drawn from E. T. Hall and M. R. Hall, *Understanding Cultural Differences* (Yarmouth, ME: Intercultural Press, 1990); and Martin Rosch, "Communications: Focal Point of Culture," *Management International Review* 27, No. 4 (1987).

MANAGEMENT IN ACTION

A Guide to (Mis)communication[69]

In the UK, it is important to finish meetings by summing up key points; but in France they can end with an ambiguous "Et voila!"

In recent months, a wry little document called the "Anglo-Dutch translation guide" has been tossed between the email boxes of bankers, diplomats, business people and journalists. This lists phrases that are commonly - and completely - misunderstood when English and Dutch people talk to each other.

Take the expression "with all due respect." If you are British, you interpret this as a polite way to say, "I think you are wrong." But if you are Dutch, used to blunt speech, you think it means, "You are listening to me!" Similarly, "That is an original point of view": to English ears this subtly suggests "That's a stupid idea!"; a Dutch listener thinks, "They like my ideas!" Or again, "I am sure it's my fault" to British ears means "It's not my fault"; to the Dutch, it's quite the opposite.

So far, so amusing, and none of these examples will surprise any British or Dutch people who have ever shared an office. But what is fascinating is not simply that these linguistic gaps remain widespread today - but also how widely they tend to be ignored, in the office or anywhere else. For as the world becomes more global - "a starburst of interconnections… a hum of interconnected voices," as Christine Lagarde, head of the IMF, recently put it - it is easy to fall prey to the illusion that you can communicate with almost anyone in the seemingly neutral sphere of the internet, particularly since so many companies use English as a lingua franca. But ironically, the more that institutions become globalised, using that lingua franca, the more these subtle distinctions in speech patterns matter.

To get a sense of this, it is worth taking a look at an amusing new book called *The Culture Map* by Erin Meyer, a professor at Insead business school. It draws on theories that Edward Hall, an American anthropologist, developed in the mid-20th century to interpret the dizzy network of modern cross-cultural (mis) communications.

The starting point is Hall's observation - made after living among Navajo and Hopi native Americans for many years - that human speech varies depending on whether there is a "high" or "low" level of assumed shared cultural context. In the former, people speak with a narrower vocabulary and more ambiguous style, since they do not need lots of words to clarify their meaning; in the latter, vocabularies are far wider and the intentions of speakers are clearly spelt out.

Social groups can vary on this spectrum within a single culture (long-married couples have a high shared context). But different cultures vary radically too. Meyer thinks, for example, that the US, Australia, Canada and Israel have extreme "low-context" speech patterns, followed by the Netherlands and Germany.

In those countries people are expected to speak clearly or they will appear dishonest, incompetent or simply ineffective.

But countries such as Japan, Korea, India, Singapore and France are "high context". There is assumed to be a high level of shared knowledge and thus less verbal clarity: everyone just "reads the air", as the Japanese say. Spain, Brazil and Argentina lie halfway between. The UK is deemed to be lower context than France but higher context than Holland. Hence that wry internet guide.

Interestingly, these distinctions persist even when everyone is speaking English. And Meyer argues that they affect numerous aspects of institutional life: how managers give feedback to their staff, exercise authority, express dissent or build trust. Thus in some countries it is normal to use "upgrader" (reassuring) comments when delivering criticism; in others, not. In places such as the US and UK, it is important to finish meetings by clearly summing up the key points; but in France meetings can just end with an ambiguous "Et voila!". "I couldn't help wonder, 'but voila what?" Meyer quotes a British investor saying after one such occasion in Paris. "My French colleagues simply know what has been decided without going through all the levels of clarification that we are used to in the UK."

And the miscommunications worsen in mixed teams, with, writes Meyer, "Americans who recap incessantly and nail everything down in writing, Japanese who read the air, the French who speak at the second degree [with secondary meanings], the British who love to use deadpan irony as a form of humour and the Chinese who learn as young children to beat around the bush".

Is there any solution? Meyer suggests managers at multinational companies should use matrix planners that plot the position of different cultures on the "context" spectrum, to help them interpret each other. She also argues that everyone needs to keep international communication ultra "low context" - ie to spell everything out, as clearly as you can.

Source: © Financial Times Limited 2014.



Comparative Management in Focus

Communicating with Arabs

In the Middle East, the meaning of a communication is implicit and interwoven and, consequently, much harder for Americans, accustomed to explicit and specific meanings, to understand.

Arabs are warm, emotional, and quick to explode: sounding off is regarded as a safety valve. In fact, the Arabic language aptly communicates the Arabic culture, one of emotional extremes. The language contains the means for overexpression, many adjectives, words that allow for exaggeration, and metaphors to emphasize a position. What is said is often not as important as *how* it is said. Eloquence and flowery speech are admired for their own sake, regardless of the content. Loud speech is used for dramatic effect.

At the core of Middle Eastern culture are friendship, honor, religion, and traditional hospitality. Family, friends, and connections are very important on all levels in the Middle East and will take precedence over business transactions. Arabs do business with people, not companies, and they make commitments to people, not contracts. A phone call to the right person can help to get around seemingly insurmountable obstacles. An Arab expects loyalty from friends, and it is understood that giving and receiving favors is an inherent part of the relationship; no one says no to a request for a favor. A lack of follow-through is assumed to be beyond the friend's control.[70]

Because hospitality is a way of life and highly symbolic, a visitor must be careful not to reject it by declining refreshment or rushing into business discussions. Part of that hospitality is the elaborate system of greetings and the long period of getting acquainted, perhaps taking up the entire first meeting. Although the handshake may seem limp, the rest of the greeting is not. Kissing on the cheeks is common among men, as is handholding between male friends. However, the Arab social code strictly forbids any public display of intimacy between men and women.

While women have started to play an increasing role in business, the Middle East is still primarily a male-dominated society, and it is impolite to inquire about women. Other nonverbal taboos include showing the soles of one's feet and using the left (unclean) hand to eat or pass something. In discussions, slouching in a seat or leaning against a wall communicates a lack of respect.

The Arab society also values honor. Harris and Moran explain, "Honor, social prestige, and a secure place in society are brought about when conformity is achieved. When one fails to conform, this is considered to be damning and leads to a degree of shame."[71] Shame results not just from doing something wrong but from others finding out about that wrongdoing. Establishing a climate of honesty and trust is part of the sense of honor. Therefore, considerable tact is needed to avoid conveying any concern or doubt. Arabs tend to be quite introverted until a mutual trust is built, which takes a long time.[72]

(*Continued*)

MAP 4-1 Saudi Arabia and the Arabian Peninsula



FIGURE 4-5 Westerner Meeting with Arab Businessman



Source: Hi Brow Arabia/Alamy

In their nonverbal communication, most Arab countries are high-contact cultures. Arabs stand and sit closer and touch people of the same sex more than Westerners. They do not have the same concept of public and private space or, as Hall puts it, "Not only is the sheer noise level much higher, but the piercing look of the eyes, the touch of the hands, and the mutual bathing in the warm moist breath during conversation represent stepped-up sensory inputs to a level which many Europeans find unbearably intense. On the other hand, the distance preferred by North Americans may leave an Arab suspicious of intentions because of the lack of olfactory contact."[73]

The Muslim expression *Bukra insha Allah*—"Tomorrow if Allah wills"—explains much about the Arab culture and its approach to business transactions. A cultural clash typically occurs when an American tries to give an Arab a deadline. "'I am going to Damascus tomorrow morning and will have to have my car tonight,' is a sure way to get the mechanic to stop work," explains Hall, "because to give another person a deadline in this part of the world is to be rude, pushy, and demanding."[74] In such instances, the attitude toward time communicates as loudly as words.

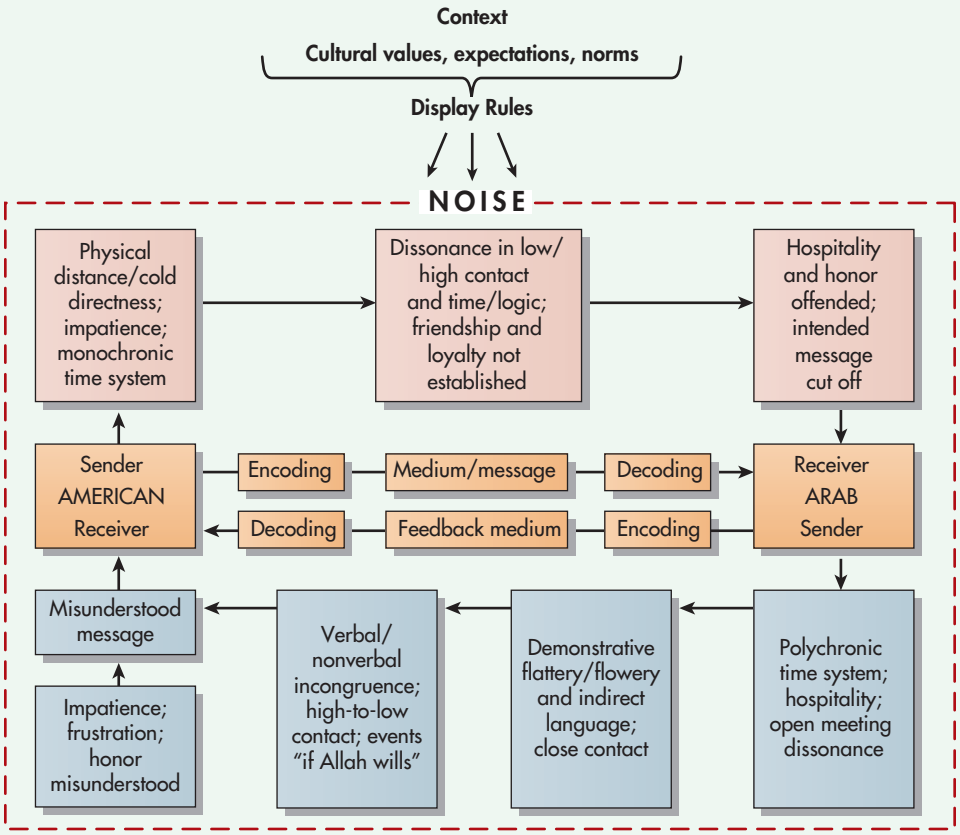
In verbal interactions, managers must be aware of different patterns of Arab thought and communication. Compared to the direct, linear fashion of American communication, Arabs tend to meander. They start with social talk, discuss business for a while, loop around to social and general issues, then back to business, and so on.[75] American impatience and insistence on sticking to the subject will cut off their loops, triggering confusion and dysfunction. Instead, Westerners should accept that considerable time will be spent on small talk and socializing, with frequent interruptions, before getting down to business.

Exhibit 4-5 illustrates some of the sources of noise that are likely to interfere in the communication process between Americans and Arabs, thereby causing miscommunications and misunderstandings.

For people doing business in the Middle East, the following are some useful guidelines for effective communication.

- Be patient. Recognize the Arab attitude toward time and hospitality—take time to develop friendship and trust because these are prerequisites for any social or business transactions.
- Recognize that people and relationships matter more to Arabs than the job, company, or contract—conduct business personally, not by correspondence or telephone.
- Avoid expressing doubts or criticism when others are present—recognize the importance of honor and dignity to Arabs.
- Adapt to the norms of body language, flowery speech, and circuitous verbal patterns in the Middle East and don't be impatient to get to the point.
- Expect many interruptions in meetings, delays in schedules, and changes in plans.[76]

EXHIBIT 4-5 Miscommunication between Americans and Arabs Caused by Cross-Cultural Noise



Communication Channels

In addition to the variables related to the sender and receiver of a message, the variables linked to the channel itself and the context of the message must be taken into consideration. These variables include fast or slow messages and information flows as well as different types of media.

INFORMATION SYSTEMS

Communication in organizations varies according to where and how it originates, the channels and the speed at which it flows, whether it is formal or informal, and so forth. The type of organizational structure, the staffing policies, and the leadership style will affect the nature of an organization's information system.

As an international manager, it is useful to know where and how information originates and the speed at which it flows, both internally and externally. In centralized organizational structures, as in South America, most information originates from top managers. Workers take less responsibility for keeping managers informed in a South American company than in a typical company in the United States, where delegation results in information flowing from the staff to the managers. In a decision-making system in which many people are involved, such as the **ringi system** of consensus decision making in Japan, the expatriate needs to understand that there is a systematic pattern for information flow.

Context also affects information flow. In high-context cultures (such as in the Middle East), information spreads rapidly and freely because of the constant close contact and the implicit ties among people and organizations. Information flow is often informal. In low-context cultures (such as Germany or the United States), information is controlled and focused and thus does not flow so freely.[77] Compartmentalized roles and office layouts stifle information channels; information sources tend to be more formal.

It is crucial for an expatriate manager to find out how to tap into a firm's informal sources of information. In Japan, employees usually have a drink together on the way home from work, and this becomes an essential source of information. However, such communication networks are based on long-term relationships in Japan (and in other high-context cultures). The same information may not be readily available to outsiders. A considerable barrier in Japan separates strangers from familiar friends, a situation that discourages communication.

Americans are more open and talk freely about almost anything, whereas Japanese will disclose little about their inner thoughts or private issues. Americans are willing to have a wide public self, disclosing their inner reactions verbally and physically. In contrast, the Japanese prefer to keep their responses largely to their private self. The Japanese expose only a small portion of their thoughts; they reduce, according to Barnlund, "the unpredictability and emotional intensity of personal encounters."[78] In intercultural communication between Americans and Japanese, cultural clashes between the public and private selves result when each party forces its cultural norms of communication on the other. In the American style, the American's cultural norms of explicit communication impose on the Japanese by invading the person's private self. The Japanese style of implicit communication causes a negative reaction from the American because of what is perceived as too much formality and ambiguity, which wastes time.[79]

Cultural variables in information systems and context underlie the many differences in communication style between Japanese and Americans. Exhibit 4-6 shows some specific differences. The Japanese *ningensei* (human beingness) style of communication refers to the preference for humanity, reciprocity, a receiver orientation, and an underlying distrust of words and analytic logic.[80] The Japanese believe that true intentions are not readily revealed in words or contracts but are, in fact, masked by them. In contrast to the typical American's verbal agility and explicitness, Japanese behaviors and communications are directed to defend and give face for everyone concerned; to do so, they avoid public disagreements at all costs. In cross-cultural negotiations, this last point is essential.

The speed with which we try to use information systems is another key variable that needs attention to avoid misinterpretation and conflict. Americans expect to give and receive information very quickly and clearly, moving through details and stages in a linear fashion to the conclusion. They usually use various media for fast messages—IMs, emails, Skype, faxes, social media, and familiar relationships—to give all the facts up front. In contrast, the French use the slower message channels of deep relationships, culture, and sometimes mediators to exchange information. A French written communication will be tentative, with subsequent letters slowly

EXHIBIT 4-6 Sources of Potential Miscommunication among Japanese and North Americans

	Japanese	North-American
Purpose/Style	Focus toward relationships; implicit, soft, gentle, humility and understatement.	Focus on task; analytic, explicit, direct, assertive, self-confident.
Non-verbal	High context; tacit understanding, based on trust, nuances, face-saving, silence, sensitivity to others.	Low context; outspoken; bold; goal-oriented; confrontational; pointed messages, impersonal.
Negotiations and Decision-making	Communicate with group for consensus and trust. Delay decisions; prefer private venue for decisions; Long-term orientation/cautious, protective of group/ company. Tentative discussions/inferred meanings; avoids disagreements.	Individualistic. Prefer decisions at the table; risk-taking; straight-forward; short-term orientation for career and profit motive. May exert pressure; specific linear presentations; impersonal.

Sources: E. T. Hall and M. R. Hall, *Understanding Cultural Differences* (Yarmouth, ME: Intercultural Press, 1990; W. Gudykunst, L. Stewart, and S. Ting-Toomey, *Communication, Culture, and Organizational Processes* (Sage Publications, 1985); G. Hofstede, *Culture's consequences: International differences in work-related values* (Sage, Beverly Hills, CA (1980); Ikushi Yamaguchi, "Influences of organizational communication tactics on trust with procedural justice effects: A cross-cultural study between Japanese and American workers, *International Journal of Intercultural Relations Vol. 33, 1, January 2009, pages 21–31;* R. G. Linowes, "The Japanese Manager's Traumatic Entry into the United States: Understanding the American-Japanese Cultural Divide," *Academy of Management Executive 7, 4 (1993), p.24;* A. Goldman, "The Centrality of 'Ningensei' to Japanese Negotiating and Interpersonal Relationships: Implications for U.S.-Japanese Communication," *International Journal of Intercultural Relations 18, 1. (1994).*

building up to a new proposal. The French preference for written communication, even for informal interactions, echoes the formality of their relationships—and results in slowing a message transmission down that often seems unnecessary to Americans.[81]

In short, it behooves Americans to realize that, because much of the world exchanges business information through slower message media, it is wise to schedule more time for transactions, develop patience, and learn to get at needed information in more subtle ways—after building rapport and taking time to observe the local system for exchanging information.

We have seen that cross-cultural misinterpretation can result from noise in the actual transmission of the message—the choice or speed of media. Interpreting the meaning of a message can thus be as much a function of examining the transmission channel (or medium) as it is of examining the message itself.

INFORMATION TECHNOLOGY: GOING GLOBAL AND ACTING LOCAL

4-3. To be aware of the impact of IT on cross-border communications

All information is local; IT systems can connect every corner of the globe, but IT managers are learning they have to pay attention to regional differences.[82]

COMPUTERWORLD

Using the Internet as a global medium for communication has enabled companies of all sizes to develop a presence quickly in many markets around the world—and, in fact, has enabled them to go global. However, their global reach cannot alone translate into global business. Those companies are learning that they have to adapt their e-commerce and their enterprise resource planning (ERP) applications to regional idiosyncrasies beyond translation or content management issues; for example, even asking for a name or an email address can incur resistance in many countries where people do not like to give out personal information.[83] Although communication over the Internet is clearly not as personal as face-to-face, cross-cultural communication, those transactions must still be regionalized and personalized to adjust to differences in language, culture, local laws, and business models as well as differences in the level of development in the local telecommunications infrastructure. Yet, if the Internet is a global medium for communication,

why do so many U.S. companies treat the web as a U.S.-centric phenomenon? Giving preference to some geographic regions, languages, and cultures is "a short-sighted business decision that will result in diminished brand equity, market share, profits and global leadership."[84]

When Baidu.com—China's leading search engine—made a business decision in July 2011 to partner with Microsoft to offer web search services in English, it had clearly realized that it needed to go beyond Chinese. Back in 2011, former Baidu executive, Kaiser Kuo stated, "More and more people here are searching for English terms." In October 2018, Baidu announced a new artificial intelligence (AI) tool that can translate English into Chinese and German with virtually no delay, which was a strategic response to Google. Voice technology is considered a major growth segment for technology multinationals such as Apple, Amazon, and Google.[85]

For its part, Microsoft's expansion of Bing in China—albeit a temporary block in January 2019—gave it access to the world's largest Internet population of more than 772 million users.[86] Both companies realized that the English-language search results would be censored (as happened to Google, which pulled out of the mainland and went to Hong Kong), and it is reported that Microsoft is cooperating with China's government on censorship rules regarding the content that can be accessed.[87] Beijing requires Internet companies operating on the mainland to censor results the government considers threatening, including references to human rights issues and dissidents.[88] Clearly, both going global and acting local can be fraught with difficulties.

It seems essential, then, for a global online strategy also to be multilocal. The impersonal nature of the web must somehow be adapted to local cultures to establish relationships and create customer loyalty. Effective technological communication requires even more cultural sensitivity than face-to-face communication because of the inability to assess reactions and get feedback or, in many cases, even retain contact. It is still people, after all, who respond to and interact with other people through the medium of the Internet, and those people interpret and respond according to their own languages and cultures as well as their local business practices and expectations. In Europe, for example, significant differences in business cultures and e-business technology have slowed e-business progress there. However, some companies are making progress in pan-European integration services, such as leEurope, which aims to cross language, currency, and cultural barriers. Specifically, leEurope is building a set of services "to help companies tie their back-end e-business systems together across European boundaries through a series of mergers involving regional e-business integrators in more than a dozen countries."[89]

4-4. To learn how to manage cross-cultural business communications successfully

MANAGING CROSS-CULTURAL COMMUNICATION

Steps toward effective intercultural communication include the development of cultural sensitivity, careful encoding, selective transmission, careful decoding, and appropriate follow-up actions.

Developing Cultural Sensitivity

When acting as a sender, a manager must make it a point to know the receiver and encode the message in a form that will most likely be understood as intended. On the manager's part, this requires an awareness of his or her own cultural baggage and how it affects the communication process. In other words, what kinds of behaviors does the message imply, and how will they be perceived by the receiver? The way to anticipate the most likely meaning that the receiver will attach to the message is to internalize honest cultural empathy with that person. What is the cultural background—the societal, economic, and organizational context—in which this communication is taking place? What are this person's expectations regarding the situation, what are the two parties' relative positions, and what might develop from this communication? What kinds of transactions and behaviors is this person used to? Cultural sensitivity (discussed in Chapter 3) is really just a matter of understanding the other person, the context, and how the person will respond to the context. Americans, unfortunately, have a rather negative reputation overseas of not being culturally sensitive. One not-for-profit group, called Business for Diplomatic Action, has the following advice for Americans when doing business abroad, in its attempts to counteract the stereotypical American traits such as boastfulness, loudness, and speed.

- **Read a map.** Familiarize yourself with the local geography to avoid making insulting mistakes.
- **Dress up.** In some countries, casual dress is a sign of disrespect.

- **Talk small.** Talking about wealth, power, or status—corporate or personal—can create resentment.
- **No slang.** Even casual profanity is unacceptable.
- **Slow down.** Americans talk fast, eat fast, move fast, live fast. Many cultures do not.
- **Listen as much as you talk.** Ask people you're visiting about themselves and their way of life.
- **Speak lower and slower.** A loud voice is often perceived as bragging.
- **Religious restraint.** In many countries, religion is not a subject for public discussion.
- **Political restraint.** Steer clear of this subject. If someone is attacking U.S. politicians or policies, agree to disagree.[90]

Careful Encoding

In translating his or her intended meaning into symbols for cross-cultural communication, the sender must use words, pictures, or gestures that are appropriate to the receiver's frame of reference. Of course, language training is invaluable, but senders should also avoid idioms and regional sayings (such as "Go fly a kite" or "Foot the bill") in a translation, or even in English when speaking to a non-American who knows little English.

Literal translation, then, is a limited answer to language differences. Even for people in English-speaking countries, words can have different meanings. Ways to avoid problems are to speak slowly and clearly, avoid long sentences and colloquial expressions, and explain things in several ways and through several media if possible. However, even though English is in common use around the world for business transactions, the manager's efforts to speak the local language will greatly improve the climate. Sometimes people from other cultures resent the assumption by English-speaking executives that everyone else will speak English.

Language translation is only part of the encoding process; the message also is expressed in nonverbal language. In the encoding process, the sender must ensure congruence between the nonverbal and the verbal message. In encoding a message, therefore, it is useful to be as objective as possible and not to rely on personal interpretations. To clarify their messages further, managers can hand out written summaries of verbal presentations and use visual aids such as graphs or pictures. A good general guide is to move slowly, wait, and take cues from the receivers.

Selective Transmission

The type of medium chosen for the message depends on the nature of the message, its level of importance, the context and expectations of the receiver, the timing involved, and the need for personal interaction, among other factors. Typical media include instant messaging (IM), email, letters or memos, reports, meetings, telephone calls, teleconferences, videoconferences, or face-to-face conversations. The secret is to find out how communication is transmitted in the local organization—how much is downward versus upward or vertical versus horizontal, how the grapevine works, and so on. In addition, the cultural variables discussed earlier need to be considered: whether the receiver is from a high- or low-context culture, whether he or she is used to explicit or implicit communication, and what speed and routing of messages will be most effective.

For the most part, it is best to use face-to-face interaction for relationship building or for other important transactions, particularly in intercultural communications, because of the lack of familiarity between parties. Personal interactions give the manager the opportunity to get immediate verbal and visual feedback and make rapid adjustments in the communication process.

International dealings are often long-distance, of course, limiting the opportunity for face-to-face communication. However, personal rapport can be established or enhanced through telephone calls or videoconferencing and through trusted contacts. Modern electronic media and social networks can be used to break down communication barriers by reducing waiting periods for information, clarifying issues, and allowing instant consultation, such as through Skype, for one-on-one or group video-chat. Ford Europe uses videoconferencing for engineers in Britain and Germany to consult about quality problems. Through the video monitors, they examine one another's engineering diagrams and usually find a solution that gets the factory moving again in a short time.

Careful Decoding of Feedback

Timely and effective feedback channels can also be set up to assess a firm's general communication about the progression of its business and its general management principles. The best means for getting accurate feedback is through face-to-face interaction because this allows the manager to hear, see, and immediately sense how a message is being interpreted. When visual feedback on important issues is not possible or appropriate, it is a good idea to use several means of attaining feedback, in particular by employing third parties.

Decoding is the process of translating the received symbols into the interpreted message. The main causes of incongruence are because (1) the receiver misinterprets the message, (2) the receiver encodes his or her return message incorrectly, or (3) the sender misinterprets the feedback. Two-way communication is thus essential for important issues so that successive efforts can be made until an understanding has been achieved. Asking other colleagues to help interpret what is going on is often a good way to break a cycle of miscommunication.

Perhaps the most important means for avoiding miscommunication is to practice careful decoding by improving one's listening and observation skills. A good listener practices projective listening, or empathic listening—listening, without interruption or evaluation, to the full message of the speaker; attempting to recognize the feelings behind the words and nonverbal cues; and understanding the speaker's perspective.

At the multinational corporation (MNC) level, avenues of communication and feedback among parent companies and subsidiaries can be kept open through telephone calls, regular meetings and visits, reports, and plans, all of which facilitate cooperation, performance control, and the smooth running of the company. Communication among far-flung operations can be managed best by setting up feedback systems and liaison people. The headquarters people should maintain considerable flexibility in cooperating with local managers and allowing them to deal with the local context as they see fit.

Follow-Up Actions

Managers communicate through both action and inaction. Therefore, to keep open the lines of communication, feedback, and trust, managers must follow through with action on what has been discussed and then agreed upon—typically a contract, which is probably the most important formal business communication. Unfortunately, the issue of contract follow-through is a particularly sensitive one across cultures because of the different interpretations regarding what constitutes a contract (perhaps a handshake, perhaps a full legal document) and what actions should result. Trust, future communications, and future business are based on such interpretations, and it is up to managers to understand them and follow through on them.

The management of cross-cultural communication depends largely on a manager's personal abilities and behavior. Behaviors that researchers indicate to be most important to intercultural communication effectiveness (ICE) are listed here, as reviewed by Ruben.

- Respect (conveyed through eye contact, body posture, voice tone, and pitch)
- Interaction posture (the ability to respond to others in a descriptive, nonevaluative, and nonjudgmental way)
- Orientation to knowledge (recognizing that one's knowledge, perception, and beliefs are valid only for oneself and not for everyone else)
- Empathy
- Interaction management
- Tolerance for ambiguity
- Other-oriented role behavior (one's capacity to be flexible and adopt different roles for the sake of greater group cohesion and group communication)[91]

Researchers have established a relationship between personality traits and behaviors and the ability to adapt to the host-country's cultural environment.[92] What is seldom pointed out, however, is that communication is the mediating factor between those behaviors and the relative level of adaptation the expatriate achieves. The communication process facilitates cross-cultural adaptation, and, through this process, expatriates learn the dominant communication patterns of the host society. Therefore, we can link personality factors shown by research to ease adaptation with those necessary for effective intercultural communication.

Kim has consolidated the research findings of these characteristics into two categories: (1) **openness**—traits such as open-mindedness, tolerance for ambiguity, and extrovertedness—and (2) **resilience**—traits such as having an internal locus of control, persistence, a tolerance of ambiguity, and resourcefulness.[93] These personality factors, along with the expatriate's cultural and racial identity and the level of preparedness for change, comprise that person's potential for adaptation. The level of preparedness can be improved by the manager before his or her assignment by gathering information about the host country's verbal and nonverbal communication patterns and norms of behavior. However, we must remember the practicalities of situational factors that can affect the communication process—variables such as the physical environment, time constraints, the degree of structure, and feelings of irritability or overwork, among others.

CONCLUSION

Effective intercultural communication is a vital skill for international managers and domestic managers of multicultural workforces. Because miscommunication is much more likely to occur among people from different countries or racial backgrounds than among those from similar backgrounds, it is important to be alert to how culture is reflected in communication—in particular through the development of cultural sensitivity and an awareness of potential sources of cultural noise in the communication process. A successful international manager is thus attuned to these variables and is flexible enough to adjust his or her communication style to address the intended receivers best—that is, to do it their way.

Cultural variables and the manner in which culture is communicated underlie the processes of negotiation and decision making. How do people around the world negotiate? What are their expectations and their approach to negotiations? What is the importance of understanding negotiation and decision-making processes in other countries? Chapter 5 addresses these questions and makes suggestions to help the international manager handle these important tasks.

Summary of Key Points

- Communication is an inherent part of a manager's role, taking up the majority of the manager's time on the job. Effective intercultural communication largely determines the success of international transactions or the output of a culturally diverse workforce.
- Culture is the foundation of communication, and communication transmits culture. Cultural variables that can affect the communication process by influencing a person's perceptions include attitudes, social organizations, thought patterns, roles, language, nonverbal language, and time.
- Language conveys cultural understandings and social norms from one generation to the next. Body language, or nonverbal communication, is behavior that communicates without words. It accounts for 65 to 93 percent of interpreted communication.
- Types of nonverbal communication around the world are kinesic behavior, proxemics, paralanguage, and object language.
- Effective cross-cultural communication must take into account whether the receiver is from a country with a monochronic or a polychronic time system.
- Variables related to channels of communication include high- and low-context cultures, fast or slow messages and information flows, and various types of media.
- In high-context cultures, feelings and messages are implicit and must be accessed through an understanding of the person and the system. In low-context cultures, feelings and thoughts are expressed, and information is more readily available.
- The effective management of intercultural communication necessitates the development of cultural sensitivity, careful encoding, selective transmission, careful decoding, and follow-up actions.
- Certain personal abilities and behaviors facilitate adaptation to the host country through skilled intercultural communication.
- Communication through the Internet must still be localized to adjust to differences in language, culture, local laws, and business models.
- Take extra precautions about comprehension when business professionals are speaking a nonnative language.
- Don't assume that all native speakers of a language communicate in the same manner. For example, miscommunications can arise among British, North Americans, Australians, and New Zealanders.

Discussion Questions

4-1. How does culture affect the process of attribution in communication? Can you relate this to some experiences you have had with your classmates?

4-2. What is stereotyping? Give some examples. How might people stereotype you?

4-3. What is the relationship between language and culture? How is it that people from different countries who speak the same language may still miscommunicate?

4-4. Give some examples of cultural differences in the interpretation of body language. What is the role of such nonverbal communication in business relationships?

4-5. Explain the differences between high- and low-context cultures, giving some examples. What are the differential effects on the communication process?

4-6. Discuss the role of information systems in a company, how and why they vary from country to country, and the effects of these variations.

Application Exercises

4-7. Invite some students who are from other countries to your class. Ask them to bring photographs, slides, and so forth of people and events in their native countries. Have them explain the meanings of various nonverbal cues such as gestures, dress, voice inflections, architecture, and events. Discuss with them any differences between their explanations and the attributions you assigned to those cues.

4-8. Interview a faculty member or a businessperson who has worked abroad. Ask him or her to identify factors that facilitated or inhibited adaptation to the host environment. Ask whether more preparation could have eased the transition and what, if anything, that person would do differently before another trip.

CASE STUDY

Italy's D & G in China: Fashion Show Canceled in Shanghai Following Scandal

On Wednesday, November 21, the WeChat account of the official People's Daily issued a statement believed to be from the Ministry of Culture and Tourism; the Dolce & Gabbana (D&G) fashion show in Shanghai had been cancelled. The move to cancel the fashion show was due to an outcry over a series of promotional videos posted by D&G titled "Eating with Chopsticks" and subsequent insulting posts made by Stefano Gabbana, the co-founder of the D&G brand, in a private Instagram chat. As a result, the Italian fashion house was forced to withdraw its products from Chinese e-commerce sites amid calls to boycott the brand, possibly eliminating years of brand building in the Chinese market.

The videos, which were posted on Dolce & Gabbana's website, were promotion for the company's new campaign D&G Loves China, billed as a Tribute to China. The clips featured a Chinese model dressed in a red sequined D&G dress, giggling as she clumsily used a pair of chopsticks to eat pizza, spaghetti, and traditional Sicilian cannolo. A male voiceover in a rather suggestive tone asks the actress "Is it too big for you?"[94] Social media posts on Instagram were quick to label the ads as stereotypical, racist, culturally insensitive, and disrespectful toward Asian females. The three clips were originally posted on Weibo, one of the most popular microblogging websites in China, and were promptly deleted after the outrage over the brand's social media posts. However, the story did not end there, and Stefano Gabbana went on to defend their actions on Instagram by saying, "the whole world knows that the Chinese eat with chopsticks and westerners with a fork."[95]

An online spat ensued between Stefano Gabbana and a London-based fashion blogger, Michaela Tranova, who accused him of being racist. Messages from his Instagram account went

viral before being quickly deleted, but these messages remained on Tranova's account. In an exchange with Tranova, Gabbana commented that the videos were deleted from Chinese social media "because my office is stupid as the superiority of the Chinese . . . it was my will I never cancel the post."[96] The post turned nasty when he referred to "China Ignorant Dirty Smelling Mafia."[97] The comments were accompanied by some rude looking emojis which were not very complimentary of China. The blogger captured a screen shot of the conversation and posted it on her own account.

Customers, activists, and celebrities took to social media at warp speed to express criticism on their social media sites. The crisis blew into arguably its worst public nightmare ever. Fans of D&G were stunned and shocked that a brand they cherished would actually refer to their culture as "ignorant" or "dirty smelling." One social media user renamed the brand Dead and Gone (D&G). Unfortunately for Gabbana, the rapid escalation into a public relations disaster, fuelled by social media trolls, enabled people to vent their anger in quick time.

It was not clear who was the target audience of the video, a Chinese or western audience. Some social media users alleged the fashion house was mocking Chinese culture by featuring an instructional video on how to use chopsticks to eat foreign food, as stereotyping, portraying them as ignorant, unrefined, and lacking culture, people who do not know how to eat non-Chinese food, people ignorant of other cultures. The tone was patronising. The irony was certainly not lost in translation. Many posts on social media claimed the videos were misinformed and distasteful. The lack of cultural sensitivity in the promotional videos shook the Chinese national pride to the core. Reactions were strong and swift with most people expressing disdain for the hurtful content and at the same time declaring their pride at being Chinese.

A comment on the Stefano Gabbana Instagram account claimed it had been hacked, adding, "I love China and Chinese culture. I'm sorry for what happened."[98] A parody of the D&G video showed a white man trying to eat Chinese food with a fork and knife. The brand's Ambassador for the Asia Pacific region, singer Karry Wang, was quick to react to the snowballing effect of the fallout by ending her contract with the company. She said in a statement, "The motherland is above everything. We are deeply proud and confident about Chinese culture and spiritual aesthetics. No doubt you are the best."[99] "Crouching Tiger, Hidden Dragon" star Zhang Ziyi also used social media to say she would boycott the brand after "they had disgraced itself."[100] Estelle Chen, a well-known Chinese model, posted on Instagram her outrage at the events of the day. "China is rich yes, but China is rich in its values, its culture and its people and they won't spend a penny on a brand that does not respect that."[101]

Later that day Dolce & Gabbana posted on Twitter:

> Our dream was to bring to Shanghai a tribute event dedicated to China which tells our history and vision. It was not simply a fashion show, but something that we created especially with love and passion for China and all the people around the world who loves D&G. What happened today was very unfortunate not only for us, but also for all the people who worked day and night to bring this event to life. From the bottom of our hearts, we would like to express our gratitude to our friends and guests.[102]

Social media users felt it was a lukewarm explanation at best but not an apology. The damage was done. The posts on his Instagram site were seen as more damaging than the videos. Others felt that no one in China would attend the show in Shanghai, thus it was cancelled. Most posts berated the company D&G for making money in China yet treating the locals like idiots. Another post on Weibo urged D&G to go someplace else as there is no money for them in China.

Chinese music bands were quick to get in on the act, and Wang Zixin, the leader of CD Rev, a nationalist rap band, remarked that companies who do not respect China do not deserve China's respect and encouraged people not to forget about the actions of the company for a long time to come. Shaun Rein, founder and managing director of China Market Research Group in Shanghai, posted that Dolce & Gabbana could expect a real tough time over the next six to 12 months in the Chinese market.

The ruling Communist Party's People's Daily newspaper weighed in on the debate on Weibo: "China has always been friendly to foreign businesses. But it does not mean there's no bottom line. There is a deal only when there is respect."[103] A comment on the WeChat account of the official People's Daily requested caution: "If one is not willing to understand China, eventually it will lose the China market and the benefits arising from China's growth."[104] The Central Committee

of the Communist Youth league demanded D&G "respect Chinese people"[105] as the basic principle of foreign enterprises investing in China. Mr Rein, founder and managing director of China Market Research in Shanghai, said it is a big mistake when "westerners come up with creative content but do not understand how the campaigns will be received by Chinese consumers."[106]

D&G is the latest multinational company to get in trouble for marketing campaigns that angered customers not only in China but around the world. The local consumers cannot be blamed for feeling slighted by foreign brands. In 2018, Mercedes-Benz were forced to apologise to Chinese customers for an Instagram post showing one of its luxury cars along with a quote from exiled Tibetan spiritual leader Dalai Lama, whom Beijing consider a dangerous activist. In April 2018, the Civil Aviation Administration of China demanded that 36 foreign airlines list Taiwan as a region of China. Later, in May 2018, Gap, A US clothing retailer, had to apologise and pull a T-shirt featuring a map of China that left out territories claimed by the country.

In China, previously tolerated actions such as the ones mentioned may have gone unchecked but multinationals are noticing an increase in the case of companies been reprimanded for failing to take China seriously. There is a growing need for luxury brands to build trust in the region, especially at a time when the Chinese government is not encouraging spending money on luxury items. Most companies have offered appropriate apologies and in the case of Taiwan, referred to it as Taiwan, China. Fear is growing as companies are double-checking their own websites as well as those of their suppliers to check they comply and do not cause offense.

The backlash comes at a time what many observers note there is a trend in rising nationalism compounded by increasing competition and complex challenges in the luxury retail market. The Chinese market is reported to be worth 30% of the whole luxury market, with increasing growth expected yearly by 6% according to a study by Boston Consulting. James Robinson, a consultant at the Shanghai office of APCO, said in May 2018, "Companies are facing a new type of 'geo-commercial' risk as they become more entangled in competing geo-political and geo-economic agendas."[107] Cultural ignorance is no longer an excuse for breaking culture codes. Many multinationals fear intervention and increased assertiveness by the Chinese government, making trade with China more complicated. In a globalised competitive luxury market companies need more than ever to be able to navigate cultural nuances to survive.[108] Foreign luxury brands have experienced a two-thirds growth in demand for luxury items in China. China hosts some high fashion events like Victoria's Secret show in Shanghai, cementing its importance for luxury retail.

D&G opened its first store there in 2005 and has 44 boutiques around the country, so it is not a newcomer to the Asian market. It is not clear why D&G did not demonstrate a better understanding of the Chinese market and ensure that marketing material is vetted by staff with a knowledge of the local market, especially as this was not D&G's first controversy in China. Last year's promotional DG Loves China videos featured models with taxi drivers, garbage collectors and street vendors, a campaign that Chinese consumers felt highlighted the negative side of the country rather than portraying a modern China. Many multinationals fail to realise that marketing in China has to be approached differently from marketing in the west.

Lundquist srl, a Milan-based digital communication consultancy company, ranked D&G 70th in a ranking of Italian listed and non-listed companies. The focus of the study was to analyse how companies are communicating to investors and other stakeholders and examine the ability of corporate communication to support competitiveness and to inspire trust. Joakim Lundquist, CEO and founder of Lundquist srl, said the scandal should be a wake-up call for the company because they can no longer "ignore stakeholder expectations for transparency, openness, accountability and dialogue."[109] He warned that such companies need a structured strategy in place which builds trust and is not over reliant on celebrity individuals who may be caught up in the moment in a hyper connected digital age. However, he feels not all is lost and D&G has an opportunity to redeem itself by doing the right thing by its customers by encouraging positive social behaviour change, improve brand image, build trust. D&G needs to build transparency specially to cater to the needs of Gen Y and X; studies have indicated these generations in particular are indicating higher ethical brand choices than previous generations. Enthused by the # Me Too movement these digital natives are active on social media and not scared to call out gender malpractice on social media sites.

In the wake of mass consumer boycotts and China's online retailers pulling products from their websites, shoppers returning D&G articles, D&G begged for forgiveness to stem the global outcry. A solemn looking Domenico Dolce and Stefano Gabbana, speaking in Italian, sitting

side-by-side against a back drop of a red wall, went on camera to apologise to the Chinese people in an 85-second video with Chinese subtitles. The forgiveness video was posted on the Chinese platform, Weibo. Following is the transcript of the apology video by Dolce and Gabbana.[110]

> Over the past few days we have thought long and hard with sadness about everything that has happened and what we have caused in your country and we are very sorry. Our families have always taught us to respect the various cultures in the world and this is why we want to ask you for your forgiveness if we have made mistakes in interpreting yours. We also want to apologise to all of the many Chinese people throughout the world. We take this apology very seriously as well as this message we have always been in love with China. We have visited it and seen many of its cities, we love your culture and we certainly have much to learn, this is why we are sorry if we have made mistakes in the way we expressed ourselves. We will never forget this experience and it will certainly never happen again. In fact we will work to do things better. We will respect the Chinese culture in every way possible from the bottom of our hearts we ask for forgiveness. Sorry (in Mandarin).

The video with the apology demonstrates the growing importance of the Chinese luxury retail market and the risks of operating in it. This is not only a worry for the company but also stakeholders who are interested in performance and good returns. Competition is vying for market share in this growing luxury market.

The message from China is clear: do not mess with the Chinese consumer; the tiger has awoken and is starting to show its teeth. Many brand experts feel it will be a long road back for the company to gain a level of acceptance in the country they had previously enjoyed a measure of success. D&G's behaviour has broken a kind of culture code resulting in a loss of trust and eventually brand damage. The resulting loss of revenue will shake up a company that could see up to 30% wiped off their revenue weakening its competitive position and risking elimination. For this reason alone, the apology from the bottom of their hearts was necessary because without the Chinese market, the company will be humbled.

Case Questions

4-11. D&G faced a consumer backlash in China after the video scandal. List the main reasons why you think this happened.

4-12. Using the information above and the cultural dimensions explored in Chapters 3 and 4, discuss whether Chinese consumers should forgive D&G's misunderstanding of their culture.

4-13. Fashion houses often use edgy ads to promote products. Such edgy campaigns attract attention and can cross the line to cause disrespect in global markets. How can multinational companies ensure advertising content does not antagonize local consumers?

4-14. Discuss the risk of using humor when advertising across borders.

4-15. Multinational is not necessarily multicultural. What do companies need to consider when advertising in the Chinese luxury market?

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CHAPTER

5 Cross-Cultural Negotiation and Decision Making

OBJECTIVES

- **5-1.** To become familiar with the role of negotiation in implementing a firm's strategy and the various stakeholders who must be considered
- **5-2.** To learn the stages of the negotiation process and how to prepare for cross-cultural business negotiations
- **5-3.** To gain insight into the various types of negotiating styles around the world
- **5-4.** To recognize that managing negotiation requires learning about the culturally based behavioral differences, values, and agendas of the negotiating parties and how to build trust for successful negotiations
- **5-5.** To appreciate the variables in the decision-making process and understand the influence of culture on decision making

Opening Profile: Hitachi Looks for Deal with ABB on Power Grids Business[1]

Japan's Hitachi is in discussions to buy part or all of ABB 's power grids business, a division that analysts have said may be worth around $13bn.

According to people close to the matter, the two sides have been talking privately and the negotiations are at a fairly developed stage.

However, those people cautioned that a deal was not assured and they declined to disclose the valuation for the unit being discussed or the exact structure of a potential agreement.

One person said ABB might retain a minority stake in the unit, which makes products that channel electricity over long distances. The two companies declined to comment.

Shares in ABB climbed 1.5 per cent on Friday (November 16, 2018) to SFr20.06 after Reuters reported that the Swiss company was in talks with three Asian suitors, including Hitachi and Japan's Mitsubishi Electric, over a deal for the unit.

Another person close to the situation confirmed that at least one Japanese industrial conglomerate was in discussions with ABB about a large asset purchase, but stressed that nothing had been decided.

Any transaction would add to the record pace of outbound dealmaking by Japanese companies in 2018, which has seen them so far agree nearly $160bn in deals, according to data from Dealogic.

For Hitachi, the talks come as the group has aggressively sold less profitable divisions to expand its core businesses, including its power and energy operations. Hitachi, which has a joint venture with ABB to supply equipment for Japan's energy grids, has said it wants to increase grid-based revenue 60 per cent to ¥120bn ($1bn) in three years.

ABB mulled divesting its power grids arm two years ago after pressure from Cevian Capital, the European activist fund that holds a 5 per cent stake.

A strategic review at the time concluded it was best kept under ABB's umbrella. Since then, the division's performance has improved. Power grids reported pre-tax operating profits of $972m last year on revenues of $10.4bn.

The proposed transaction would significantly expand Hitachi's power sector business outside Japan while freeing up ABB to focus on its robotics, digital industry and automation businesses.

Analysts have said the unit could be worth as much as $13bn including debt, although people close to the deal hinted at a lower figure.

ABB, which has worked with Hitachi in Japan since 2014, said yesterday it was "in discussions with Hitachi to expand and redefine the existing strategic power grid partnership between the two companies".

The Swiss group gave no further details and warned "there can be no certainty that any transaction will occur". But people close to the talks said the deal was likely to involve Hitachi acquiring a majority stake in the ABB unit, with the Swiss company keeping a minority position.[2]

The proposed transaction would significantly expand Hitachi's power sector business outside Japan while freeing up ABB to focus on its robotics, digital industry and automation businesses.

Analysts have said the unit could be worth as much as $13bn including debt, although people close to the deal hinted at a lower figure.

ABB, which has worked with Hitachi in Japan since 2014, said yesterday it was "in discussions with Hitachi to expand and redefine the existing strategic power grid partnership between the two companies".

Toshiaki Higashihara, Hitachi's chief executive, has sought to catapult the Japanese group into the ranks of global industrial players such as General Electric and Siemens.[3]

Source: © The Financial Times Limited 2019.

As illustrated in the opening profile, global managers negotiate with parties in other countries to make specific plans for strategies—for example, exporting, joint ventures, acquisitions, and divestitures—as well as for continuing operations. Even as cross-cultural negotiations offer added complexity for a firm's negotiators, those negotiators may also encounter the need to negotiate with government-owned companies.

Managers must prepare for strategic negotiations. Next, the operational details must be negotiated—staffing key positions, sourcing raw materials or component parts, and repatriating profits, to name a few. As globalism burgeons, the ability to conduct successful cross-cultural negotiations cannot be overemphasized. Failure to negotiate productively will result at best in confusion and delays and at worst in lost potential alliances and lost business.

During the process of negotiation—whether before, during, or after negotiating sessions—all kinds of decisions are made, both explicitly and implicitly. A consideration of cross-cultural negotiations must therefore include the various decision-making processes that occur around the world. Negotiations cannot be conducted without making decisions.

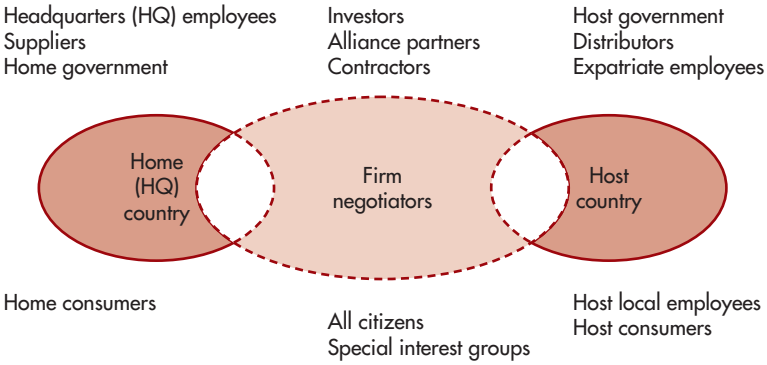
This chapter examines the processes of negotiation and decision making as they apply to international and domestic cross-cultural contexts. The objective is a better understanding of successful management.

NEGOTIATION

5-1. To become familiar with the role of negotiation in implementing a firm's strategy and the various stakeholders who must be considered

Implementing strategy depends on management's ability to negotiate productively—a skill widely considered one of the most important in international business. In the global arena, cultural differences produce great difficulties in the negotiation process. Ignorance of native bargaining rituals, more than any other single factor, accounts for unimpressive sales efforts.[4] Important differences in the negotiation process from country to country include (1) the amount and type of preparation for a negotiation, (2) the relative emphasis on tasks versus interpersonal relationships, (3) the reliance on general principles rather than specific issues, and (4) the number of people present and the extent of their influence.[5] In every instance, managers must familiarize themselves with the cultural background and underlying motivations of the negotiators—and the tactics and procedures they use—to control the process, make progress, and therefore maximize company goals.

EXHIBIT 5-1 Stakeholders in Cross-Cultural Negotiations



The term **negotiation** describes the process of discussion by which two or more parties aim to reach a mutually acceptable agreement. For long-term positive relations, the goal should be to set up a win–win situation—that is, to bring about a settlement beneficial to all parties concerned. This process, difficult enough when it takes place among people of similar backgrounds, is even more complex in international negotiations because of differences in cultural values, lifestyles, expectations, verbal and nonverbal language, approaches to formal procedures, and problem-solving techniques. The complexity is heightened when negotiating across borders because of the greater number of stakeholders involved. These stakeholders are illustrated in Exhibit 5-1. In preparing for negotiations, it is critical to avoid projective cognitive similarity—that is, the assumption that others perceive, judge, think, and reason in the same way when, in fact, they do not because of differential cultural and practical influences. Instead, astute negotiators empathically enter the private world or cultural space of their counterparts while willingly sharing their own view of the situation.[6]

5-2. To learn the stages of the negotiation process and how to prepare for cross-cultural business negotiations

THE NEGOTIATION PROCESS

The negotiation process comprises five stages, the ordering of which may vary according to the cultural norms (in any event, for most people, relationship building is part of a continuous process): (1) preparation, (2) relationship building, (3) the exchange of task-related information, (4) persuasion, and (5) concessions and agreement.[7] Of course, in reality, these are seldom distinct stages but rather tend to overlap; negotiators may also temporarily revert to an earlier stage. With that in mind, it is useful to break down the negotiation process into stages to discuss the issues relevant to each stage and what international managers might expect so that they might manage this process more successfully. These stages are shown in Exhibit 5-2 and discussed in the following sections.

Stage One: Preparation

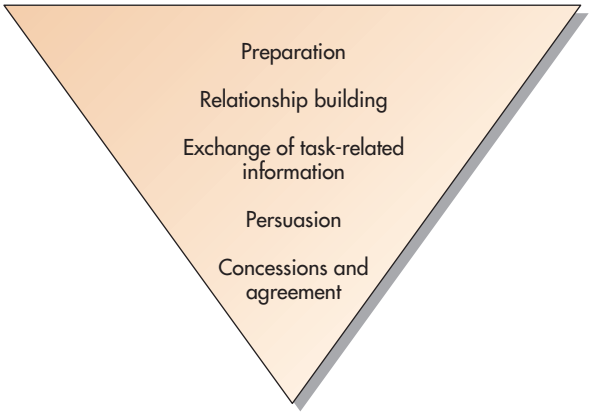
The importance of careful preparation for cross-cultural negotiations cannot be overstated. To the extent that time permits, a distinct advantage can be gained if negotiators familiarize themselves with the entire context and background of their counterparts (no matter where the meetings will take place) in addition to the specific subjects to be negotiated. Because most negotiation problems are caused by differences in culture, language, and environment, hours or days of tactical preparation for negotiation can be wasted if these factors are not carefully considered.[8]

To understand cultural differences in negotiating styles, managers first must understand their own styles and then determine how they differ from the norm in other countries. They can do this by comparing profiles of those perceived to be successful negotiators in different countries. Such profiles reflect the value system, attitudes, and expected behaviors inherent in a given society. Other sections of this chapter describe and compare negotiating styles around the world.

Negotiating Teams

It is particularly important to consider the teams of people from both parties who will be negotiating. Clearly, lack of thought or planning regarding teams can jeopardize the deal at any point. Selection of the home team must take into account the expectations of the other

EXHIBIT 5-2 The Negotiation Process



firm's counterparts as far as the number and experience of team members and their relative hierarchy in their positions. In most Asian countries, senior, older, managers represent their team, so they expect the foreign team to reflect that composition; a senior Japanese or Chinese manager, for example, is likely to be insulted if one of the lead team members from your firm is young and lower on the career ladders, rendering all other preparations a waste of time and money. Another recommendation is to have managers on the team who have already established relationships with counterparts; given the extreme focus that is placed on trust in many countries, existing relationships give the negotiating process a head start, some information about the motivations of the counterparts, and who has the power to seal the deal.

After developing thoughtful profiles of the other party or parties, managers can plan for the actual negotiation meetings, at the same time remaining open to realizing that specific people may not fit the assumed cultural prototype. Prior to the meetings, they should find out as much as possible about the kinds of demands that might be made and whether conflicts might occur. After this, the managers can gear their negotiation strategy specifically to the other side's firm, allocate roles to different team members, decide on concessions, and prepare an alternative action plan in case a negotiated solution cannot be found.[9]

Following the preparation and planning stage, which is usually done at the home office, the core of the actual negotiation takes place on-site in the foreign location (or at the manager's home office if the other team has decided to travel there). In some cases, a compromise on the location for negotiations can signal a cooperative strategy, which Weiss calls "Improvise an Approach: Effect Symphony"—a strategy available to negotiators familiar with each other's culture and willing to put negotiation on an equal footing. Weiss gives the following example of this negotiation strategy:

> *For their negotiations over construction of the tunnel under the English Channel, British and French representatives agreed to partition talks and alternate the site between Paris and London. At each site, the negotiators were to use established, local ways, including the language … thus punctuating approaches by time and space.*[10]

In this way, each side was put into the context and the script of the other culture about half the time.

The next stage of negotiation—often given short shrift by Westerners—is that of relationship building. In most parts of the world, this stage usually has already taken place or is concurrent with other preparations.

Variables in the Negotiation Process

Adept negotiators conduct research to develop a profile of their counterparts so that they know, in most situations, what to expect, how to prepare, and how to react. Exhibit 5-3 shows some of the variables to consider when preparing to negotiate. These variables can, to a great degree, help managers understand the deep-rooted cultural and national motivations and traditional processes underlying negotiations with people from other countries.

EXHIBIT 5-3 Variables in the Negotiation Process

1. *Approach to negotiation process:* Competitive or problem-solving
2. *Composition of negotiating team:* Number and experience of team members. Relative hierarchy in position. Relationships with counterparts. Decision-making power of team members. Motivated by individual, company, or community goals.
3. *Method of reaching decisions:* By individual determination, by majority opinion, or by group consensus.
4. *Purpose of negotiations:* One-time contract. Joint venture or other alliance. Long-term relationship-building.
5. *Negotiation process:* Behavioral expectations, typical procedures.
6. *Communication context used by teams:* Low context, explicit; high-context, implicit; nature of surroundings.
7. *Nature of persuasive arguments:* Factual presentations and arguments, accepted tradition, or emotion.
8. *Bases of trust:* Relationships, past experience, intuition, or rules.
9. *Risk-taking propensity:* Level and methods of uncertainty avoidance in trading information or making a contract.
10. *Value and uses of time:* Attitude toward time. Use of time in scheduling and proceeding with negotiations; use of time to pressure for agreement.
11. *Form of satisfactory agreement:* Based on trust (perhaps just a handshake), the credibility of the parties, commitment, or a legally binding contract.

Source: Based on excerpts from S. E. Weiss and W. Stripp, *Negotiation with Foreign Business Persons: An Introduction for Americans with Propositions on Six Cultures* (New York University Faculty of Business Administration, February 1985).

Stage Two: Relationship Building

Relationship building is the process of getting to know one's contacts in a host country and building mutual trust before embarking on business discussions and transactions. This process is regarded with much more significance in most parts of the world than it is in the United States. U.S. negotiators are, generally speaking, objective about the specific matter at hand and usually want to waste no time getting down to business and making progress. This approach, well understood in the United States, can be disastrous if the foreign negotiators want to take enough time to build trust and respect as a basis for negotiating contracts. In such cases, American efficiency interferes with the patient development of a mutually trusting relationship—the very cornerstone of an Asian business agreement.[11]

Nontask Sounding

> *Five minutes of nontask sounding in the United States can translate into five days, weeks, or even months of nontask sounding in Shanghai, Lagos, Rio de Janeiro, or Jeddah. There is no other way because in such countries real business cannot be conducted until a good interpersonal relationship has been established.*[12]

In many countries, such as Mexico, Saudi Arabia, and China, personal commitments to individuals, rather than to the legal system, form the basis for the enforcement of contracts. Effective negotiators allow plenty of time in their schedules for such relationship building with bargaining partners. This process usually takes the form of social events, tours, and ceremonies along with much **nontask sounding**—general, polite conversation and informal communication before meetings—while all parties get to know one another. In such cultures, one patiently waits for the other party to start actual business negotiations, aware that relationship building is, in fact, the first phase of negotiations.[13] It is usually recommended that managers new to such scenarios use an intermediary—someone who already has the trust and respect of the foreign managers and who therefore acts as a relationship bridge. Middle Easterners, in particular, prefer to negotiate through

a trusted intermediary, and for them as well, initial meetings are only for getting acquainted. Arabs do business with the person, not the company; therefore, mutual trust must be established.

In their best seller on negotiation, *Getting to Yes,* Fisher and Ury point out the dangers of not preparing well for negotiations.

> *In Persian, the word "compromise" does not have the English meaning of a midway solution which both sides can accept, but only the negative meaning of surrendering one's principles. Also, "mediator" means "meddler," someone who is barging in uninvited. In 1980, United Nations Secretary-General Kurt Waldheim flew to Iran to deal with the hostage situation. National Iranian radio and television broadcast in Persian a comment he was said to have made upon his arrival in Tehran: "I have come as a mediator to work out a compromise." Less than an hour later, his car was being stoned by angry Iranians.*[14]

As a bridge to the more formal stages of negotiations, such relationship building is followed by **posturing**—that is, general discussion that sets the tone for the meetings. This phase should result in a spirit of cooperation. To help ensure this result, negotiators must use words such as *respect* and *mutual benefit* rather than language that would suggest arrogance, superiority, or urgency.

Stage Three: Exchanging Task-Related Information

In the next stage—exchanging task-related information—each side typically makes a presentation and states its position; a question-and-answer session usually ensues, and alternatives are discussed. From an American perspective, this represents a straightforward, objective, efficient, and understandable stage. However, negotiators from other countries continue to take a more indirect approach at this stage. Mexican negotiators tend to be wary of motives and so less direct and somewhat evasive with their presentations. French negotiators enjoy debate and conflict and will often interrupt presentations to argue about an issue even if it has little relevance to the topic being presented. The Chinese also ask many questions of their counterparts and delve specifically and repeatedly into the details at hand; conversely, Chinese presentations contain only vague and ambiguous material. For instance, after about 20 Boeing officials spent six weeks presenting masses of literature and technical demonstrations to the Chinese, the Chinese said, "Thank you for your introduction."[15]

The Russians also enter negotiations well prepared and well versed in the specific details of the matter being presented. To answer their (or any other side's) questions, it is generally a good idea to bring along someone with expertise to answer any grueling technical inquiries. Russians also put a lot of emphasis on protocol and expect to deal only with top executives.

Adler suggests that negotiators should focus not only on presenting their situation and needs but also on showing an understanding of their opponents' viewpoint. Focusing on the entire situation confronting each party encourages the negotiators to assess a wider range of alternatives for resolution rather than limiting themselves to their preconceived, static positions. She suggests that to be most effective, negotiators should prepare for meetings by practicing role reversal.[16]

Stage Four: Persuasion

In the next phase of negotiations—persuasion—the hard bargaining starts. Typically, both parties try to persuade the other to accept more of their position and to give up some of their own. Often, some persuasion has already taken place beforehand in social settings and through mutual contacts. In the Far East, details are likely to be worked out ahead of time through the backdoor approach (*houmani*). However, the majority of the persuasion generally takes place over one or more negotiating sessions. International managers usually find that this process of bargaining and making concessions is fraught with difficulties because of the different uses and interpretations of verbal and nonverbal behaviors. Although variations in such behaviors influence every stage of the negotiation process, they can play a particularly powerful role in persuasion, especially if they are not anticipated.

Studies of negotiating behavior have revealed the use of certain tactics, which skilled negotiators recognize and use, such as promises, threats, and so on. Other, less savory tactics are sometimes used in international negotiations. Often called dirty tricks, these tactics, according to Fisher and Ury, include efforts to mislead "opponents" deliberately.[17] Some negotiators may give wrong or distorted information or use the excuse of ambiguous authority—giving conflicting

impressions about who in their party has the power to make a commitment. In the midst of hard bargaining, the prudent international manager will follow up on possibly misleading information before taking action based on trust.

Other rough tactics are designed to put opposing negotiators in a stressful situation physically or psychologically, so that their giving in is made more likely. These include uncomfortable room temperatures, too-bright lighting, rudeness, interruptions, and other irritations. International negotiators must keep in mind, however, that what might seem like dirty tricks to Americans is simply the way other cultures conduct negotiations. In some South American countries, for example, it is common to start negotiations with misleading or false information.

The most subtle behaviors in the negotiation process—and often the most difficult to deal with—are usually the nonverbal messages: the use of voice intonation, facial and body expressions, eye contact, dress, and the timing of the discussions. Nonverbal behaviors, discussed in previous chapters, are ingrained aspects of culture people use in their daily lives; they are not specifically changed for the purposes of negotiation. Among those behaviors affecting negotiations is the direct communication style, such as with Germans, compared with the indirect style, such as with Japanese. Clearly, also, the individualism–collectivism cultural dimension is one that greatly guides negotiation because of the relative motivation of personal self-interest in individualistic societies such as the United States; this compares with the group interest in Asian cultures, so that Asian negotiators will likely give more importance to their social obligations and the needs of the group.[18]

Although persuasion has been discussed as if it were always a distinct stage, it is really the primary purpose underlying all stages of the negotiation process. In particular, persuasion is an integral part of the process of making concessions and arriving at an agreement.

Stage Five: Concessions and Agreement

In the last stage of negotiation—concessions and agreement—tactics vary greatly across cultures. Well-prepared negotiators are aware of various concession strategies and have decided ahead of time what their own concession strategy will be. Familiar with the typical initial positions that various parties are likely to take, they know that Russians and Chinese generally open their bargaining with extreme positions, asking for more than they hope to gain, whereas Swedes usually start with what they are prepared to accept.

Research in the United States indicates that better results are attained by starting with extreme positions. With this approach, the process of reaching an agreement involves careful timing of the disclosure information and of concessions. Most people who have studied negotiations believe that negotiators should disclose only the information that is necessary at a given point and that they should try to obtain information piece by piece to get the whole picture gradually without giving away their goals or concession strategy. These guidelines will not always work in intercultural negotiations because the American process of addressing issues one at a time, in a linear fashion, is not common in other countries or cultures. Negotiators in the Far East, for example, approach issues in a holistic manner, deciding on the whole deal at the end, rather than making incremental concessions.

Again, at the final stage of agreement and contract, local practices determine how these agreements will be honored. The sanctity of contracts has not traditionally been as respected a concept in Russian business as in American business. The Japanese, on the other hand, consider a formal contract to be somewhat of an insult and a waste of time and money in legal costs, since they prefer to operate based on understanding and social trust.[19]

5-3. To gain insight into the various types of negotiating styles around the world

UNDERSTANDING NEGOTIATION STYLES

When negotiating in emerging markets, remember that everything in these countries is dynamic, and no deal is ever really 100% final.

ERIN MEYER, *HARVARD BUSINESS REVIEW*, DECEMBER 2015

For global managers negotiating joint ventures, acquisitions, outsourcing agreement or supplier contracts, it is reasonable to assume that the norms of communication will vary from country to country. As a result, what gets the manager to "Yes" in one culture may lead to a "No" in a different culture.[20] In cross-border negotiations, it is critical to gauge the reactions of the other negotiator.

However, when managers from different parts of the globe engage in negotiations, it is common to misread unspoken signals, draw incorrect conclusions, and undermine the intended goals.

When communication styles differ between negotiators, Erin Meyer, an international negotiations researcher, developed some best practices to recognize signals and alter perceptions and actions.[21]

1. **Alter the way you disagree**. In some countries, open disagreement is normal and may be an invitation to engage in a spirited discussion. In other countries, the same response may adversely affect the business relationship.
2. **Know when to contain your emotions and when to use them**. In some cultures, it is normal to express emotions and even touch your counterpart (e.g., on the arm). In other cultures, such emotion and contact may be viewed as unprofessional, intrusive, and inappropriate.
3. **Learn how your counterparts establish trust**. Some cultures value cognitive trust, which is based on the how confident one is with the counterpart's accomplishments, capabilities, and dependability. Alternatively, some cultures value affective trust, which stems from a sense of emotional attachment, empathy, and relational strength.
4. **Refrain from asking yes or no questions**. Some cultures have a difficult time saying "no." Other cultures may say "no" as a means to debate the issues.
5. **Exercise caution about written agreements**. In some countries, a contract signifies a deal has been reached. In other countries, a contract indicates a non–legally binding commitment to do business or simply the beginning of a business relationship.

Harvard Business School professor James Sebenius stressed that negotiators need to recognize differences in the decision-making process when negotiating abroad. Specifically, he urges negotiators to seek answers to three questions.

1. **Who are the players?** When it comes to the players, there may be senior executives, shareholders, and certain regulatory institutions that influence a particular deal in the United States. However, in other countries such as Germany, the labor union has representation on the board of directors and wields considerable influence. In China, for example, local government officials play an important role even for deals involving privately owned firms.
2. **Who makes certain decisions?** Understanding who makes certain decisions begins with the roles played by various stakeholders. For example, in countries where labor influences board membership, a single shareholder may face voting restrictions. In addition, expectations based on one's home country culture (e.g., relationship-oriented rather than task-oriented) may make it difficult to ascertain who possesses formal decision-making rights.
3. **What informal factors can undermine a negotiation?** In terms of information influences, there are countries in which networks of influence can exert more power than a particular company. For example, in South Korea, the *keiretsu* consist of a group of industrial companies linked together by business ties, cross-holdings of debt and equity, and financial institutions.

Sebenius recommends adapting the negotiating process based on whether the counterpart's culture embraces decision making that is top down, consensus, or coalition building. In cultures with top-down decision making, negotiators may encounter the principal decision maker who avoids delegating major responsibility. Even in those instances, less-influential agents of the company may be involved. In these circumstances, the negotiators need to refrain from revealing key information and making concessions to those agents. In cultures such as Japan, in which consensus building is the norm, there is a tendency to experience unrelenting requests for information. Moreover, the very nature of consensus building can be time intensive because relationship building often takes precedent over the deal. That is, the deal makers will want to learn about the negotiators and their firm before proceeding with any negotiations. Consensus building also requires extensive intra-company interactions so that all stakeholders feel their concerns have been addressed satisfactorily. In cultures that emphasize coalition building, agreement is not of a particular individual or of all stakeholders, but rather a subset of stakeholders who can effectively exert pressure on or navigate around individuals or stakeholders with dissenting opinions.

Global managers can benefit from studying differences in negotiating behaviors (and the underlying reasons for them), which can help them recognize what is happening in the negotiating process.

Exhibit 5-4 shows some examples of differences among North American, Japanese, and Latin American styles. Brazilians, for example, generally have a spontaneous, passionate, and dynamic style. They are very talkative and particularly use the word *no* extensively—more than 40 times per half-hour, compared with 4.7 times for Americans and only 1.9 times for the Japanese. They also differ markedly from Americans and the Japanese by their use of extensive physical contact.[22]

The Japanese are typically skillful negotiators. They have spent a great deal more time and effort studying U.S. culture and business practices than Americans have spent studying Japanese practices, and many have been to business school in the United States. However, differences in philosophy and style between the two countries reflect past feelings of betrayal in trade negotiations. John Graham, a California professor who has studied international negotiating styles, says that the differences between United States and Japanese styles are well illustrated by their respective proverbs; the Americans believe that "The squeaking wheel gets the grease," and the Japanese say that "The pheasant would not be shot but for its cry."[23] The Japanese are calm, quiet, patient negotiators; they are accustomed to long, detailed negotiating sessions. Whereas Americans often plunge straight to the matter at hand, the Japanese instead prefer to develop long-term, personal relationships. The Japanese want to get to know those on the other side and will spend some time in nontask sounding.

EXHIBIT 5-4 Comparison of Negotiation Styles: Japanese, North American, and Latin American

Japanese	North American	Latin American
Emotional sensitivity highly valued	Emotional sensitivity not highly valued	Emotional sensitivity valued
Hiding of emotions	Dealing straightforwardly or impersonally	Emotionally passionate
Subtle power plays; conciliation	Litigation not so much as conciliation	Great power plays; use of weakness
Loyalty to employer; employer takes care of employees	Lack of commitment to employer; breaking of ties by either if necessary	Loyalty to employer (who is often family)
Face-saving crucial; decisions often on basis of saving someone from embarrassment	Decisions made on a cost-benefit basis; face-saving does not always matter	Face-saving crucial in decision making to preserve honor, dignity
Decision makers openly influenced by special interests	Decision makers influenced by special interests but often not considered ethical	Execution of special interests on decision expected, condoned
Not argumentative; quiet when right	Argumentative when right or wrong, but impersonal	Argumentative when right or wrong; passionate
What is down in writing must be accurate, valid	Great importance given to documentation as evidential proof	Impatient with documentation as obstacle to understanding general principles
Step-by-step approach to decision making	Methodically organized decision making	Impulsive, spontaneous decision making
Good of group is the ultimate aim	Profit motive or good of individual is the ultimate aim	What is good for group is good for the individual
Cultivate a good emotional social setting for decision making; get to know decision makers	Decision making impersonal; avoid involvements, conflict of interest	Personalism necessary for good decision making

Source: Pierre Casse, *Training for the Multicultural Manager: A Practical and Cross-cultural Approach to the Management of People* (Washington, D.C.: Society for Intercultural Education, Training, and Research, 1982), used with the permission of the Society for Intercultural Education, Training and Research, 2012.

In negotiations, the Japanese culture of politeness and hiding of emotions can be disconcerting to Americans when they are unable to make straightforward eye contact or when the Japanese maintain smiling faces in serious situations. It is important for Americans to understand what is polite and what is offensive to the Japanese—and vice versa. Americans must avoid anything that resembles boasting because the Japanese value humility, and physical contact or touching of any sort must be avoided.[24] Consistent with the culture-based value of maintaining harmony, the Japanese are likely to be evasive or even leave the room rather than give a direct negative answer.[25] Fundamental to Japanese culture is a concern for the welfare of the group; anything that affects one member or part of society affects the others. Thus, the Japanese view decisions carefully in light of long-term consequences; they use objective, analytic thought patterns; and they take time for reflection.[26]

Further insight into negotiating styles around the world can be gained by comparing the North American, Arab, and Russian styles. Basic cultural values often shed light on the way information is presented, whether and how concessions will be made, and the general nature and duration of the relationship. For North Americans, negotiations are businesslike; their factual appeals are based on what they believe is objective information, presented with the assumption that it is understood by the other side on a logical basis. Arabs use affective appeals based on emotions and subjective feelings. Russians employ axiomatic appeals—that is, their appeals are based on the ideals generally accepted in their society. The Russians are tough negotiators; they stall until they unnerve Western negotiators by continually delaying and haggling. Much of this approach is based on the Russians' different attitude toward time. Because Russians traditionally do not subscribe to the Western belief that time is money, they are more patient, more determined, and more dogged negotiators. They try to keep smiles and other expressions of emotion to a minimum to present a calm exterior.[27]

In contrast to the Russians, Arabs are more interested in long-term relationships and are, therefore, more likely to make concessions. Compared with Westerners, Arabs have a casual approach to deadlines, and the negotiators frequently lack the authority to finalize a deal.[28]

Successful Negotiators around the World

Following are selected profiles of what it takes to be a successful negotiator as perceived by people in their home countries. These are profiles of American, Indian, Arab, Swedish, and Italian negotiators, based on selections from the work of Pierre Casse, and give some insight into what to expect from different negotiators and what they expect from others.[29]

AMERICAN NEGOTIATORS

According to Casse, a successful American negotiator acts as follows:

- They are respectful, courteous, and honest in negotiations but operate from a firm stand from the beginning, without revealing the options that are open to negotiation.
- They are generally well-versed in the issues at hand and how to time the interactions and so wait for the other party to make the first move in negotiating.
- They are explicit about their position and will only reveal their compromises when negotiations have come to a stalemate.

INDIAN NEGOTIATORS

Indians have traditionally followed Gandhi's approach to negotiation, which Gandhi called *satyagraha*, "firmness in a good cause." This combines strength with the love of truth. Therefore, a successful Indian negotiator acts as follows:

- They are humble and truthful and act in good faith, at the same time trusting that the opponent will act similarly.
- They act with self-control and attempt to come to a win-win outcome for all parties, in the spirit of *satyagraha*, thus putting the negotiation process on a spiritual level.
- They respect the other parties, are very patient in explaining and negotiating, do not insult others, and keep the big picture in mind.
- They will meditate and trust their instincts to consider the opponents' viewpoints, do not keep secrets, and are willing to change their minds.

ARAB NEGOTIATORS

Many Arab negotiators, following Islamic tradition, use mediators to settle disputes. Successful Arab mediators act in the following way:

- They possess a level of respect, trust, and prestige to be able to be a mediator.
- They maintain "face" for all the parties by respecting their dignity, minimizing conflicts among opponents, and avoiding situations that would make any party feel inferior.
- They use persuasive techniques such as referring to other respected people and what those people would want, and use conferences to mediate issues.
- They retain their impartiality and look for honorable solutions for all parties.

SWEDISH NEGOTIATORS

Swedish negotiators are:

- Polite, punctual, serious, and thoughtful, though tend to be overcautious.
- They run meetings efficiently with little apparent emotion, and like to get straight down to business.
- They can be quite flexible but are wary of confrontations and take time to react to new ideas from the other parties in negotiations.

ITALIAN NEGOTIATORS

Italians value negotiators who act as follows:

- They are dramatic, do not hide emotions, and use and read nonverbal gestures—typical of the Italian culture.
- They use flattery in negotiation communications and—always mindful of creating a good impression (the *bella figura*)—are helpful and simpatico to keep up their reputation.
- They are tactful in handling confrontations and tend not to be opinionated, but they also are creative in finding ways to come out ahead of the opponents in negotiations.

BRAZILIAN NEGOTIATORS

Good Brazilian negotiators[30]:

- Emphasize preparation and planning.
- Tend to have, as well as sound judgment and intelligence, product knowledge, and competitive spirit.
- Value an ability to think during pressure situations.
- Tend to be verbally expressive during negotiations.
- Tend to have an ability to perceive and exploit power during negotiations.

Comparing Profiles

Comparing such profiles is useful. Indian negotiators, for example, are humble, patient, respectful of the other parties, and very willing to compromise compared with Americans, who are firmer about taking stands. An important difference between Arab negotiators and those from most other countries is that the negotiators are mediators, not the parties themselves; hence, direct confrontation is impossible. Successful Swedish negotiators are conservative and careful, dealing with factual and detailed information. This profile contrasts with Italian negotiators, who are expressive and exuberant but less straightforward than their Swedish counterparts.

5-4. To recognize that managing negotiation requires learning about the culturally based behavioral differences, values, and agendas of the negotiating parties and how to build trust for successful negotiations

MANAGING NEGOTIATION

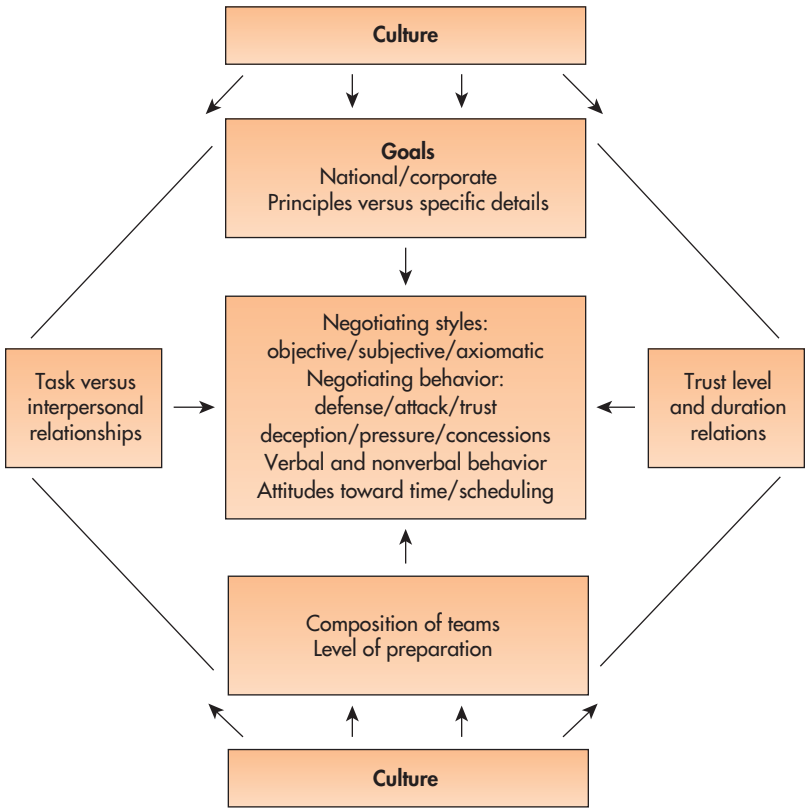
Skillful global managers must assess many factors when managing negotiations. They must understand the position of the other parties concerning their goals—whether national or corporate—and whether these goals are represented by principles or specific details. They should have the

ability to recognize the relative importance attached to completing the task versus developing interpersonal relationships. Managers also must know the composition of the teams involved, the power allotted to the members, and the extent of the teams' preparation. In addition, they must grasp the significance of personal trust in the relationship. As stated earlier, the culture of the parties involved affects their negotiating styles and behavior and thus the overall process of negotiation. However, whatever the culture, research by Tse, Francis, and Walls has found person-related conflicts to "invite negative, more relation-oriented (versus information-oriented) responses," leading them to conclude that "[t]he software of negotiation—that is, the nature and the appearance of the relationship between the people pursuing common goals—needs to be carefully addressed in the negotiation process."[31]

This is particularly true when representatives of individual-focused cultures (such as the Americans) and group-focused cultures (such as the Chinese) are on opposite sides of the table. Many of these culture-based differences in negotiations came to light in Husted's study on Mexican negotiators' perceptions of the reasons for the failure of their negotiations with U.S. teams.[32] The Mexican managers' interpretations were affected by their high-context culture, with the characteristics of an indirect approach, patience in discussing ideas, and maintenance of dignity. Instead, the low-context Americans conveyed an impatient, cold, blunt communicative style. To maintain the outward dignity of their Mexican counterparts, Americans must approach negotiations with Mexicans with patience and tolerance and refrain from attacking ideas because these attacks may be taken personally. The relationships among the factors of cross-cultural negotiation discussed in this chapter are illustrated in Exhibit 5-5.

The successful management of intercultural negotiations requires a manager to go beyond a generalized understanding of the issues and variables involved. As discussed earlier, she or he must find out as much specific information about the counterparts as possible and consider in advance how to use that information to create a positive climate that will result in a win–win situation. Research has shown that a problem-solving approach is essential to successful cross-cultural negotiations, whether abroad or in the home office, although the approach works differently in various countries.[33] This problem-solving approach requires a negotiator to treat everyone with

EXHIBIT 5-5 Cross-Cultural Negotiation Variables



respect, avoid making anyone feel uncomfortable, and refrain from criticizing or blaming the other parties in a personal way that may make someone feel shame—that is, lose face.

Research by the Huthwaite Research Group reveals how successful negotiators, compared to average negotiators, manage the planning process and their face-to-face behavior. The group found that during the planning process, successful negotiators consider a wider range of options and pay greater attention to areas of common ground. Skillful negotiators also tend to make twice as many comments regarding long-term issues and are more likely to set upper and lower limits regarding specific points. In their face-to-face behavior, skillful negotiators make fewer irritating comments—such as, "We're making you a generous offer"—make counterproposals less frequently, and use fewer reasons to back up arguments. In addition, skilled negotiators practice active listening—asking questions, clarifying their understanding of the issues, and summarizing the issues.[34]

Dealing with Translators

Sometimes, it is necessary for negotiators to employ a translator for a cross-border negotiation. Translation adds a layer of complexity to a negotiation, so negotiators need to consider this as another key element of managing negotiations. International negotiations expert Jeswald Salacuse developed four basic rules for using a translator that can help facilitate cross-border negotiations.

1. **Avoid using your counterpart's interpreter; select your own**. Use independent sources (e.g., a consulate) to determine the translator's linguistic ability.
2. **Brief the translator prior to the negotiation**. A translator may have sound linguistic skills, but more likely than not, lacks familiarity with a firm and its industry. Also, Salacuse urges clarifying whether word-for-word translations are required, or simply a summary.
3. **Monitor the translator's agenda**. Translators—because of personal agendas or simply ego—may try to take charge of a negotiation or inject some bias. This situation may arise if the translator has a conflict of interest—seeking future business prospects that flow from the current negotiated deal.
4. **Speak in short segments and pause frequently**. It is important to give the translator the opportunity to accurately translate statements. Inexperienced members of a negotiating team who use lengthy statements and avoid pauses may contribute to inaccurate translations to the counterpart.[35]

Using the Internet to Support Negotiations

Modern technology can provide support for the negotiating process, though it can't take the place of the essential face-to-face ingredient in many instances. A growing component for electronic commerce is the development of applications to support the negotiation of contracts and resolution of disputes. Web applications can provide support for various phases and dimensions, such as "Multiple-issue, multiple-party business transactions of a buy–sell nature; international dispute resolution (business disputes, political disputes); and internal company negotiations and communications, among others."[36]

Negotiation support systems (NSS) can provide support for the negotiation process in the following ways:

- Increasing the likelihood that an agreement is reached when a zone of agreement exists (solutions that both parties would accept)
- Decreasing the direct and indirect costs of negotiations, such as costs caused by time delays (strikes, violence), and attorneys' fees, among others
- Maximizing the chances for optimal outcomes[37]

One Web-based support system—called INSPIRE—developed at Carleton University in Ottawa, Canada, provides applications for preparing and conducting negotiations and for renegotiating options after a settlement. Users can specify preferences and assess offers; the site also has graphical displays of the negotiation process.[38]

E-NEGOTIATIONS

The advantages of electronic communications are well known: speed, less travel, and the ability to lay out much objective information to be considered by the other party over time. The disadvantages, however, might kill a deal before it gets off the ground by the inability to build trust and interpersonal relationships over time before getting down to business. In addition, nonverbal nuances are lost, although videoconferencing is a compromise for that purpose.

Rosette et al. noted that "opening offers may be especially aggressive in e-mail as compared to face-to-face negotiations because computer-mediated communications, such as e-mail, loosen inhibitions and cause negotiators to become more competitive and more risk seeking. The increase in competitive and risky behavior occurs because e-mail does not communicate social context cues in the same way as does the presence of another person."[39]

Managing Conflict Resolution

Much of the negotiation process is fraught with conflict—explicit or implicit—and such conflict can often lead to a standoff, or a lose–lose situation. This is regrettable, not only because of the situation at hand, but also because it probably will shut off future opportunities for deals between the parties. Much of the cause of such conflict can be found in cultural differences between the parties—in their expectations, in their behaviors, and particularly in their communication styles—as illustrated in the following "Comparative Management in Focus: Negotiating with the Chinese" feature.



Comparative Management in Focus

Negotiating with the Chinese

> *The Chinese way of making decisions begins with socialization and initiation of personal* guanxi *rather than business discussion. The focus is not market research, statistical analysis, facts, Power-Point presentations, or to-the-point business discussion. My focus must be on fostering* guanxi.[40]
>
> SUNNY ZHOU, GENERAL MANAGER OF KUNMING LIDA WOOD AND BAMBOO PRODUCTS

With the increasing business being conducted in China (see Map 5-1) or with Chinese allies or other companies, business practices there are now showing more similarity to those in the West. However, when Westerners initiate business negotiations with representatives from the People's Republic of China, cultural barriers confront both sides. At the same time, we should recognize that there are regional cultural differences as well as regional economic differences that may affect negotiation; some examples of regional differences are noted below as researched by Tung et al. In addition, there are considerable generational differences, in particular with those younger people who have been educated in the West and are more familiar with Western ways and languages, in contrast with the older generation, which holds to more traditional culture and negotiation strategies.[41]

- **Beijing (capital)** "Political, bureaucratic, educated, diversified, high relationship orientation, more direct, high 'face.'"[42]
- **Shanghai (commercial center)** "Business savvy, focus on details, bottom line, career-oriented younger people, materialistic, confident."[43]
- **Guangzhou/Shenzhen (south, near Hong Kong)** "Entrepreneurial, hard-working, manufacturing center, outside the norm, more risk-taking, like Hong Kong, more informal."[44]
- **Western China (Chengdu/Chongqing)** "Traditional 'People's' mentality, less experience with international business/negotiations, socializing importance."[45]

For the most part, the negotiation process the Chinese use is mystifying to most Westerners. For instance, the Chinese put much greater emphasis than Americans and Europeans on respect and friendship, on saving face, and on group goals. Long-term goals are more important to the Chinese than the specific current objectives typical of Western negotiators. Even though market forces now have more influence in China, political and economic agendas are still expected to be considered in negotiations. Economic conditions, political pervasiveness, and the influence that political and state

(*Continued*)

MAP 5-1 China



agencies have on the negotiating parties in China are key practical factors that, added to cultural factors, make up the context affecting Chinese negotiations.

Businesspeople report two major areas of conflict in negotiating with the Chinese: (1) the amount of detail the Chinese want about product characteristics and (2) their apparent insincerity about reaching an agreement. In addition, Chinese negotiators frequently have little authority, frustrating Americans who do have the authority and are ready to conclude a deal.[46] This situation arises because many Chinese companies report to the government trade corporations, which are involved in the negotiations and often have a representative on the team. Often, the goals of Chinese negotiators remain primarily within the framework of state planning and political ideals. Although China has become more profit-oriented, most deals are still negotiated within the confines of the state budget allocation for that project rather than because of a project's profitability or value. It is crucial, then, to find out which officials—national, provincial, or local—have the power to make, and keep, a deal. According to James Broering of Arthur Andersen, who does much business in China, "companies have negotiated with government people for months, only to discover that they were dealing with the wrong people."[47]

Research shows that for the Chinese, three cultural norms greatly affect the negotiation process: their ingrained politeness and emotional restraint, their emphasis on social obligations, and their belief in the interconnection of work, family, and friendship. Because of the Chinese preference for emotional restraint and saving face, aggressive or emotional attempts at persuasion in negotiation are likely to fail. Instead, the Chinese tendency to avoid open conflict will more likely result in negative strategies such as discontinuing or withdrawing from negotiation.[48] The concept of face is at the heart of this kind of response—it is essential for foreigners to recognize the role that face behavior plays in negotiations. There are two components of face—*lien* and *mien-tzu. Lien* refers to a person's moral character; it is the most important thing defining that person, and without it, one cannot function in society. It can only be earned by fulfilling obligations to others. *Mien-tzu* refers to one's reputation or prestige, earned through accomplishments or through bureaucratic or political power.[49] Giving others one's time, gifts, or praise enhances one's own face. In negotiations, it is vital for you not to make it obvious that you have won, because that means that the other party has lost and will lose face. One must, therefore, make token concessions and other attempts to show that respect must be demonstrated, and modesty and control must be maintained; otherwise, anyone who feels he or she has lost face will not want to deal with you again. The Chinese will later ignore any dealings or incidents that caused them to lose face, maintaining the expected polite behavior out of social consciousness and

concern for others. When encountering an embarrassing situation, they will typically smile or laugh in an attempt to save face, responses that are confusing to Western negotiators.[50]

It is critical that you give face, save face and show face when doing business in China.[51]

Generally, Westerners tend to feel that the Chinese negotiators are not truthful with them and do not give them straight answers. In turn, the Chinese sense that tension and feel a lack of trust in the Westerners.[52] Research by Chua emphasized the need for Western negotiators to develop their Chinese counterparts' trust in their competence and capability; without that trust, there will not be a constructive long-term relationship.[53] The emphasis on social obligations underlies the strong orientation of the Chinese toward collective goals. Therefore, appeals to individual members of the Chinese negotiating team, rather than appeals to benefit the group as a whole, will probably backfire. The Confucian emphasis on the kinship system and the hierarchy of work, family, and friends explains the Chinese preference for doing business with familiar, trusted people and trusted companies. Foreign negotiators, then, should focus on establishing long-term, trusting relationships, even at the expense of some immediate returns.

Deeply ingrained in the Chinese culture is the importance of harmony for the smooth functioning of society. Harmony is based primarily on personal relationships, trust, and ritual. After the Chinese establish a cordial relationship with foreign negotiators, they use this relationship as a basis for the give-and-take of business discussions. This implicit cultural norm is commonly known as *guanxi*, which refers to the intricate, pervasive network of personal relations that every Chinese carefully cultivates. It is the primary means of getting ahead, in the absence of a proper commercial legal system.[54] In other words, *guanxi* establishes obligations to exchange favors in future business activities.[55] Even within the Chinese bureaucracy, *guanxi* prevails over legal interpretations. Although networking is important anywhere to do business, the difference in China is that "*guanxi* networks are not just commercial, but also social, involving the exchange both of favor and affection."[56] Firms that have special *guanxi* connections and give preferential treatment to one another are known as members of a *guanxihu* network.[57] Sunny Zhou, general manager of Kunming Lida Wood and Bamboo Products, states that when he shops for lumber, "The lumber price varies drastically, depending on whether one has strong *guanxi* with the local administrators."[58] Western managers should thus anticipate extended preliminary visiting (relationship building), in which the Chinese expect to learn more about them and their trustworthiness. The Chinese also use this opportunity to convey their deeply held principles. They attach considerable importance to mutual benefit.[59]

Americans often experience two negotiation stages with the Chinese: the technical and the commercial. During the long technical stage, the Chinese want to hammer out every detail of the proposed product specifications and technology. If there are two teams of negotiators, it actually may be several days before the commercial team is called in to deal with aspects of production, marketing, pricing, and so forth. However, the commercial team should sit in on the first stage to become familiar with the Chinese negotiating style.[60] The Chinese negotiating team is usually about twice as large as the Western team; about a third of the time is spent discussing technical specifications and another third on price negotiations, with the rest devoted to general negotiations and posturing (see Figure 5-1).[61]

The Chinese are among the toughest negotiators in the world. American managers must anticipate various tactics, such as their delaying techniques and their avoidance of direct, specific answers; they use both ploys to exploit Americans' known impatience. The Chinese frequently try to put pressure on Americans by shaming them, thereby implying that the Americans are trying to renege on the friendship—the basis of the implicit contract. Whereas Westerners come to negotiations with specific and segmented goals and find it easy to compromise, the Chinese are reluctant to negotiate details. They find it difficult to compromise and trade because they have entered negotiations with a broader vision of achieving development goals for China, and they are offended when Westerners don't internalize those goals.[62] Under these circumstances, the Chinese will adopt a rigid posture, and no agreement or contract is final until the negotiated activities have actually been completed. Successful negotiations with the Chinese depend on many factors. Research by Fang et al. found the top success factors to be sincerity on behalf of the Western team, their team's preparation, technical expertise, patience, knowledge of PRC (People's Republic of China) business practices, and good personal relationships.[63] Generally speaking, patience, respect, and experience are necessary prerequisites for anyone negotiating in China. For the best outcomes, older, more experienced people are more acceptable to the Chinese in cross-cultural negotiations. The Chinese want to deal with the top executive of an American company, under the assumption that the highest officer has attained that position by establishing close personal relationships and trust with colleagues and others outside the organization.[64] During introductions, the Western group should line up according to seniority and greet the most senior Chinese representative first. He or she may be greeted with applause, in which case, he or she should applaud back.[65] Use full names and titles

(*Continued*)

FIGURE 5-1 Chinese-Western negotiation teams



Paylessimages/Fotolia

until invited to do otherwise. "To beckon a Chinese person, face the palm of your hand downward and move your fingers in a scratching motion. Never use your index finger to beckon anyone."[66]

Western delegation practices are unfamiliar to many Chinese, and they are reluctant to come to an agreement without the presence of the Chinese foreign negotiator.[67] From the Western perspective, confusing jurisdictions of government ministries hamper decisions in negotiations. Americans tend to send specific technical personnel with experience in the task at hand; therefore, they have to take care in selecting the most suitable negotiators. In addition, visiting negotiating teams should realize that the Chinese are probably negotiating with other foreign teams, often at the same time, and will use that setup to play one company's offer against the others. On an interpersonal level, Western negotiators must also realize that, although a handshake is polite, physical contact is not acceptable in Chinese social behavior, nor are personal discussion topics such as one's family. However, it is customary to give and take small gifts as tokens of friendship. Keep in mind the following tips.[68]

- Some time before the trip, establish a contact in China who will act as a reference; be your interpreter; and navigate you through the bureaucracy, legal system, and local business networks.
- Be very prepared before doing business in China. The Chinese plan meticulously and will know your business, and possibly you, inside out.
- Send some literature about your company in advance and convey a set agenda before each meeting. Be punctual, or you will insult them before you start; begin with small, polite social talk but avoid politics.
- Expect initial meetings to involve long, convoluted discussions that are really intended to get to know one another, establish trust, and find out the actual goals of your team.
- The Chinese are not confrontational and will not say "no." You will need to be observant and recognize that perhaps those items are not negotiable.
- Practice patience. Introducing delays and obstacles is a Chinese negotiating tactic. They will wait until the deadline has passed and demand another concession, knowing that the Westerners are focused on their deadline for departure, so let them know your schedule is open and keep calm.
- Expect prolonged periods of stalemate; hang loose and don't say anything about the point in question. Try to change the momentum by, say, suggesting going to dinner.
- Refrain from exaggerated expectations and discount Chinese rhetoric about future prospects.
- Remember at all times to save face for everyone and keep in mind the importance of trust and *guanxi* in negotiations.

China's rapidly changing business environment is apparent in more professionalism in the negotiation process. At the same time, research by Fang et al. shows that "one should not underestimate the impact of culture on Chinese business negotiations. Western companies that seek to succeed in China need to demonstrate sincerity and commitment in conducting business in order to gain the Chinese partner's trust as this appears to be the ultimate predictor for success of business relations in China."[69]

EXHIBIT 5-6 Negotiation Conflicts between Low-Context and High-Context Cultures

Low-Context Conflict Area	High-Context Conflict Area
Explicit and direct; verbal; linear presentation of facts, rationale, analysis.	Implicit, indirect discussion and decision-making; non-verbal; may be circular logic.
Individualistic; tend to be short-term-oriented.	Collective; group motivations and decisions by consensus.
Task-oriented. Up-front, impatient, sometimes confrontational; action and solution directive.	Tend to be long-term-oriented. "Face" and relationship-oriented; indirect, non-confrontational, patient.

Source: Based on W. Gudykunst, L. Stewart, and S. Ting-Toomey, *Communication, Culture, and Organizational Processes* (Sage Publications, 1985).

Context in Negotiations

As discussed in Chapter 4, much of the difference in communication styles is attributable to whether you belong to a high-context or low-context culture (or somewhere in between, as shown in Exhibit 4-4). In low-context cultures such as that in the United States, conflict is handled directly and explicitly. It is also regarded as separate from the person negotiating—that is, the negotiators draw a distinction between the people involved and the information or opinions they represent. They also tend to negotiate based on factual information and logical analysis. That approach to conflict is called **instrumental-oriented conflict**.[70] In high-context cultures, such as in the Middle East, the approach to conflict is called **expressive-oriented conflict**—that is, the situation is handled indirectly and implicitly, without clear delineation of the situation by the person handling it. Such negotiators do not want to get into a confrontational situation because it is regarded as insulting and would cause a loss of face, so they tend to use evasion and avoidance if they cannot reach agreement through emotional appeals. Their avoidance and inaction conflict with the expectations of the low-context negotiators who are looking to move ahead with this matter and arrive at a solution.

The differences between high- and low-context cultures that often lead to conflict situations are summarized in Exhibit 5-6. Most of these variables were discussed previously in this chapter or in Chapter 4. They overlap because the subjects, culture, and communication are inseparable and because negotiation differences and conflict situations arise from variables in culture and communication.

So, how can a manager from France, Japan, or Brazil, for example, manage conflict situations? The solution, as discussed previously, lies mainly in one's ability to know and understand the people and the situation to be faced. Managers must be prepared by developing an understanding of the cultural contexts in which they will be operating. What are the expectations of the persons with whom they will be negotiating? What kinds of communication styles and negotiating tactics should they expect, and how will they differ from their own? It is important to bear in mind one's own expectations and negotiating style as well as to be aware of the other parties' expectations. Managers ought to consider in advance what it will take to arrive at a win–win solution. Often it helps to use the services of a host-country adviser or mediator, who may be able to help defuse a conflict situation early.

DECISION MAKING

5-5. To appreciate the variables in the decision-making process and understand the influence of culture on decision making

Negotiation actually represents the outcome of a series of small and large decisions. The decisions include those each party makes before actual negotiations start—for example, in determining the position of the company and what fallback proposals it may suggest or accept. The decisions also include incremental decisions, made during the negotiation process, about how to react and proceed, when to concede, and on what to agree or disagree. Negotiation can thus be seen as a series of explicit and implicit decisions, and the subjects of negotiation and decision making become interdependent.

For instance, sometimes just the way a decision is made during the negotiation process can have a profound influence on the outcome, as this example from a book by Copeland and Griggs shows.

> *In his first loan negotiation, a banker new to Japan met with seven top Japanese bankers who were seeking a substantial amount of money. After hearing their presentation, the American agreed on the spot. The seven Japanese then conferred among themselves and told the American they would get back to him in a couple of days regarding whether they would accept his offer or not. The American banker learned a lesson he never forgot.*[71]

The Japanese bankers expected the American to negotiate, to take time to think it over, and to consult with colleagues before giving the final decision. His immediate decision made them suspicious, so they decided to reconsider the deal.

There is no doubt that the speed and manner of decision making affect the negotiation process. In addition, how well negotiated agreements are implemented is affected by the speed and manner of decision making. In that regard, it is clear that the effective use of technology is playing an important role, especially when dealing with complex cross-border agreements in which the hundreds of decision makers involved are separated by time and space.

The role of decision making in management, however, goes far beyond the finite occasions of negotiations. It is part of the manager's daily routine—from operational-level, programmed decisions requiring minimal time and effort to those decisions not programmed, of far broader scope and importance, such as the decision to enter into a joint venture in a foreign country.

The Influence of Culture on Decision Making

It is crucial for international managers to understand the influence of culture on decision-making styles and processes. Culture affects decision making both through the broader context of the nation's institutional culture, which produces collective patterns of decision making, and through culturally based value systems that affect each individual decision maker's perception or interpretation of a situation.[72] It is also crucial to understand how the political and business environment affects a firm's strategic decisions and negotiations as illustrated in the following "Under the Lens" feature in which Ryanair pursues various deals and wrestles with ownership rights in a cloud of uncertainty about the fate of the relationship between the UK and EU, going into 2019.



UNDER THE LENS

Ryanair Secures UK Licence in Preparation for No-Deal Brexit[73]

Low-cost carrier Ryanair has secured a UK operating licence, meaning the London-listed and Dublin-based airline can continue domestic flights in the country and flights from Britain to outside the EU in the event of a no-deal Brexit.

Juliusz Komorek, Ryanair's chief legal and regulatory officer, warned that the risks of a no-deal Brexit were rising and called for the UK and EU to agree a transition deal to avoid disruption to holidays in the summer.

The airline applied for the air operating certificate in late 2017.

Its UK domestic routes accounted for only 1 per cent of capacity in 2018, according to its annual report, but it also flies from the UK to non-EU destinations, including Morocco and Norway.

Hungary's Wizz Air obtained a UK operating licence in May 2018 for the same reason, while easyJet, a UK-based company, has been granted an Austrian operating licence to ensure European flights in the region can continue.

Ryanair is facing ownership problems around Brexit too.

Under existing rules, airlines must prove they are 50 per cent EU owned and controlled to qualify for operating licences.

Ryanair has tried to respond to the problem by preparing plans to take away voting rights from its non-EU shareholders to ensure it reaches the threshold.

In November, Ryanair stirred anger among some of its pilots as it started to recruit for a UK subsidiary, established to protect the company against a no-deal Brexit.

Pilots said the salaries offered at the subsidiary undermined Ryanair's claims about how much they earn — which the airline has insisted would not be lower than those of pilots flying for the parent group and can be up to €200,000 (£178,000).

The news about its UK licence came as Ryanair faced three days of strikes in January 2019 from its Spanish cabin crew.

Unions SITCPLA and USO have scheduled industrial action on January 8, 10 and 13 after failing to reach an agreement with Ryanair on employing its members under local law, rather than Irish, as the airline does at the moment.

The unions said the airline's behaviour was "absurd and childish". Ryanair did not respond to a request for comment on the Spanish strikes.

The carrier has been engaged in negotiations with its unions since agreeing to recognise them in late 2017 after a rostering failure and staff shortage led to thousands of cancellations.

It faced several days of strikes last summer, causing the cancellation of thousands of flights.

Ryanair has been making gradual progress in resolving its industrial relations problems.

At the end of November (2018), it signed a framework agreement with its German pilots ahead of a collective labour agreement early next year, and it has reached collective labour agreements with cabin crew in Germany, Belgium and Italy.

Source: © The Financial Times Limited 2019.

The extent to which decision making is influenced by culture varies among countries. For example, Hitt, Tyler, and Park have found a "more culturally homogenizing influence on the Korean executives' cognitive models" than on those of U.S. executives, whose individualistic tendencies lead to different decision patterns.[74] The ways that culture influences an executive's decisions can be studied by looking at the variables involved in each stage of the rational decision-making process. These stages are (1) defining the problem, (2) gathering and analyzing relevant data, (3) considering alternative solutions, (4) deciding on the best solution, and (5) implementing the decision.

One of the major cultural variables affecting decision making is whether a people tend to assume an objective approach or a subjective approach. Whereas the Western approach is based on rationality (managers interpret a situation and consider alternative solutions based on objective information), this approach is not common throughout the world. Latin Americans, among others, tend to be more subjective, basing decisions on emotions.

Another cultural variable that greatly influences the decision-making process is the risk tolerance of those making the decision. Research shows that people from Belgium, Germany, and Austria have a considerably lower tolerance for risk than people from Japan or the Netherlands—whereas American managers have the highest tolerance for risk.[75]

In addition, an often-overlooked but important variable in the decision-making process is the manager's perception of the locus of control over outcomes—whether that locus is internal or external. Some managers feel they can plan on certain outcomes because they are in control of events that will direct the future in the desired way. In contrast, other managers believe that such decisions are of no value because they have little control over the future—which lies in the hands of outside forces, such as fate, God, or nature. American managers believe strongly in self-determination and perceive problem situations as something they can control and should change. However, managers in many other countries, Indonesia and Malaysia among them, tend to be resigned to problem situations and do not feel that they can change them. Obviously, these different value systems will result in a great difference in the stages of consideration of alternative actions and choice of a solution, often because certain situations may or may not be viewed as problems in the first place.

Yet another variable that affects the consideration of alternative solutions is how managers feel about staying with familiar solutions or trying new ones and about how receptive local customers will be to a company's offerings, which was the case for Spotify as it sought to expand globally using licensing agreements in various countries—especially Latin America, as illustrated in the following "Management in Action: Spotify's Plan to Beat Apple: Sign the Rest of the World."

MANAGEMENT IN ACTION

Spotify's Plan to Beat Apple: Sign the Rest of the World[76]

Few could be happier about the synergy between music streaming and Latin America than Spotify — whose stock price, and arguably its future, depend on repeating the same trick in new markets.

Spotify needs to keep adding subscribers to make Wall Street happy as it battles Apple, one of the richest companies in the world, to dominate how people listen to music. There is a finite amount of affluent 20-somethings in western cities to pay Spotify $10 a month for its services. However, after growing at a torrid clip in Europe and the US, investors are betting that Spotify can sign up hundreds of millions of people in what the Swedish company bluntly calls the "Rest of the World".

So far Latin America is the only emerging market where the Spotify model has worked meaningfully — a phenomenon that caught senior executives by surprise when it entered Mexico six years ago. Spotify became the dominant paid streaming service in Latin America with minimal effort; to this day a few dozen employees working out of a Miami WeWork office run the operation for the whole continent.

…"Chile is now one of our fastest-growing markets, and we've never even sent an employee there," says Will Page, Spotify's director of economics, who expects Mexico and Brazil to overtake the UK and Germany in subscriptions.

Emboldened by the results in Latin America, founder Daniel Ek is convinced that he can replicate this across the globe...Mr Ek made grand proclamations about the billions of smartphone owners across the world who do not yet use his music app. "We're working on launching in some of the biggest markets in the world, places like India, Russia and Africa," he said.

Spotify has made strides: in November (2018) it debuted in the Middle East, while last year it also entered South Africa, Israel, Vietnam and Romania.

In the US, the biggest music market, Apple recently ousted Spotify from its throne to become the most popular paid music streaming service. And Spotify has hit a large speed bump in its quest for global domination: India. The country has become a bargaining chip in the jockeying between the tech company and the music industry.[77]

Spotify launched in India — a crucial market — on Wednesday [27 February 2019] despite a copyright lawsuit filed by Warner Music Group. Warner Music Group, one of the three big record labels, has gone to the High Court of Mumbai to seek an injunction to prevent Spotify from using its music, claiming in a statement earlier this week that the service had "falsely asserted a statutory license" in India.[78]

The court has deferred Warner's application for an injunction, paving the way for Spotify's launch in the country.

Spotify is available for free in India with a premium service priced at Rs119 ($1.67) a month. It is offering its service in multiple languages and has customised Bollywood playlists.

...Music executives in places such as Canada and Japan were hesitant to trust Spotify, resulting in years of painstaking negotiations to launch in those countries.[79]

... Spotify launched in Mexico in 2013, and then Brazil a year later. The service was available in all of Latin America before it entered Canada. The company had a lot of wind in its sails: half the population in Latin America is under 30, which is Spotify's core audience; a rising middle class was growing, so there were more people able to pay the fee; and the Latin market is radio-driven, which lent itself well to Spotify's style of inundating users with playlists and suggested songs.

While CDs were restricted by geography — they had to be pressed and then delivered to shops and online retailers — anyone with a data plan can participate in the global music industry. Just by scooping up the initial group of people in populous countries such as Brazil or Mexico who are wealthy, have credit cards and had heard of Spotify, it was enough to generate a user base on par with that of small European countries. Mexico has grown into Spotify's largest user base, ahead of the US and UK. For many of the biggest western stars, such as Adele and Radiohead, Mexico City is their number one market on Spotify.[80]

There are local challenges that make India a difficult market for western companies, from Amazon to Walmart. In India, Spotify would compete with Apple, Amazon and YouTube, in addition to local players such as Hungama, Gaana and Saavn. None of these services has had success in persuading people to pay for music in India. Although 216m people were using streaming services in the country at the end of 2017, only 1m of them actually paid for them, according to Midia. ...In India, Spotify's licensing negotiations reached a stalemate as the major labels pushed back on Spotify's requests to offer free trials for several months in the country, according to people briefed on the talks. In China, Spotify last year exchanged equity stakes with Tencent Music to gain a foothold in the fastgrowing market.[81]

Source: © The Financial Times Limited 2019.

Approaches to Decision Making

In addition to affecting different stages of the decision-making process, value systems influence the overall approach of decision makers from various cultures. The relative level of *utilitarianism versus moral idealism* in any society affects its overall approach to problems. Generally speaking, utilitarianism strongly guides behavior in the Western world. Research has shown that Canadian executives are more influenced by a short-term, cost–benefit approach to decision making than their Hong Kong counterparts.

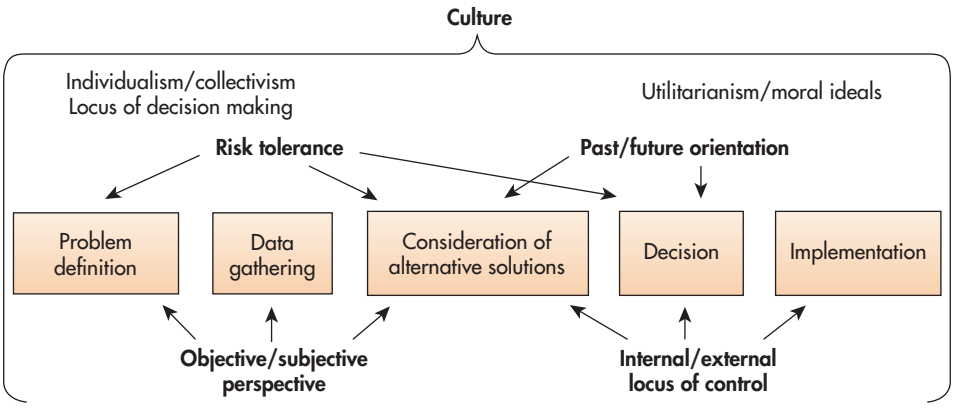
Another important variable in companies' overall approach to decision making is that of *autocratic versus participative leadership*. In other words, who has the authority to make what kinds of decisions? A society's orientation—whether it is individualistic or collectivist (see Chapter 3)—influences the level at which decisions are made. In many countries with hierarchical cultures—Germany, Turkey, and India, among others—authorization for action has to be passed upward through echelons of management before final decisions can be made. Most employees in these countries simply expect the autocrat—the boss—to do most of the decision making and will not be comfortable otherwise. Even in China, which is a highly collectivist society, employees expect autocratic leadership because their value system presupposes the superior to be automatically the most wise. In comparison, decision-making authority in Sweden is very decentralized. Americans talk a lot about the advisability of such participative leadership, but in practice, they are probably near the middle between autocratic and participative management styles.

Arab managers have long traditions of consultative decision making, supported by the Qur'an and the sayings of Muhammad. However, such consultation occurs more on a person-to-person basis than during group meetings and thus diffuses potential opposition.[82] Although business in the Middle East tends to be transacted in a highly personalized manner, the top leaders make the final decisions and feel that they must impose their will for the company to be successful. In comparison, in cultures that emphasize collective harmony, such as Japan, participatory or group decision making predominates, and consensus is important. The best-known example is the bottom-up (rather than top-down) decision-making process used in most Japanese companies, described in more detail in the accompanying "Comparative Management in Focus" section.

One final area of frequent incongruence concerns the relative speed of decision making. A country's culture affects how fast or slow decisions tend to be made. The relative speed may be closely associated with the level of delegation, as just discussed—but not always. The pace at which decisions are made can be very disconcerting for outsiders. North Americans and Europeans pride themselves on being decisive; managers in the Middle East, with a different sense of temporal urgency, associate the importance of the matter at hand with the length of time needed to make a decision. Without knowing this cultural attitude, a hasty American would insult an Egyptian; a quick decision, to the Egyptian, would reflect a low regard for the relationship and the deal.

Exhibit 5-7 illustrates, in summary form, ways in which the variables just discussed can affect the steps in the decision-making process.

EXHIBIT 5-7 Cultural Variables in the Decision-Making Process



Comparative Management in Focus

Decision Making in Japanese Companies

The length of the decision-making process is one of the most common complaints of anyone who works with or for Japanese organizations.[83]

ROCHELLE KOPP, MANAGING PRINCIPAL, JAPAN INTERCULTURAL CONSULTING

Japanese companies are involved in joint ventures throughout the world, especially with U.S. companies. The GM–Toyota joint venture agreement process, for example, was the result of more than two years of negotiation and decision making; in similar alliances, Americans and Japanese are involved in decision making at all levels on a daily basis. The Japanese decision-making process differs greatly not only from the U.S. process but also from that of many other countries—-especially at the higher levels of their organizations.

An understanding of the Japanese decision-making process—and indeed of many Japanese management practices—requires an understanding of Japanese national culture. Much of the Japanese culture and, therefore, the basis of Japanese working relationships, can be explained by the principle of *wa*, meaning "peace and harmony." This principle is one aspect of the value the Japanese attribute to *amae*, meaning "indulgent love," a concept probably originating in the Shinto religion, which focuses on spiritual and physical harmony. *Amae* results in *shinyo*, which refers to the mutual confidence, faith, and honor required for successful business relationships. The principle of *wa* influences the work group, the basic building block of Japanese work and management. The Japanese strongly identify with their work groups, where the emphasis is on cooperation, participative management, consensus problem solving, and decision making based on a patient, long-term perspective. Open expression of conflict is discouraged, and it is of utmost importance to avoid embarrassment or shame—to lose face—because of not fulfilling one's obligations. These elements of work culture generally result in a devotion to work, a collective responsibility for decisions and actions, and a high degree of employee productivity. It is this culture of collectivism and shared responsibility that underlies the Japanese *ringi* system of decision making.

In the *ringi* system, the process works from the bottom up. Americans are used to a centralized system, where major decisions are made by upper-level managers in a top-down approach typical of individualistic societies. The Japanese process, however, is dispersed throughout the organization, relying on group consensus.

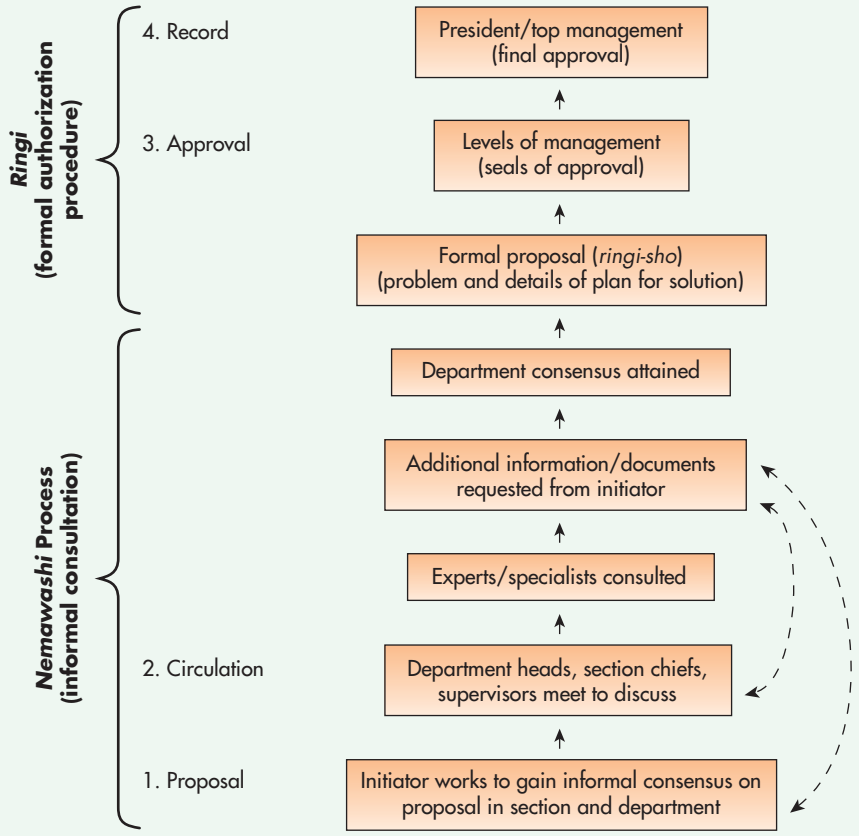
The *ringi* process is one of gaining approval on a proposal by circulating documents to those concerned throughout the company. It usually comprises four steps: proposal, circulation, approval, and record.[84] Usually, the person who originates the written proposal, which is called a *ringi-sho*, has already worked for some time to gain informal consensus and support for the proposal within the section and then from the department head.[85] The next step is to attain a consensus in the company from those who would be involved in implementation. To this end, department meetings are held, and, if necessary, expert opinion is sought. If more information is needed, the proposal goes back to the originator, who finds and adds the required data. In this way, much time and effort—and the input of many people—go into the proposal before it becomes formal.[86]

Up to this point, the process has been an informal one to gain consensus; it is called the *nemawashi* process. Then the more formal authorization procedure begins, called the *ringi* process. The *ringi-sho* is passed up through successive layers of management for approval—the approval made official by seals. In the end, many such seals of approval are gathered, thereby ensuring collective agreement and responsibility and giving the proposal a greater chance of final approval by the president. The whole process is depicted in Exhibit 5-8.

The *ringi* system is cumbersome and very time-consuming prior to the implementation stage, although implementation is facilitated because of the widespread awareness of and support for the proposal already gained throughout the organization. However, its slow progress is problematic when decisions are time-sensitive. This process is the opposite of the Americans' top-down decisions, which are made quite rapidly and without consultation, but which then take time to implement because unforeseen practical or support problems often arise.

Another interesting comparison is often made regarding the planning horizon (aimed at short- or long-term goals) in decision making between the American and Japanese systems. The Japanese spend considerable time in the early stages of the process, defining the issue, considering what the issue is all about, and determining whether there is an actual need for a decision. They are more likely

EXHIBIT 5-8 Decision-Making Procedure in Japanese Companies



than Americans to consider an issue in relation to the overall goals and strategy of the company. In this manner, they prudently look at the big picture and consider alternative solutions instead of rushing into quick decisions for immediate solutions, as Americans tend to do.[87]

> *The challenge for Japanese companies today is that the quickening rate of technological progress is leading to radically shortened product lifecycles and rapidly emerging opportunities.*[88]
>
> ROCHELLE KOPP

Of course, in a rapidly changing environment, quick decisions are often necessary—to respond to competitors' actions, a political uprising, and so forth—and it is in such contexts that the *ringi* system sometimes falls short because of its slow response rate. However, the Japanese culture does not regard time as such a valuable commodity as those in the West; they feel that a good outcome requires a thorough and consensus-building decision. The system is, in fact, designed to manage continuity and avoid uncertainty, which is considered a threat to group cohesiveness.[89]

CONCLUSION

It is clear that competitive positioning and long-term successful operations in a global market require a working knowledge of the decision-making and negotiating processes of managers from different countries. These processes are complex and often interdependent, and are deeply ingrained into their culture. Although managers may make decisions that do not involve negotiating, they cannot negotiate without making decisions, however small, or they would not be negotiating. In addition, managers must understand the behavioral aspects of these processes to work effectively with people in other countries or with a culturally diverse workforce in their own countries.

With an understanding of the environment and cultural context of international management as background, we move next, in Part 3, to planning and implementing strategy for international and global operations.

Summary of Key Points

- The ability to negotiate successfully is one of the most important in international business. Managers must prepare for certain cultural variables that influence negotiations, including the relative emphasis on task versus interpersonal relationships, the use of general principles versus specific details, the number of people present, and the extent of their influence.
- The negotiation process typically progresses through the stages of preparation, relationship building, exchange of task-related information, persuasion, and concessions and agreement. The process of building trusting relationships is a prerequisite to doing business in many parts of the world.
- Culturally based differences in verbal and nonverbal negotiation behavior influence the negotiation process at every stage. Such tactics and actions include promises, threats, initial concessions, silent periods, interruptions, facial gazing, and touching; some parties resort to various dirty tricks.
- The effective management of negotiation requires an understanding of the perspectives, values, and agendas of other parties and the use of a problem-solving approach.
- The Internet is used increasingly to support the negotiation of contracts and resolution of disputes. Websites that provide open auctions take away the personal aspects of negotiations, though those aspects are still essential in many instances.
- Translators can be an important part of cross-border negotiations. To ensure their effectiveness, negotiators need to hand-pick them and use independent references. Also, negotiators need to brief them before the negotiation and gauge their self-interest during the negotiation. Lastly, negotiators need to speak in short segments and pause frequently so translators can interpret and communicate effectively with counterparts.
- Decision making is an important part of the negotiation process as well as an integral part of a manager's daily routine. Culture affects the decision-making process both through a society's institutions and through individuals' risk tolerance, their objective versus subjective perspectives, their perceptions of the locus of control, and their past versus future orientations.

Discussion Questions

5-1. Discuss the stages in the negotiation process and how culturally based value systems influence these stages. Specifically, address the following.
- Explain the role and relative importance of relationship-building in different countries.
- Discuss the various styles and tactics that can be involved in exchanging task-related information.
- Describe differences in culturally based styles of persuasion.
- Discuss the kinds of concession strategies a negotiator might anticipate in various countries.

5-2. Discuss the relative use of nonverbal behaviors, such as silent periods, interruptions, facial gazing, and touching, by people from various cultural backgrounds. How does this behavior affect the negotiation process in a cross-cultural context?

5-3. Describe what you would expect in negotiations with the Chinese and how you would handle various situations.

5-4. What are some of the differences in risk tolerance around the world? What is the role of risk propensity in the decision-making process?

5-5. Explain differences in culturally based value systems relative to the amount of control a person feels he or she has over future outcomes. How does this belief influence the decision-making process?

Experiential Exercises

Multicultural Negotiations

Goal

To experience, identify, and appreciate the problems associated with negotiating with people of other cultures.

Instructions (Note: Your professor will give out additional instruction sheets)

1. Eight student volunteers will participate in the role-play. Four represent a Japanese automobile manufacturer, and four represent a U.S. team that has come to sell microchips and other components to the Japanese company. The remainder of the class will observe the negotiations.
2. The eight volunteers will divide into the two groups and then separate into different rooms if possible. At that point, they will be given instruction sheets. Neither team can have access to the other's instructions. After dividing the roles, the teams should meet for 10 to 15 minutes to develop their negotiation strategies based on their instructions.
3. While the teams are preparing, the room will be set up, using a rectangular table with four seats on each side. The Japanese side will have three chairs at the table with one chair set up behind the three. The American side of the table will have four chairs side by side.

4. Following these preparations, the Japanese team will be brought in so they may greet the Americans when they arrive. At this point, the Americans will be brought in, and the role-play begins. Time for the negotiations should be 20 to 30 minutes. The rest of the class will act as observers and will be expected to provide feedback during the discussion phase.
5. When the negotiations are completed, the student participants from both sides and the observers will complete their feedback questionnaires. Class discussion of the feedback questions will follow.

Feedback Questions for the Japanese Team

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the American team was?
3. What role (e.g., decider, influencer) did each member of the American team play?

   Mr. Jones
   Mr./Ms. Smith
   Mr./Ms. Nelson
   Mr./Ms. Frost
4. How would you rate the success of each of the American team members in identifying your team's needs and appealing to them?

   Mr./Ms. Jones, Vice President and Team Leader
   Mr./Ms. Smith, Manufacturing Engineer
   Mr./Ms. Nelson, Marketing Analyst
   Mr./Ms. Frost, Account Executive
5. What strategy should the American team have taken?

Feedback Questions for the American Team

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the Japanese team was?
3. How would you rate the success of each of the American team members?

   Mr. Jones, Vice President and Team Leader
   Mr./Ms. Smith, Manufacturing Engineer
   Mr./Ms. Nelson, Marketing Analyst
   Mr./Ms. Frost, Account Executive
4. What would you say the goal of the American team was?
5. What role (e.g., decider, influencer, etc.) did each member of the Japanese team play?

   Mr. Ozaka
   Mr. Nishimuro
   Mr. Sheno
   Mr. Kawazaka
6. What strategy should the American team have taken?

Feedback Questions for the Observers

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the Japanese team was?
3. How would you rate the success of each of the American team members?

   Mr./Ms. Jones, Vice President and Team Leader
   Mr./Ms. Smith, Manufacturing Engineer
   Mr./Ms. Nelson, Marketing Analyst
   Mr./Ms. Frost, Account Executive
4. What would you say the goal of the American team was?
5. What role (e.g., decider, influencer, etc.) did each member of the Japanese team play?

   Mr. Ozaka
   Mr. Nishimuro
   Mr. Sheno
   Mr. Kawazaka
6. What strategy should the American team have taken?

Note: Your professor will give the instructions from the Instructor's Manual for this exercise.

Source: E. A. Diodati, in C. Harvey and M. J. Allard, *Understanding Diversity* (New York: HarperCollins Publishers, 1995). Used with permission.

CASE STUDY

India's Ecommerce Crackdown Upends Big Foreign Players[90]

Saifuddin Bhanpurawala is one of dozens of shopkeepers on a dusty Mumbai back street that bustles with customers buying everything from tobacco to perfume.

But Mr Bhanpurawala's mobile phone shop is going through hard times, selling as few as two handsets in a bad week. He says the reason is obvious: the huge discounts available online at Amazon and Walmart-owned Flipkart, the two biggest players in India's fast-growing ecommerce sector.

"If we sell something at Rs5,000 [$70], they might sell it at Rs2,500 — we don't understand how it's possible," said Mr Bhanpurawala, 28. He argued that the Indian government's tolerance of such practices has demonstrated its lack of concern for small businesses: "The rich are getting richer and the poor are getting poorer."

With a general election just four months away, prime minister Narendra Modi is moving to address such complaints. Amazon and Flipkart have been given until the end of this month to comply with new restrictions, announced in late December, that sharply restrict the use of their hefty balance sheets to boost sales on their virtual marketplaces.

But while the move is intended to strengthen the government's credentials among India's millions of small retailers, it has sparked alarm for two of the country's biggest outside investors. Walmart's $16bn buyout of Flipkart last year was the biggest foreign direct investment in Indian history, while Amazon has committed $5bn in capital to its Indian operation.

"A sudden change in rules is not helpful," said Mukesh Aghi, president of the US-India Strategic Partnership Forum, which works to build economic ties between the countries. "It sends a message to groups that the environment is not transparent."

'Behave like a marketplace'

When India opened its economy to foreign capital in the 1990s, it was careful to maintain protection for small retailers. Foreign investment was allowed in single-brand but not multi-brand retail—allowing clothing labels, for example, to open stores but keeping out the foreign supermarket chains that were feared by many shopkeepers.

As ecommerce took off, New Delhi updated these rules for the internet age. Foreign-backed companies would be allowed to run virtual "marketplaces"—platforms enabling independent sellers to connect with customers. But they were barred from selling goods themselves, stopping them from functioning as online supermarkets.

The vague wording of the rules, however, meant that Amazon and Flipkart—backed with billions in capital from foreign investors led by US fund Tiger Global—quickly found ways to use their balance sheets to turbo-charge growth, outraging peers in the industry.

"We were flabbergasted all the while at the blatant violations of the FDI policy," said Sanjay Sethi, chief executive of ShopClues, one of the largest rivals to the dominant duo. "We started doubting ourselves—are we not interpreting these rules correctly?"

Partnering a fund controlled by Narayana Murthy, co-founder of IT services group Infosys, Amazon formed a joint venture that in turn owned Cloudtail India, a new company that would sell products ranging from electronics to breakfast cereal. Cloudtail is by far the biggest seller on Amazon's Indian marketplace, with revenue of $1bn in the last financial year ending March 2018.

Flipkart pursued a different tack. Instead of forming directly controlled sellers, it supplied many of them through a huge wholesale distributor, named Flipkart India. The distributor's revenue has far outstripped that of the online marketplace entity, while incurring heavy losses.

In the last financial year, Flipkart India made a net loss of $293m on sales of $3bn. That dwarfed the revenue of Flipkart Internet, the marketplace business, which booked sales of $398m, mostly on commissions charged to sellers.

From 2016, Amazon also dramatically increased the scale of its wholesale operation. In the last financial year, that business had revenue of $1.7bn, up from $458,000 two years before.

"They would strike a large deal with a brand and buy in bulk," claimed one rival ecommerce executive, alleging that the wholesaler would then supply the goods at low prices to certain "controlled sellers". The sellers would then offer the products on the marketplace at steep discounts from the prices available in offline shops.

"This was compliant with the letter of the law, but not the spirit," the person said.

But the new rules, announced in December (2018), strike hard at such practices. They stipulate that no seller on foreign-funded online marketplaces can source more than 25 per cent of its inventory from a wholesaler linked to the marketplace—banning sellers set up to shuttle goods between the two. They also state that no entity may sell on these marketplaces if any of its equity is owned by the marketplace or by any of the latter's "group companies".

"The government is saying: 'You're a marketplace, so behave like a marketplace,'" said Rajiv Chugh, a partner at EY.

Crackdown to benefit big Indian retailers

Amazon said it had "always operated in compliance with the laws of the land" and was "evaluating the new guidelines to engage as necessary with the government to gain clarity so that we remain true to our commitment".

Flipkart said it hoped "to be able to work with the government to promote fair, pro-growth policies that will continue to develop this nascent sector", adding that it would "ensure our compliance with all Indian laws".

But privately, the companies are lobbying the government to allow them more time to comply with the new rules, arguing the January 31 deadline will cause huge disruption to their businesses.

"There are a lot of sellers who buy from our wholesale entity—it will be hard for them to diversify the supply base so quickly," said a person with knowledge of Flipkart's position. "Such a massive impact so suddenly will leave capacity under-utilised."

Amazon-backed Cloudtail, meanwhile, will be faced with "huge losses" from hundreds of millions of dollars' worth of inventory that it will be unable to sell by January 31, warned Sanchit Vir Gogia, founder of retail research firm Greyhound Knowledge Group.

Some analysts have also questioned the motives behind the government's new rules. Arvind Singhal at Technopak, a consultancy, noted that the crackdown on foreign-backed ecommerce companies would benefit big Indian retail groups that are not subject to the new rules.

By far the biggest of these is Reliance Industries, controlled by Mukesh Ambani, Asia's richest person. While most of its revenue in recent years has come from oil products, Reliance also includes the country's biggest retail chain, and is now eyeing large-scale growth in ecommerce, after its $30bn mobile internet venture Jio signed up more than 250m users. Jio was among the local groups that took part in government consultations on ecommerce policy last year, to which Amazon and Flipkart were not invited.

By imposing restrictions on foreign-backed groups but not on locally owned conglomerates, New Delhi has signalled "that international companies will not have a level playing field", said Mr Aghi at USISPF.

But the measures will prove in the interest of Indian consumers, said Kunal Bahl, co-founder of Snapdeal, which bills itself as an even-handed online marketplace for small vendors. While shoppers may lose out on short-term discounting, he argued, they will enjoy a more competitive market in the long run.

"If they were providing great pricing while generating a profit, it would be a different conversation," he said. "But everyone knows that these companies are haemorrhaging cash while giving out all these promotions, and at some point they'll want to pull this back. They're not charitable organisations."

Source: © The Financial Times Limited 2019.

Case Questions

5-6. Who are the stakeholders in this situation, and what is at stake for each of them? (refer to ex. 5-1)

5-7. Discuss the negotiations and decisions among those parties that have been going on in this changing retail landscape. (refer to ex 5-2). What does the outcome mean at this stage for foreign companies like Amazon and Flipkart?

5-8. What negotiating power do foreign retail companies have with the Indian government?

5-9. What are the implications for companies like Amazon and Flipkart to expand into other developing countries?

5-10. Research updates to this retail situation in India.

Endnotes

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Case 3 Cross-Cultural Challenges for a Singaporean Expatriate in Zurich

This case study was written by Christina Neylan, lecturer of intercultural management at Lucerne University of Applied Sciences and Arts.[1]

From her office, Eunice catches a glimpse of the 11.45 A380 bound for Singapore; needless to say, it's on time – a typical Swiss cliché. Like the Singapore Airlines campaign slogan, no detail is too small, Cybot, a leading cybersecurity firm, is committed to innovation. Eunice is new in her role as Project Manager at Cybot, one of the big four leaders in the European marketplace with over 50 cybersecurity specialists staffing thousands of client engagements around Europe. She accepted the job in Zurich because it offered great professional opportunities. She relished the challenge of starting in a new city on her own, even though it was difficult saying goodbye to family and friends in Singapore. Four years ago, she moved to San Francisco to do a master's in cybercrime at the University of Southern California. Now, Eunice is experiencing homesickness for the first time and she is not sure why this move is proving so complicated.

"The meeting is about to start, Eunice."

Her assistant's voice snapped her out of her daydream. This morning's emergency meeting was called in the aftermath of a cyberattack on one of their biggest clients. The massive cyberattack brought down multiple sites and business units from government offices to shopping centres, even local banks. Andreas and Sam were huddled together in deep conversation when she entered the meeting room. Perhaps sensing her hesitation, Andreas, the CEO of Cybot, motioned to her to take a seat.

"DeltX has been hacked with personal details and credit card numbers at risk. We are not sure yet, but it looks like accounts from in excess of 500 customers were potentially accessed by hackers in the last few hours."

"This is the second such attack in four months; it's serious," said Sam, Cybot's Swiss COO, who shifted uncomfortably in his chair.

She sensed Sam's anxiety, which added to her own. Sam was distant, which made her nervous around him. On the other hand, Andreas liked her; he hired her because of her experience in the cybercrime industry, and her knowledge of the Asian market and her fluency in Chinese. Andreas has long-term plans to open a new office in Singapore but had not shared this information with anyone on his team. He offered Eunice a fair relocation package, including a generous salary. Tim, another member of staff, had applied for Eunice's job but had been turned down; Andreas wanted someone who spoke Chinese.

Andreas was stressed. "DeltX, one of the three major consumer credit reporting agencies in Europe, is our biggest customer; they will go public with this information in an hour and we need to come up with a plan quickly."

Andreas added, "Information security and privacy have become board-level challenges as well as issues; we need to act now."

Andreas had James Wu, Head of the IT at DeltX, on a teleconference.

"Hi James, the team are all gathered this morning," Andreas reassured. "The information systems and the cyber defense teams need to work closer together and pay more attention to the situation to contain it, especially as attacks are becoming more frequent and causing more damage."

James admitted, "The virus is believed to be ransomware – one of these pieces of software that shut down a computer system, and the perpetrators have already demanded a huge sum of money to fix the problem. We need to act quickly."

Eunice asked, "Do we know who is behind the latest attack? Our American and British analysts believe the attack earlier this month was carried out by North Korea." Andreas said, "We don't know yet, but one thing is for sure: we need to come up with a smart solution."

After an hour, the team, which was made up of software experts mostly Eunice's age, had come up with a solution to prevent the cyber thieves siphoning off any more personal information and they were able to put the new measures in place. The problem was fixed for now.

Andreas was not convinced. "Our promise is to deliver real lasting benefits for our clients, so we need to reduce the likelihood of it happening again."

Eunice was head-hunted for the job because of her experience managing a diverse international team on a number of security projects in Singapore. Cybot had a good reputation as firms go; it fosters a collaborative culture for people to work in as well as an innovative and dynamic environment. Andreas convinced her the move to Zurich is a good career move offering a great opportunity to work in a cutting-edge state-of-the-art company, with a talented team of young professionals from around the world. Yet, she was only too aware the move to Zurich meant she would be far away from Singapore, her family, and friends. Eunice was one of the youngest project managers in her company, and for a woman to reach that position so early on in her career was highly unusual. Her parents were her role models and encouraged her to strive for perfection. Her colleagues were not surprised when she landed the job. Eunice had always displayed a professional work ethic as well as strong analytical and problem-solving skills. At the age of five, she had won the junior

Singapore Mathematical Olympiad, a prestigious national maths competition, beating thousands of other children. Her parents were so pleased all the extra tutoring had paid off. Her father harboured high hopes for his only child. He knew, she enjoyed a challenge; when she was very young she spent hours playing Animal Chess, a child's Chinese chess, where animals are used instead of pawns, kings, and other chess pieces. She loved showing her father she had grit.

Her phone vibrated on the table; it was a text from Lydia, her best friend back home. She attached a picture of Tan's wedding. Tan, her oldest school friend, got married at the weekend. Tan was the last of her school friends to marry; Eunice was the only unmarried one. The picture showed the groom fetching Tan from her house, an old tradition where the groom and groomsmen picked up the bride at her house, but before they could enter the brides' sisters would prepare a series of challenges for them. It looked like they were eating mooncake or "Fat Mama" as it is known locally, a pie usually, eaten to celebrate Mid-Autumn Festival on October 4.

"Are you joining us for lunch?" John asked. His voice made her jump. She looked around the office and realised the others had already trickled out of the meeting room.

"No, sorry, can't today. I have signed up for "Lunch and Meet."

"What's that?" John asked.

"Oh, it's just lunch in the canteen with some newcomers. Sarah from HR organised it to help us meet new people within the company."

"But you can come and talk to me," John replied.

She was not sure how to take his comments; his charming and friendly Irish ways disarmed her. She noticed he was friendly with everyone, so it probably did not mean anything. Everyone in the office said John is full of blarney, an Irish colloquialism which meant he was good at flattery.

Before heading out to lunch, she checked her emails, as she looked around the large empty open office, which was quiet now. But normally it was unbelievably loud; Eunice sometimes wore earplugs to block out the noise. The office was ultra-modern, a hybrid style office space with no desk allotments; everyone sat where he or she wanted. She felt sure she could never get used to this style of open plan. The clean desk policy took some getting used to.

Lunch and Meet

"So, you are suggesting we take up football," joked one of the newcomers seated at the table specially reserved for the group.

Eunice laughed and joined in the banter. She wanted to say she would start playing football too if that is what it takes to make new friends. The animated discussion resounded throughout the canteen; ten new staff members were having lunch together. It was one of only a number of events organised by HR for new recruits. Eunice thought to herself, they were really a lonely bunch sharing stories across a salad. Immediately, she berated herself for thinking like that; in fact, she reminded herself she should be happy not to be eating alone. She had met most of the new employees at previous events. It was not really her scene; it was all a bit superficial, too many fake smiles or "Wow" or "Great" comments. At home, she had lots of friends, both professional as well as childhood friends. She resented having to start all over to make new ones. Looking around the table she was unsure how many of them she would honestly befriend if the scene was set in Singapore rather than Zurich. In was not that she disliked meeting new people, or that she had a problem making friends; people from work talk shop. Yet, the reality was sobering: after three months in the country, she had not made any friends. She consoled herself by blaming the late hours at work and the language barrier.

Join the Club

In the first week, Sarah, the HR assistant, introduced her to all the events related to Diversity and Inclusion (D&I) organised by the company, emphasising the importance placed on ensuring people felt at home and part of the company. Sarah did not mention that executives are evaluated based on whether they reach diversity targets or not. Sarah said enthusiastically, "We have lots of great events organised to help our new employees get to know people; in no time you will forget about Singapore."

Eunice doubted it.

Sarah spoke enthusiastically, "Yes, we have sports events, Meet and Lunch, the Alumni, Online further education, Mentoring, Women's networking group, and the Culture Evenings, something for everyone."

Eunice smiled; it was, after all, her choice to move to Switzerland. Within six weeks she had practically ticked off the list of D&I tools of things to do.

The sports programme consisted of a yoga class before work, a body toning class at lunch, and football after work. Not one for sport and sweating, Eunice shuddered at the idea of being stuck in a room with colleagues all sweating it out together.

Then there was a business network group meeting, which she attended once, but most of the others just lapsed into Swiss German after the polite introductions.

"Learn German as soon as possible; it's essential to survival," was Andreas's advice. She planned to do it during the winter but had not got around to finding a convenient class.

The hiking trip was a disaster because she did not have the proper shoes and could not keep up with the group. In the end, she turned back.

The Thursday after-work football game was the most popular activity, as most of the guys in her section headed off to the football pitch.

John had teased her and said, "Come and join in the kick around."

Eunice said, "Oh leave it, John, I am useless at ball sports."

John mimicked her by shaking his head.

John did not give up. "At least come down to the pub for a drink; we go to Pickwick's after football practice."

She winced at the idea of waiting around for the guys to come in and talk about football; it was not for her, she reminded herself.

Cultural Evening

The sign caught her attention in the company kitchen. It read Cultural Evening. Before she could finish reading it, Anna came up behind her and said,

"Hey Eunice, we are having drinks and food from different countries in the office after work. Do you want to bring something from Singapore?"

Taken off guard, she stuttered.

Eunice tried to sound enthusiastic, "Oh yes, of course; I'll organise something."

That night Eunice was hoping for inspiration as she sat watching *Three Little Wishes,* her favourite TV drama about Zhao Chenglong, who was unhappy that his parents were running his life. It had many similarities to Eunice's own story. Before going to bed she Googled some recipes of traditional food. Finally, she decided it was easier to phone her mother Jasmine to ask advice on what food to bring.

Jasmine was delighted. "Eating is our national pastime and food a national obsession; it's impossible to pick one dish from the diverse range of ethnic food."

Her mother inquired, "Will there be Muslims and Hindus at the party? If so, you need to pay special attention to your choice of food, to cater to the various dietary needs based on religious grounds."

Eunice mumbled that it is not so easy to buy ethnic food in Zurich.

Eunice confessed, "Mum, you know I can't really cook. As a student, I just ate out in the Hawker centres. Our food courts are the best in the world. Oh how I miss the Maxwell Food Court Centre! there is nothing like it in Switzerland."

Eunice asked, "Mum, do you remember the great Hainanese chicken rice with chili crab and Laksa we had last time I was home?"

Her mother could detect a sense of homesickness.

Jasmine said, "Yes, Eunice, and we'll have it again on your next visit. I'll send you the ingredients for laksa and chili crabs."

Despite Eunice's objections, her mother persuaded her it was the best option; she did not want to fight with her mother.

The Party

Eunice could not stop thinking about what she was going to cook for the event, despite how much she tried to focus on work. With the pressure to do a good job, Eunice decided to take Friday off work to cook the chicken rice, chili crabs, and the laksa in her small apartment. Her mother supervised the operation via Skype. Nervously, she arranged the food in the new serving bowls she bought in Globus, an upmarket retail outlet. She wanted to impress her colleagues with some delicious Singaporean food. When she arrived at the office, some of her colleagues were having coffee in the kitchen.

Sarah commented, "That smells delicious, Eunice. You must have been cooking all day." Anna joined in, "So much food, you can feed a parish with what you have prepared there." She felt maybe she had overdone it, but better to be well prepared than underprepared, her mother's adage.

She arranged the food in beautiful colourful bowls and folded down the napkins in the shape of little butterflies. She glanced at the food, wondering if there would be enough for everyone. Slowly her colleagues arranged their food beside her dishes, even in between the dishes; soon various cakes and pies covered up the countertop. Eunice realised most of the others had used Betty Bossi cake mixes, a popular Swiss purveyor of recipes and ready-to-make cake mixtures. John had brought a bottle of Bailey's Irish. Suddenly, she felt bad; she began to wonder if she had overdone it a bit. It seems if she misunderstood the brief and had gone a bit over the top compared to the others. Something less extravagant would have done. She got lots of praise from her colleagues. She even felt bad for the others who had made food but did not get half the praise.

Walking back into the kitchen, Eunice was shocked to see her colleagues eating the food with spoons and even fingers; few had used the chopsticks she had conveniently placed beside the dishes.

There were lots of compliments. Even Mandy, who never had a polite word to say about anything, said,

"Eunice, this Chinese food is delicious. Where did you buy it? Oh, you made it yourself? Great! You must give me the recipe."

More compliments followed. Within 30 minutes the place looked as it if had been hit by a tornado and everyone started to pack up.

Anna said, "Eunice, thank you for the food; have a nice weekend."

She stood to the side and felt devastated. Slowly she packed up her expensive dishes and got ready to go home. At that moment John walked in.

John grinned, "Hey, Eunice want to come to the pub with us?"

Normally, she would politely decline, but she felt so wretched she surprised herself by agreeing to go.

She replied, "Great, meet me downstairs in 5 minutes."

Unleashing the Tears

After her third gin and tonic in the Pickwick Pub, she felt a bit tipsy. The pace of the rounds was too fast; she was not used to drinking so quickly, and the alcohol made her more talkative than usual. Only John and herself were left in the pub; all the others had made excuses to leave to go home to the family or had other plans.

Eunice said almost in tears, "Why can't I make friends? What is wrong with me?"

Now she could not stop the tears. She sobbed, "All my attempts have failed. All the Swiss colleagues go home early; they are very friendly in the office but do not wish to do anything after work."

John replied, "You can always hang out with me."

Eunice replied, "But all you English do is go to the pub."

John said firmly, "That's not true; you have been invited out many times, but you have never once come along. You have only yourself to blame."

Eunice was almost hysterical. "John, you don't get it. I miss my family, I have no friends here, I spend every weekend alone. Yes the job is great, I have a lovely apartment, and the salary is super, but there must be more to life."

John put his arm around Eunice and led her over to a quiet corner of the pub.

John said, "Eunice, you are putting too much pressure on yourself; enjoy life a bit more." Eunice just looked at him in disbelief. He has no idea how hard she has worked to get where she is today, and she does not want to throw it all away. What would her mother say if she saw her crying her eyes out and resting her head on the shoulder of an almost complete stranger?

Case Questions

1. Choosing the right person in the first place is key to the success of an overseas assignment. Does Eunice have a global mindset? Use the list of leadership competencies by Bird and Osland (2004) as a basis for your answer.
2. Identify and evaluate the effectiveness of some of the diversity and inclusion tools mentioned in the case.
3. Roche CEO Severin Schwan said about diversity and inclusion, "I believe that diversity of people enhances innovation. The different ways of thinking foster creativity. But just having diversity is not enough. We have to embrace and appreciate each other's diversity to translate it into novel ideas – that's why inclusion of people is so important." Comment.
4. Apply the Mapping Bridging Integrating (MBI) Framework by Professor J. DiStefano and Prof. M. Maznevski to the case.
5. What advice would you give Eunice? Should she give Switzerland another chance or return home to Singapore?

Endnotes

1. Sole responsibility for the content rests with the author. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. This case illustrates the challenges associated with cross-cultural management, diversity and inclusion and adjusting to a new social environment.

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Case 4 Anuj Pathak Returns to India

Prepared by Professor Meenakshi Sharma, Indian Institute of Management, Ahmedabad.[1]

The pleasant February morning had taken a perplexing turn for Anuj Pathak. He had reached the office after a jog at the beach as had become his habit in the last few months in Mumbai. He had barely settled at his desk to review his schedule when the Vice President, HR, Gopalkrishna Pillai, had called him to his office. Pillai had begun with a general question about how Pathak was settling in. "Quite well!" Pathak replied. "I am very confident about showing solid results at the earliest." But Pillai had looked concerned, and said, "I'm not so sure. What I'm sensing is that people are quite unhappy with your style. I'm not mentioning any names, but some people from your department have even put in requests for transfers to other departments. They say you are standoffish and extremely critical. I am afraid that the lack of rapport with people around you will impact your performance." Anuj was shocked. "I have a strong track record of performance. And I'm here to succeed! Of course, I know how essential it is to take people along and keep morale high," he said. "We know your track record and have big expectations from you, but you need to reflect on your style," said Pillai.

Pathak had been excited about returning to India and making a mark at Impact Finance Ltd. (IFL). He thought he had been settling in well but Pillai's words had stopped him in his tracks. He came back to his office, feeling deflated and perplexed. He couldn't figure out where this was coming from. "I have consistently proven my leadership qualities and now my style is being questioned!" he thought. Everyone in the head office and in his own division team had seemed welcoming and friendly to him. But all of that seemed questionable now. "Has it all been mere formality or simply duplicitous behaviour? What have I missed?" He had always found clear and direct communication to be the most effective. "That is why I have been so upfront about my direct style and my democratic way of functioning and involving everyone in decision making. I have not insisted on hierarchy when it comes to objective thrashing out of ideas. I have been very specific in spelling out the targets and have given clear and explicit feedback so as to get the best out of each person. This is how I have always got the best work out of people and delivered results. Why has it led to such a state now?" What really upset him was the charge of being unfriendly and critical. "If this was true, why would I have had an open door policy, tried to learn their names, and encouraged clear communication?" he wondered. He was baffled by what he could only think of as the strange reaction of people at IFL. He had been slowly realising that settling back in his own country was harder than he had expected it to be. "But it shouldn't be so different on the professional front! After all, the ways to get results are not affected by geography. And professionals everywhere should have the same standards!" he thought. Was his dream of a successful career back in India going to be shattered or could he recover and improve the situation?

Coming Home

When, as an ambitious young man of 22, Pathak had left in June 1997 for postgraduate studies at Monash University in Melbourne, he had not imagined he would become an expatriate for nearly twenty years. After completing the programme, he had been thrilled to get his first job with a financial consultancy firm in Singapore. Within about four years he moved to a large MNC in the US. Except for about two years with a start-up in the Financial Services sector, he had worked at strategy consultancy firms. He had been thinking off and on of returning to India and had now decided to do so for both personal and professional reasons. In his visits prior to deciding on the move, he had caught up with Chandrashekhar, his old senior in college back in Bhopal, who was now a Managing Director at the Impact Group. Chandrashekhar had given him a glowing picture of the boom in the Indian economy and the developments in the financial services segment, especially the vast potential of the private sector. Pathak's brother-in-law who worked in one of the new private sector banks in Mumbai had also given him a thumbs-up, speaking highly of the opportunities in India.

Pathak's parents were living in Indore since his father's retirement from government service in the state of Madhya Pradesh. Since they were getting older, and his mother had been diagnosed with a serious ailment, it was becoming difficult for them to manage on their own. Pathak was keen to get back to India so as to help them on a day-to-day basis rather than just financially and during his annual, or at best, biannual brief visits. As the only child, he had a nagging sense of guilt that he lived a comfortable life overseas, while his parents aged. He had not meant to be an expatriate all his life. One thing had led to another, and what he had told himself would be a few years, had turned into nearly twenty years away from home.

Having been overseas since the age of 22 and enjoying professional success in different parts of the world, he felt that he was an Indian at heart. At the same time, his numerous relocations had made him feel that the world was becoming quite flat and professional success knew no borders. He had also been hearing the buzz around Asia. The West was taking special note of the rise of India and China and there was talk of the 21st century as the Asian century. His visits back home had shown him how the older systems were rapidly transforming. He felt

now was the time to have the best of both worlds – to be with his parents in their old age and give his daughters deeper roots in India, while on the professional front, he could ride the new wave of growth in the country.

About three months later, he felt happy about having moved his parents to Mumbai. He had been given a flat in a posh Mumbai suburb. However, it was a quite an adjustment in terms of everyday life to move from Boston to Mumbai. His daughters, aged seven and five, were finding it most challenging. They had been happy with the idea of coming to India where the grandparents spoiled them and it was all a great holiday. But after about two months, Anuj and his wife were taken aback when the younger one had declared one day, "Okay, this was fun, let's go home now!" Telling her that this was now home, had unleashed many tears. The girls had now started at a well-known private school. The high fees and the infrastructure of the school were a surprise to him. However, he was happy with it, hoping that this would help make the transition easier for his daughters. He himself had studied at government schools in the small towns his father used to be posted in, and had been surprised to be told that even middle-class people now aspired to send their children to expensive private schools. Numerous such schools catering to rising aspirations had sprung up all around the country. The girls were still finding their feet in the school and had been behaving uncharacteristically with temper tantrums and whining. But he was sure they would soon make new friends and begin to like the school. He knew it would have been much harder to return when they were older and had become more entrenched in life in the US. His wife had relatives in Mumbai and had been looking forward to being closer to them. However, a few months into the move she seemed stressed by the challenges that kept cropping up in the smallest of things as she tried to handle the domestic front while he got busy at work. She had worked as a counsellor and psychotherapist after completing a degree in the US, but had decided to take a break before looking for new career opportunities in India. Getting things organised in the new city was taking a lot of time and energy, but she hoped that in a couple more months she would have the home front organised and could turn her attention to her career. Pathak's mother's deteriorating health also demanded time and energy from both him and his wife. Although he knew that the doctors here were as competent, if not more, than the ones abroad, his unfamiliarity with the hospital systems and other procedural matters made things somewhat challenging. Fortunately, some of his wife's relatives had stepped in to help out and that had helped considerably. He felt things were largely under control at home and he could get going at the office with full energy.

The Organisation

Impact Finance Ltd. (IFL) was one of the top twenty financial consulting firms in India. Set up in 1997, it was part of the Impact Group – a USD 8 billion group of companies in the technology, manufacturing, infrastructure and finance sectors. The company's operations were divided into five divisions, namely Retail Finance, Infrastructure Finance, Corporate Finance, Housing Finance and Investment Management. With Retail Finance as the core, the other divisions had been added over the years to harness the synergies in order to best serve the full range of the needs of consumers. The company was headquartered in the Bandra-Kurla Complex in Mumbai, with a country-wide network of offices.

Anuj Pathak Joins

Around the Christmas break of 2013, Pathak had started looking for openings in India that would be exciting and rewarding. When the opportunity to work at IFL came up, it seemed like exactly what he was looking for. In his initial meetings with the management team, he felt valued and respected for his stellar track record. He felt comfortable among the capable professionals who had impressive credentials. Being among fellow Indians felt good after years of being in a small minority. He was confident that his successful track record in diverse locations had given him the necessary skills to fit in anywhere. "And, after all, this is home!" he thought.

In October 2014, he accepted the position of Senior Vice President and was made Head of the Housing Finance division. With the departure of the earlier Head who had left after the performance of the new division did not match projections, it was going to be imperative to bring about changes to business strategy as well as to revitalise the team.

On the day he joined, Anuj had a meeting with the top management team. They welcomed him and expressed great confidence in him and an eagerness to benefit from his new ideas. The Senior Managing Director, Prabha Srinivasan, introduced him to the team and welcomed him to the Impact family. During the tea that followed the formal part of the meeting, he was happy with the general feeling of bonhomie and warmth. He noticed that people were very courteous and respectful in their behaviour. He put it down to good old Indian traditions. Overall, he felt a good vibe, and concluded that it was going to be a great place to work.

Interactions with Departmental Team and Senior Management

Immediately on joining, Pathak called a meeting to get to know the team and to share the way ahead. As he shook hands, he asked each one how they would like to be addressed. He told them that a very formal style created unnecessary barriers and that they were all to call him Anuj. He stressed that they were going to drive results together and the required revitalisation of the department would mean tough stretch targets. A complete focus on the task would be expected from everyone, including himself. He assured them of his help and support in enabling the best performance from each of them. "I will be always accessible to all of you and will have an open door policy. I am an open-minded person and value direct communication, honest feedback, and critical thinking. I'm sure you don't need to be

told about the importance of questioning everything rigorously so as to come up with robust ideas," he told them. Everyone seemed very appreciative and some people came up and told him that they welcomed the breath of fresh air that he had brought in. Anuj felt happy that he had clearly laid out his expectations and preferences and had set the tone for engagement with the team.

As time passed, he could not help noticing that the style of his team did not match the expectations he had laid down so clearly. At departmental meetings, hardly anyone questioned his ideas. In fact, people spoke very little, allowing him to drive the discussion and when they did speak, it was to concur with his views. They were respectful and attentive, but if he asked for an opinion, they would demur and wait for him to say something. Invariably, they would go on to agree with his interpretation. On the other hand, whenever he wanted data and information, they would do so very efficiently. He knew they had invaluable experience but he wasn't sure why they were not more forthcoming with suggestions and assertive in challenging him or being critical of the ideas of each other. He decided that he needed to demonstrate his own critical and direct style and people would soon become comfortable using it themselves.

In meetings with other VPs and the MDs, he found everyone to be polite and appreciative of his input. The overall tone of discussions was courteous and there were few disagreements. Although he sometimes got the sense that there were some cliques that affected the way people responded to issues, he was not able to get a very clear picture. He observed that people generally did not openly challenge or contradict each other during discussions. He found this surprising as he believed that it was best to discuss matters objectively and treat disagreement and criticism impersonally. Dissension and disagreement on tasks or issues, in his experience, were not to be mixed with people's regard for each other. "There can be no two ways about this – clear and direct communication whether one agrees with the views of others or not, is essential. And so are objective handling of issues and high level of critical rigour. Without these, one would never get the most robust ideas," he told people from his own division.

On the whole, he noticed that his colleagues in middle management and the technical staff seemed quite deferential towards senior management. He tried to be informal with everyone, hoping to make them comfortable by showing that he did not stand on ceremony. He got to know many by face and tried to remember their names and departments. However, so far he had not been able to get to know any of them very well. Even those in his division did not seem to respond to his attempts to make them comfortable at official interactions. On the other hand, he received invitations to family events and informal parties, especially from some of the other VPs and from his divisional colleagues. He assumed it was done simply out of politeness, because he and his family did not personally know them. Moreover, except for Chandrashekhar, he found it not really necessary to see any of them socially. He had never believed in socialising with work colleagues and felt that it was best to keep work and personal life separate. Anyway, he had his hands full in his personal time and had to look after his parents' needs. He also had to help his wife in handling the girls who were finding it a little challenging to settle in.

Driving the Turnaround Plan for the Division

Within two months of joining, Pathak had drawn up a turnaround plan for the division. His plan had been approved by the President and he was keen to roll it out at the earliest. It was a tough plan and the team would need to be driven hard. But it was unavoidable if they were to come out of the decline in which the division had fallen in the last two quarters. A new way to envision the market and design innovative responses through new analytic tools would involve a sharp learning curve for all involved. There was no denying that some people would find it aggressive and unrealistic but there was no way around it – tough measures were needed in tough times. Pathak recalled it clearly, "I knew it was not going to be easy but I had never shied away from tough decisions and I knew how to show results. I had a very capable team that was technically sound and very hard working. Therefore I was confident that with the right support and a clear direction, they would make a success of the plan. I could not expect everyone to agree with the finer details but I knew they were all committed to improving the division's performance. As the leader, I had to go ahead and not be slowed down by unrealistically attempting to get everyone on board from the start. I could also not be satisfied with anything short of perfection in the quality of work and in meeting deadlines, however tight." He felt that he had been making sure to clearly spell out the expectations from the team and provide clear feedback to avoid misspent time and effort. "I was happy to walk around and meet individuals and groups and to not mince my words when it came to critical assessment of performance. Letting people continue with no direction and empty positive words is not going to get results." Initially he would even stop by the coffee room and try to catch up with people on the progress of the initiatives. "But I found the tone of the interactions quite informal and even casual, with people talking of personal and domestic matters. I could also see that most people interacted with others at similar levels and were uncomfortable in the presence of a senior person. I stopped these visits and began to rely on frequent meetings to get updates and to give my feedback."

However, as weeks passed, he felt that the pace of progress on the tasks he had assigned was not very satisfactory. So he stepped up the uncompromising tenor of his orders and minced no words in his feedback. His experience was that this was essential to avoid any ambiguity and provide clear directions to teams who had to execute plans. Although this was proving to be an uphill task, he hoped that the team would soon pick up steam and he would not need to spend so much energy and time in constantly following up and pushing them.

A Sudden Reality Check

However, today's meeting had brought him to a grinding halt, pushing him to introspect. He wondered what had happened. "Where had the charges of being haughty and unfriendly come from? Why were people misunderstanding my intentions? After all, I have been true to myself and encouraged them to be comfortable. As for being critical, there are no two ways about the fact that objective feedback needs to be shared and as professionals they should know that!" He was puzzled that proven methods of delivering results by firing up large teams had led to such dissatisfaction and demotivation. Perhaps he had got a team of difficult people. Or perhaps they resented him as someone who had been brought in laterally. Perhaps he needed to reattempt rapport-building and enhancing his personal credibility, he tried to tell himself. But before he could do that he would need to understand where his style had backfired. He knew that if this state of affairs continued, his hopes for making a mark with his performance would be seriously jeopardised. He had been inducted at a senior position with high expectations. "How am I to meet these in such a situation? My advancement on the fast track depends on delivered high performance but I am stumped! What am I missing? Is this particular team somehow not gelling with me or has my long stint overseas made me a stranger back home?"

He knew that he needed to gain the trust of people around him and be able to connect with them so as to draw out the best from them in terms of fresh ideas and critical feedback. Perhaps he was wrong in his easy assumption that he was on familiar ground in the swanky office that reminded him of those in overseas locations. He was not sure what he could do to fix things before they got out of hand and the hopes with which he had moved back to India withered away.

Case Questions

Develop a written report analyzing the situation, identifying the problem, and answering the questions:

1. What could Pathak have done differently?
2. What could the company have done differently?
3. How can the situation be improved now?

Endnotes

1. Cases of the Indian Institute of Management, Ahmedabad, are prepared as a basis for classroom discussion. They are not designed to present illustrations of either correct or incorrect handling of administrative problems. © 2017 by the Indian Institute of Management, Ahmedabad.

PART 3

Formulating and Implementing Strategy for International and Global Operations

PART OUTLINE

CHAPTER 6
Formulating Strategy

CHAPTER 7
Implementing Strategy: Strategic Alliances, Small Businesses, Emerging Economy Firms

CHAPTER 8
Organization Structure and Control Systems



CHAPTER

6 Formulating Strategy

OBJECTIVES

6-1. To understand the reasons companies engage in international business

6-2. To become familiar with the strategic formulation process

6-3. To learn the steps in global strategic planning, including assessing entry strategies for different markets

6-4. To understand the need for strategic planning for emerging markets

Opening Profile: Why Ford Is Stalling in China while Toyota Succeeds[1]

As Chinese workers returned to duty following a Lunar New Year break, the Changan Ford plant in the northeastern city of Harbin remained empty, with staff on an extended vacation until March.

"It's a much longer break than last year, which was about a week," said a security guard at the joint-venture plant, which opened in 2017 after a $1.1bn investment and can produce up to 200,000 Focus models a year.

Ford is one of several carmakers cutting production in China, the world's largest car market where passenger vehicle sales fell 4 per cent to 23m last year, their first annual decline in almost three decades.

China accounts for 30 per cent of global car sales, and foreign brands make up two-thirds of the market. That means multinationals' joint ventures with Chinese carmakers are heavily exposed to the downturn.

But not all have fared badly. Sales at Toyota's joint venture with Guangzhou Automobile surged nearly 35 per cent last year, while BMW's venture with Brilliance Auto saw a 20 per cent sales rise.

Their differing fates show a range of factors—from investment in new models, competitive exposure to local brands, dealer relations, after sales service, and quality perceptions—can determine a brand's success or failure in China.

With Beijing unwilling to offer large subsidies to car buyers and analysts forecasting a further decline in the market this year, it is crucial for investors to pay attention to factors behind the success and failure of different brands in the downturn.

Ford: slow to bring new models to market

Ford had a late start in China, compared with rivals GM and Volkswagen. Slowed by years of corporate indecision and the impact of the 2008 financial crisis, it did not begin to make a mark on the market until 2012.

Its two joint ventures saw strong demand among consumers for the Escort, Focus and Edge brands. Ford's China sales in the four years to 2016 doubled to reach more than 1.2m. The Focus and Escort qualified for government subsidies on vehicles with engines of 1.6 litres or below introduced at the end of 2015.

But sales began to decline at its main joint venture, Changan, in 2017 as the subsidies began to be reduced, and plunged 54 per cent last year after they were eliminated. Analysts said the company was slow to bring new models to the market… "Their problem is really the model cycle, the majority of their cars are in year five or six, that's when the sales drop rapidly," said Jochen Siebert of consultancy JSC Automotive.

Ford remedied the problem last year, launching new saloon and hatchback versions of the redesigned Focus car, but by then the market was in a slump, making it harder to attract new buyers.

One consolation is that because of its late entry, China is a much smaller part of Ford's worldwide sales than for GM and Volkswagen, for which China is their biggest market. Ford's high-end Lincoln brand has fared less badly, reflecting stronger demand for premium vehicles.

PSA Group: mid-range brand suffers

The French owner of the Peugeot and Citroën brands saw sales at its joint venture with Dongfeng fall 44 per cent last year, with the fastest losses for its 408 and 308 brands.

Peugeot has also suffered from having older models but were also hit by their mid-range price position during last year's downturn, analysts said. Less well-off consumers refrained from buying cars or switched to second-hand models last year as subsidies were cut and economic growth slowed.

…Analysts said PSA had been squeezed by increasing competition from local brands, such as Geely and BYD, which have moved up the value chain into mid-range cars, selling for about Rmb120,000 ($17,906), hiring teams of overseas designers to make their vehicles more attractive.

"Chinese brands, particularly Geely, are taking market share from the less distinctively defined global brands. We can specifically point to Ford and Peugeot," said Michael Dunne, an industry analyst and former GM executive. "There's no doubt the Chinese brands are coming up so the global brands must move upscale or move out."

…"PSA is in the middle of the market and is squeezed by both ends" as premium brands lower prices in the downturn, said UBS analyst Paul Gong, a risk he added applies to other mass-market brands such as VW.

JLR: popularity hit by repeated safety recalls

Britain's Jaguar Land Rover should have been well placed in a market where sales of more expensive, larger engine vehicles have been strongest. But its sales fell 23 per cent in China last year.

Also a latecomer to the market, locally assembled products such as the Land Rover Evoque and Discovery, and Jaguar models helped the company raise its Chinese sales to 150,000 in 2017. It modified interiors to meet local tastes.

Analysts said JLR's reputation had suffered from repeated safety recalls in China—reportedly covering more than 100,000 vehicles in 2017. In January it recalled 68,828 vehicles in China over an engine safety hazard.

The brand received a four star rating in a 2018 survey of Chinese customer satisfaction with post-sales service by JD Power, but that compared with peers such as Audi who gained five stars.

When sales began to fall, JLR continued with ambitious production targets, pushing inventory on to dealers who had to make stiff price cuts.

"Some car companies choose to revise down annual targets to help dealers, while others continue to push inventory, which makes dealers suffer," said Patrick Yuan, an analyst at investment bank Jefferies. "The relationship should be a partnership. They cannot fight each other."

Toyota: reputation for quality boosts sales

Selling a record 1.5m vehicles in China last year, Japan's Toyota has defied the downturn, and it is targeting 7 per cent growth this year. Its Corolla model, which sells for about Rmb150,000, accounts for the bulk of its sales.

The brand has a strong reputation for quality in China and has consistently brought new products to the market, analysts said.

"Toyota stands out as an exception," said Mr Dunne. "They consistently deliver high quality products, good service, and high resell value. The fundamental things that make Toyota a strong company are standing out in a tough market."

The overall decline in car sales last year was partly because of consistently rising petrol prices, a trend that has benefited Toyota because of its strong fuel-economy and as consumers become more canny.

(*Continued*)

"Once you start to replace your second or third car, you probably realise that quality and fuel consumption are very important. In this regard Japanese cars do very well," said Yale Zhang, founder of consultancy AutoForesight.

Mercedes, BMW and Audi: wealthy continue to buy premium brands

About 3m premium vehicles were sold last year, as wealthier consumers have been less affected by the economic slowdown. Beijing Benz, a joint-venture between Daimler, which owns Mercedes-Benz, and BAIC Motor, saw 15 per cent sales growth last year. Volkswagen-owned Audi saw 11 per cent growth to 661,000 vehicles. Top-range brands face almost no local competition.

The premium players have concentrated on China's wealthiest first-tier cities, where car sales rose last year, whereas mid-range brands may have opened too many dealerships in lower-tier cities, where the market shrank.

"The mass-market brands have tried to have dealerships everywhere and in the end that might be a mistake," said Mr Siebert. While not all brands can switch to luxury, they can learn from premium brands' investment, after-sales service and spending on training for dealer staff, he added.

BMW in October said it would take advantage of Beijing's abolition of joint venture requirements in the car sector in 2021 by buying a majority stake in its partner Brilliance Automotive. Mid-range brands could attempt to follow suit as they try to repeat the success of the luxury groups.

…"You could see a world in which Ford says let's allow the joint-venture to sustain itself, but we will set our sights on going it alone, or getting new partners."

Source: © The Financial Times Limited 2019.

As the opening profile illustrates, companies operating in markets abroad need to develop effective strategies to be successful in those markets. They need to consider the actions of both multinationals and local rivals. Emerging market firms have become more competitive in their home markets, and have made great strides in competing abroad. Nowhere is this competitive trend more pronounced than in the digital economy according to a 2018 Boston Consulting Group report, which indicated that 60 percent of the emerging market leaders are digitally intensive compared with only 17 percent in 2012.[2] These emerging-market firms have catapulted, or "leapfrogged" past developed-market rivals by developing new digital technology businesses and leveraging existing digital technologies in traditional businesses. These emerging enterprises of all sizes have obtained the requisite digital capabilities through internal investment, strategic partnerships, and acquisitions.

> *Digital consumption and use among consumers in these countries are widespread and growing fast—much faster than in developed nations.*
>
> 2018 BCG Global Challengers: Digital Leapfrogs

Emerging-market firms are taking advantage of opportunities brought about by digital technology. The strategies of companies such as Alibaba; China Communications Construction Co.; and Tencent of China have placed them atop the list of the strongest emerging multinationals.[3] SABIC of Saudi Arabia, a diversified chemical company, joined those three firms because it has innovated effectively and leveraged digital technology in order to compete globally. Although many of the highly competitive emerging MNCs come from China, several African companies have begun to compete on the world stage: Elsewedy Electric of Egypt, Dangote Cement of Nigeria, Sasol of South Africa, and Safaricom of Kenya.[4] Add these new challengers to the already hypercompetitive arena of global players, and it is clear that managers need to pay close and constant attention to strategic planning in the presence of digital technology opportunities and emerging market threats. Indeed, these emerging multinationals are competing fiercely in many overseas markets. For example, a majority of Tata Consultancy Services' (India) business comes from international clients. As will be explained in this chapter, corporate strategies must change in response to shifting global economic conditions and other environmental and competitive factors. With continuing economic challenges around the world, Tata must consider

how it will respond, but it is strengthened by its geographic diversification. US-based IBM generates about half its revenues from its services business—in particular in emerging markets—and has diversified with a two-track approach. The company is helping US clients to cut costs. In emerging markets, IBM helps customers develop their technology infrastructure.

Because international opportunities—especially in the digital economy—are far more complex than those in traditional sectors, managers must plan carefully in order to benefit from them. Moreover, many experienced managers are wary about expanding into politically risky areas or those countries whose government practices they find prohibitive.

The **strategic management process** refers to the "Full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above average returns."[5] The basic means by which the company competes—its choice of business or businesses in which to operate and the ways in which it differentiates itself from its competitors—is its **strategy**. Strategy requires "intentional, informed, and integrated choices."[6] Almost all successful companies engage in long-range strategic planning, and those with a global orientation position themselves to take full advantage of worldwide trends and opportunities. Multinational companies (MNCs), in particular, report that strategic planning is essential both to contend with increasing global competition and to coordinate their far-flung operations.

In reality, however, that rational strategic planning is often tempered, or changed at some point, by a more incremental process of strategic decision making by some managers. When a new CEO is hired, for example, she or he will often call for a radical change in strategy. That is why new leaders are chosen carefully, based on what they are expected to do. So, although the rational strategic planning process is presented in this text because it is usually the ideal, inclusive method of determining long-term plans, managers must remember that people are making decisions, and their own personal judgments, experiences, and motivations will shape the ultimate strategic direction.

REASONS FOR GOING INTERNATIONAL

6-1. To understand the reasons companies engage in international business

Companies of all sizes go international for different reasons—some reactive (or defensive), and some proactive (or aggressive). The threat of their own decreased competitiveness is the overriding reason many large companies adopt an aggressive global strategy. To remain competitive, these companies want to move fast to build strong positions in key world markets with products or services tailored to the needs of increasingly global and diverse sets of customers.

Reactive Reasons

GLOBALIZATION OF COMPETITORS

One of the most common reactive reasons that prompt a company to go overseas is global competition. If left unchallenged, competitors who already have overseas operations or investments may get so entrenched in foreign markets that it becomes difficult for other companies to enter later. In addition, the lower costs and market power available to these competitors operating globally may also give them an advantage domestically. Nor is this global perspective limited to industries with tangible products, as a whole range of services have followed suit, including office functions, engineering, publishing, medical, consulting, media, and so on, facilitated by the Internet. Following the global expansion of banking, insurance, credit cards, and other financial services, for example, financial exchanges have been going global by buying or forming partnerships with exchanges in other countries, their strategies facilitated by advances in technology.[7]

Strategic moves by competing global giants prompt countermoves by other firms in the industry to solidify and expand their global presence. Such was the case when U.S.-based Time Warner sought to justify its acquisition of AT&T for U.S. $85 billion. CEO Jeffrey Bewkes argued that Google and Facebook extracted advertising revenues away from television networks while Amazon's Prime and Netflix were attracting increase viewership. As such, he asserted that the acquisition was a competitive response to the ongoing threats stemming from new digital technology-intensive rivals.[8]

Another strategic move involves Nokia (Finnish mobile phone company), which has been raising funds in order to breathe new life into its global brands. Underscoring the need to innovate in a competitive marketplace, an industry analyst stated, "There is no room for sub-scale

mobile phone companies any more other than chasing small niches. I see this almost as a competitive response to Xiaomi, Huawei, OnePlus and others."[9] These strategic challenges facing Nokia show the growing competitive threat of emerging multinationals as Nokia [and fellow Nordic rival, Ericsson] compete against China's Huawei as the telecommunication environment prepared to unveil "5G" technology (i.e., the next generation of mobile telecommunications service), which promises increased speed and connectivity.[10] Although Apple and Android played major roles in Nokia's lackluster performance and dwindling market share, the Finnish firm has struggled to commercialize some innovations and made a strategic miscalculation regarding the transition to smartphones.[11]

TRADE BARRIERS

Although trade barriers have been lessened in recent years by trade agreements that have led to increased exports, some countries' restrictive trade barriers do provide another reactive reason for companies often switching from exporting to overseas manufacturing. Barriers such as tariffs, quotas, buy-local policies, and other restrictive trade practices can make exports to foreign markets too expensive and impractical to be competitive. Toyota, for example, has manufacturing plants in the United States to circumvent import quotas. As another example, ZTE—China's second largest telecom equipment maker and a state-controlled company listed in Hong Kong—moved to Brazil; the purpose was to avoid that country's high import tariffs, even though it is cheaper to manufacture in China.[12]

REGULATIONS AND RESTRICTIONS

Similarly, a firm's home government regulations and restrictions can become so expensive that companies will seek out less-restrictive foreign operating environments. For instance, Deutsche Telekom CEO Tim Höttges underscored the burdensome regulatory (and price competition) in Europe compared to the United States (where it owns T-Mobile US) when considering attractive investment decisions. Mr. Höttges stated, "I want to invest patriotically for Europe...We need a superior infrastructure but I see we are falling behind."[13]

Home regulations and restrictions contributed to Dyson's decision to move its headquarters to Singapore as discussed in the following "Management in Action" profile.



MANAGEMENT IN ACTION

Why Dyson Is Shifting Its HQ to Singapore[14]

For someone who has trumpeted Britain's economic potential on the global stage once it leaves the EU, James Dyson's decision to move his business headquarters to the other side of the world struck an odd note.

The switch to Singapore comes at a crucial juncture for his company, which is seeking to evolve from a household appliance brand to a manufacturer of electric vehicles. It is nothing short of his greatest gamble, which could secure his legacy or risk his fortune.

The change of HQ would subject Dyson to less rigorous financial disclosure at a time when the company's profitability is likely to slump because of investments, according to patent experts.

The Brexit-supporting billionaire, famous for his bagless vacuum cleaners, faced accusations of hypocrisy after the announcement that the British success story he has built over a quarter of a century would relocate its corporate head office to the island city-state.

Dyson said it was simply for commercial reasons because most of its customers and all its manufacturing operations are in Asia, and to give management supervision over the construction of a car factory in Singapore that will be its largest investment to date.

Nor were Brexit or reducing its tax bill motivations, the privately owned group stressed. But the timing, just weeks ahead of Brexit, has prompted questions about whether other factors were at play—and what it means for Dyson's UK operations, as well as high-tech engineering in the country more widely.

Normally no stranger to sharing his views with the media, Sir James was conspicuous in his absence on Tuesday, offering no personal comment and instead leaving chief executive Jim Rowan to contend with a barrage of questions on a call with journalists.

"This is to do with making sure we future-proof [the company]," said Mr Rowan. "What we've seen in the last few years is an acceleration of opportunities to grow from a revenue perspective in Asia."

Dyson is enjoying strong demand for its high-end hair dryers, air purifiers and lighting products among the region's burgeoning middle classes. Asia accounts for more than half of the company's £1.1bn profit, as measured by earnings before interest, depreciation and amortisation, which overall jumped by one-third in 2018.

However, Mr Rowan insisted that the HQ move was not a bad omen for the UK, where Dyson ceased manufacturing in 2003, and pledged it would enlarge its 4,800-strong workforce there.

"We'll continue to invest in the UK," said Mr Rowan, pointing out a proposed £350m expansion to one of two research and development centres in Wiltshire, south-west England, for autonomous vehicle testing.

Indeed, the company sought to play down the significance of the Singapore move. Only two executives will transfer to the Asian island country—the chief financial officer and chief legal officer—joining Mr Rowan, who already lives there.

While testament to the international success of the brand, which generates just 4 per cent of its £4.4bn annual sales in the UK, the relocation delivers a symbolic blow to Britain's prestige as an attractive home for big business.

Another concern is that the UK exchequer may lose out. Total tax borne by Dyson worldwide was £185m in 2017, according to the accounts of its holding company, Weybourne Group, including £61m in UK corporate tax.

The company said that any impact on its overall tax bill would be "negligible" and it would continue to pay tax in Britain. But it declined to say whether the UK proportion of its total global bill would fall at the expense of Singapore.

However, Heather Self, tax partner at Blick Rothenberg, said she did not believe this would happen.

"If all they're doing is moving head office, it will make very little difference to the UK tax bill. If as they've indicated the R&D and technology is remaining in the UK, then that should account for the majority of the UK tax bill in any case," she said.

Others have pointed out that Singapore has no capital gain or inheritance tax, with individuals only taxed on income earned in the country.

Yet it is far more likely that the move is linked to Dyson's latest, and boldest, venture—its £2bn drive to break into the automotive arena.

It has developed a UK site to test the vehicles, but also plans to expand its Singaporean research and development facilities, a sign that future vehicle work will take place closer to the manufacturing sites.

The company has always been fiercely secretive. So closely guarded was the HQ move that the UK government was unaware it was even under consideration, despite frequent meetings between officials from several departments and the company, according to several people.

Moving to Singapore, some people suggest, would liberate the business from UK disclosure rules for privately-owned companies, which Sir James has previously criticised as giving too much away to foreign competitors.

Dyson has ruled out raising fresh funds to support the project, but is preparing to enter an industry where even the most experienced carmakers face cost overruns.

The company spreads its intellectual property around the globe, with about 1,500 of its 5,000 patents registered in the UK, according to data from patent research group Cipher.

"Clearly if you have new business like cars that will generate significant IP," said its chief executive Nigel Swycher.

However, tax experts said it was unlikely that Dyson would move its existing UK patents to Singapore, partly because of the cost, and because Britain gives favourable tax treatment to intellectual property.

A Dyson spokesman said the company had no intention of moving its current UK patents to Singapore.

"IP will not move and our filing strategy will not change. Dyson Technology Ltd [in the UK] owns Dyson IP and that is a British company. Given the majority of IP is held in the UK entity Dyson Technology, the majority of IP/patent-related revenue and profit is taxed in the UK as well."

But if the company decides to register all future patents in its new homeland, then while Britain will not see a tax fall from the move immediately, it will fail to benefit from the potential growth of the business in the long run.

THE APPEAL OF SINGAPORE IS ZERO TAX

One of Singapore's strongest appeals for foreign companies is the potential to lower their tax rate to zero per cent.

(*Continued*)

The headline rate of corporate tax is 17 per cent, a level that the UK will match from 2020, down from 19 per cent at present.

However, a combination of incentive schemes, which include an international headquarters award, can bring the country's rate down to nothing.

"It is very very rare, but it has happened in the past," said Chris Woo, tax leader at PwC Singapore.

Another corporate tax expert said it was "not impossible" for Dyson to snatch the 0 per cent corporate tax rate given it produces high-end goods that would transfer technology to Singapore; it will probably increase capital expenditure and high-skilled headcount; and it would boost R&D activity in the country—all of which is of interest to Singapore.

Dyson on Tuesday said it would expand its Singapore Technology Centre and that "an increasing proportion" of Dyson's executive team will be based in the south-east Asian nation given a growing majority of the company's customers and manufacturing operations are based in Asia.

In addition, the Singapore Economic Development Board offers companies tax exemptions or concessionary tax rates of 5 or 10 per cent for up to five years, with the possibility of extension.

To qualify, companies must boost employment, generate investment that spills over to the local economy and commit to developing technology, knowhow and skills in the city state, according to the EDB.

"The EDB must have pulled out all the stops to convince Dyson to relocate its headquarters," said Eugene Tan, law professor at Singapore Management University.

Kiren Kumar, assistant managing director at the EDB, said: "Singapore and Dyson have enjoyed a strong partnership for more than ten years.

"Dyson has grown from a small team developing motors to 1,100 employees undertaking a variety of functions including supply chain management, advanced manufacturing and R&D".

Source: © The Financial Times Limited 2019.

CUSTOMER DEMANDS

Operations in foreign countries frequently start as a response to customer demands or as a solution to logistical problems. Certain foreign customers, for example, may demand their supplying company to operate in their local region so that they have better control over their supplies, forcing the supplier to comply or lose the business. McDonald's is one company that asks its domestic suppliers to follow it to foreign ventures. Meat supplier OSI Industries does just that with joint ventures in 17 countries, such as Germany, so that it can work with local companies making McDonald's hamburgers. Moreover, OSI has acquired Baho Foods (Netherlands) and Flagship Europe in order to broaden its product offerings and better serve European customers vis-à-vis supermarkets.[15]

Proactive Reasons

Many more companies are using their bases in the developing world as springboards to build global empires, such as Mexican cement giant Cemex, Indian drugmaker Ranbaxy, and Russia's Lukoil, which has hundreds of gas stations in New Jersey and Pennsylvania.[16]

Careful, long-term strategic planning encourages firms to go international for proactive reasons, some of which are described below.

ECONOMIES OF SCALE

One pressing reason for many large firms to expand overseas is to seek economies of scale—that is, to achieve world-scale volume to make the fullest use of modern capital-intensive manufacturing equipment and to amortize staggering research and development costs when facing shorter product life cycles.[17] The high costs of research and development, such as in the pharmaceutical industry (for example, Merck and Pfizer), along with the cost of keeping up with new technologies, can often be recouped only through global sales.

GROWTH OPPORTUNITIES

As domestic growth declines in developed markets, opportunities abroad look more attractive, in particular since the Internet now greatly facilitates the ability to link to contacts in other countries quickly. For example, Spotify has sought new customers for its streaming services in India, Russia, Africa, Israel, Vietnam, and Romania among other countries.[18] Similarly, several European financial

technology companies such as Tandem (app-based bank) and Nutmeg (online wealth management) have begun to enter Asian markets in an attempt to offer new digital payment and wealth management services in order to disrupt retail banking in those markets. According to Nutmeg CEO Martin Stead, "Asian markets have a large and growing population that is currently under-served and overcharged by the traditional players, and where there is no established wealth tech player either." In addition, London-based Revolut—an app that provides overseas spending and money transferring services with low fees—has obtained licenses to serve customers in Japan and Singapore.[19]

The arrival of virtual banks is probably one of the most important developments in recent Hong Kong financial services history.[20]

HENRI ARSLANIAN, FINTECH ASSOCIATION OF HONG KONG

Whatever their size, companies in developed countries experience a strategic imperative to look for growth opportunities, follow key customers, circumvent trade barriers, and increase cost efficiency, and perhaps to deal with an onerous regulatory environment (i.e., disclosure/taxation issues) at home, as illustrated in the following "Comparative Management in Focus" feature on growth opportunities in Africa.



Comparative Management in Focus

Global Companies Take Advantage of Growth Opportunities in Africa

Although many firms see political instability and corruption as obstacles to pursuing opportunities in Africa, optimism abounds with high expectations for digital technology growth, infrastructure demand, and rapid urbanization.[21] Indeed, a decline in armed conflicts, new educational opportunities, and mobile phone–based technology has spurred African business opportunities and entrepreneurship. For example, institutions such as the Nigerian-based Tony Elumelu Foundation have sought to enhance youth entrepreneurship by offering training, financing, and mentoring to African youth.[22] Furthermore, the signing by over 40 nations of the African Continental Free Trade Area in March 2018 can further elevate Africa's economic potential. See Map 6-1.

The highest-performing African firms seem to have realized these opportunities, yet dealt with these environmental challenges by: (1) investing in themselves and their partners vis-à-vis vertically integrating and developing their own water and power supplies, as well as offering financing to suppliers; (2) developing human capital by investing in training programs, offering internships, and partnering with universities; and (3) embracing technology through the use of mobile computing, social computing, and big data analysis.

Numerous African companies have expanded within the African continent. For example, Morocco-based Saham Finances, which is led by CEO Nadia Fettah, has embarked on an aggressive expansion within Africa. After becoming a dominant insurance company in Morroco, Ms. Fettah first considered sub-Saharan Africa because of the low penetration rate. Then, she expanded into ten West Africa French-speaking countries. At present, her company operates in 23 African countries. Indeed, Burkina Faso—one of Africa's poorest countries—has become one of Saham Finances' fastest growing markets.

Kenyan-based Equity Bank, under the leadership of CEO James Mwangi, has transformed itself from a small building society into a commercial bank spread over six East and Central African countries with more than 12 million clients and US$5 billion in total assets. In 2000, roughly 10 percent of Kenyan adults had bank accounts. Mr. Mwangi sought to make Kenyans comfortable with banking and thus introduced "mobile village banking," which, simply put, were banking vehicles.

Long before cellphone banking came along, we created minibank branches that could fit in the back of a Land Rover and rove them from village to village across rural Kenya.[23]

MR. JAMES MWANGI, CEO EQUITY BANK (KENYA)

Growth opportunities are not reserved only for African multinational companies. One non-African country that has an extremely positive long-term view of the continent is China. According to a McKinsey Global Survey, 70 percent of Chinese respondents expect their companies to increase the number of African countries in which they operate, compared with 45 percent for all other

(Continued)

MAP 6-1 Africa



Source: www.cia.gov/library/publications/the-world-factbook/maps/maptemplate_sf.html; Arvind Singh Negi/Red Reef Design Studio/Pearson India Education Services Pvt. Ltd.

non-African country respondents. Also, 68 percent of the Chinese respondents expect their organizations to increase the size of their African workforces, compared with 45 percent for all other non-African respondents.

Although South Africa has tended to receive the most visibility from the global business community, Morocco has garnered growing attention from MNCs, which rejoined the African Union in 2017. According to the World Economic Forum Global Competitiveness Index, Morocco ranked 75th

out of 140 countries in 2018. There was some variance, however, with the underpinnings of its competitiveness ranking. For instance, Moroccan institutions, infrastructure, and macroeconomic stability ranked between 47th and 54th; yet, its ICT adoption—a proxy for technology adoption—ranked 93rd. Morocco's financial system ranked 44th, but its innovation capability and labor market were ranked 78th and 119th, respectively.[24]

"Morocco's bid to join African trade and political unions is part of its strategy to raise its regional profile," says Elisa Parisi-Capone, vice-president and senior analyst at Moody's, the rating agency.[25]

Morocco has been looking south since 2010. With slow growth in post–financial crisis Europe and many Arab economies in disarray following the Arab spring uprisings, Morocco's government began encouraging local companies to look for opportunities in fast-growing sub-Saharan African nations.

Casablanca Finance City (CFC) was established that year and launched as a centrepiece of this strategy. Its mandate was to attract companies that were keen to use Morocco's political stability and favorable geostrategic position between Europe and Africa as a base for expanding their operations south of the Sahara.

The strategy has borne fruit: Morocco's exports to West Africa tripled between 2006 and 2016. About 90 percent of greenfield foreign direct investment (new projects or expansion of existing ones) out of Morocco between 2010 and 2018 went to sub-Saharan Africa, according to *fDi Intelligence*, a Financial Times sister publication.[26] Ethiopia, Ivory Coast, and Cameroon were the top destinations.

Since its launch, about 160 businesses have acquired the regulatory and fiscal advantages of CFC status including international consultancies such as McKinsey and Boston Consulting Group, insurance market Lloyd's of London, and law firm Clifford Chance.

Businesses in CFC reap certain fiscal benefits: Morocco's corporate tax rate of 30 percent drops to zero for the first five years after CFC designation. Employees of those companies, meanwhile, pay reduced rates of tax, and there are no limits on foreign exchange repatriation.

"It's good by African standards. It offers quite an attractive set of regulations and the ability to hire foreigners—kind of a one-stop shop for administration that is helpful, plus competitive fiscal and tax policy," says Patrick Dupoux, managing director and head of Africa at Boston Consulting Group, which joined CFC in 2012. Fast approval for visas—which can take months in other African countries—was a big draw, he adds.

While the firm's Johannesburg office is bigger, Casablanca's reach is broad. "From Casablanca, primarily we serve Morocco—that's 50 per cent of our work," says Mr. Dupoux. "Twenty-five per cent is firms within Africa; the other 25 per cent is multinationals and pan-African companies that want an overall Africa strategy."

RESOURCE ACCESS AND COST SAVINGS

Resource access and cost savings entice many companies to operate from overseas bases. The availability of raw materials and other resources offers both greater control over inputs and lower transportation costs. Lower labor costs (for production, service, and technical personnel)—another major consideration—lead to lower unit costs and have proved a vital ingredient to competitiveness for many companies.

Sometimes just the prospect of shifting production overseas improves competitiveness at home. When the Xerox Corporation started moving copier-rebuilding operations to Mexico, the U.S. union agreed to needed changes in work rules and productivity to keep the jobs at home. Lower operational costs in other areas—power, transportation, and financing—frequently prove attractive.

INCENTIVES

Governments in countries such as Poland seeking new infusions of capital, technology, and know-how willingly provide incentives—including tax exemptions, tax holidays, subsidies, loans, and the use of property. Because they both decrease risk and increase profits, these incentives are attractive to foreign companies. And, in 2014, Cuba passed a law offering tax breaks for foreign companies planning joint ventures with Cuban companies or the Cuban state. In an attempt to diversify Kuwait's economy, its government has implemented major reforms to facilitate foreign investment. For instance, foreign investors can have 100 percent equity ownership through Kuwait rather than only in special economic zones. Moreover, the Kuwaiti government has offered tax holidays up to 10 years and customs exemptions. Kuwait is not desperate for capital but instead has chosen to be selective with investments in an attempt to build its digital economy.

We're focusing on investment that helps us to attract new technologies and innovations, and that brings added value to the Kuwait economy. It's more quality than quantity.[27]

Sheikh Meshaal Jaber Al-Ahmed Al-Sabah, Director General of the Kuwait Direct Investment Promotion Authority (KDIPA)

However, the practice (called inversion) of U.S.-based companies changing their domicile country to one that offers a lower corporate tax rate, such as Ireland, was coming under considerable fire in 2015 in the United States because of the loss of taxes and jobs. One such tax haven is Luxembourg, a grand duchy country with 550,000 people, most of whom are in or near the city of Luxembourg (a beautiful city and country, situated between Germany, France, and Belgium, that this author has visited many times). The city has attracted many foreign company headquarters seeking to be in the middle of Europe but to gain deep discounts on corporate taxes. In February 2015, *Fortune* carried an article indicating that the reporter had discovered a number of post-office boxes with names of foreign corporations on them, but that was the extent of the companies' presence there.[28]



Ptnphotof/Fotolia

Luxembourg City, Luxembourg

Challenges When Going International

LIABILITY OF FOREIGNNESS (LOF)

When a firm operates abroad, it tends to face a **liability of foreignness**, defined as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur."[29] There are four primary costs associated with the liability of foreignness: spatial costs, unfamiliarity costs, host-country costs, and home-country costs. *Spatial costs* refer to the additional costs associated with operating geographic distance. *Unfamiliarity costs* reflect "being a stranger in a strange land" in that the multinational enterprise is unfamiliar with local customers and stakeholders, as well as local best practices, which can lead to costly missteps.[30] For example, when U.S.-based Kentucky Fried Chicken entered the Chinese market, its long-standing slogan—"*It's Finger-Lickin' Good*" was translated as "*Eat your fingers off.*" Unfamiliarity with the cultural, legal, and regulatory environment can lead to costly errors in the due diligence process when expanding abroad. Moreover, local customers and stakeholders are unfamiliar with the foreign firm, which can lead to negative stereotypes and difficulty in gathering local market intelligence in a timely manner simply for being foreign. As the foreign firm accumulates experience and becomes more embedded in local social and business networks in the host country, these costs tend to decline.

Host-country costs reflect the discriminatory treatment incurred by foreign firms (e.g., restrictions on ownership for foreign firms, impenetrable distribution channels, and unwillingness to purchase products of foreign firms). For instance, many multinational enterprises have complained about the difficulty in accessing the Japanese distribution system, which has been described as a complex relationship web with many layers of distributors. Also, the discriminatory treatment has been referred to as a home bias in that local stakeholders may prefer to do business with local firms. *Home-country costs* refer to regulations in the firm's home that make it difficult to compete or operate in the host country. For example, U.S. firms and their foreign subsidiaries are restricted from transacting with Cuban interests due to a long-standing U.S. trade embargo against Cuba. Concerns have arisen for

Canadian subsidiaries of U.S. firms that have been prohibited from offering Cuban-made products (i.e., cigars) to the dismay of Canadian consumers and government officials. Although U.S. President Obama relaxed policies with Cuba, U.S. President Trump has sought to reinstate them.

STRATEGIC FORMULATION PROCESS

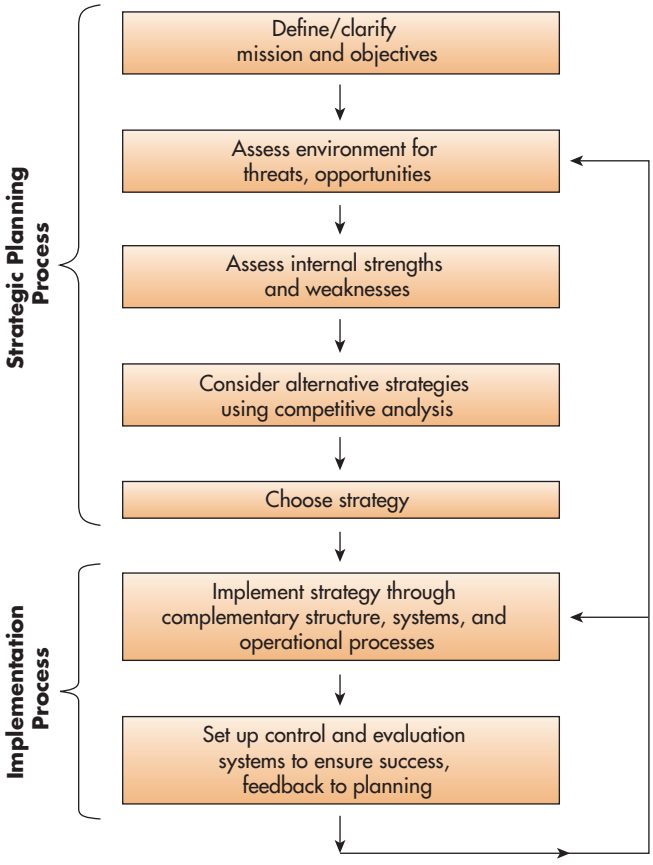
6-2. To become familiar with the strategic formulation process

Typically, the strategic formulation process is necessary both at the headquarters of the corporation and at each of the subsidiaries. Most organizations operate on planning cycles of five or more years, with intermediate reviews. However, adjustments are frequently necessary to respond to changes in a dynamic global environment, in particular in rapidly changing industries such as those driven by technological developments.

The global strategic formulation process, as part of overall corporate strategic management, parallels the process followed in domestic companies. However, the variables, and therefore the process itself, are far more complex because of the greater difficulty in gaining accurate and timely information; the diversity of geographic locations; and the differences in political, legal, cultural, market, and financial processes. These factors introduce a greater level of risk in strategic decisions. However, for firms that have not yet engaged in international operations (as well as for those that do), an ongoing strategic planning process with a global orientation identifies potential opportunities for (1) appropriate market expansion, (2) increased profitability, and (3) new ventures by which the firm can exploit its strategic advantages. Even in the absence of immediate opportunities, monitoring the global environment for trends and competition is important for domestic planning.

The strategic formulation process is part of the strategic management process in which most firms engage, either formally or informally. The planning modes range from a proactive, long-range format to a reactive, more seat-of-the-pants method, whereby the day-by-day decisions of key managers, in particular owner-managers, accumulate to what can be discerned retroactively as the new strategic direction.[31] The stages in the strategic management process are shown in Exhibit 6-1.

EXHIBIT 6-1 The Strategic Management Process



In reality, these stages seldom follow such a linear format. Rather, the process is continuous and intertwined, with data and results from earlier stages providing information for the next stage.

The first phase of the strategic management process—the *planning phase*—starts with the company establishing (or clarifying) its mission and its overall objectives. The next two steps comprise an assessment of the external environment that the firm faces in the future and an analysis of the firm's relative capabilities to deal successfully with that environment. Strategic alternatives are then considered, and plans are made based on the strategic choice. These five steps constitute the planning phase, which will be further explained in this chapter.

The second part of the strategic management process is the *implementation phase.* Successful implementation requires the establishment of the structure, systems, and processes suitable to make the strategy work. These variables, as well as functional-level strategies, are explored in detail in the remaining chapters on strategic implementation, organizing, leading, and staffing. At this point, however, it is important to note that the strategic planning process by itself does not change the posture of the firm until the plans are implemented. In addition, feedback from the interim and long-term results of such implementation, along with continuous environmental monitoring, flows directly back into the planning process.

6-3. To learn the steps in global strategic planning, including assessing entry strategies for different markets

STEPS IN DEVELOPING STRATEGIES

In the planning phase of strategic management—strategic formulation—managers need to evaluate dynamic factors carefully, as described in the stages that follow. However, as discussed earlier, managers seldom consecutively move through these phases; rather, changing events and variables prompt them to combine and reconsider their evaluations on an ongoing basis.

Step 1. Establish Mission and Objectives

The *mission* of an organization is its overall *raison d'être*, or the function it performs in society. This mission charts the direction of the company and provides a basis for strategic decision making. It also conveys the cultural values that are important to the company, as contrasted in the following two mission statements:

SONY (a Japanese Company)

Sony's corporate mission is to be *"a company* that provides customers with *kando*—to move them emotionally—and inspires and fulfills their curiosity.[32]

SIEMENS (a German Company)

We make real what matters, by setting the benchmark in the way we electrify, automate and digitalize the world around us. Ingenuity drives us and what we create is yours. Together we deliver.[33]

Although both mission statements indicate a focus on customers, Sony's offers them a more enjoyable experience. The notion of *kando*, which was coined by Sony CEO Kazuo Hirai, means "emotional involvement" or the "power to stimulate emotional response." This concept is embedded deeply in Sony's successful product development and innovation processes. For instance, Sony's PlayStation attracts new customers and retains existing ones through emotional connectivity derived from the gaming experience.

Siemens' mission statement aligns with the three pillars of its vision statement—responsibility (ethical actions), excellence (superior performance), and innovation (to achieve sustainable value). Their mission statement is explicit and decisive, typical of German communication; this compares with the more descriptive and implicit statement provided by Sony.[34]

A company's overall *objectives* flow from its mission, and both guide the formulation of international corporate strategy. Because we are focusing on issues of international strategy, we will assume that one of the overall objectives of the corporation is some form of international operation (or expansion). The objectives of the firm's international affiliates should also be part of the global corporate objectives. A firm's global objectives usually fall into the areas of marketing, profitability, finance, production, research and development, and sustainability, among others, as shown in Exhibit 6-2. Goals for market volume and profitability are usually set higher for international than for domestic operations because of the greater risk involved. In addition,

EXHIBIT 6-2 Global Corporate Objectives

Marketing
Total company market share—worldwide, regional, national
Annual percentage sales growth
Annual percentage market share growth
Coordination of regional markets for economies of scale

Production
Relative foreign versus domestic production volume
Economies of scale through global production integration
Quality and cost control
Introduction of cost-efficient production methods

Finance
Effective financing of overseas subsidiaries or allies
Taxation—globally minimizing tax burden
Optimum capital structure
Foreign-exchange management

Profitability
Long-term profit growth
Return on investment, equity, and assets
Annual rate of profit growth

Research and Development
Develop new products with global patents
Develop proprietary production technologies
Worldwide research and development labs

financial objectives on the global level must take into account differing tax regulations in various countries and the methods to minimize overall losses from exchange rate fluctuations.

Step 2. Assess External Environment

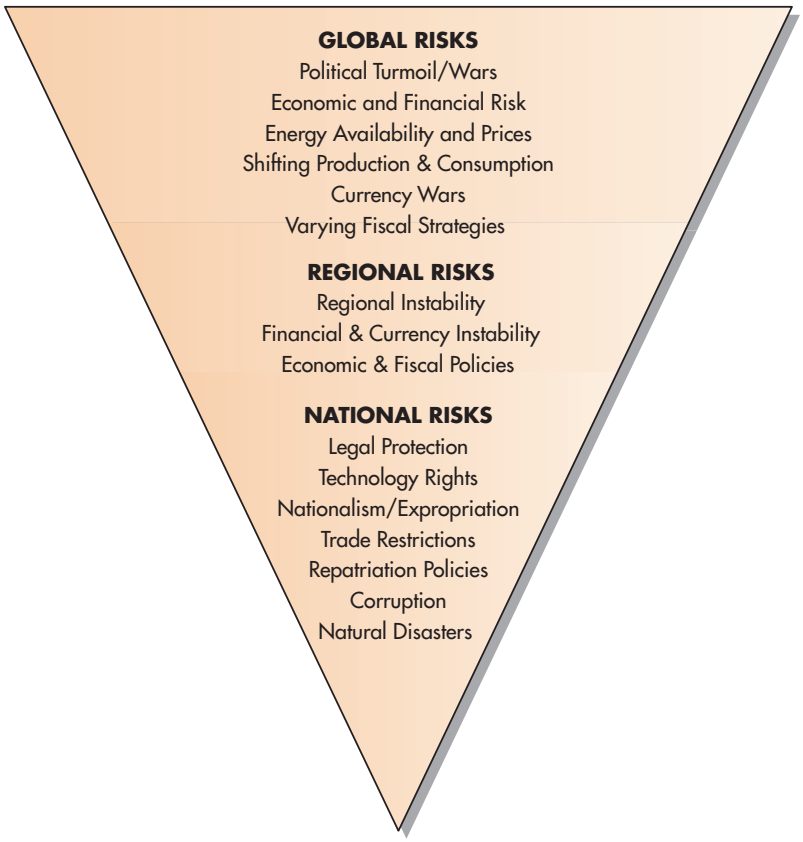
After clarifying the corporate mission and objectives, the first major step in weighing international strategic options is the **environmental assessment**. This assessment includes environmental scanning and continuous monitoring to keep abreast of variables around the world that are pertinent to the firm and that have the potential to shape its future by posing new opportunities (or threats). Firms must adapt to their environment to survive. The focus of strategic planning is how to adapt.

The process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest is called **environmental scanning**. This activity should be conducted on three levels—global, regional, and national (discussed in detail later in this chapter). Scanning should focus on the future interests of the firm and cover the major variables such as political and economic risk; major technological, legal, and physical constraints; and the global competitive arena as well as the opportunities available in different countries. Some generalized areas of risk to consider are shown in Exhibit 6-3.

The firm can also choose varying levels of environmental scanning. To reduce risk in investments, many firms take on the role of the follower, meaning that they limit their own investigations. Instead, they simply watch their competitors' moves and go where they go, assuming that competitors have done their homework. Other firms go to considerable lengths to carefully gather data and examine options in the global arena.

Ideally, the firm should conduct global environmental analysis on three levels: multinational, regional, and national. Analysis on the multinational level provides a broad assessment of significant worldwide trends—through identification, forecasting, and monitoring activities. These trends would include the political and economic developments of nations around the world as well as global technological progress. From this information, managers can choose certain appropriate regions of the world to consider further.

EXHIBIT 6-3 **Levels of Risk for Strategic Entry Scanning**



Next, at the regional level, the analysis focuses in more detail on critical environmental factors to identify opportunities (and risks) for marketing the company's products, services, or technology. For example, one such regional location ripe for investigation by a firm seeking new markets is Asia.

Having zeroed in on one or more regions, the firm must, as its next step, analyze at the national level. Such an analysis explores in depth specific countries within the desired region for economic, legal, political, and cultural factors significant to the company. For example, the analysis could focus on the size and nature of the market, any possible operational problems to consider, and how best to enter the market. In many volatile countries, continuous monitoring of such environmental factors is a vital part of ongoing strategic planning. Another important factor that must be considered in the environmental assessment at all levels is that of how institutions might affect potential opportunities to compete.

INSTITUTIONAL EFFECTS ON INTERNATIONAL COMPETITION[35]

Various institutions can create opportunities or constraints for firms considering entry into specific global markets. Recently, researchers such as Peng have argued that "firm strategies and performance are, to a large degree, determined by institutions popularly known as the 'rules of the game' in a society."[36] Institutions include both formal institutions that promulgate laws, regulations, and rules and informal ones that exert influence through norms, cultures, and ethics (discussed elsewhere in this book).[37] Specific ways in which formal institutions affect international competition are (1) the attractiveness of overseas markets, (2) entry barriers and industry attractiveness, and (3) antidumping laws.[38]

ATTRACTIVENESS OF OVERSEAS MARKETS

The extent to which countries have institutions to promote the rule of law affects the attractiveness of those economies to outside investors. Specifically, institutions provide a broad framework of liberty and democracy as well as human rights protections. In addition, institutions contribute to a stable environment for firms by creating specific laws such as those protecting property rights. Countries with more developed institutions appear more stable and attractive to foreign firms.[39]

ENTRY BARRIERS AND INDUSTRY ATTRACTIVENESS

Institutions create barriers to entry in certain industries and, hence, make those industries more attractive (profitable) for incumbent firms. For example, in the U.S. pharmaceutical industry, the U.S. Food and Drug Administration creates barriers in the form of stringent drug approval requirements. Because new entrants (with potentially cheaper drugs) are restricted, Americans pay double what Canadians and Europeans pay for the same drugs produced in the United States. Indeed, spending on retail and nonretail prescription drugs in the United States was over US$500 billion in 2018, more than Britain, Canada, France, Germany, Italy, and Japan combined.[40] In China, the government offers some licenses only to domestic firms. For example, US-based Rackspace sought to host private clouds in its data centers, which required a unique license; however, the licenses were awarded only to domestic firms. Consequently, Rackspace needed a local partner in order to compete in China.[41]

ANTIDUMPING LAWS AS AN ENTRY BARRIER

Current U.S. antidumping laws illustrate a second example of an entry barrier. They place a foreign entrant at a disadvantage if accused of dumping (defined as selling a product below the cost of producing that product with the intent to raise prices later) because of the extensive legal forms and evidence that the United States requires.[42]

Clearly, many formal institutions affect international strategy, but what explains successes of companies despite the failure or absence of these formal institutions? China is a common illustration of a country in which domestic firms have built competitive advantages despite poorly developed formal institutions. The answer lies in the extensive use of informal institutions or networks of interpersonal connections known in Chinese as *guanxi.* These networks function as substitutes for the weaknesses of the formal institutions. Research has shown that these informal networks are common in a variety of emerging markets with different cultural traditions and are a response to transitions in many emerging markets where formal institutions are evolving.[43]

SOURCES OF ENVIRONMENTAL INFORMATION

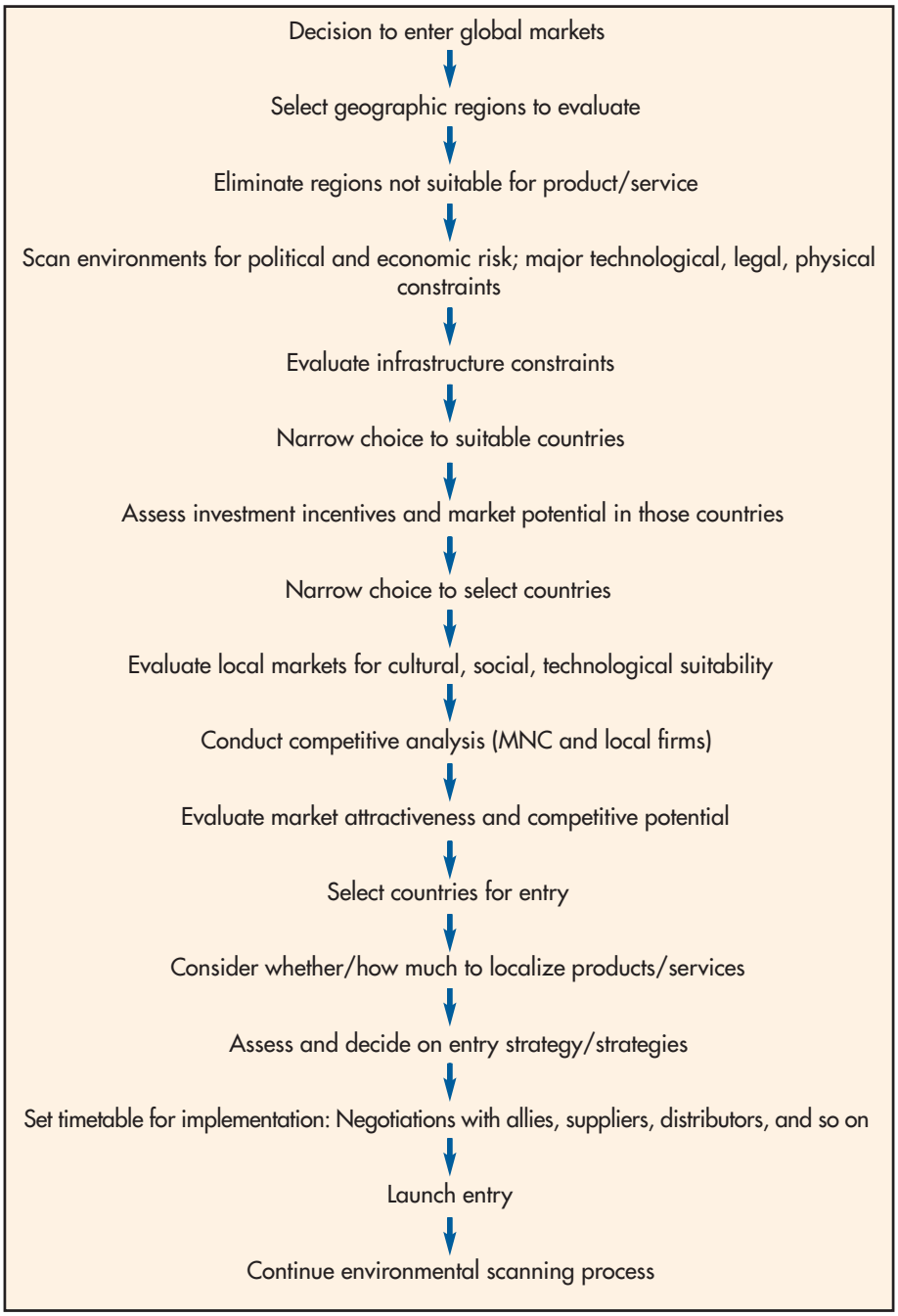
The success of environmental scanning depends on the ability of managers to take a global perspective and ensure that their sources of information and business intelligence are global. A variety of public resources is available to provide information. In the United States alone, more than 2,000 business information services are available on computer databases tailored to specific industries and regions. Other resources include corporate clipping services and information packages. However, internal sources of information are usually preferable—especially alert field personnel who, with firsthand observations, can provide up-to-date and relevant information for the firm. Extensively using its own internal resources, Mitsubishi Trading Company employs worldwide more than 70,000 people in over 200 offices and subsidiaries located in 90 countries, many of whom are market analysts, whose job it is to gather, analyze, and feed market information to the parent company.[44] Internal sources of information help to eliminate unreliable information from secondary sources, particularly in developing countries, where even the official data from such countries can be either misleading or tampered with for propaganda purposes, or it may be restricted.[45]

In summary, this process of environmental scanning, from the broad global level down to the local specifics of entry planning, is illustrated in Exhibit 6-4. The first broad scan of all potential world markets enables the firm to eliminate from its list markets that are closed or insignificant or do not have reasonable entry conditions. The second scan of remaining regions, and then countries, is done in greater detail—perhaps eliminating some countries based on, for example, political instability. Remaining countries are then assessed for competitor strengths, suitability of products, and so on. This analysis leads to serious entry planning in selected countries; managers start to work on operational plans such as negotiations and legal arrangements.

Competitive Analysis

At this point, the firm's managers perform a *competitive analysis* to assess the firm's capabilities and key success factors compared to those of its competitors. They must judge the relative current and potential competitive position of firms in that market and location—whether that is a global position or one for a specific country or region. Managers must also specifically assess their current competitors—global and local—for the proposed market. They must ask

EXHIBIT 6-4 Global Environmental Scanning and Strategic Decision-Making Process



some important questions: What are our competitors' positions, their goals and strategies, their resources, and their strengths and weaknesses, relative to those of our firm? What are the likely competitor reactions to our strategic moves? Like a chess game, the firm's managers also need to consider the strategic intent of competing firms and what might be their future moves (strategies). This process enables the strategic planners to determine where the firm has distinctive competencies that will give it strategic advantage as well as what direction might lead the firm into a sustainable competitive advantage—that is, one that will not be immediately eroded by emulation. The result of this process will also help to identify potential problems that can be corrected or that may be significant enough to eliminate further consideration of certain strategies.

This stage of strategic formulation is often called a **SWOT analysis** (strengths, weaknesses, opportunities, and threats), in which a firm's capabilities relative to those of its competitors are assessed as pertinent to the opportunities and threats in the environment for those firms. In comparing their company with potential international competitors in host markets, it is useful for

EXHIBIT 6-5 Global Competitor Analysis

U.S. Firm Compared with Its International Competitors in Malaysian Market

Comparison Criteria	A (U.S. MNC)	B (Korean MNC)	C (Local Malaysian Firm)	D (Japanese MNC)	E (Local Malaysian Firm)
Marketing capability	0	0	0	0	−
Manufacturing capability	0	+	0	0	0
R&D capability	0	0	0	−	0
HRM capability	0	0	0	0	0
Financial capability	+	−	0	0	−
Future growth of resources	+	0	−	0	−
Quickness	−	0	+	−	0
Flexibility/adaptability	0	+	+	0	0
Sustainability	+	0	0	0	−

Key:
+ = Firm is better relative to competition.
0 = Firm is same as competition.
− = Firm is poorer relative to competition.
Source: Diane J. Garsombke, "International Competitor Analysis," *Planning Review* 17, No. 3 (1989), pp. 42–47, used with permission of Emerald Insight.

managers to draw up a competitive position matrix for each potential location. For example, Exhibit 6-5 analyzes a U.S. specialty seafood firm's competitive profile in Malaysia. The U.S. firm has advantages in financial capability, future growth of resources, and sustainability, but a disadvantage in quickness. It also is at a disadvantage compared to the Korean MNC in important factors such as manufacturing capability and flexibility and adaptability. Because the other firms seem to have little **comparative advantage**, the major competitor is likely to be the Korean firm. At this point, then, the U.S. firm can focus in more detail on assessing the Korean firm's relative strengths and weaknesses.

Most companies develop their strategies around key strengths, or **distinctive competencies**. Distinctive—or core—competencies represent important corporate resources because, as Prahalad and Hamel explain, they are the "collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies."[46] Core competencies are usually difficult for competitors to imitate and represent a major focus for strategic development at the corporate level.[47] Honda has used its core competencies related to engine design and quality—or as Honda asserts: "We create intelligent technologies."[48] As a result, Honda produces reliable and durable products "that enrich lives and make the world more fun to move around in—on the road, on the water, in the air and beyond"—for example, automobiles, trucks, generators, lawnmowers, ATVs, boat motors, aircraft, motorcycles, and scooters.[49]

Apple, for example, has used its capacity to innovate constantly and apply its technology to new products and services. Firms such as McDonald's, Disney, the Tata Group, and IKEA, which have established their business models domestically, have successfully transferred them to global markets while also adjusting to local tastes.

Managers must also assess their firm's weaknesses. A company already on shaky ground financially, for example, will not be able to consider an acquisition strategy, or perhaps any growth strategy. Of course, the subjective perceptions, motivations, capabilities, and goals of the managers involved in such diagnoses frequently cloud the decision-making process. The result is that because of poor judgment by key players, sometimes firms embark on strategies that objective information contraindicates.

Porter's Five Forces Industry-Based Model

The firm's potential competitive position in its industry can be reviewed by using Michael Porter's **industry-based model** of five forces that examines the dynamics within an industry, as follows:

- The relative level of global and local competition already in the industry; for example, in computers, social networking sites, and auto manufacturing. A high level of competition presents barriers to entry; firms may then decide on a different entry strategy or be deterred from that market altogether.

- The relative ease with which new competitors may or may not enter the field, which determines the level of threat of new entrants. In other words, if your firm is already competing in that industry, what level of protection, or barriers to new entrants, do you have? Toyota, for example, presents huge barriers to entry for new car manufacturers: worldwide scale, volume, alliance partners and suppliers, and reputation.
- How much power the buyers have within the industry; that is, what is the level of bargaining power that buyers have to influence competition? Walmart, for example, has a lot of buying power because of the volume of its business and, therefore, has a downward pressure on prices. Potential entrants would therefore have to provide some differentiation or innovation to combat that pressure on prices and thus the profitability of the firm.
- The level of bargaining power of suppliers in the industry. High bargaining power would exert pressure on the firm to a potential entrant as well as squeeze profits. Suppliers of raw materials or component parts could disrupt production if alternate sources are not available.
- The level of threat of substitute products or services, including the likelihood of innovations.[50] Kodak, for example, was put out of business by digital photography even though the company invented it. And, as everyone is aware, the Internet is threatening the survival of music CDs, print newspapers, movie rental stores, the U.S. Post Office, and so on.

Step 3. Analyze Internal Factors

After the environmental assessment, the second major step in weighing international strategic options is the **internal analysis**. This analysis determines which areas of the firm's operations represent strengths or weaknesses (currently or potentially) compared to competitors, so that the firm may use that information to its strategic advantage.

The internal analysis focuses on the company's resources and operations and on global synergies. The strengths and weaknesses of the firm's financial and managerial expertise and functional capabilities are evaluated to determine what key success factors (KSFs) the company has and how well they can help the firm exploit foreign opportunities. Those factors increasingly involve superior technological capability (as with Apple and Huawei Technologies) as well as other strategic advantages such as effective distribution channels (Carrefour and Walmart), superior promotion capabilities (Disney and Proctor & Gamble), a low-cost production and sourcing position (Toyota), a superior patent and new product pipeline (Merck), and so on. These strengths contribute to a firm's competitive advantages.

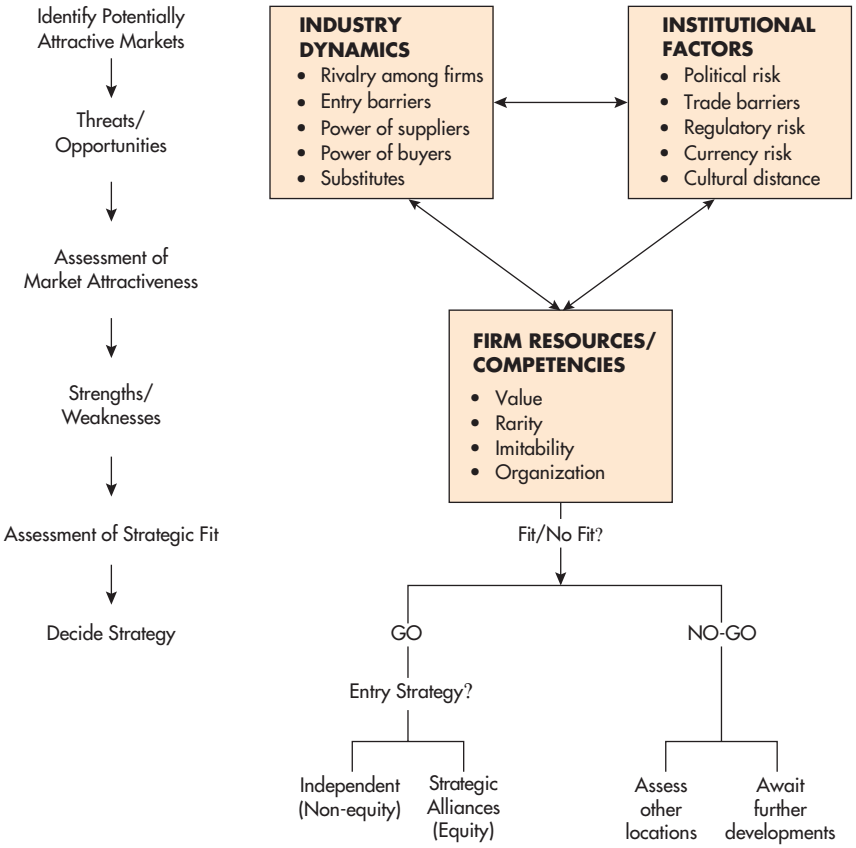
All companies have strengths and weaknesses. Management's challenge is to identify both and then take appropriate action. Many diagnostic tools are available for conducting an internal resource audit. Financial ratios, for example, may reveal an inefficient use of assets that adversely affects profitability. A sales-force analysis may reveal that the sales force is a source of competitive advantage for the firm. If a company is conducting this audit to determine whether to start international ventures or to improve its ongoing operations abroad, certain operational issues must be considered. These issues include (1) the difficulty of obtaining marketing information in many countries, (2) the often underdeveloped financial markets, (3) the complexities of exchange rates and government controls, (4) institutional voids in target countries, and (5) poor infrastructure, whether physical or technological.

STRATEGIC DECISION-MAKING MODELS

We can further explain and summarize the hierarchy of the strategic decision-making process described here by means of the leading strategic models. Their roles and interactions are conceptualized in Exhibit 6-6. At the broadest level are global, regional, and country factors and risks previously discussed in Chapter 1 that are part of those considerations in an **institution-based theory** of existing and potential risks and influences in the host area.[51]

The below strategic model can provide decision makers with a picture of the kinds of opportunities and threats that the firm would face in a particular region or country within its industry. This assumes, of course, that the locations under consideration have already been pinpointed as attractive and growing markets for the industry. However, that picture would be true for any firm within the particular industry. In other words, all firms within an industry face the same environmental and industrial factors; the difference among firms' performance is because of each firm's

EXHIBIT 6-6 A Hierarchical Model of Strategic Decision Making



own resources, capabilities, and strategic decisions. The factors that determine a firm's unique niche or competitive advantage within that arena are a function of its own capabilities (strengths and weaknesses) relative to the opportunities and threats perceived for that location. This is the **resource-based** view of the firm when considering the unique value of the firm's competencies and that of its products or services.[52]

Although these models may indicate varying choices, this strategic decision-making process should enable the managers to give an overall assessment of the strategic fit between the firm and the opportunities in that location and so result in a go/no go decision for that point in time. Those managers may want to start the process again toward a different location to compare the relative levels of strategic fit. If a good strategic fit is determined and a decision is made to enter that market/location, the next step, as indicated in Exhibit 6-6, is to consider alternative entry strategies. A discussion of these entry modes follows after we first examine the elements of strategy, which form the foundation of the "Strategy Diamond."[53]

THE ELEMENTS OF STRATEGY: THE "DIAMOND"

One way in which to formulate strategy is based on the "Strategy Diamond," which was developed by Donald Hambrick and James Fredrickson.[54] The diamond identifies five elements of a firm's strategy: (1) Arenas, (2) Vehicles, (3) Differentiators, (4) Economic Logic, and (5) Staging.

Arenas answer the broadly defined question "In what businesses will we compete?" Hambrick and Fredrickson describes arenas with a two-part question: "Where will we be active and with what degree of emphasis?" As such, arenas clarify the product categories it offers, segments that a firm enters, geographic markets it penetrates (e.g., domestic-regional, domestic-national, international-regional-international-worldwide), and customer markets it serves (e.g., retail, wholesale, millennials, high-net-worth individuals). In addition, it is critical to clearly specify the firm's core technologies and value-adding stages (e.g., product design, manufacturing, marketing, servicing) that will be internalized—i.e., remain within the firm rather than being outsourced.

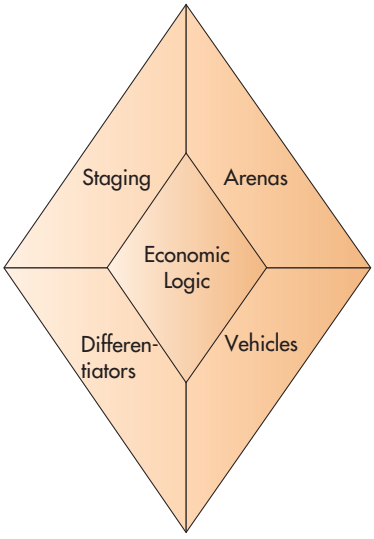
Vehicles describe the manner in which the arenas will be served, or as Hambrick and Fredrickson asked, "How will we get there?" Some firms use organic growth to build their own plants. Others use acquisition or strategic alliances to gain access to new markets and capabilities. For example, Corning, the U.S. based specialty glass company, has long focused on strategic alliances at home and abroad. Some firms use exporting or franchising to serve and penetrate geographic markets. Indeed, McDonald's has emphasized franchising in order to be a worldwide leader in the fast food industry. For international expansion, vehicles correspond to the various modes of entry that multinational enterprises can use to serve markets abroad.

Differentiators describe how a firm will succeed in the marketplace. Some firms leverage one particular attribute (e.g., superior product designs), while others differentiate themselves through several attributes (e.g., reliability, durability, and superior value for the price). Differentiators tend to be developed in the home market. As such, firms that expand abroad may need to access the scope of its differentiators. In some instances, a multinational enterprise's reputation for product/service quality—such as Rackspace's "fanatical customer service"—has spread outside the home base, which is the exception rather than the norm.[55] As such, MNEs need to consider carefully the extent to which a differentiator can be leveraged in markets abroad.

Staging captures the pace and sequence of major strategic moves of a firm. It is an overlooked aspect of strategy, especially for multinational enterprises that may confront liability of foreignness in overseas markets and wrestle with breadth versus depth of market penetration of various international markets. For retail firms such as IKEA (Swedish home furnishing company), Starbucks (U.S. coffee company), and Jollibee's (Filipino fast food company), staging decisions may involve balancing reputation enhancement and customers education (i.e., do-it-yourself furniture in India or coffee in tea-drinking cultures) with depth and breadth decisions—sequential market penetration within a particular country, simultaneous market penetration across many countries, or a combination of both breadth and depth. MNE manufacturers may face different staging needs related to local sourcing, distribution, and human capital expertise, in addition to reputational concerns.

Economic logic stresses how a firm will generate profits. Hambrick and Fredrickson asserted, "The most successful strategies have a central economic logic that serves as the fulcrum for profit creation." For this reason, they place this element at the heart of the strategic diamond as shown in Exhibit 6-7. Rather than developing exhaustive lists of reasons why customers will pay premium prices or why costs are below those of rivals, some firms may focus specifically on premium prices for unmatched service or product quality. Yet, other firms may focus primarily on cost advantages (e.g., IKEA's ability to reduce shipping and operating costs for do-it-yourself furniture).

EXHIBIT 6-7 The Strategy Diamond



Based on D. Hambrick & J. Fredrickson. 2001. "Are You Sure You Have a Strategy?" *Academy of Management Executive*, 15: 48–59.

Step 4. Evaluate Global and International Strategic Alternatives

The strategic planning process involves considering the advantages (and disadvantages) of various strategic alternatives in light of the competitive analysis. While weighing alternatives, managers must take into account the goals of their firms and the competitive status of other firms in the industry. Depending on the size of the firm, managers must consider two levels of strategic alternatives. The first level, *global strategic alternatives* (applicable primarily to MNCs), determines what overall approach to the global marketplace a firm wishes to take. The second level, *entry strategy alternatives,* applies to firms of any size; these alternatives determine what specific entry strategy is appropriate for each country in which the firm plans to operate. Entry strategy alternatives are discussed in a later section. The two main global strategic approaches to world markets—global strategy and regional, or local, strategy—are presented in the following subsections.

Approaches to World Markets

GLOBAL STRATEGY

In the past decade, increasing competitive pressures have forced businesses to consider global strategies—to treat the world as an undifferentiated worldwide marketplace.

With global strategies, a firm pursues a *low-cost* strategy on a *global scale* and increases profits by achieving cost advantages derived from economies of scale and location economies.

That is, the MNE establishes worldwide operations and develops standardized products and marketing. Many analysts, such as Porter, have argued that globalization is a competitive imperative for firms in global industries: "In a global industry, a firm must, in some way, integrate its activities on a worldwide basis to capture the linkages among countries. This includes, but requires more than, transferring intangible assets among countries."[56] The rationale behind globalization is to compete by establishing worldwide economies of scale, offshore manufacturing where appropriate, and international cash flows. The term *globalization,* therefore, is as applicable to organizational structure as it is to strategy. (Organizational structure is discussed further in Chapter 8.)

The pressures to globalize include (1) increasing competitive clout resulting from regional trading blocs; (2) declining tariffs, which encourage trading across borders and open up new markets; and (3) the information technology explosion, which makes the coordination of far-flung operations easier and increases the commonality of consumer tastes.[57] Use of websites has allowed entrepreneurs, as well as established companies, to go global almost instantaneously through e-commerce—either B2B or B2C.[58] Examples are eBay, Yahoo!, and Lands' End. In addition, the success of Japanese companies with global strategies has set the competitive standard in many industries—most visibly in the automobile industry. Even French-based LVMH, which is the world's largest luxury group by revenues, has adopted a global strategy. "We've always been very careful with the way we distribute our products," said Toni Belloni, LVMH group managing director, "We have a global strategy that's built around our stores as the best way to access customers and China is no different."[59]

One of the quickest and cheapest ways to internationalize is through strategic alliances. Many firms are trying to go global faster by forming alliances with rivals, suppliers, and customers. The rapidly developing information technologies are spawning cross-national business alliances from short-term virtual corporations to long-term strategic partnerships. (Strategic alliances are discussed further in Chapter 7.)

A global strategy is inherently more vulnerable to environmental differences, however, than is a multidomestic (regionalization) strategy. Global organizations are difficult to manage because doing so requires the coordination of broadly divergent national cultures. It also means that firms must lose some of their original identity—they must "denationalize operations and replace home-country loyalties with a system of common corporate values and loyalties."[60] In other words, the global strategy necessarily treats all countries similarly, regardless of their differences in cultures and systems. Problems often result, such as a lack of local flexibility and responsiveness and a neglect of the need for differentiated products. Many companies, such as Google, now believe that incorporating localization/regionalization allows them to capitalize on local competencies as long as the parent organization and each subsidiary retain a flexible approach to each other. Walmart is one global company that has learned the hard way that it should

have acted more local in some regions of the world, including Germany and South Korea, where it has had to abandon operations.

LOCALIZATION/REGIONALIZATION

Nokia, Nestlé, Google, and Walmart have failed to adjust to the tastes of South Korean consumers.[61]

For firms in industries in which competitiveness is determined on a country-by-country basis rather than on a global basis, local/regional strategies are more appropriate. The **multidomestic strategy (regionalization strategy)** refers to a strategy in which a firm increases profitability by *customizing* the firm's goods and services to local markets in order to provide a good fit with the customer tastes and preferences in different national markets or regions. In the extreme, a multidomestic strategy involves being "*in China for China…in Brazil for Brazil…in France for France,*" such that top managers within each country decide on their own investment locations, product mixes, and competitive positioning. In other words, they run their subsidiaries as quasi-independent organizations. A less extreme approach adopts a strategy that is region-specific—that is, "*in South America for South America…in Europe for Europe.*"

Although there are pressures to achieve global integration/efficiency—such as the need for economies of scale to compete on cost—there are opposing pressures to localize/regionalize, especially for newly developed economies (NDEs) and developing or emerging economies. These localization pressures include unique consumer preferences resulting from cultural or national differences (perhaps something as simple as right-hand-drive cars for Japan), domestic subsidies, and new production technologies that facilitate product variation for less cost than before.[62] By acting local, firms can focus individually in each country or region on the local market needs for product or service characteristics, distribution, customer support, and so on. U.S. manufacturer Corning has been able to enter the Chinese market by providing its specialty glass for residential and commercial applications in Wuhu, China through its alliance with Youngy Investment Holding Group. However, Corning sees its strategic alliance as a vehicle through which to serve customers in China and other markets, as well as to offer its other glass products. According to Martin Curran, Corning's executive vice president and innovation officer, "This relationship enables us to integrate our advanced glass into high-end commercial buildings and homes in China and other parts of the world…This relationship also opens the door for us to explore additional applications for our thin, innovative glass."[63]

Ghemawat argues that strategy cannot be decided either on a country-by-country basis or on a one-size-fits-all-countries basis but, rather, that both the differences and the similarities between countries must be taken into account. He bases his perspectives on the cultural, administrative, geographic, and economic (CAGE) distances between countries, for example:

Cultural distance: Differences in values, languages, religion, trust.

Administrative distance: Lack of common trading bloc or currency, difference in regulations and/or enforcement of laws; political hostility, nonmarket or closed economy.

Geographical distance: Remoteness, different time zones, weak transportation or communication links.

Economic distance: Differences in the levels of development and per capita income, natural or human resources, infrastructure, information or knowledge.

He concludes:

A semiglobalized perspective helps companies resist a variety of delusions derived from visions of the globalization apocalypse: growth fever, the norm of enormity, statelessness, ubiquity, and one-size-fits-all.

Semi-globalization is what offers room for cross-border strategy to have content distinct from single-country strategy.[64]

As with any management function, the strategic choice of where a company should position itself along the globalization/regionalization continuum is contingent on the nature of the industry, the type of company, the company's goals and strengths (or weaknesses), and the nature of its subsidiaries, among many factors. In addition, each company's strategic approach should be unique in adapting to its own environment. Many firms may try to go global but act local to trade off the best advantages of each strategy.

Transnational Strategies

Many MNE firms face pressures to be both globally efficient and locally responsive. In these circumstances, firms develop a transnational strategy, which entails achieving low costs through global efficiency and providing differentiated product/service offerings across geographic markets to account for local customer differences. A transnational strategy can take different forms. For example, a firm may adopt a transnational approach to its value chain–for example, research and manufacturing emphasize standardization, but marketing and sales vary across countries/regions, thus embracing local responsiveness. Alternatively, a firm may employ a transnational strategy to its business divisions. For example, one division may have strong pressures for global integration, thus emphasizing standardization in order to drive down costs; yet, another division may have strong pressures for local responsiveness, thus focusing on customization in overseas markets. Sometimes, a firm can invoke a transnational strategy on a product-specific basis or country-specific basis. For instance, BRL Hardy (Australian wine producer), like most of its rivals, required a multidomestic approach due to country-specific differences in wine preferences and volume constraints, yet it began to develop global brands for some of its wines. Relatedly, IKEA has long emphasized global integration, but the nuances of the Indian market suggested that it needed to customize its approach in order to best serve Indian customers.

Many MNCs have developed their global operations to the point of being fully integrated—often both vertically and horizontally, including suppliers, productive facilities, marketing and distribution outlets, and contractors around the world. Dell, for example, is a globally integrated company, with worldwide sourcing and a fully integrated production and marketing system. It has factories in Ireland, Brazil, China, Malaysia, Tennessee, and Texas, and it has an assembly and delivery system from 47 locations around the world. At the same time, it has extreme flexibility. Because Dell builds each computer to order, it carries very little inventory and, therefore, can change its operations at a moment's notice. Thomas Friedman described the process that his notebook computer went through when he ordered it from Dell:

> *The notebook was co-designed in Austin, Texas, and in Taiwan. . . . The total supply chain for my computer, including suppliers of suppliers, involved about four hundred companies in North America, Europe, and primarily Asia, but with thirty key players. (It was delivered by UPS 17 days after ordering.)*[65]

Although some companies move very quickly to the stage of global integration—often through mergers or acquisitions—many companies evolve into multinational corporations by going through the entry strategies in stages, taking varying lengths of time between stages. Typically, a company starts with simple exporting, moves to large-scale exporting with sales branches abroad (or perhaps begins **licensing**), then—for a manufacturing company—proceeds to assembly abroad (either by itself or through contract manufacturing), and eventually evolves to full production abroad with its own subsidiaries. Finally, the company will undertake the global integration of its foreign subsidiaries, setting up cooperative activities among them to achieve economies of scale. By this point, the MNC has usually adopted a geocentric orientation, viewing opportunities and entry strategies in the context of an interrelated global market instead of regional or national markets. In this way, alternative entry strategies are viewed on an overall portfolio basis to take maximum advantage of potential synergies and leverage arising from operations in multicountry markets.[66] Whereas Procter & Gamble, for example, took around 100 years to go fully global, many companies more recently are "**born global**"—that is, they start out with a global reach, typically by using their Internet capabilities and hiring people with international experience and contacts around the world.

> *Born globals globalize some aspects of their business—manufacturing, service delivery, capital sourcing, or talent acquisition, for instance—the moment they start up.*
>
> *. . . Standing conventional theory on its head, start-ups now do business in many countries before dominating their home markets.*[67]

Isenberg notes that successful entrepreneurs can establish multinational organizations from the outset by setting up and managing global supply chains and striking alliances from positions of weaknesses. The major challenges for born globals are those of accessing resources and the physical and cultural distances in their markets and operations.[68]

Using E-Business for Global Expansion

Companies of all sizes are increasingly looking to the Internet as a means of expanding their global operations. Clearly, the Internet is available to anyone and levels the playing field for small businesses. E-commerce businesses can become global with relative ease; however, many small business owners miss out on opportunities abroad. Some small business owners that have leveraged the power of the Internet have achieved great success, as shown in the quote below by an executive of an e-commerce shipping platform:

> *We have a customer that sells wallets here in Brooklyn, they opened up the Japanese market and now 70 percent of their revenue comes from Japan.*[69]
>
> RYAN POWELL, SENIOR DIRECTOR FOR NORTH AMERICA, EASYSHIP

There are many micro-multinationals such as the one described above and, just as with large companies, they run their businesses using email, web pages, voice-over-Internet phone services, and other Internet technology to serve customers around the globe.

The globalization of the web is evident, as shown in Table 6-1, which compares the statistics between 2014 and 2018. Out of the total number of Internet users as of 2018, Asia already had 49.0 percent of world usage, up slightly from 2014. The penetration rate of users for Asia, for example, of 49.0 percent, is a considerable increase in people using the Internet yet shows the growth opportunities in this region. Nevertheless, of particular note is that Africa's penetration rate has increased substantially, although still low, which indicates a far greater growth capacity than in Europe and North America. In China alone there are more than 800 million Internet users.[70] However, in China, as in other countries, the logistics of providing customer service is often a barrier to efficient e-commerce. The growth of express delivery over a broad geographic base has lagged behind the growth of the e-commerce market there.[71] Three strategies are recommended to deal with the logistics problems in China and elsewhere:

- Build your own internal logistics network.
- Outsource delivery services to third-party providers.
- Form partnerships with or acquire existing logistics companies.[72]

Many developing nations, in particular, are realizing the opportunities for e-commerce and improving their infrastructure to take advantage of those opportunities. Governments and businesses are experiencing pressure to go online, especially those companies that export goods to countries where a significant amount of business is conducted through the Internet, such as the United States. For example, Everest S.A., a family-run business in San Salvador, sold a 69-kilogram lot (152 pounds) of coffee beans from one of its five farms in an Internet auction for a record price of $14.06 a pound.[73]

As a result, American technology giants and e-retailers such as Amazon are devoting great amounts of money and time to build and develop foreign-language websites and services. "Gone are the days in which you can launch a website in English and assume that readers from around the globe are going to look to you simply because of the content you're providing."[74]

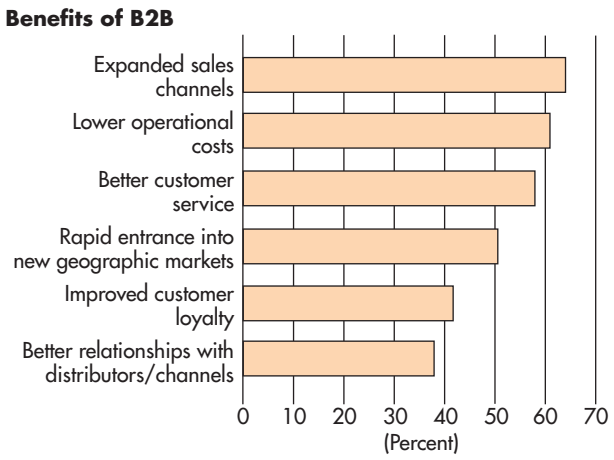
There are many benefits of e-business, including rapid entrance into new geographic markets and lower operational costs, as indicated by respondents to the IDC Internet Executive Advisory

TABLE 6-1 Change in World Internet Usage as of Q2 2018

Regions	Usage % of World		Penetration Rates (%)	
	2018	2014	2018	2014
Africa	11.0	9.8	36.1	26.5
Asia	49.0	45.7	49.0	34.7
Europe	16.8	19.2	85.2	70.5
Middle East	3.9	3.7	64.5	48.3
North America	8.2	10.2	95.0	87.7
Latin America/Caribbean	10.4	10.5	67.2	52.3
Oceana/Australia	0.7	0.9	68.9	72.9

Source: Based on selected data from www.internetworldstats.com, accessed March 9, 2019.

EXHIBIT 6-8 Benefits of B2B



Source: Data from IDC Internet executive Advisory Council Surveys.

Council surveys (see Exhibit 6-8). Less touted, however, are the many challenges inherent in a global B2B or B2C strategy. These include cultural differences and varying business models as well as governmental wrangling and border conflicts—in particular the question over which country has jurisdiction and responsibility over disputes regarding cross-border electronic transactions.[75] Potential problem areas that managers must assess in their global environmental analysis include conflicting consumer protection, intellectual property, and tax laws; increasing isolationism, even among democracies; language barriers; and a lack of tech-savvy legislators worldwide.[76]

Savvy global managers will realize that e-business cannot be regarded as just an extension of current businesses. It is a whole new industry in itself, complete with a different pool of competitors and entirely new sets of environmental issues. A reassessment of the environmental forces in the newly configured industry, using Michael Porter's five forces analytical model, should take account of shifts in the relative bargaining power of buyers and suppliers, the level of threat of new competitors, existing and potential substitutes, and a present and anticipated competitor analysis.[77] The level of e-competition will be determined by how transparent and imitable the company's business model is for its product or service as observed on its website. In addition, competitors may also be other bricks-and-mortar stores as well as their own—such as for Staples or JCPenney.

There is no doubt that the global e-business competitive arena is a challenging one, both strategically and technologically; but many companies around the world are plunging in, fearing that they will be left behind in this fast-developing global e-marketplace.

For companies such as eBay, e-business is their business—services are provided over the Internet for end users and for businesses. With a unique business model, eBay embarked on a global e-strategy. The company has positioned itself to be global and giant: part international swap meet, and part clearinghouse for the world's manufacturers and retailers.

E-GLOBAL OR E-LOCAL?

Although Alibaba's Chinese e-commerce operations had 636 million active buyers in 2018, the company's strategy involves expanding in other countries such as South Korea, India, and especially Japan.[78]

> *Alibaba Group has a goal to serve two billion consumers, and we hope to partner with Japanese brands and retailers that share an interest to expand their global market presence. Japan is an important market for Alibaba's globalization strategy, because it offers world-class, high-quality products in popular demand by Chinese consumers . . . we aim to empower Japanese brands and retailers to enter the Chinese and Asian markets with a cross-border e-commerce solution that best serves their interest and needs.*[79]
>
> ALIBABA GROUP CEO DANIEL ZHANG

Although the Internet is a global medium, a company still faces the same set of decisions regarding how much its products or services can be globalized or how much they must be localized

to national or regional markets. Local cultural expectations, differences in privacy laws, government regulations, taxes, and payment infrastructure are just a few of the complexities encountered in trying to globalize e-commerce. Further complications arise because the local physical infrastructure must support e-businesses that require the transportation of actual goods for distribution to other businesses in the supply chain or to end users. In those instances, adding e-commerce to an existing old-economy business in those international markets is likely to be more successful than starting an e-business from scratch without the supply and distribution channels already in place. However, many technology consulting firms, such as NextLinx, provide software solutions and tools to penetrate global markets, extend their supply chains, and enable new buyer and seller relationships around the globe.

Going global with e-business, as Yahoo! has done, necessitates a coordinated effort in a number of regions around the world at the same time to gain a foothold and grab new markets before competitors do. Certain conditions dictate the advisability of going e-global:

> *The global beachhead strategy makes sense when trade is global in scope; when the business does not involve delivering orders; and when the business model can be hijacked relatively easily by local competitors.*[80]

This strategy would work well for global B2B markets in steel, plastics, and electronic components.

The e-local, or regional strategic, approach is suited to consumer retailing and financial services, for example. Amazon and eBay have started their regional approach in Western Europe. Again, certain conditions would make this strategy more advisable.

> *[The e-local/regional approach] is preferable under three conditions: when production and consumption are regional rather than global in scope; when customer behavior and market structures differ across regions but are relatively similar within a region; and when supply-chain management is very important to success.*[81]

The selection of which region or regions to target depends on the same factors of local market dynamics and industry variables as previously discussed in this chapter. However, for e-businesses, additional variables must also be considered, such as the rate of Internet penetration and the level of development of the local telecommunications infrastructure.

One company that learned the hard way how to localize its e-business is Handango, Inc., of Hurst, Texas—a maker of smartphone and wireless-network software. As Clint Patterson, the company's vice president of marketing, said while reflecting on its move into Asian markets several years ago, "We didn't understand what purchasing methods would be popular or even what kinds of content. We didn't have a local taste. We realized we needed someone on the street to hold our hand."[82] For example, Handango found it needed a local bank account to do business in Japan because Japanese consumers use a method called *konbini* to make online payments. This means that when they place their order online, instead of paying with a credit card, they go to a local convenience store and pay cash to a clerk, who then transfers the payment to the online vendor's account. To adapt to this system, Handango formed an alliance with @irBitway, a local consumer-electronics web portal, which now acts as Handango's agent in the konbini system and has taken over Handango's local marketing and translation.[83] Handango ran into a similar problem in Germany when it discovered that Germans do not like debt and prefer to pay for their online purchases with wire transfers from their bank accounts. To get around this, the company found a local partner to interface with local banks and then adapted its website to the new payment method.[84]

Step 5. Evaluate Entry Strategy Alternatives

For a multinational corporation (or a company considering entry into the international arena), a more specific set of strategic alternatives, often varying by targeted country, focuses on different ways to enter a foreign market. Managers need to consider how potential new markets may be served best by their company in light of the risks and the critical environmental factors associated with their entry strategies. The following sections examine the various entry and ownership strategies available to firms, including exporting, licensing, franchising, contract manufacturing, offshoring, service-sector outsourcing, turnkey operations, management contracts, joint ventures, fully owned subsidiaries set up by the firm, and e-business. These alternatives are not mutually exclusive; several may be employed at the same time. They are addressed in order of ascending risk (typically), although e-business is usually low-risk.

EXPORTING

Exporting is a relatively low-risk way to begin international expansion or to test out an overseas market. Little investment is involved, and fast withdrawal is relatively easy. Small firms seldom go beyond this stage, and large firms use this avenue for many of their products. Because of their comparative lack of capital resources and marketing clout, exporting is the primary entry strategy small businesses use to compete on an international level. Many firms from emerging or developing markets use exporting extensively to compete overseas in a narrow product category; an example is the Hong Kong–based Johnson Electric (Johnson), which exports most of the 3 million tiny electric motors it produces per day.

An experienced firm may want to handle its exporting functions by appointing a manager or establishing an export department. Alternatively, an export management company (EMC) may be retained to take over some or all exporting functions, including dealing with host-country regulations, tariffs, duties, documentation, letters of credit, currency conversion, and so forth. Frequently, it pays to hire a specialist for a given host country.

Certain decisions need special care when managers are setting up an exporting system, particularly the choice of distributor. Many countries have regulations that make it very hard to remove a distributor who proves inefficient. Other critical environmental factors include export–import tariffs and quotas, freight costs, and distance from supplier countries.

LICENSING

An international licensing agreement grants the rights to a firm in the host country to either produce or sell a product, or both. This agreement involves the transfer of rights to patents, trademarks, or technology for a specified period in return for a fee the licensee pays. Many food-manufacturing MNCs license their products overseas, often under the names of local firms, and products like those of Adidas and Disney appear around the world under various licensing agreements. Like exporting, licensing is also a relatively low-risk strategy because it requires little investment, and it can be a useful option in countries where market entry by other means is constrained by regulations or profit-repatriation restrictions.

Licensing is especially suitable for the mature phase of a product's life cycle when competition is intense, margins decline, and production is relatively standardized. It is also useful for firms with rapidly changing technologies, for those with many diverse product lines, and for small firms with few financial and managerial resources for direct investment abroad. A clear advantage of licensing is that it avoids the tariffs and quotas usually imposed on exports. The most common disadvantage is the licensor's lack of control over the licensee's activities and performance.

Critical environmental factors to consider in licensing are whether sufficient patent and trademark protection is available in the host country, the track record and quality of the licensee, the risk that the licensee may develop its competence to become a direct competitor, the licensee's market territory, and legal limits on the royalty rate structure in the host country.

FRANCHISING

Similar to licensing, **franchising** involves relatively little risk. The franchisor licenses its trademark, products and services, and operating principles to the franchisee for an initial fee and ongoing royalties. Franchises are well known in the domestic fast-food industry; Pizza Hut, for example, operates primarily on this basis. For a large up-front fee and considerable royalty payments, the franchisee gets the benefit of the firm's reputation, existing clientele, marketing clout, and management expertise. Pizza Hut is well recognized internationally, as are many other fast-food and hotel franchises, such as Hampton Hotels, along with, for example, MyGym of Mexico, and other services such as Supercuts and H&R Block. A critical consideration for the franchisor's management is quality control, which becomes more difficult with greater geographic dispersion. The choice of entry mode for the largest Filipino fast food chain, Jollibee's, tends to be franchising. With more than 750 stores nationwide, Jollibee's has been expanding abroad. As of March 2019, Jollibees's had 80 locations outside the Philippines with 26 locations in the United States, 32 locations in Vietnam, and 11 locations in Brunei among others.[85]

Franchising can be an ideal strategy for small businesses because outlets require little investment in capital or human resources. Through franchising, an entrepreneur can use the resources of franchisees to expand; most of today's large franchises started out with this strategy. An entrepreneur can also use franchisees to enter a new business. Higher costs in entry fees and royalties

are offset by the lower risk of an established product, trademark, and customer base as well as the benefit of the franchisor's experience and techniques.

Franchising in some countries can be complicated. In China, for example, franchising is a rather new concept. Almost all firms that franchise in China "either manage the operations themselves with Chinese partners (typically establishing a different partner in each major city or region), or sell to a master franchisee, which then leases out and oversees several franchise areas within a territory."[86] There are considerable problems, including finding suitable franchisees and collecting royalty payments.

CONTRACT MANUFACTURING

A common means of outsourcing cheaper labor overseas is contract manufacturing (also commonly called outsourcing), which involves contracting for the production of finished goods or component parts. These goods or components are then imported to the home country, or to other countries, for assembly or sale. Alternatively, they may be sold in the host country. If managers can ensure the reliability and quality of the local contractor and work out adequate means of capital repatriation, this strategy can be a desirable means of quick entry into a country with a low capital investment and none of the problems of local ownership. Firms such as Nike use contract manufacturing around the world. However, the Boston Consulting Group warned about assuming that this strategy would continue to deliver big cost reductions by itself and that it should be considered just one part of a global sourcing strategy.[87]

OFFSHORING

Offshoring is when a company moves one or all of its factories from the home country to another country, as is the case with some of Nissan's factories in the United States. In fact, more than 40 percent of cars built in the United States are made by Japanese and other foreign companies.[88] Offshoring provides the company with access to foreign markets while avoiding trade barriers as well as, frequently, achieving an overall lower cost of production. According to a report by A. T. Kearney, U.S. imports from offshoring countries (e.g., China, Malaysia, India, Vietnam, Thailand, Indonesia, Bangladesh, and Pakistan) have steadily risen from 9.15 percent in 2008 to 12.44 percent in 2017.[89]

However, some companies attribute their global success to their local connections for part or all of their manufacturing. An example is the BAG shoe company in Italy. Just over half the upper shoe parts are made in low-cost countries such as Serbia and Tunisia. The rest of the uppers and the soles are made locally. Having such a large part of its shoes made by local suppliers enables BAG's CEO, Mr. Bracalente, to emphasize the "Made in Italy" label as a big marketing advantage. Moreover, having suppliers close by means production problems are quickly solved. "Our technicians can go and visit the suppliers, often in just half an hour," says Mr. Bracalente. He feels that splitting the assembly functions between BAG and many outside companies is a strength, not a weakness.[90] He argues that this mix of production locations gives the company a vital source of flexibility and the capacity to make rapid changes in shoe style.[91]

One means of gaining increased efficiencies and therefore lower costs is through **clustering**, used when contract manufacturing, offshoring, or service-sector outsourcing (explained below). Sirkin et al. note that many companies from emerging market economies—companies that they call challengers—have gained rapid success by clustering:

> *Challengers are particularly expert at keeping their costs low by clustering—operating in concentrations of related, interdependent companies within an industry that use the same suppliers, specialized labor, and distribution channels.*[92]

Examples of industry clusters are an appliance cluster in Monterey, Mexico, serving the North American market and firms both global and local, and including around two hundred local suppliers; the many manufacturing clusters in China; and service center clusters in India, as discussed elsewhere in this chapter.

RESHORING/NEARSHORING

More recently, a number of companies in developed economies have begun reconsidering some or all of their outsourcing strategies and started to relocate some productive facilities to newly preferred locations, or to home—a process called **reshoring**—or at least closer to home and to major markets, called **nearshoring**. Reasons for this include the increasing costs of labor as emerging countries enter a new phase of development and rising consumer classes, currency fluctuations, the

costs of transportation and length of time to market, the risks of long supply chains with multiple stages and parties involved and the difficulty of retaining complete control over the production and supply chains from a long distance, the pressure to consider social responsibility and sustainability in distant and low-economic venues, and the pressure to bring jobs back home. For example, Hasbro, Inc. added a manufacturing line in Massachusetts—rather than offshoring production—in response to growing demand for its Play-Doh product. Some cases of reshoring suggest corporate patriotism. In response to Walmart's promise to purchase more U.S.-made products, California Innovations moved overseas production of the Ozark Trail super coolers to Atlanta. Similarly, Dorel Juvenile planned to move the overseas production of its car seats to an Ohio factory.

Add to these the scarcity of skilled labor, the risks of natural disasters and terrorism, and moves by local governments to protect their own interests, and the result seems to have turned the tables somewhat on the advantages of distant outsourcing, yet the trend lost momentum. According to A. T. Kearney, reshoring cases in the United States peaked in 2013 and 2014. However, reshoring declined steadily through 2017.[93]

SERVICE SECTOR OUTSOURCING

According to the 2017 A. T. Kearney Global Services Location Index, traditional offshoring industry—information technology outsourcing (ITO) and business process outsourcing (BPO)—has reached "the beginning of the end." However, the global labor market for services is still in its infancy.[94]

> *Developing nations have long enjoyed the economic benefits of other countries' offshoring. Now this model is in danger as technology takes over much of business process outsourcing.*[95]

The 2017 Global Services Location Index (GSLI) ranked countries based on three criteria: financial attractiveness, people skills and availability, and business environment. The findings confirm that Asia continues to dominate service sector outsourcing, especially in India, due to its highly educated and English-language staff availability. Latin America as a region has done well, and Central Europe offers mature industry and highly skilled workers.[96] As shown in shown in Exhibit 6-9, the top GSLI countries were India, China, Malaysia, Indonesia, Brazil, and Vietnam.

EXHIBIT 6-9 A.T. Kearney 2017 Global Services Location Index Ranks

Rank 2017	Change in Rank since 2014	Country
1	0	India
2	0	China
3	0	Malaysia
4	+1	Indonesia
5	+3	Brazil
6	+6	Vietnam
7	0	Philippines
8	−2	Thailand
9	+4	Chile
10	+33	Colombia
11	+5	Sri Lanka
12	−1	Poland
13	−9	Mexico
14	−4	Egypt
15	−6	Bulgaria
16	+17	Czech Republic
17	0	Germany
18	0	Romania
19	+8	UK
20	N.R	Peru

Source: Selections from the A. T. Kearney 2017 Global Services Location Index.

Colombia and Czech Republic made the most significant improvements relative to the 2014 ranking: Czech Republic (16th; +17) and Colombia (10th; +33).[97]

Firms that outsource services usually enter overseas markets by setting up local offices, research laboratories, call centers, and so on to use the highly skilled but lower-wage **human capital**, which is available in countries such as India, the Philippines, and China, as well as the ability to offer global, round-the-clock service from different time zones.

Whether firms use offshoring, reshoring, nearshoring, or onshoring, they must consider the strategic aspects of that decision beyond immediate cost savings. In addition to the lack of consideration for factors other than production costs, sending jobs to a particular country is typically a short-term cost-reduction strategy because, at some point, competitive pressures will increase costs there, necessitating moving those jobs again to still lower-cost countries (a transition known as a race to the bottom).

Managers are in fact broadening their strategic view of sending skilled work abroad, now using the term *transformational outsourcing* to refer to the growth opportunities provided by making better use of skilled staff in the home office and brought about by gains in efficiency and productivity through leveraging global talent.[98] The risk of backlash from customers, community, and current employees necessitates careful consideration of the reasons for a company to go offshore. Managers also must consider the risk of losing control of proprietary technology and processes and decide whether to set up the company's own subsidiary offshore (a *captive* operation) instead of contracting with outside specialists. Bank of America, for example, split its strategy by opening its own subsidiary in India but also allied with Infosys Technologies and Tata Consultancy Services for 30 percent of its IT resources to be outsourced.[99]

TURNKEY OPERATIONS

In a so-called **turnkey operation**, a company designs and constructs a facility abroad (such as a dam or chemical plant), trains local personnel, and then turns the key over to local management—for a fee, of course. Critical factors for success are the availability of local supplies and labor, reliable infrastructure, and an acceptable means of repatriating profits. There may also be a critical risk exposure if the turnkey contract is with the host government, which is often the case. This situation exposes the company to risks such as contract revocation and the rescission of bank guarantees.

MANAGEMENT CONTRACTS

A management contract gives a foreign company the rights to manage the daily operations of a business but not to make decisions regarding ownership, financing, or strategic and policy changes. Usually, management contracts are enacted in combination with other agreements, such as joint ventures. By itself, a management contract is a relatively low-risk entry strategy, but it is likely to be short term and provide limited income unless it leads to a more permanent position in the market.

INTERNATIONAL JOINT VENTURES

At a much higher level of investment and risk (though usually less risky than a wholly owned business), joint ventures present considerable opportunities unattainable through other strategies. A joint venture involves an agreement by two or more companies to produce a product or service together. In an **international joint venture (IJV)**, ownership is shared, typically by an MNC and a local partner, through agreed-upon proportions of equity. This strategy facilitates an MNC's rapid entry into new markets by means of an already established partner who has local contacts and familiarity with local operations. IJVs are a common strategy for corporate growth around the world. They also are a means to overcome trade barriers, to achieve significant economies of scale for development of a strong competitive position, to secure access to additional raw materials, to acquire managerial and technological skills, and to spread the risk associated with operating in a foreign environment.[100] For example, Amazon formed a joint venture in India that, in turn, owned Cloudtail India, a new company that has generated the most sales on Amazon's Indian marketplace.[101] Also, Saudi Aramco announced an agreement to set up a joint venture with Norinco Group and Panjin Sincen (China) to develop a refinery and petrochemicals facility in Liaoning province.[102]

Not surprisingly, larger companies are more inclined to take a high-equity stake in an IJV to engage in global industries and be less vulnerable to the risk conditions in the host country.[103] The joint venture reduces the risks of expropriation and harassment by the host country. Indeed, it may be the only feasible means of entry into certain countries, such as Mexico and Japan, which stipulate proportions of local ownership and local participation.

Many companies have set up joint ventures with European companies to gain the status of an insider in the European Union. IJVs are quite common in India because the government encourages foreign collaborations to facilitate capital investments, import of capital goods, and transfer of technology.[104] Most of these alliances are not just tools of convenience but are important—perhaps critical—means to compete in the global arena, in particular to share in the immense costs involved and to share the risk burden. In a joint venture, the partners must work out the level of relative ownership and specific contributions. They must share management and decision making for a successful alliance. The company seeking such a venture must maintain sufficient control, however, because without adequate control, the company's managers may be unable to implement their desired strategies. Therefore, initial partner selection and the development of a mutually beneficial working agreement are critical to the success of a joint venture. In addition, managers must ascertain that there will be enough of a fit between the partners' objectives, strategies, and resources—financial, human, and technological—to make the venture work. Unfortunately, too often the need for preparation and cooperation is given insufficient attention, resulting in many such strategic partnerships ending prematurely. About 60 percent of IJVs fail, usually because of ineffective managerial decisions regarding the type of IJV, its scope, duration, and administration as well as careless partner selection.[105] IJVs, as well as the many forms of strategic global alliances, are further discussed in Chapter 7.

For companies in emerging markets or developing economies, joint ventures, mergers, and acquisition strategies provide opportunities to internationalize by gaining access to customers, supply networks, technology, local brand image and knowledge, and natural resources. The local alliances also typically provide to the new management a learning curve for manufacturing and management skills and technologies. Further discussion of joint ventures appears in Chapter 7.

FULLY OWNED SUBSIDIARIES

In countries where a **fully (i.e., wholly) owned subsidiary** is permitted, an MNC wishing total control of its operations can start its own product or service business from scratch, or it may acquire an existing firm in the host country.

> *We acquire a company only if it gives us a new technology, new markets, new products, new customer bases or a new product development capability.*[106]
>
> PRAVEEN KADLE, TATA, WWW.TATA.COM

Some firms use acquisitions as a means to enter a new country or product market. In 2018, Walmart purchased India's Flipkart (e-commerce platform) for $16 billion. Others use acquisitions to expand their positions within a particular country or product category. In late 2018, Unilever, the Anglo-Dutch consumer products giant, entered negotiations to acquire GlaxoSmithKline's nutrition business, which includes its highly coveted Horlicks malted drink brand that is popular in India. In early 2019, Denmark's Maersk, the world's largest container shipping company, announced its intention to seek acquisition targets in order to strengthen its logistics operations on land. Reflecting a change in its strategy, the Danish company plans to enrich business unrelated to its oceanic activities, namely trucking and warehousing. According to Soren Skou, CEO of Maersk, "*The future will be very much about scaling the land side of the equation... We for sure have to do some acquisitions in the logistics space, primarily to gain capability and scale.*"[107]

Often the decision to acquire foreign companies will reflect financial and economic situations at the time, as with companies that, for tax reasons, keep cash overseas. Microsoft said it used $8.5 billion of offshore cash to acquire Luxembourg-based Internet–phone service Skype Technologies. And in summer 2015 the strong dollar presented favorable exchange rates for overseas acquisitions as well as the opportunities to purchase cheaper supplies.

Such acquisitions by MNCs allow rapid entry into a market with established products and distribution networks and provide a level of acceptability not likely to be given to a foreign firm. These advantages somewhat offset the greater level of risk stemming from larger capital investments, compared with other entry strategies. At the highest level of risk is the strategy of starting a business from scratch in the host country—that is, establishing a new wholly owned foreign manufacturing or service company or subsidiary with products aimed at the local market or targeted for export. This strategy exposes the company to the full range of risk to the extent of its investment in the

EXHIBIT 6-10 **International Entry Strategies: Advantages and Critical Success Factors**

Strategy	Advantages	Critical Success Factors
Exporting	Low risk No long-term assets Easy market access and exit	Choice of distributor Transportation costs Tariffs and quotas
Licensing	No asset ownership risk Fast market access Avoids regulations and tariffs	Quality and trustworthiness of licensee Appropriability of intellectual property Host-country royalty limits
Franchising	Little investment or risk Fast market access Small business expansion	Quality control of franchisee and franchise operations
Contract manufacturing/Offshoring	Limited cost and risk Short-term commitment	Reliability and quality of local contractor Operational control and human rights issues
Service-sector outsourcing	Lower employment costs	Quality control
Turnkey operations	Access to high skills and markets Revenue from skills and technology where FDI restricted	Domestic client acceptance Reliable infrastructure Sufficient local supplies and labor Repatriability of profits Reliability of any government partner
Management contracts	Low-risk access to further strategies	Opportunity to gain longer-term position
Joint ventures	Insider access to markets Share costs and risk Leverage partner's skill base, technology, local contacts	Strategic fit and complementarity of partner, markets, products Ability to protect technology Competitive advantage Ability to share control Cultural adaptability of partners
Wholly owned subsidiaries	Realize all revenues and control Global economies of scale Strategic coordination Protect technology and skill base	Ability to assess and control economic, political, and currency risk Ability to get local acceptance Repatriability of profits
E-business	Rapid entry into (or exit from) new markets (often through alliance or purchase of local websites); relatively low-risk	Differences in business models, culture, language, and laws regarding intellectual property, consumer protection, and taxes.

host country. As evidenced by events in the Middle East, political instability can be devastating to a wholly owned foreign subsidiary. Add to this risk a number of other critical environmental factors—local attitudes toward foreign ownership, currency stability and repatriation, the threat of expropriation and nationalism—and you have a high-risk entry strategy that must be carefully evaluated and monitored. There are advantages to this strategy, however, such as full control over decision making and efficiency as well as the ability to integrate operations with overall company-wide strategy.

Exhibit 6-10 summarizes the advantages and critical success factors of these entry strategies that must be taken into account when selecting one or a combination of strategies, depending on the location, the environmental factors and competitive analysis, and the overall strategy with which the company approaches world markets.

6-4. To understand the need for strategic planning for emerging markets

STRATEGIC PLANNING FOR EMERGING MARKETS

Complex situational factors face the international manager as she or he considers strategic approaches to world markets along with which entry strategies might be appropriate. Emerging markets present particular complexity and unfamiliarity for managers to evaluate. The World

Economic Forum report cautions that emerging markets are not a single homogenous group: "They develop differently, have different infrastructural, socio-economic and regulatory challenges, face different environmental and geographical constraints, and, to a certain extent, afford different opportunities for business." The report further argues that the lack of adequate development in the areas of trade facilitation and trade logistics can curtail the growth for these markets and the world.[108] The following "Management in Action" and "Under the Lens" features discuss these challenges and how managers can address them.



MANAGEMENT IN ACTION

Strategic Planning for Emerging Markets

There continue to be many indicators of the increasing business opportunities available for companies wanting to set up operations in or export to the emerging markets, in particular in light of the slowdown in growth in many developed economies brought about by economic problems.

In planning for global opportunities for retail businesses, for example, an internationalizing retail company can consider the A. T. Kearney Global Retail Development Index (GRDI); which ranks 30 emerging countries for retail investment based on market attractiveness, country risk, market saturation, and time pressure.[109] The study shows that overall, India, China, Malaysia, Turkey, and United Arab Emirates rank as the five countries in terms of retail investment. In terms of time pressure for entry, Vietnam ranks highest, followed by China, India, Algeria, and Indonesia. In terms of market attractiveness, China ranked highest followed by United Arab Emirates, Saudi Arabia, Russia, and Turkey.

The A. T. Kearney report revealed that mobile phones are changing the shopping behavior in developing markets. For example, mobile shopping in India increased by 121 percent from the prior year. In addition, mobile phone shopping grew dramatically in China (192%), Vietnam (151%), and Nigeria (87%).[110] In fact, in most developing markets, mobile and online shopping are essentially the same. This growth is forcing retailers to challenge their assumptions about market entry, their roles in the retail value chain, and their influence on shopping behavior. The report further reveals that among the top 30 countries in the GRDI ranking, there are substantial differences in market saturation and country risk, which require retailers to tailor their approaches accordingly and assemble a portfolio of markets to balance short-term risk with long-term growth aspirations.[111]

In jumping on the bandwagon, firms of all sizes, in particular small businesses, must realize that investing in developing economies usually entails considerably higher levels of risk than they are familiar with—in particular the risks of political turmoil, corruption, and contract enforcement. However, avoiding emerging markets will, over time, make firms less competitive than those who invest there in some form. The question is then how to minimize the risks without losing out to the competition and losing growth opportunities. After going through the steps of the strategic decision-making process as outlined in this chapter, including those operational factors in the institutional context such as infrastructure, availability of suppliers, labor markets, and capital markets (such as the effectiveness of banking and financial institutions), CEOs must then decide whether to enter that market and, if so, decide what needs to be changed. As *Harvard Business Review* authors Khanna, Palepu, and Sinha recommend, "[D]ecide whether to work around the country's institutional weaknesses, create new market infrastructures, or stay away because adapting your business model would be impractical and uneconomical."[112] However, as Washburn and Hunsaker note:

> *Too many companies in mature markets assume that the only reason to enter emerging countries is to pursue new customers. They fail to perceive the potential for innovation in those countries or to notice that a few visionary multinationals are successfully tapping that potential for much needed products and services.*[113]
>
> *Harvard Business Review*

In their research, Washburn and Hunsaker have found that forward-thinking global managers (they call them bridgers) have identified and developed innovations in emerging markets (often with the insight of the local managers) and been able to integrate those ideas and improvements into their companies' product lines.[114]

In addition, when considering opportunities for firms within emerging markets, we can see that, for example, firms such as Tata, HCL Technologies, and Infosys of India; Alibaba, Hauer, Lenovo and Tencent Holdings of China; and Samsung Electronics of Korea have become prominent players in a number of technology-intensive industries that have traditionally been the domain of firms from the United States, Europe, and Japan.[115]



UNDER THE LENS

Revolut's Russian Founder Stirs Up Lithuania's Fintech Debate[116]

British digital bank Revolut has been caught in the middle of a deepening political debate in Lithuania over the country's recent push to challenge the UK as Europe's financial technology hub.

Revolut secured a banking licence in Lithuania last year, a move that was celebrated as a sign of Vilnius's success in becoming a leading centre for innovative companies. The four-year-old company is one of Europe's fastest growing fintechs, and now processes more than $4bn in volumes for about 3m customers each month. . . .

Mr Jakeliunas, a member of the ruling Farmers and Greens Union, said he was worried about Revolut's large size and rapid growth, its encouragement of cryptocurrency trading and comments from its chief executive about local politics.

Companies are normally screened by a national security commission when applying for licences. But Revolut was investigated a second time after concerns were raised about the source of some of its shareholders' money. Mr Jakeliunas said he now planned to hold a parliamentary vote for a third probe.

Revolut's founder Nikolay Storonsky hit back against criticism in Lithuania last month, saying in an open letter that while the country was "making a name for itself" as a fintech hub, "scaremongering campaigns such as this will make foreign investors run in the opposite direction, potentially risking thousands of jobs".

The tension has been exacerbated by Revolut's Russian links. Mr Storonsky, who set up Revolut after working for Lehman Brothers, was born in Moscow and the company employs more than 80 engineers and product developers in Russia. Mr Storonsky's father also works for a division of Russia's state-owned gas company Gazprom.

In last month's letter, Revolut denied it had any links to the Kremlin or processed EU customers' data in Russia. Mr Storonsky wrote that his personal background was "irrelevant", and said the company came to Lithuania because it had "an incredibly fintech-friendly environment". . . .

The digital bank is among dozens of western companies that have flocked to Lithuania, which is now Europe's second-largest fintech centre measured by numbers of regulated companies. More than 80 fintechs are licensed in Lithuania, from start-ups to giants such as Google, which recently received an e-money licence to cover its EU payments operations after Brexit. . . .

Vytautas Valvonis, director of the BoL's supervision service, acknowledged that "we feel the increasing demand", but said "we will maintain the bar high: the doors. . . will be open only for innovative, reliable and viable businesses". He pointed to recent steps such as new divisions for supervising payments groups and combating money laundering.

Mantas Katinas, general manager of Invest Lithuania, an agency for encouraging foreign investment, said "we welcome all serious investors in the financial sphere", and "place trust in the work done by all our government agencies to ensure that all required checks and balances remain in place".

Fintech executives have previously questioned if Revolut's systems are vulnerable to criminal abuse. The company discovered a spate of suspected money laundering on its network last year, and lost two heads of compliance in under 12 months. It has attempted to burnish its credentials since, launching new anti-fraud systems and partnering with a specialist regulatory tech company.

A member of the BoL's board admitted last week that it too had attracted interest from the "shadow economy". But Mr Valvonis said: "We are fast and effective at granting licences, but rest assured, in case of infringement we might be even faster at taking reactive actions."

Source: © The Financial Times Limited 2019.

Step 6. Decide on Strategy

The strategic choice of one or more of the entry strategies will depend on (1) a careful evaluation of the advantages (and disadvantages) of each in relation to the firm's capabilities and resources, (2) the critical environmental factors, and (3) the contribution that each choice would make to the overall mission and objectives of the company. Exhibit 6-10 summarized the advantages and the critical success factors for each entry strategy discussed. However, when it comes down to a choice of entry strategy or strategies for a particular company, more specific factors relating to that firm's situation must be taken into account. These include factors relating to the firm itself, the industry in which it operates, location factors, and venture-specific factors, as summarized in Exhibit 6-11.

EXHIBIT 6-11 Factors Affecting Choice of International Entry Mode[117]

Factor Category	Examples
Internal factors	Global experience of firm and managers
	Distinctive competencies, patents, technology
	Corporate culture and structure
	Global objectives
	Long-term strategy
	Financial assets
External factors	Industry globalization
	Industry growth rate
	Barriers to entry
	Level of global competition
	Opportunities and incentives
	Extent of scale and location economies
	Country risk—political, economic, legal
	Cultural distance
	Knowledge of local market
	Potential of local market
	Competition in local market
Venture-specific factors	Value of firm—assets risked in foreign location
	Ability to protect proprietary technology
	Costs of making or enforcing contracts with local partners
	Size of planned foreign venture
	Intent to conduct research and development with local partners

Source: Based on A. V. Phatak, *International Management Concepts and Cases*, 1997, Cincinnati, OH, Southwestern Publishing Company.

After consideration of those factors for the firm as well as considering what is available and legal in the desired location, some entry strategies will no doubt fall out of the feasibility zone. With the options remaining, then, strategic planners need to decide which factors are more important to the firm than others. One method is to develop a weighted assessment to compare the overall impact of factors such as those in Exhibit 6-11 relative to the industry, the location, and the specific venture—on each entry strategy. Specific evaluation ratings, of course, would depend on the country conditions at a given point in time, the nature of the industry, and the local company.

Based on a study of more than 10,000 foreign entry activities into China, Pan and Tse concluded that managers tend to follow a hierarchy-of-decision sequence in choosing an entry mode. They found that the location choice—specifically the level of country risk—was the primary influence factor at the level of deciding between equity and non-equity modes. Host-country government incentives also encouraged the choice of equity mode. Managers first decide between non–equity based for high-risk locations and equity based where it is perceived there is lower risk. Then, non-equity modes are divided into contractual agreements such as franchising, licensing, outsourcing, e-business, and exporting; equity modes are split into wholly owned operations, acquisitions, offshoring, and equity joint ventures (EJVs) with varying levels of equity investment.[118]

Gupta and Govindarajan also propose a hierarchy-of-decision factors sequence but consider two initial choice levels. The first is the extent to which the firm will export or produce locally; the second is the extent of ownership control over activities that will be performed locally in the target market.[119] There is an array of choice combinations within those two dimensions. Gupta and Govindarajan point out that, among the many factors to take into account, alliance-based entry modes are more suitable under the following conditions.

- Physical, linguistic, and cultural distance between the home and host countries is high.
- The subsidiary would have low operational integration with the rest of the multinational operations.
- The risk of asymmetric learning by the partner is low.

- The company is short of capital.
- Government regulations require local equity participation.[120]

Timing Entry and Scheduling Expansions

International strategic formulation requires a long-term perspective. Entry strategies, therefore, need to be conceived as part of a well-designed, overall plan. In the past, many companies have decided on a particular means of entry that seemed appropriate at the time, only to find later that it was shortsighted. For instance, if a company initially chooses to license a host-country company to produce a product, then later decides that the market is large enough to warrant its own production facility, this new strategy will no longer be feasible because the local host-country company already owns the rights.

Foreign Direct Investment Decisions under High Uncertainty

Political and economic risk in a particular country introduces a high degree of uncertainty and, in turn, raises concerns about the decision to enter by managers of multinational enterprises. In these circumstances, some managers may be concerned about exiting (i.e., reversing the investment) if local conditions do not improve or worsen. The concerns are especially noteworthy when the investment by the multinational enterprise is difficult and costly to reverse (e.g., building a refinery, offshore oil platform, or fabrication plant). When MNE managers face these investment conditions in a particular country, it may be advantageous to delay an investment decision or make the investment more reversible.[121]

There are two criteria that influence the delayability and reversibility of an investment in a country with high uncertainty: the *nature of a firm's ownership advantages* and *importance of early mover advantage*. Ownership advantages refer to a firm's ability to deploy its resources and capabilities in order to achieve superior financial performance. Ownership advantages that are deemed monopolistic can be achieved by few if any other firms. Alternatively, non-monopolistic advantages are ones that are replicable by other firms. The importance of early mover advantage describes the incentives to be among the first firms to enter a particular market. An example of high importance is securing the best local suppliers before other entrants. An example of low importance is strategic changes that promote less risky activities.

Figure 6-1 offers potential entry decisions for firms based on the nature of their ownership advantages and the importance of early mover advantage into that particular country. When a

FIGURE 6-1

Rivoli & Salorio's Framework for Foreign Direct Investment under Uncertainty



Assume Highly Irreversible Investment

Nature of Ownership Advantages	Low	High
Monopolistic	Easy to Delay: Wait for Information to Arrive	Get Toes Wet or Investigate Alternative Mode
Non-Monopolistic	Wait for Competitors' Moves and Follow If They Invest	Cannot Delay: Invest Now!

Importance of Country Early-Mover Advantage

Source: Rivoli and Salorio (1996).

firm has monopolistic advantages and low importance of early mover advantage, there is value in waiting for more information, so the firm postpones its entry. If a firm has monopolistic advantages and assigns high importance to early mover advantage, then there is less value in delaying entry into the high-uncertainty country. However, the firm can still reduce its risk by increasing reversibility, which is best achieved with a sequential investment—that is, a smaller investment and, if successful, a larger subsequent investment. If a firm possesses non-monopolistic advantages and it has low importance of early mover advantage, then there is some value to delaying the investment; however, if other firms enter, then it is appropriate to enter the market with the other firms. Lastly, if a firm possesses non-monopolistic advantages and high importance of early mover advantage, then there is no value to waiting or to reducing reversibility.

The Influence of Culture on Strategic Choices

It is clear that cultural distance (CD), or at least the perception of it, affects strategic choice. Potential partners and their host counterparts tend to feel more confident about their international allies when they seem culturally attractive, in particular when new to international business. The more similar the culture, the more likely managers are to select that region for investment—for example, between the United States and England. However, often that assumption of similarity leads to problems because preparation and allowance is not made for existing subtle differences. Oded Shenkar gives the examples that the friction between dissimilar cultures is more likely in a merger or acquisition than in an IJV—because there is more interaction among parties in the former—whereas an IJV is set up as a separate entity with less interaction from the parent firms.[122] Managers armed with such insight might then choose an IJV over other strategic options that necessitate more cross-cultural interaction.

In addition, strategic choices at various levels often are influenced by specific cultural factors, such as a long-term versus a short-term perspective. Hofstede found that most people in such countries as China and Japan generally had a longer-term horizon than those in Canada and the United States.[123] Whereas Americans, then, might make strategic choices with a heavy emphasis on short-term profits, the Japanese are known to be more patient in sacrificing short-term results to build for the future with investment, research and development, and market share.

Risk orientation was also found to explain the choice between equity and nonequity modes.[124] Risk orientation relates to Hofstede's uncertainty avoidance dimension.[125] Firms from countries where, generally speaking, people tend to avoid uncertainty (for example, Latin American and African countries) tend to prefer nonequity entry modes to minimize exposure to risk. Managers from firms from low–uncertainty avoidance countries are more willing to take risks and are, therefore, more likely to adopt equity entry modes.[126]

The choice of the equity versus nonequity mode has been found to be related to the level of power distance. According to Hofstede, a high power-distance country (such as Arab countries and Japan) is one where people observe interpersonal inequality and hierarchy.[127] Pan and Tse found that firms from countries tending toward high power distance are more likely to use equity modes of entry abroad.[128]

These are but a few of the examples of the relationships between culture and the choices that are made in the strategic planning and implementation phase. They serve to remind us that it is people who make those decisions and that the ways people think, feel, and act are based on their ingrained societal culture. People bring that context to work, and it influences their propensity toward or against certain types of decisions.

CONCLUSION

The process of strategic formulation for global competitiveness is a daunting task in the volatile global arena and is further complicated by the difficulties involved in acquiring timely and credible information. However, early insight into global developments provides a critical advantage in positioning a firm for future success.

When an entry strategy is selected, the international manager focuses on translating strategic plans into actual operations. Often this involves strategic alliances; always it involves functional-level activities for strategic implementation. These subjects are covered in Chapter 7.

Summary of Key Points

- Companies expand abroad for many reasons, both proactive and reactive. Companies that are proactive from their outset in establishing a presence in many countries are referred to as born globals. The Internet is facilitating companies of all sizes to expand around the world within a short time frame—thus leveling the field for small businesses relative to companies with greater resources.
- International expansion and the resulting realization of a firm's strategy are the products of both rational planning and responding to emergent opportunities. For example, those opportunities may develop because of economic, competitive, demographic, or political changes in other countries. Firms are increasingly taking advantage of opportunities for expansion into emerging markets such as the BRICs.
- The steps in the strategic planning process for developing an international strategy comprise: Defining the mission and objectives of the firm, scanning the environment for threats and opportunities, assessing the internal strengths and weaknesses of the firm, considering alternative international entry strategies, and deciding on strategy. The strategic management process is completed by putting into place the operational plans necessary to implement the strategy and then setting up control and evaluation procedures.
- Competitive analysis is an assessment of how a firm's strengths and weaknesses vis-à-vis those of its competitors affect the opportunities and threats in the international environment. Such assessment allows the firm to determine where the company has distinctive competencies that will give it strategic advantage or where problem areas exist.
- Corporate-level strategic approaches to international competitiveness include globalization and regionalization. Many MNCs have developed to the point of using an integrative global strategy. Entry and ownership strategies are exporting, licensing, franchising, contract manufacturing, offshoring and reshoring, outsourcing services, turnkey operations, management contracts, joint ventures, and fully owned subsidiaries as well as the local level of e-business. Critical environmental and operational factors for implementation must be taken into account.
- Companies of all sizes are increasingly looking to the Internet as a means of expanding their global operations, but localizing Internet operations is complex, involving various logistical and cultural challenges.
- The digital economy has provided growth opportunities and created new threats. Some emerging market firms have had to develop the requisite capabilities in order to compete in the global marketplace.

Discussion Questions

6-1. Discuss why companies go international, giving specific reactive and proactive reasons.

6-2. What effects on company strategy have you observed because of the global economic downturn?

6-3. Give examples of the impact of the Internet on small businesses.

6-4. Discuss the ways in which managers arrive at new strategic directions—formal and informal. Which is the best?

6-5. Explain the process of environmental assessment. What are the major international variables to consider in the scanning process? Discuss the levels of environmental monitoring that should be conducted. How well do you think managers conduct environmental assessment?

6-6. Discuss the impact of the rise of emerging-market countries on the strategic planning of firms around the world.

6-7. How can managers assess the potential relative competitive position of their firm to decide on new strategic directions?

6-8. Discuss different international strategies: global, multidomestic, and transnational.

6-9. Compare the merits of the entry strategies discussed in this chapter. What is their role in an integrative global strategy?

6-10. Discuss the considerations in strategic choice, including the typical stages of the company and the need for a long-term global perspective.

Application Exercises

6-11. Choose a company in the social media industry or a chain in the fast-food industry. In small groups, conduct a multilevel environmental analysis, describing the major variables involved, the relative impact of specific threats and opportunities, and the critical environmental factors to be considered. The group findings can then be presented to the class, allowing a specific time period for each group so that comparison and debate of different group perspectives can follow. Be prepared to state what regions or specific countries you are interested in and give your rationale.

6-12. In small groups, discuss among yourselves and then debate with the other groups the relative merits of the alternative entry strategies for the company and countries you chose in Exercise 6-11. You should be able to make a specific choice and defend that decision.

6-13. For this exercise, research (individually or in small groups) a company with international operations and find out the kinds of entry strategies the firm has used. Present the information you find, in writing or verbally, to the class, describing the nature of the company's international operations, its motivations, its entry strategies, the kinds of implementation problems the firm has run into, and how those problems have been dealt with.

Experiential Exercise

6-14. In groups of four, develop a strategic analysis for a type of company that is considering entry into an emerging market country. Which entry strategies seem most appropriate? Share your results with the class.

CASE STUDY

How UK Businesses Are Planning—or Not—for a No-Deal Brexit[129]

Preparation is patchy and smaller companies face some of the biggest challenges.

Lynda and Phil Platts were hoping to move to Italy once they retired: they did not imagine they might be moving their UK business there instead because of Brexit. But this is one of several radical options they are having to consider for ACP Solutions, which produces insect repellent and bedbug resistant bedding, if Britain crashes out of the EU without a deal. "One option is to effectively pick [our business] up and move it into an EU territory," said Phil Platts, adding another would be to sell part of ACP to an EU customer, reflecting how the business exports four-fifths of its insect repellent to the bloc.

Phil Platts at ACP Solutions' factory in Nailsworth, Gloucestershire, is one of a minority of UK companies that have made preparations for how to respond to a no-deal Brexit.

The CBI estimated that one in five British businesses had implemented plans for this outcome, whether by relocating operations overseas, stockpiling goods, cutting jobs, or adjusting supply chains outside the UK. Even though the risk of the UK crashing out of the EU has loomed large ever since Britons voted to leave the bloc in 2016—because prime minister Theresa May insisted for a long time that "no deal is better than a bad deal"—companies' preparations for this scenario are patchy at best. Many big groups have developed contingency plans to try to cope with cross-border trade potentially being reduced to chaos, but most small companies have not. And there are big differences between sectors: while financial services companies have made extensive preparations, for example, manufacturing businesses have not. "For every company that has done some sort of risk assessment on Brexit preparedness in general, there are two that haven't," said Adam Marshall, director-general of the British Chambers of Commerce. "Of those that have, very few will have done it on the basis of a no-deal." One sector that started its no-deal contingency plans early, straight after the 2016 Brexit referendum, was pharmaceuticals. "We have an integrated European supply chain, so we've known from the beginning that any challenges at the border could affect us," said Mike Thompson, chief executive of the ABPI, the pharma industry's trade body. He added the sector was now engaged in a range of preparations for a no-deal Brexit—not just stockpiling medicines, but increasing imports of key supplies by aircraft and pushing the government to open up ports on the east coast of England to offset the risk of problems at Dover. Miles Celic, head of the TheCityUK, the business lobby group for financial services, said leaving the EU without an agreement would be "the worst of all outcomes". "The industry is taking every action to prepare for a no-deal Brexit," he added, while stressing the sector was reliant on steps being taken by lawmakers and regulators across the EU

in certain areas. This includes measures to ensure the validity of derivative and insurance contracts should the UK leave the bloc without an agreement.

'JUST IN TIME' MANUFACTURING FEARS

But the situation is far more acute in relation to manufacturing. A survey commissioned by the EEF, the sector's trade body, found four out of five companies were not ready for a no-deal Brexit. Two in five said they had no intention of starting preparations. Some of the large carmakers have made contingency plans, according to the Society of Motor Manufacturers and Traders, a trade body. However, overseas carmakers with factories in the UK have warned of the dire consequences for them of a no-deal Brexit, reflecting how they have "just in time" manufacturing processes reliant on deliveries of components from continental Europe. Toyota said in this scenario that its plants in Deeside and Derbyshire would be on "stop-start" production for weeks or even months. But for many small companies, spending money on preparations for a no-deal Brexit—something that may not happen—cannot be justified. The Federation of Small Businesses estimated just one in seven small companies was making contingency plans for if the UK crashes out of the EU. And calls by the CBI for the government to provide more support for small businesses—by setting up a "one-stop shop" of Brexit advice, for example—have so far been ignored. Allie Renison, head of trade policy at the Institute of Directors, said attempts to prepare for a no-deal Brexit have been hindered by a lack of transparency from the government about its contingency plans. Whitehall departments have shared information with some of the companies most affected, including haulage and parcel delivery businesses, but those privy to it have been made to sign non-disclosure agreements so that it has not been more widely diffused. "For a lot of other businesses and trade associations we are left fumbling in the dark," said Ms Renison. "There is no clarity about what mitigating actions the government would take if there is a no deal."

Source: © The Financial Times Limited 2018.

Case Questions

6-15. At the time of this case writing Brexit was unresolved. What has happened since? How has Brexit affected small companies like ACP Solutions?

6-16. What were the main concerns for ACP as Brexit approached? What preparations should the company have made?

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CHAPTER

7 Implementing Strategy

Strategic Alliances, Small Businesses, Emerging Economy Firms

OBJECTIVES

7-1. To become familiar with the types of strategic alliances for international business, the challenges in implementing them, and guidelines for success in alliances

7-2. To understand what is involved in implementing strategies, including those for small businesses and those involved in emerging economies

7-3. To consider how to manage the firm's performance in international joint ventures, with attention to knowledge management, government and cultural influence, and the role of e-commerce

Opening Profile: Alibaba to Set Up Online Retail Service in Russia[1]

Alibaba, the Chinese ecommerce giant, will partner with Moscow's sovereign wealth fund and Kremlin-friendly oligarch Alisher Usmanov to set up a Russian branch of its retail site AliExpress, the company said on Tuesday [September 11, 2018].

Russia's second-largest mobile operator Megafon and internet company Mail.ru, which are both controlled by Mr Usmanov, will take minority stakes in AliExpress Russia, along with the state-run Russian Direct Investment Fund.

The deal, expected to close in the first quarter of 2019, is the first major joint venture between Russian and Chinese companies and intensifies Alibaba's global rivalry with Amazon. AliExpress Russia will sell Chinese-made goods.

"Russia has never had a major local ecommerce player. We'll be the number one player from day one after the deal closes," Boris Dobrodeev, chief executive of Mail.ru, told reporters.

Alibaba's stake in the joint venture will be 48 per cent, with MegaFon taking 24 per cent, Mail.ru 15 per cent and RDIF 13 per cent. As part of the transaction MegaFon plans to swap its 10 per cent stake in Mail.ru for its share in the joint venture, which would value the deal at roughly $2bn total, though the companies did not provide a specific valuation.

The deal will allow AliExpress to leverage Mail.ru dominance of Russian social media through its Facebook clone VK, which has 97m monthly active users, and MegaFon's 80m mobile subscribers.

"We're going to do a number of experiments to find the best point of contact with the goods for users," Mr Dobrodeev said. "It might be video bloggers, might be groups, might be native advertising, might be recommendations in the news feed, might be native apps on VK, and we're going to personalise it for every user."

More than half the 145m population of Russia uses the internet daily, making it one of the largest markets Alibaba has yet to get a proper foothold in. Political and logistics challenges have seen Amazon stay away.

Alibaba has been eyeing Russia for some time. It attempted to set up a similar venture with state-run Sberbank, the country's largest lender, before talks collapsed over squabbles who would run it. Sberbank then set up a rival venture with search company Yandex, Mail.ru's biggest rival.

Under the deal, Alibaba will combine its existing AliExpress business in Russia—which is already one of the most popular foreign destinations for its cross-border goods—and business-to-consumer website Tmall to build a platform intended to surpass both.

The ambitious plans were disclosed shortly after Monday's announcement that Alibaba founder and chairman Jack Ma plans to retire next year.

Mr Ma attended a group discussion with Russian president Vladimir Putin at an economic conference in Vladivostok on Tuesday, but did not appear at the deal's signing.

One challenge is how the joint venture will tackle the logistics of Russia's vast distances and poor infrastructure.

"How do you take social and combine it with commerce? [That's] never been done before anywhere in the world," said Michael Evans, president of Alibaba Group. "How do you get a Chinese company and get them to integrate really well with a Russian company? That's never been done either."

The deal comes with implicit Russian government backing and targets solving a major bugbear for the Kremlin, which has spent years demanding western internet companies store user data in Russia to little avail.

Kirill Dmitriev, head of the RDIF, said the joint venture would store user data in Russia and use Russian technology, including local payment processing systems.

Internet freedom advocates—including VK founder Pavel Durov, developer of messenger Telegram—have criticised Mr Usmanov over Mail.ru censoring posts on VK and providing data that have been used to jail more than 600 users since buying it in 2014. Mail.ru says the moves are legally required, but recently introduced new privacy settings after a campaign to delete VK accounts saw a dip in users.

Source: © The Financial Times Limited 2019.

STRATEGIC ALLIANCES

7-1. To become familiar with the types of strategic alliances for international business, the challenges in implementing them, and guidelines for success in alliances

As illustrated in the opening profile, sometimes it takes global strategic alliances to compete effectively in particular host countries. **Strategic alliances** are partnerships between two or more firms that decide they can pursue their mutual goals better by combining their resources—financial, managerial, and technological—as well as their existing distinctive competitive advantages. Alliances—often called *cooperative agreements*—are vehicles that propel the partners' strategies forward in a turbulent environment faster than would be possible for each company alone.[2] The explosion of international strategic alliances (ISAs) in the past has been caused by the need for organizations to respond to the globalization of markets and the opportunities presented by technological advances. However, the rush to take advantage of those opportunities has resulted in an estimated half of ISAs experiencing poor results or failing.[3] (These problems will be discussed later in this chapter.)

Alliances typically fall under one of two categories: equity strategic alliances (or joint ventures) and non-equity strategic alliances. Firms establish them for various purposes such as sharing technology, marketing, or production joint ventures. Cross-border alliances frequently necessitate partnering with a local partner to counteract political risk factors and to take advantage of local knowledge and contacts. Strategic alliances also offer firms an element of flexibility while leveraging **core competencies** and building new ones.

> *To adapt to the challenging environment, it is of utmost importance to gain flexibility through alliances.*
>
> THOMAS SEDRAN, HEAD OF STRATEGY FOR THE 12-BRAND VW GROUP

Strategic alliances can be beneficial to rivals in a traditional manufacturing sector to neutralize a global threat (declining auto sales) and create a global opportunity in the service sector. The notion of shared driverless "robotaxis" is a new high potential market that, at present, is nonexistent. Bain Consulting expects this market to become the norm in some large cities over the next decade.[4] For example, BMW and Daimler joined forces with respect to mobility services—ride-hailing, car-sharing, and electric vehicle sharing. BMW and Daimler have sought to deal with

urban mobility dilemma by creating a portfolio of mobility services with a fleet of self-driving vehicles that "charge and park autonomously and interconnect with the other modes of transport."[5]

We are creating a leading global game changer.[6]

HARALD KRUEGER, BMW CEO

Joint Ventures

As discussed in Chapter 6, a **joint venture (JV)** is a new independent entity jointly created and owned by two or more parent companies. The equity-based alliance may entail a majority JV (in which a firm has more than 50 percent equity), a minority JV in which a firm has (less than 50 percent equity), or a 50-50 JV (when two firms have equal equity). An international joint venture (IJV) is an equity-based alliance among companies in different countries. In that case, the firm shares the profits, costs, and risks with a local partner (or a global partner) and benefits from the local partner's local contacts and markets. (Advantages and disadvantages of IJVs were discussed in Chapter 6). For example, in 2017, Central Group (a Thailand-based retailer) announced a $500m joint venture with JD.com (Chinese ecommerce provider). In January 2019, the partners announced the launch of a digital wallet platform to start cashless payments in Thailand. The JD.com agreement shows the benefits of leveraging a partner's capabilities. Second only to Alibaba Group in Chinese e-retailing, JD.com seeks to expand its presence in Southeast Asia by providing the basic system technology while Central Group seeks to strengthen its digital operations.[7]

An example of a 50-50 equity IJV is that between France's PSA Peugeot-Citroen Group and Japan's Toyota at Kolin in the Czech Republic. As noted by Fujio Cho, president of Toyota Motors, the world's richest carmaker:

Each company has brought its own style, culture and way of thinking to this partnership—but our different approaches have benefited our joint venture enormously.[8]

Among the benefits noted by the two companies are that Toyota "gains an insight into the mindset of one of Europe's biggest indigenous carmakers and knowledge of its suppliers and their capabilities."[9] And Peugeot-Citroen can gain experience from Toyota's lean manufacturing system. The companies acknowledge that the IJV has resulted in faster development and increased production capacity and that costs are shared without either company renouncing its independence.[10]

Most global manufacturers have equity alliances with suppliers, sub-assemblers, and distributors, forming a network of internal family and financial links.

For example, in 2019 General Motors Chairman and CEO, Mary Barra, announced a $2.3 billion joint venture with the Korean battery maker LG Chem for battery-cells for electric vehicles saying that:

When we bring together the strength and capability and competence that LG Chem has, and do this in a joint fashion, it's going to accelerate our ability to win in the EV space.[11]

MARY BARRA, CHAIRMAN AND CEO, GENERAL MOTORS, FORBES, DECEMBER 5, 2019

In this highliy competitive field, other battery manufacturers are expanding capacity to meet growing demand from carmakers. In an attempt to strengthen buyer—supplier ties and avoid supply chain disruptions, Toyota and Panasonic announced in January 2019 that they would establish a joint venture to produce batteries for electric cars. Toyota and Panasonic executives underscore how the joint venture will help them execute their respective strategies.

Together with Panasonic, we want to hone our competitiveness in batteries, which represent one of the core technologies of electrified vehicles.[12]

SHIGEKI TERASHI, EXECUTIVE VICE PRESIDENT, TOYOTA

Uniting with Toyota's battery and production-engineering technologies provides us an excellent opportunity for being able to evolve our automotive prismatic batteries, which have an established track record of performance and safety, faster than ever. Through the electrification of vehicles, we want to accelerate our contribution to the realization of a society of mobility that is kind to the environment.[13]

MASAHISA SHIBATA, SENIOR MANAGING EXECUTIVE OFFICER, PANASONIC

Risk-sharing is often a motive behind equity alliances. Sometimes an international joint venture can be an effective mode of entry when 100 percent ownership has been restricted in a particular country. For example, Chubb Group, a Swiss-based insurance company, maintained a minority equity stake in China's Huatai Insurance Group since 2005. But in March 2019, Chubb increased its stake from 20 to 26 percent with plans to obtain a majority ownership stake. With the Chinese government relaxing its laws on foreign ownership, Chubb Group—and others—are poised to take advantage of the ownership opportunity in order to execute their respective strategies.[14]

This increased ownership is an important milestone towards our goal of majority and beyond ownership.

Evan Greenberg, Chubb Group CEO

Some joint ventures may serve a different purpose. For example, in 2019, GlaxoSmithKline (GSK) and Pfizer finalized a joint venture that combines their respective consumer healthcare businesses. The new joint venture establishes the largest over-the-counter business with strong brands and enables GSK to implement a part of its global strategy as the joint venture will be spun-off. That is, GSK plans to demerge the joint venture from the company within a three-year period and then list the spun-off Consumer Healthcare business on the UK equity market.

The completion of the joint venture with Pfizer marks the beginning of the next phase of our transformation of GSK. This is an important moment for the Group, laying the foundation for two great companies, one in Pharmaceuticals and Vaccines and one in Consumer Health.[15]

Emma Walmsley, Chief Executive Officer, GSK and Chair of the Joint Venture

Non-equity Strategic Alliances

Non-equity strategic alliances contracts are often with a firm's suppliers, distributors, or manufacturers, or they may be for purposes of marketing and information sharing, or perhaps reducing costs throughout a multinational company's value chain and across the globe. UPS, for example, is a global supply-chain manager for many companies around the world, such as Nike, that essentially do not touch their own products but contract with UPS to arrange the entire delivery process from factory to warehouse to customer to repair, even collecting the money.[16]

Another example involves Royal Dutch Shell (integrated oil company) and C3 (US-based digital transformation provider).

Royal Dutch Shell and C3 IoT today announced that Shell has selected C3 IoT as its artificial intelligence (AI) platform to enable and accelerate digital transformation on a global scale. By deploying the C3 IoT Platform globally on Microsoft Azure, Shell expects to realize substantial economic value by rapidly scaling and replicating AI and machine learning applications across its upstream and downstream businesses.[17]

C3 press announcement, September 20, 2018

Global Strategic Alliances

Working partnerships between companies (often more than two) across national boundaries and increasingly across industries are referred to as global strategic alliances. A glance at the global airline industry, for example, tells us that global alliances have become a mainstay of competitive strategy. Not one airline is competing alone; each major U.S. carrier has established strategic links with non-U.S. companies. The Star Alliance, which was first established in 1997 by five airlines, currently consists of 28 member airlines around the world. The Star Alliance has a Germany-based organization that coordinates Star Alliance activities such as co-locations at airports, infrastructure, communication initiatives, and other services in order to reduce airline costs and enhance customer service with a seamless travel experience. As such, the Star Alliance members—such as Austrian Airlines, EgyptAir, Asiana Airlines, Air Canada, Air China, SAS, United Airlines, and others—derive consortium benefits while preserving their own organizational cultures and identities.[18]

Alliances are also sometimes formed between a company and a foreign government or among companies and governments. In addition, changing regulations and policies by governments and institutions lead to new opportunities for alliances with national industries abroad. Alliances may comprise full global partnerships, which are often joint ventures in which two or more companies, while retaining their national identities, develop a common, long-term strategy aimed at world leadership.

Some alliances between MNCs and government-controlled organizations may help facilitate market access or government mandates. Others may reveal mutually beneficial strategic goals — government-controlled organizations that seek to expand abroad amid added scrutiny from host-country governments and MNCs seeking to penetrate high-growth markets with strong government forces in the economy. For example, Chinese state-controlled companies have faced increasing scrutiny over foreign investments during the past year, particularly in the United States, which recently passed new laws aimed at screening foreign acquisitions for national security risks.

Partnering with a local organization may alleviate some of the national security concerns as demonstrated in CICC's (a state-backed Chinese investment bank) announcement to collaborate with TPG (a U.S. private equity group) to establish a joint platform for investing overseas and in China. In a joint announcement from both organizations, the global strategic alliance is intended to "assist non-Chinese companies to expand into the China market and to assist Chinese companies to grow with global support."[19]

Whereas such alliances have a broad agenda, others are formed for a narrow and specific function such as production, marketing, research and development, or financing. More recently, these have included electronic alliances, such as Covisint, which is redefining the entire system of car production and distribution through a common electronic marketplace, as well as linking partners in other major industries involved in Business-to-Partner (B2P), Business-to-Customer (B2C), and Business-to-Enterprise (B2E) relationships.

> *Our customers have deployed our B2B Cloud Platform to connect to over 212,000 of their business partners and customers—transacting in excess of $1 trillion per year.*[20]
>
> WWW.COVISINT.COM

Global and Cross-Border Alliances: Motivations and Benefits

> *We create value by inventing category-defining products, developing scalable manufacturing platforms, and building strong, trust-based relationships with customers who are leaders in their industries.*[21]
>
> WENDELL WEEKS, CHAIRMAN AND CEO, CORNING, 2019

Corning has long been recognized for the role that strategic alliances play in the execution of its international strategy. Corning leverages its capabilities in technology and innovation with the market power and reputational capital of its global partners who tend to be market leaders in their respective industries.

Some of the typical reasons behind cross-border alliances are as follows.

- ***To avoid import barriers, licensing requirements, and other protectionist legislation:*** Japanese automotive manufacturers, for example, have used alliances such as the GM—Toyota venture, or subsidiaries, to produce cars in the United States to avoid import quotas.
- ***To share the costs and risks of the research and development of new products and processes:*** Such is the case as many European companies seek to learn more about artificial intelligence in order to catch up to U.S. and Chinese rivals. Through the leadership of Mr. Marcus Wallenburg, who is chairman of Bank SEB and Saab, an organization called Combient was created. Combient has brought together 24 Swedish and Finnish companies in order to collaborate on AI and other subjects related to "deep learning, big data and automation."[22]

  > *It is a community for large enterprises to focus on digital transformation. If we here in Nordics could combine our ability to collaborate with our innovation power and our global industry, we could have a winning recipe.*[23]
  >
  > MATS AGERVI, CEO, COMBIENT

- ***To gain access to specific markets, where regulations favor domestic companies:*** Firms often find that the only way—or, at least, the best way—to enter markets such as China and Russia is through alliances, as discussed elsewhere. As noted before, Rackspace established a joint venture in China in order to secure permits that were awarded to domestic firms.[24]

- ***To reduce political risk while making inroads in a new market:***

  Carefully orchestrated partnerships with governments and other business groups are crucial to the [Disney] entertainment group's thrust into China and the rest of southeast Asia.[25]
  BOB IGER, CHAIRMAN AND CEO, WALT DISNEY

  Disney established Hong Kong Disneyland, which is jointly owned by the Chinese government with a 57 percent stake. Beijing is especially interested in promoting tourism through the venture and in facilitating employment for the 5,000 workers Disney employs directly as well as the estimated 18,000 workers in related services.[26] Then in June 2016 Disney opened Shanghai Disney Resort, which is its first theme park located in mainland China. Disney owns 43 percent of the resort. The remaining 57 percent of the joint venture is owned by the Shanghai government.

- ***To gain rapid entry into a new or consolidating industry and to take advantage of synergies:*** Technology is rapidly providing the means and products for the overlapping and merging of traditional industries such as entertainment, computers, and telecommunications in new digital-based systems. Corning has used joint ventures to enter particular markets as well as to serve markets worldwide. For instance, its joint venture with Saint-Gobain will produce lightweight glazing for the automotive market worldwide whereas its joint venture with Youngy Group is intended to focus on the Chinese market.[27]

In many cases, technological developments are necessitating strategic alliances across industries for companies to gain rapid entry into areas in which they have no expertise or manufacturing capabilities. As such, learning—about product markets, country markets, or technologies—is a key motivation for establishing many strategic alliances.

Challenges in Implementing Global Alliances

Effective global alliances are usually tediously slow in the making but can be among the best mechanisms to implement strategies in global markets. In a highly competitive environment, alliances present a faster and less risky route to global expansion and efficiency. It is extremely complex to fashion such linkages, however, especially when many interconnecting systems are involved, forming intricate networks. Many alliances fail for complex reasons. Many also end up in a takeover in which one partner acquires the other. According to a McKinsey & Company survey, of 150 companies that had been in alliances, 75 percent of them had been taken over by Japanese partners. Problems with shared ownership, differences in national cultures, the integration of vastly different structures and systems, the distribution of power between the companies involved, and conflicts in their relative **locus of decision making** and control are but a few of the organizational issues that must be worked out. The *Financial Times* observed that "joint ventures start with smiles, but often end in tears."[28]

Often, the form of governance chosen for multinational firm alliances greatly influences their success, particularly in technologically intense fields such as pharmaceuticals, computers, and semiconductors. Thus, joint ventures are often the chosen form for such alliances because they provide greater control of proprietary technology as well as increased coordination in high-technology industries.

Cross-border partnerships, in particular, often become a race to learn—with the faster learner later dominating the alliance and rewriting its terms. In a real sense, an alliance becomes a new form of competition. In fact, according to researcher David Lei,

> *Perhaps the single greatest impediment managers face when seeking to learn or renew sources of competitive advantage is to realize that co-operation can represent another form of unintended competition, particularly to shape and apply new skills to future products and businesses.*[29]

All too often, cross-border allies have difficulty collaborating effectively, especially in competitively sensitive areas; this creates mistrust and secrecy, which then undermine the purpose of the alliance. The difficulty that they are dealing with is the dual nature of strategic alliances—the benefits of cooperation versus the dangers of introducing new competition through sharing

EXHIBIT 7-1 The Dual Role of Strategic Alliances



• Enhance learning opportunities to co-develop new technologies • Facilitate corporate restructurings by reducing exit barriers in non-growth sectors • Achieve economies of scale (e.g., in mfg. plants) • Optimize division of labor • Increase product and geographic diversification • Reduce investment risk in new product and/or geographic markets • Leverage complementary skills of each partner • Acquire local/international regulatory and market knowledge • Develop linkages with major buyers/suppliers • Develop international experience with other MNEs in order to "springboard" onto the global stage • Compensate for competitive and latecomer disadvantages	• Control market access and distribution to thwart current and potential rivalry • Create learning constellations that attenuate foreign dependency on key inputs and skills • Provide opportunity to acquire strategic resources and tacit knowledge • Enhance diffusion of industry standards that create entry barriers • Prevent technological and learning by partners vis-à-vis outsourcing agreements • Provide a platform to transform mature industries • Create new growth opportunities

Source: From David Lei, "Offensive and Defensive Uses of Alliances" in Heidi Vernon-Wortzel and L. H. Wortzel, "Strategic Management in Global Economy,"3rd ed., © 1997 John Wiley & Sons. Reproduced with permission of Wiley Publishing, Inc.; Li Dong & Keith Glaister (2006) Motives and partner selection criteria in international strategic alliances: Perspectives of Chinese firms. *International Business Review*, 15: 577–600. Yadong Luo & Rosalie Tung (2007) International expansion of emerging market enterprise: A springboard perspective. *Journal of International Business Studies*, 38: 481–498.

their knowledge and technological skills about their mutual product or the manufacturing process. Managers may fear that they will lose the competitive advantage of the firm's proprietary technology or the specific skills that their personnel possess. For example, some international joint ventures in China have faced internal conflicts between the foreign and domestic partners. Indeed, some global financial institutions have even terminated their JVs in China. In 2016, JPMorgan sold out of its domestic securities company, stating that it would re-enter if it found the right domestic partner.

The cumulative learning that a partner attains through the alliance could be applied to other products or even other industries that are beyond the scope of the alliance and, therefore, would hold no benefit to the partner holding the original knowledge.[30] Some of the trade-offs of the duality of international joint ventures are shown in Exhibit 7-1.

The alliance shows the tricky risk-and-reward calculations U.S. corporations must increasingly make in their pursuit of the lucrative markets in China. One such risk involves forced technology transfer from foreign companies Chinese partners.[31] For example, COMAC, the Chinese state-owned aircraft manufacturer, has used strategic alliances with U.S. companies—namely GE, Honeywell, and Rockwell Collins—to supply engines, wheels, avionics and other key parts

for the C919, which is the Chinese rival to the Boeing 737 and Airbus 320. Additional risks are that such technology sharing could advance not only China's commercial aircraft competitiveness but also its military status.[32]

> *But doing business in China often requires Western multinationals like G.E. to share technology and trade secrets that might eventually enable Chinese companies to beat them at their own game—by making the same products cheaper, if not better.*[33]

The enticing benefits of cross-border alliances often mask the many pitfalls involved. In addition to potential loss of a company's technology and knowledge or skills base, other areas of incompatibility often arise such as conflicting strategic goals and objectives, cultural clashes, and disputes over management and control systems. Sometimes it takes a while for such problems to present themselves, particularly if insufficient homework has been done in meetings between the two sides to work out the implementation details.

Implementing Alliances between SMEs and MNCs

All countries have a large proportion of business enterprises that are small or medium-sized enterprises (SMEs). But, increasingly, MNCs are dominating the markets in which SMEs operate, often crowding them out of business altogether. However, astute managers of SMEs can often find opportunities for alliances with those multinationals, providing "complementary resources and capabilities that can lead to, for instance, an innovative product offering being rolled out on a global scale, or a worldwide licensing agreement."[34] For example, MNCs often partner with local small enterprises to capture new ideas and innovations. Sun Microsystems, for instance, engaged with a number of small enterprises in Scotland on radio frequency identification (RFID) projects to bolster its competitiveness in this emerging area.[35] SMEs should seek out those opportunities to offer MNCs complementary technologies as well as local market networks. SABMiller, for example, helps the many small shop owners in Latin America with training and financing, which boosts beer sales for both the company and the *tiendas*.

Guidelines for Successful Alliances

As discussed earlier, many global companies, such as IBM, the Tata Group, and Toyota, build extensive alliance portfolios that involve multiple concurrent alliances. Oracle's Partner Network, for example, includes 19,500 partners. Alliance partners can provide synergies and value to corporate performance by providing access to new resources and markets, generating economies of scale and scope, reducing costs, sharing risks, and enhancing flexibility.[36] Unfortunately, the complexities involved in managing many alliances often mean that many—around half by most estimates—are unsuccessful, often because of poor partner selections initially and then also because of poor management to ensure that the expected competencies and synergies are realized. Research by Dovev Lavie on 20,000 alliances involving about 8,800 unique partners provides some insight into how managers can manage their alliances in ways that will increase the likelihood of success. The results enabled the identification of "value-creation and value-capture strategies that can guide partner selection decisions, and developed alliance portfolio management practices to help managers extract more value from their alliance portfolios."[37] Value creation strategies include, for example, the importance of assimilating network resources to acquire new skills and capabilities. Value capture strategies caution that it is important to "avoid partners that compete in your industry if they enjoy superior bargaining power."[38] One key factor in managing alliance portfolios is to consider not only what each alliance partner will bring to the company but also how that partner will affect other partners in the portfolio.

It is clear that many difficulties arise in cross-border alliances in melding the national and corporate cultures of the parties, in overcoming language and communication barriers, and in building trust between the parties over how to share proprietary assets and management processes. Some basic guidelines, as follows, will help to minimize potential problems. However, nothing is as important as having a long courtship with a potential partner to establish compatibility strategically and interpersonally and set up a plan with the prospective partner. Even setting up some pilot programs on a short-term basis for some of the planned collaborative activities can highlight areas that may become problematic.

- Choose a partner with compatible strategic goals and objectives and with whom the alliance will result in synergies through the combined markets, technologies, and management cadre.
- Seek alliances where complementary skills, products, and markets will result. If each partner brings distinctive skills and assets to the venture, there will be reduced potential for direct competition in end products and markets. In addition, each partner will begin the alliance in a balanced relationship.[39]
- Work out with the partner how you will each deal with proprietary technology or competitively sensitive information—what will be shared, and what will not, and how shared technology will be handled.
- Trust is an essential ingredient of an alliance. In some countries, trust is strengthened by complying with the contractual agreement. In other countries, trust is achieved by showing flexibility in the relationship—that is, adapting to changing environmental opportunities and threats. For example, Corning and Samsung worked through early delays in production and demonstrated skill in recognizing emerging opportunities for specialty glass, resulting in one of the most successful international joint ventures. That said, executives at both companies work hard to further reinforce a decades-long relationship.[40]
- Recognize that most alliances last only a few years and will probably break up once a partner feels it has incorporated the skills and information it needs to go it alone. With this in mind, managers need to "learn thoroughly and rapidly about a partner technology and management: transfer valuable ideas and practices promptly into one's own operations."[41] Relatedly, partners' strategies and capabilities evolve over time, thus calling into question the sustainability of the joint venture. For instance, some joint venture partners such as Eli Lilly and Ranbaxy recognized the evolving strategies and capabilities of the other partner and skillfully managed a buyout, which averted unnecessary conflict and preserved relational capital in the event of future joint venture opportunities between the U.S. and Indian multinational pharmaceutical companies.

Some of the opportunities and complexities in cross-border alliances are illustrated in the following "Comparative Management in Focus" on joint ventures in the Russian Federation. Such alliances are further complicated by the different history of the two parties' economic systems and the resulting business practices, as well as political issues.

7-2. To understand what is involved in implementing strategies, including those for small businesses and those involved in emerging economies

IMPLEMENTING STRATEGY

Implementing Strategy McDonald's Style

- *Form paradigm-busting arrangements with suppliers.*
- *Know a country's culture before you hit the beach.*
- *Hire locals whenever possible.*
- *Maximize autonomy.*
- *Tweak the standard menu only slightly from place to place.*
- *Keep pricing low to build market share. Profits will follow when economies of scale kick in.*[42]

Decisions regarding global alliances and entry strategies must now be put into motion with the next stage of planning: **strategic implementation**—also known as functional level strategies. Implementation plans are detailed and pervade the entire organization because they entail setting up overall policies, administrative responsibilities, and schedules throughout the organization to enact the selected strategy and to make sure it works. In the case of a merger or IJV, this process requires compromising and blending procedures among two or more companies and is extremely complex. The importance of the implementation phase of the strategic management process cannot be overemphasized. Until strategic plans are put into operation, they remain abstract ideas: verbal or printed proposals that have no effect on the organization.

Comparative Management in Focus

Joint Ventures in the Russian Federation

We are doing everything we can to continue development despite the slowdown of the Russian economy. We are still confident in Russia's long-term prospects.

MAURIZIO PATARNELLO, NESTLÉ RUSSIA CEO

Judging by the preceding quote, it seems that Russia poses a number of contradictions to would-be investors. In 2011, as Disney pushed into Russia with a new Disney television channel, its CEO Bob Iger said "we really believe in Russia as a growth market."[43] However, as of 2018, both potential investors and those firms already in Russia were very concerned about Russia's economy and its continuing involvement in Ukraine and the negative impact on the economy of the stringent western sanctions.[44] It has been clear for some time that foreign companies have started to think twice about investing in international joint ventures (IJVs) in Russia since President Putin's moves to take control of key industries, including banks, newspapers, and oil assets. In May 2008, President Putin signed the Strategic Industries Bill, which regulates foreign investment. The new law identifies 42 strategic sectors (compared to 16 in 2005) in which foreign investors have to seek special permission before investing.

In September 2014, the U.S. private equity investment group Blackstone gave up on Russia, citing a lack of investors' interest and limited investment opportunities after the widespread impact of the sanctions.[45] In spite of the recent negative climate, Russia—the world's largest country (see Map 7-1), spanning 11 time zones, clearly offers substantial opportunity for companies willing to go for the risk–return trade-off. However, its significant growth over the past decade has slowed considerably since the global economic downturn, making it less competitive than the other BRIC countries. According to the 2011 World Economic Forum Russia report, the most important single element explaining a country's medium-term growth performance is productivity; labor productivity in Russia is less than half the value achieved by workers in the OECD member states. The decline in manufacturing competitiveness in Russia "is due to the combination of an increase in real wages and shortcomings of the business climate, which puts Russia at a disadvantage in international comparison."[46] In addition, there is concern that the long-term business climate will remain for some time as

MAP 7-1 Russia



(*Continued*)

an unbalanced, corruption-ridden, natural resource–based economy because of the persistent lack of formal institutions.[47]

The foreign investment uncertainty continues and perhaps has taken a turn for the worse as the head of Baring Vostok, Michael Calvey, was arrested in early 2019 on questionable fraud charges linked to a business dispute involving a Russian official connected to President Vladimir Putin. Mr. Calvey's private equity company has focused on Russia. He was "Russia's last big foreign investment champion."[48]

"The signal it sends to any foreign capital is horrid," a former senior private equity executive in Russia said. "It shows the country doesn't want that kind of capital or doesn't care."[49]

Reflecting on the geopolitical tensions and economic uncertainty, the health of the UK's relationship with Russia has been described as being linked to "Russian domestic conditions, which swing from secretive, autocratic truculence to relatively liberal openness and back again."[50] The tensions and uncertainties have dissuaded some firms, but others such as Alibaba (opening profile) see the rewards as outweighing the risks.

> *Russian managers have relied excessively on informal institutions, including personal networks, to conduct business due to the void created by the weak legitimacy of the country's formal institutions.*

In addition to the potential for corruption and the constant uncertainty in the business environment, firms doing business in Russia find that implementing a joint venture is very frustrating and time-consuming due to the all-consuming regulations and bureaucracy there. For these reasons, many foreign firms pick a local partner to help them navigate the myriad negotiations to obtain permissions, get visas, acquire property, and so on. Other firms hire a security firm (Krisha), which smooths the way through the bureaucracy, often with payments.

Until recently Moscow and other major cities have been experiencing a consumer boom, spurred on by rising incomes in the middle class, making Russia one of the fastest growing markets for global consumer giants such as Coca-Cola, Procter & Gamble, and Nestlé. Indeed, the Swiss food giant Nestlé confirmed its faith in the long-term prospects in Russia and that it would try to use more local content and ingredients to try to offset the currency problems, reinforcing the importance of local suppliers. Nestlé owns eight manufacturing facilities in Russia and announced opened a new factory for infant formula that will be operational in 2019.[51]

Many, like Bell Labs, have been involved in research and development, taking advantage of the Russians' high-level education and technical capabilities. Nevertheless, Western managers need to recognize that cultural factors affect cross-border business, in particular, that Russians are distrustful of outsiders; managers attempting to develop joint ventures must understand that they will need to spend considerable time communicating and developing a trusting relationship. Reliance on their own networks and the use of favors (*blat*) present obstacles to business relations between Russians and outsiders.

Overall, managers of foreign companies who are looking past the current economic problems in Russia and hoping to set up business in the future should carefully consider the following.

- Investigate whether a joint venture is the best entry mode. If a lot of real estate is needed, it may be better to acquire a Russian business because of the difficulties involved in acquiring land.
- Set up meetings with the appropriate ministry and regional authorities well in advance. Have good communication about your business needs and build local relationships.
- Be sure to be totally above board in paying all relevant taxes to avoid crossing the Russian authorities.
- Set up stricter controls and accountability systems than usual for the company.
- Communicate clearly up front that your firm does not pay bribes.
- Assign the firm's best available managers and delegate to them enough authority to act locally.
- Take advantage of local knowledge by hiring appropriate Russian managers for the venture.
- Designate considerable funds for local promotion and advertising to establish the corporate image with authorities and consumers.[52]

Foreign managers' alliance strategy must also take into account the goals of potential Russian partners. An awareness and acceptance of the motivations of Russian firms for alliances with foreign companies will aid in finding and achieving a cooperative joint venture.

Researchers for the *Wall Street Journal* reported their findings about what local Russian firms want from an alliance with a foreign firm; they made it clear that they expect assistance with market entry through forming an alliance and that they need assistance in solving bribes, kickbacks, and other under-the-table transactions.[53]

Successful implementation requires the orchestration of many variables into a cohesive system that complements the desired strategy—that is, a *system of fits* that will facilitate the actual working of the strategic plan. In this way, the structure, systems, and processes of the firm are coordinated and set into motion by a system of management by objectives (MBO) whose primary objective is the fulfillment of strategy. Managers must review the organizational structure and, if necessary, change it to facilitate the administration of the strategy and coordinate activities in a particular location with headquarters (as discussed further in Chapter 8). In addition to ensuring the strategy-structure fit, managers must allocate resources to make the strategy work, budgeting money, facilities, equipment, people, and other support. Increasingly, that support necessitates a unified technology infrastructure to coordinate diverse businesses around the world and satisfy the need for current and reliable information. An efficient technology infrastructure can provide a strategic advantage in a globally competitive environment.

An overarching factor affecting all the other variables necessary for successful implementation is that of leadership; it is people, after all, who make things happen. The firm's leaders must skillfully guide employees and processes in the desired direction. Managers with different combinations of experience, education, abilities, and personality tend to be more suited to implementing certain strategies. In an equity-sharing alliance, sorting out which top managers in each company will be in which position is a sensitive matter. Who in which company will be CEO is usually worked out as part of the initial deal in alliance agreements. This problem seems to be frequently settled these days by setting up joint CEOs, one from each company. Setting monitoring systems in place to control activities and ensure success completes, but does not end, the strategic management process. Rather, it is a continuous process, using feedback to reevaluate strategy for needed modifications and updating and recycling plans.

Of particular note here, we should consider what is involved in implementing strategies for SMEs and the issues involved in the effective management of the global sourcing strategy. Then we will review what is involved in managing performance in international joint ventures because they are such a common form of global alliance, and yet they are fraught with implementation challenges.

Implementing Strategies for SMEs

For small businesses venturing abroad, however, the first step is often that of exporting. This can be a daunting task. However, many sources are available to help small-business managers with exporting, as discussed in the feature "Under the Lens: Breaking Down Barriers for Small or Medium-Sized Enterprises (SMEs)." Of particular note, China offers substantial opportunities for exports for SMEs (businesses with fewer than 500 employees), which have accounted for an estimated one-third of exports to China in recent years. Most exports to China include agricultural products, electrical equipment, machinery, nuclear reactors and boilers, China also imports a range of commodities.[54] As of 2018, China is the largest e-trading partner for the United States, passing both Canada and Mexico.

SME firms wishing to expand beyond their domestic markets and exporting typically need to find a market niche in the chosen countries between the MNCs and the local firms where they know they can compete. While they do not have the economies of scale and financial and marketing resources of the MNCs, they also do not have the local connections, suppliers, and consumer knowledge of the small, local companies. If those SMEs can find an opportunity, or niche, that the MNCs find too minor to bother with, and also that is not being targeted by local firms, they may be able to gain a foothold and establish their own reputation as leaders. Then, too, a later opportunity may arise with an MNC wanting to use that firm to gain inroads or to use the acquired knowledge or technology, as discussed earlier. Alternatively, seeking an alliance with a local partner would provide early access to hiring local talent, to local connections and suppliers, and so on. In their research of successful Israeli small firms going global, Jonathan Friedrich and colleagues concluded that SMEs can take care not to awaken the gorillas, first by targeting a sufficiently minor opportunity that the MNCs decide is not worth their while, but which can be leveraged profitably across several international regions; and secondly, by bringing in superior technology and processing capabilities to keep out local players.[55]



UNDER THE LENS

Breaking Down Barriers for Small or Medium-Sized Enterprises (SMEs)

Approximately 280,000 small or medium-sized businesses in the United States export goods or services abroad. Small businesses make up 98 percent of the American companies that exported US$29.3 billion in goods and services in 2016.[56] According to the U.S. International Trade Administration, the top export markets for SMEs are Mexico (US$76.2 billion), Canada (US$51.2 billion), China (US$34 billion), UK (US$20.4 billion), and Japan (US$20.0 billion). But there is still room for growth in China. Successful exporters to China emphasize the complexity and that it is essential to meet your clients face-to-face at the beginning.

U.S. EXPORT ASSISTANCE CENTERS

Of the 20 U.S. government agencies involved in export assistance, SBA specifically aims to increase the number of small business exporters through programs delivered through U.S. Export Assistance Centers. Senior SBA trade and finance specialists—along with employees from the U.S. Commercial Service and the U.S. Export-Import (Ex-Im) Bank—staff 20 of more than 100 U.S. Export Assistance Centers in metropolitan areas around the country. The centers help "export-ready" companies begin to export or expand to new markets abroad by providing counseling, training, export insurance, and loans to these businesses; conducting market research; and facilitating contracts between U.S. exporters and foreign buyers.

Richard Ginsburg, an international trade specialist with the U.S. Small Business Administration (SBA), says small business owners usually approach an Export Assistance Center when they want to make a deal with a foreign buyer or when they receive an order from a foreign buyer and have never exported before. The centers can help companies understand payment terms and conditions, help them handle logistics such as shipping, and refer them to translators. These transactions are often simple when doing business in the United States, but they can be complicated when crossing international borders.

Counseling, outreach, and loan programs help break down what Ginsburg calls the "psychological trade barriers" that prevent small businesses from exporting. "There are people who feel they can lose their business if they export," Ginsburg says. "The risks are so much more than shipping across town or across the state or across the country." For example, small-business owners sometimes fear that they will not be able to collect payments from overseas buyers.

Companies that want to export face barriers such as language and lack of knowledge of the foreign regulatory environment, and—specifically for businesses exporting to China—fear of intellectual property rights infringement, Ginsburg says.

EXPORT LOANS FOR SMALL BUSINESSES

In addition to counseling and training, SBA guarantees loans of up to $5 million, and the Ex-Im Bank provides export financing for amounts over $5 million. "It's a success story for SBA when we're working with a small-business exporter and they outgrow the small loan amount and need more than the $5 million SBA threshold," Ginsburg says.

SBA runs four loan programs for small-business exporters: the Export Express Program, the Export Working Capital Program, International Trade Loan Program, and SBA and Ex-Im Bank Co-Guarantee Program. The Export Express Program, formerly a pilot program, was made permanent in 2010 with the passage of the Small Business Jobs Act of 2010 to support the NEI goal of increasing small business exports. The program aims to streamline the export loan process for small businesses. SMEs that have been operating for at least 12 months can receive up to $500,000 to finance export activities, such as participating in foreign trade shows, purchasing equipment, and translating product literature. The law also permanently increased loan limits on export working capital and international trade loans.

Companies can obtain more information on export loans from the nearest Export Assistance Center and apply directly for loans through SBA lenders. Visit www.export.gov/eac to contact the nearest center or www.sba.gov/content/us-export-assistance-centers for a list of centers with SBA representatives.[57]

GLOBAL ALLIANCE OF SMES[58]

The U.S. government authorized the GLOBAL ALLIANCE OF SMES (GASME), which is a nonprofit multinational organization that seeks to serve SMEs worldwide. GASME has established

regional offices in New Jersey (USA), Shanghai, Paris, Seoul, New Delhi, and Buenos Aires. It strives to build a premier SME collaboration platform based on joint consultation, joint construction, and benefits sharing and to facilitate trade and investment.

GASME has become a leading organization with respect to cooperation among global SMEs. In 2012, GASME was awarded Consultative Status with UNIDO (United Nations Industrial Development Organization). GASME has organized high-level forums, including Global SMEs Summit, China's SMEs Global Development Forum, World Manufacturing Convention, and Global Forum for Fortune 500 and SME Cooperation.

GASME advocates for bilateral and multilateral cooperation among SMEs worldwide. For example, GASME played an instrumental role in facilitating cooperation between Chinese and overseas SMEs. In fact, it has implemented several SME alliance initiatives, notably "1000 China-America SMEs Partnership Program," "1000 China-EU SMEs Partnership Program," "1000 China-Africa SMEs Partnership Program," as well as the "SME Global EZPath Program."

At present, GASME is developing interconnected platforms for business organizations worldwide such as a big data platform, a socialization platform for business leaders, a cross-border matchmaking platform, a surplus capacity platform, a resource sharing platform, and a government promotion platform. As for its current international expansion, GASME Shanghai Office was set up in 2017 with approval from the Chinese government, thus becoming the first global SME organization to plant a flag in China.

EUROPEAN DIGITAL SME ALLIANCE [59]

Although small business—based alliances have facilitated international expansion for U.S. SMEs, other regions—for example, Europe—have begun to offer small-business support. For example, the European DIGITAL SME Alliance is the largest network of Information and Communication Technology (ICT) small and medium-sized enterprises in Europe. The alliance represents about 20,000 digital SMEs throughout the EU. The alliance promotes collaborative efforts of 28 national and regional SME associations from EU member countries and neighboring countries. The European Digital SME Alliance has several salient goals that include promoting meetings and exchanges of experience and know-how amongst its members; carrying out actions—such as training programs, organizing conferences and seminars, and even conducting research; diffusing information to its members; representing the interests and stances of the Association's members in the European Union; and carrying out actions and advocating in third countries, especially in matters relating to local ICT SMEs.[60]

Implementing a Global Sourcing Strategy: From Offshoring to Next-Shoring?

The entry strategy of global sourcing was discussed in Chapter 6. Outsourcing abroad—alliances with firms in other countries to perform specific functions for the firm (offshoring)—is often in the news because of the politically charged issue of domestic jobs apparently being lost to others overseas. Beyond finding lower-paid workers, however, the strategic view of global sourcing is to develop into transformational outsourcing—the view that, properly implemented, global sourcing can produce gains in efficiency, productivity, quality, and profitability by fully leveraging talent around the world.[61] Procter & Gamble, for example, having outsourced everything from IT infrastructure and Human Resource Department functions, such as staffing, training, compensation, and so on, around the world, announced that then-CEO Alan Lafley wanted 50 percent of all new P&G products to come from other countries.[62] However, implementing such a strategy is more difficult than it is made to seem in the press because many companies have encountered unexpected problems when outsourcing.

However, P&G executives have conceded that the company may have outsourced too much of its value-added activities. For example, Marc Pritchard, Procter & Gamble's (P&G) Chief Marketing Officer, publicly expressed his discontent with transparency and excessive fees from strategic partners.

> *Marketers have outsourced too much work. There were too many touch points between message and consumers.*
>
> Marc Pritchard, Procter & Gamble's (P&G) Chief Marketing Officer, 2018

According to Mr. Pritchard, the consumer products giant needs "brand people closer to consumers." In an outsourcing reversal, P&G brought its media planning activities in house. Mr. Pritchard pondered, "If start-ups can buy their own media, why can't Tide?"

A common problem, when dealing with many strategic alliance partners, is global supply chain disruptions. Some alliance partners, for example, can be low cost-producers, yet inflexible, thus making the outsourcing firm susceptible to sudden changes in demand. For instance, as reported in the *Financial Times*, German sportswear maker Adidas revealed supply chain problems in the first six months of 2019 that have impaired its ability to meet customer demand, resulting in weaker sales growth. Adidas CEO Kasper Rorsted stated that the company incurred "a capacity problem in manufacturing plants," with demand for mid-priced products in North America exceeding expectations. He further noted, "We are not capable of building the infrastructure to supply market demand" and forecasted a "substantial slowdown" in North America sales over the first half of 2019.[63]

Advice on implementation from companies such as Dell, IBM, and Reuters Group PLC leads us to the following guidelines:

- ***Examine your reasons for outsourcing:*** Make sure that the advantages of efficiency and competitiveness will outweigh the disadvantages from your employees, customers, and community; don't outsource just because your competitors are doing it.
- ***Evaluate the best outsourcing model:*** Opening your own subsidiary in the host country (a captive operation) may be better than contracting with an outside firm if it is crucial for you to keep control of proprietary technology and processes.
- ***Gain the cooperation of your management and staff:*** Open communication and training are essential to get your domestic managers on board; uncertainty, fear, and disagreement from them can jeopardize your plans.
- ***Consult your alliance partners:*** Consult with your partners and treat them with the respect that made you decide to do business with them.
- ***Invest in the alliance:*** Plan to invest time and money in training in the firm's business practices, in particular the ones that deal with quality control and customer relations.[64]

Further advice comes from Josh Green, CEO of Panjiva, which is an information resource for companies doing business across borders. Green asks, "How healthy is your global partner?" because he noted that an increasing number of firms in developed economies were finding that their suppliers in Asia had gone out of business following the protracted global economic downturn that caused firms to reduce their demand from their suppliers. He notes that both buyers and suppliers have learned the hard way that in the future they need to investigate and evaluate their potential partners carefully. He suggests, for example, that both sides should do a background check on the financial health and future viability of the company; get references from other partners of the firm; be prepared to give those assurances and data about their own companies; and have alternate partners ready to fill in.[65]

Another important aspect of managing global supply partnerships pertains to transparency with respect to environmental (pollution issues) and human rights (child labor, work conditions) concerns. As we noted in Chapter 2, MNCs are often held accountable not only for their own behaviors, but also for the behavior of global supply chain partners. An MNC that monitors its global supply chain can incur substantial costs and, arguably, not 100 percent prevent malfeasance by supply chain partners. However, some MNCs are using digital "blockchain" technology—that is, *"an incorruptible digital ledger of economic transactions"*—to increase transparency between an MNC and global supply chain partners as shown in the "Under the Lens" feature on Ford.[66]

THE NEXT WAVE

Elsewhere we pointed out that many companies are moving from a single strategy of outsourcing—or offshoring—manufacturing or service operations, toward nearshoring to closer geographic regions and markets, or to reshoring to the "home" country. Increasing labor costs overseas, as well as the distance and risks of supply chains and transportation, have made offshoring less competitive overall. Two trends are converging toward this next strategy of global sourcing—which McKinsey



UNDER THE LENS

Ford to Use Blockchain in Pilot to Trace Cobalt Mined in Congo

Carmaker to Use Platform in Attempt to Improve Supply Chain Transparency[67]

Ford will use a blockchain-based platform to trace supplies of cobalt from a Chinese-owned mine in the Congo for the batteries in its electric cars, in an attempt to ensure they are not linked to human rights abuses.

The US carmaker will work with Korean battery company LG Chem and China's largest cobalt producer Huayou Cobalt to create "an immutable audit trail" for supplies of cobalt on blockchain, the technology behind cryptocurrency bitcoin.

The project is the latest effort to use blockchain to improve the transparency of global supply chains, especially in commodities. The Democratic Republic of Congo [DRC] produces more than 60 per cent of the world's cobalt, but much of it is sent to China to be processed by multiple companies before it is used in batteries.

In addition, up to 20 per cent of the DRC's cobalt is mined by hand, often by children with picks and shovels.

> *We remain committed to transparency across our global supply chain … By collaborating with other leading industries in this network, our intent is to use state-of-the-art technology to ensure materials produced for our vehicles will help meet our commitment to protecting human rights and the environment.*
>
> LISA DRAKE, VICE-PRESIDENT OF GLOBAL PURCHASING AND POWER-TRAIN OPERATIONS, FORD, 2019

Zhejiang-based Huayou Cobalt is one of the biggest producers of cobalt for batteries and is listed on the Shanghai stock exchange. In 2016 the company was accused of buying cobalt mined from children working in "hazardous conditions" by Amnesty International.

Since then the company says it has undergone an audit on its supply chain and made efforts to improve the condition of communities in the DRC, one of the poorest countries in the world.

"This is central to our proactive approach to delivering ethical cobalt," Chen Hongliang, chief executive of Huayou, said about the pilot. "We also want to have strong, reliable information channels to prove and demonstrate this action to our customers."

The consortium said it wanted to open up the platform to other car producers and companies in the supply chain, and expand it to include different battery metals and raw materials.

The project will use the IBM Blockchain Platform and be powered by Linux Foundation's Hyperledger Fabric. It is being overseen by RCS Global, a UK supply-chain audit company.

Source: © The Financial Times Limited 2019.

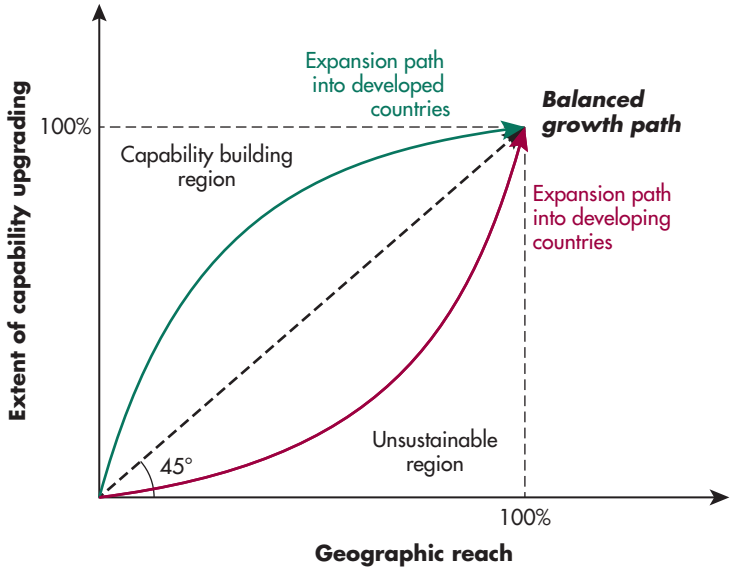
Consultants call "next-shoring"—the trend away from labor cost arbitrage, and the trend toward robotics as technological advances provide the opportunity to digitize operations through the Internet of Things.[68] In this way, companies can use the advantages of production facilities that are geographically closer to their markets so as to adapt products locally, while at the same time using innovation and technology to offset the previous advantages of economies of scale through distant outsourcing.

> *Nextshoring strategies encompass elements such as a diverse and agile set of production locations, a rich network of innovation-oriented partnerships, and a strong focus on technical skills.*[69]
>
> *MCKINSEY QUARTERLY*

Implementing Strategies for Emerging Economy Firms

Firms from emerging economies, out of necessity, have expanded globally through different paths and strategies than the traditional paths followed by firms in the developed world. Their motives for expansion into developed countries often include the need to acquire specific resources, such as technological know-how, R&D capability, managerial skills, and global brands to make them competitive with established firms. It is interesting to observe

EXHIBIT 7-2 Expansion Paths for Emerging Economy Firms



Source: Based on Mauro F. Guillén and Estaban García-Canal, "The American Model of the Multinational Firm and the 'New' Multinationals from Emerging Economies," *Academy of Management Perspectives*, May, 2009, pp. 23–35.

how those firms are coping with strategic implementation. Rather than the gradual, staged **internationalization** process typical of traditional firms from the developed world, emerging firms—of all sizes—are finding that they have to move quickly or skip various stages to expand into both developed as well as developing markets.[70] As a result, firms such as Brazil's Natura Cosmeticos, China's Lenovo, and Argentina's Tenaris—now significant global players—have tended to expand globally through acquisitions and alliances and have had to be more flexible organizationally.

Mauro F. Guillén and Estaban García-Canal point out from their research that firms from emerging and developing countries "face a significant dilemma when it comes to international expansion because they need to balance the desire for global reach with the need to upgrade their capabilities. They can readily use their home-grown competitive advantages in other emerging or developing countries, but they must also enter more advanced countries in order to expose themselves to sophisticated, cutting-edge demand and develop their capabilities."[71] As Guillén and García-Canal demonstrate in Exhibit 7-2, those firms must decide how to balance their geographic expansion with their ability to upgrade their capabilities in the market because they lack the resources and capabilities of established MNEs; they must realize that "prioritizing global reach without improving firm competencies jeopardizes the capability upgrading process."[72] (This puts them in the Unsustainable region in the exhibit.) Huei-Ting Tsai and Eisingerich also note "the dual challenge faced by emerging market firms, namely, market creation and/or R&D knowledge creation."[73] They note that firms with less technological and selling capabilities tend to enter new markets one at a time. In addition, firms with strong technological capabilities often expand to overseas markets shortly after the firm is established, as with Infosys (featured in the "Management in Action" feature). They found from the firms in their sample that those that were stronger technologically and had more financial resources would compete in the developed markets, whereas those with a smaller stable of competitive resources pursued less-competitive markets during the early stages of their internationalization.

Challenges in Implementing Strategies in Emerging Markets

Firms expanding into emerging or developing market countries are often unaware of the considerable differences from their home markets and the challenges they face in getting started. Because of their lack of familiarity and preparation for those challenges, foreign firms are often surprised that they cannot compete successfully with local firms. They may be operating under assumptions that



MANAGEMENT IN ACTION

Infosys's Path from Emerging Start-up to Emerging MNC[74]

Infosys is one of the most fascinating success stories to come out of India—one of a start-up valued at $250 in 1981 that grew to become a highly competitive emerging market MNC with revenue over US$11 billion and market capitalization of approximately US$40 billion in 2019.[75] Its path from a "born global" IT-services company and establishment of strategic alliances around the world are widely admired and reported.

Infosys was established by N. R. Narayana Murthy and six engineers in Pune, India, with an initial capital of $250. A central goal of Narayana Murthy's global strategy was the "global delivery model (GDM)," which focused on producing where it is most cost effective to produce and selling where it is most profitable to sell. As such, most of the software development work was done in India and the sales focused on the United States and other foreign markets. However, this model competed with both foreign and Indian software companies such as Accenture, IBM Global Services, EDS, and TCS. From the beginning, Infosys focused the company on positioning itself as a truly global company—global clients, global operations, global staff, and a global brand image. In 1987 the company opened its first international office in Boston, and in 1995 moved into the United Kingdom and Toronto, Canada. From there, global expansion happened rapidly as the company opened offices in Germany, Sweden, Belgium, Australia, and two development centers in the United States. The company has been a leader in establishing the Indian Business Process Outsourcing (BPO) industry, now a global business. The company's website emphasizes that its mission is based on "nurturing relationships that reflect our culture of unwavering ethics and mutual respect." In addition, Infosys is well recognized as a leader in sustainability efforts. Much of the company's success is attributed to its hybrid business models that include the best of Indian culture and expectations, along with adapting to local business practices, and to the alliances and trust in developing new models with partners around the world.

In February 2015, Infosys bought U.S.-based Panaya in a $200 million deal in an effort to diversify away from its traditional outsourcing business into more lucrative opportunities in big data, cloud computing, and artificial intelligence. March 2019 marked another step in its remarkable journey from start-up to world-class provider of IT solutions, as Infosys has been selected by Rolls-Royce (UK) as a strategic partner to provide digital and engineering services.

> *We are pleased to be selected as a long-term strategic partner by Rolls-Royce. Through our engineering and digital services, we will support Rolls-Royce to become more productive, agile and innovative. We continue to invest in this exciting industry and in this partnership [and] to support Rolls-Royce [as it] navigates the next [step] in its transformation journey.*[76]
>
> JASMEET SINGH, EXECUTIVE VICE PRESIDENT AND GLOBAL HEAD OF MANUFACTURING, INFOSYS

> *As a leading industrial technology company, our ongoing commitment to innovation is essential to meeting customer and society's needs for sustainable power. Our association with Infosys is a step in this direction as it enables us to increase our technical differentiation in the engineering and digital domain while accelerating cost optimization and competitiveness. Given the successful track record of Infosys in turbo machinery and propulsion engineering services, they are the right partner to support our goals set out in the coming years.*[77]
>
> KISHORE JAYARAMAN, PRESIDENT FOR INDIA & SOUTH ASIA, ROLLS-ROYCE

At the heart of this success story is its network of partners; however, the goals of objectives of these strategic partnerships have evolved over time. Infosys has established itself as a global market leader with the help of strategic alliances with other world-class technology companies. Now, the Infosys network of alliance relationships seeks to create value, temper implementation risk, and accelerate market entry for its partners. With each strategic partner, Infosys has been effective at developing "solutions that incorporate the intellectual property (IP) of Infosys as well as technology and services from the alliance partners."[78]

firms from more developed countries have better experience, management knowledge, technology, and other resources than those in the target regions. Unfortunately, that mindset might lead foreign firms to enter those new markets without sufficient research and preparation for the differences and difficulties they may face. However, that is not the case with IKEA, the Swedish home furnishings giant. The company is absolutely committed to not expanding too rapidly; instead, it does extensive

research on new locations. For example, it took six years before it opened its first store in South Korea.[79] Similarly, IKEA began planning to open stores in India in 2012. In 2018—six years later—it opened the doors of its first store in Hyderabad. (IKEA's challenges in India are discussed in the end of chapter case.) The care the company takes to get familiar with the local area and the needs of the people there has certainly paid off; the company has 422 stores in more than 50 markets around the world and is one of the most profitable in the retail industry.[80]

The initial challenge is likely to be how to navigate poor infrastructures, supply chains, and distribution networks—problems that local firms know how to navigate through experience and contacts. The same edge is enjoyed by local firms when dealing with the myriad regulations and bureaucracies prevalent in some developing economies.

Expansion into emerging markets also brings personnel challenges, especially at management levels. Here too, often the domestic companies have the advantage of knowing how to source, attract, and train local talent; those employees also tend to prefer to work for local companies that are perceived to be more invested in their future.[81] On the other hand, those employees often do not have the experience or familiarity with cross-border business compared with the foreign firms that may bring in their own talent.

Clearly, firms going into developing markets need to explore thoroughly how to navigate the infrastructure and institutions, evaluate the area for their personnel needs, and make local contacts to assess the feasibility of operating there and competing with local firms.

One firm, the global English-language social network LinkedIn, has found that it can make inroads in China through compromising on China's free-expression rules and developing local alliances with two Chinese venture-capital firms. Having local partners placates Chinese authorities and provides an incentive for the partners to make the venture a success. LinkedIn added a Chinese-language version, thereby adding about a million new members to the over four million it already had there.[82] However, LinkedIn faced considerable backlash in the West for bowing to Chinese demands to take down content connected with the anniversary of the Tiananmen Square uprising.[83] Other technology firms, such as Facebook and Twitter, have been blocked from China. Google's website was blocked temporarily then blocked completely before it exited China. However, the company has been developing a highly censored version for China in order to re-enter the Chinese market (see Chapter 2, Ethics in Uses of Technology).[84]

7-3. To consider how to manage the firm's performance in international joint ventures, with attention to knowledge management, government and cultural influence, and the role of e-commerce

MANAGING THE FIRM'S PERFORMANCE IN INTERNATIONAL JOINT VENTURES

Much of the world's international business activity involves international joint ventures (IJVs) in which at least one parent is headquartered outside the venture's country of operation. IJVs require unique controls. Ignoring these specific control requisites can limit the parent company's ability to use its resources efficiently, coordinate its activities, and implement its strategy.

The term **IJV control** refers to the processes that management puts in place to direct the success of the firm's goals. Most of a firm's objectives can be achieved by careful attention to control features at the outset of the joint venture, such as the choice of a partner, the establishment of a strategic fit, and the design of the IJV organization. Howard Schultz, CEO of Starbucks, attributes its success in India to its joint venture with Tata Group, the largest coffee producer in Asia. This process followed a complicated six-year journey. Schultz acknowledged that Tata helped with finding highly desired locations, and the complex logistics and supply infrastructure, as well as the menus. Schultz admits there was much to learn, and that the key was finding a partner he could trust and with whom the firm could collaborate.[85]

Clearly the most important single factor determining IJV success or failure is the choice of a partner. Most problems with IJVs involve the local partner, especially in less-developed countries. In spite of this fact, many firms rush the process of partner selection because they are anxious to get on the bandwagon in an attractive market. In this process, it is vital to establish whether the partners' strategic goals are compatible (see Chapter 6). The strategic context and the competitive environment of the proposed IJV and the parent firm will determine the relative importance of the criteria used to select a partner.[86] IJV performance is also a function of the general fit between the international strategies of the parents, the IJV strategy, and the specific

performance goals that the parents adopt.[87] Research has shown that, to facilitate this fit, the partner selection process must determine the specific task-related skills and resources needed from a partner as well as the relative priority of those needs.[88] To do this, managers must analyze their own firms and pinpoint any areas of weakness in task-related skills and resources that can be overcome with the help of the IJV partner.

Partnerships with companies in India present both positive and negative examples of IJV performance, although, overall, IJVs there run into considerable problems. McDonald's has had both experiences so far there. The company has experienced legal battles with its joint venture partner in the north and east of the country, Mr. Bakshi, due to a clash of business cultures and expectations that could take years to play out. However, its relationship with its 50-50 joint venture partner in the south and west, Amit Jatia, has been positive. In fact, Mr. Jatia's Hardcastle Restaurants have now become a full franchisee through a friendly buyout of McDonald's share in the venture. As of year-end 2016, Hardcastle operated McDonald's through 252 restaurants in 34 cities in west and south India.[89] Of course, both ventures were plagued in the early years by difficulty in adapting the menu to local tastes. Although India still insists on joint ventures in sectors such as telecommunications, agriculture, and insurance, it has lifted restrictions for other industries, allowing wholly owned operations in them. However, a number of recent IJVs have done poorly, especially for the Indian partner. On the other hand, an IJV between Indian engineering group Kirloskar and Japan's Toyota, for vehicle production, has had more positive results, with Mr. Kirloskar acknowledging that Toyota has been open in sharing ideas and improving the productivity of his firm.

Organizational design is another major mechanism for factoring in a means of control when an IJV is started. Beamish et al. discuss the important issue of the **strategic freedom of an IJV**. This refers to the relative amount of decision-making power that a joint venture will have, compared with the parents, in choosing suppliers, product lines, customers, and so on.[90] It is also crucial to consider beforehand the relative management roles each parent will play in the IJV because such decisions result in varying levels of control for different parties. An IJV is usually easier to manage if one parent plays a dominant role and has more decision-making responsibility than the other in daily operations. Alternatively, it is easier to manage an IJV if the local general manager has considerable management control, keeping both parents out of most of the daily operations.

International joint ventures are like a marriage: the more issues that can be settled before the IJV starts, the less likely it will be to break up. Control over the stability and success of the IJV can be largely built into the initial agreement between the partners. The contract can specify who has what responsibilities and rights in a variety of circumstances, such as the contractual links of the IJV with the parents, the capitalization, and the rights and obligations regarding intellectual property. Of course, we cannot assume equal ownership of the IJV partners; where ownership is unequal, the partners will claim control and staffing choices proportionate to the ownership share. The choice of the IJV general manager, in particular, will influence the relative allocation of control because that person is responsible for running the IJV and for coordinating relationships with each of the parents.[91]

If ownership is divided among several partners, then the parents are more likely to delegate the daily operations of the IJV to the local IJV management—a move that resolves many potential disputes. In addition, the increased autonomy of the IJV tends to reduce many common human resource problems: staffing friction, blocked communication, and blurred organizational culture, to name a few, which all result from the conflicting goals and working practices of the parent companies.[92] Regardless of the number of parents, one way to avoid such potential problem situations is to provide special training to managers about the unique nature and problems of IJVs. The extent of control exercised over an IJV by its parent companies seems to be primarily determined by the decision-making autonomy that the parents delegate to the IJV management—which largely depends on staffing choices for the top IJV positions and thus on how much confidence the partners have in these managers. In addition, if top managers of the IJV are from the headquarters of each party, the compatibility of the managers will depend on how similar their national cultures are. This is because there are many areas of control decisions where agreement will be more likely between those of similar cultural backgrounds.[93]

Knowledge Management in IJVs

The most effective strategic leadership practices in the 21st century will be ones through which strategic leaders find ways for knowledge to breed still more knowledge.[94]

Managing the performance of an IJV for the long term, as well as adding value to the parent companies, necessitates managing the knowledge flows within the IJV network. When managed correctly, "alliances serve as a source of new knowledge for the firm."[95] Sirmon et al. contend that if firms can access and absorb this new knowledge, it can be used to alter existing capabilities or create new ones.[96] Yet, as found by Hitt et al., "cultural differences and institutional deficits can serve as barriers to the transfer of knowledge in alliance partnerships."[97] Clearly, then, managers need to recognize that it is critical to overcome cultural and system differences in managing knowledge flows to the advantage of the alliance.

Knowledge management, then, is "the conscious and active management of creating, disseminating, evolving, and applying knowledge to strategic ends."[98] Research on eight IJVs by Berdrow and Lane led them to define these processes as follows.

- ***Transfer:*** Managing the flow of existing knowledge between parents and from the parents to the IJV
- ***Transformation:*** Managing the transformation and creation of knowledge within the IJV through its independent activities
- ***Harvest:*** Managing the flow of transformed and newly created knowledge from the IJV back to the parents[99]

In particular, the sharing and development of technology among IJV partners provides the opportunity for knowledge transfer among individuals who have internalized that information, beyond any tangible assets; the challenge is to develop and harvest that information to benefit the parents through complementary synergies. IJVs that were successful in meeting that challenge were found to have personal involvement by the principals of the parent company in shared goals, in the activities and decisions being made, and in encouraging joint learning and coaching.[100]

The many operational activities and issues involved in strategic implementation—such as negotiating, organizing, staffing, leading, communicating, and controlling—are the subjects of other chapters in this book. Elsewhere, we include discussion of the many variables involved in strategic implementation that are specific to a particular country or region, such as goals, infrastructure, laws, technology, ways of doing business, people, and culture. In the following sections, the focus is on three pervasive influences on strategy implementation: government policy, societal culture, and the Internet.

Government Influences on Strategic Implementation

Host governments influence, in many areas, the strategic choices and implementations of foreign firms. The family-run Vermeer Company, for example, with its equipment-manufacturing factory in Pella, Iowa, earns about a third of its revenues from exports. However, the company realized its share of the market was falling rapidly due to competition from China, so it decided to open a plant in Beijing, taking a Chinese partner and drawing help for the venture from the Chinese. The chief executive, Ms. Mary Vermeer Andringa, noted that:

If we wanted to stay in the Chinese market, we needed to be there. That was the reality.[101]

The profitability of firms that set up operations abroad is greatly influenced, for example, by the level of taxation in the host country and by any restrictions on profit repatriation. Other important influences are government policies on ownership by foreign firms, on labor union rules, on hiring and remuneration practices, on patent and copyright protection, and so on. For the most part, however, if the corporation's managers have done the groundwork, all these factors are known beforehand and are part of the location and entry strategy decisions. However, what hurts managers is to set up shop in a host country and then have major economic or governmental policy changes after they have made a considerable investment.

Unpredictable changes in governmental regulations can be a death knell to businesses operating abroad. Recent changes in Russia causing uncertainty for foreign investors were already

discussed. Another country that is often the subject of concern for foreign firms is China. Already one of the toughest countries for mergers and acquisitions, China recently added new restrictions on foreign investors, thus prolonging the time that a number of firms have to continue to wait to find out whether their deals will go through. "Acquisitions that will require the ministry's approval include companies with a well-known brand or those that could have an impact on 'China's economic security.'"[102] Although China contends it is more committed to a market economy since it joined the World Trade Organization (WTO) in November 2001, history shows that foreign firms need to be cautious about entering China.

Pushing the boundaries of both governmental and cultural traditions is getting common among new-age companies, as exemplified by Uber, the car-ride service operating in over 600 cities in 65 countries.[103]

> *Uber Collides With France—Company's growth snarled by entrenched business culture; "a mockery of the French Republic."*[104]
>
> SAM SCHECHNER, *WALL STREET JOURNAL*

Uber has created conflicts by rapidly entering markets and asking questions later, and, in the case of France, trying to overturn laws. After taxi drivers in Paris burned tires and stopped traffic, Uber managers realized the strength of the French business culture that favors government and local companies, when two of their executives were arrested for providing illegal taxi services.[105] Despite these challenges for Uber, it was still named the second most disruptive company in the world in 2018, trailing only SpaceX.[106]

Cultural Influences on Strategic Implementation

When managers are responsible for implementing alliances among partners from diverse institutional environments, such as transition- and established-market economies, they are faced with the critical challenge of reconciling conflicting values, practices, and systems. Research by Wade Danis shows how those important differences among Hungarian managers and Western expatriates can affect implementation. When considering key differences in practices, for example, Danis found that the Western expatriates evinced a team orientation, a consensual management style, and a future-planning mentality. This compared with the findings for the Hungarian managers, who showed an individual orientation, an autocratic management style, and a survival mentality.[107] Such advance knowledge can provide expatriate managers with valuable information to help them in successful local operations. In other situations, the culture variable is often overlooked when deciding on and implementing entry strategies and alliances, particularly when we perceive the target country to be familiar to us and similar to our own. However, cultural differences can have a subtle and often negative effect.

CULTURAL DIFFERENCES IN U.K.–EUROPEAN ALLIANCES

- Organizational formality
- The extent of participation in decision making
- Attitude toward risk
- Systemization of decision making
- Managerial self-reliance
- Attitudes toward funding and gearing (financial leveraging)[108]

Among these dimensions, risk orientation was the key factor that affected the performance of the combined firm because risk-taking propensity affects managers' approach toward strategic options. Overall, risk-taking firms are likely to pursue aggressive strategies and deal well with change, whereas risk-averse companies are likely to tread more carefully and employ incremental strategies. Clearly, for companies entering into an IJV, successful implementation will depend largely on careful planning to take account of such differences, in particular that of risk orientation, to improve organizational compatibility. The greater the cultural distance between the allied firms, the more likely problems will emerge such as conflict regarding the level of innovation and the kinds of investments each firm is willing to pursue.

Because many of Europe's largest MNCs—including Nestlé, Electrolux, Grand Metropolitan, and Rhone-Poulenc—experience increasing proportions of their revenues from their positions in the United States, they have decided to shift the headquarters of some product lines to the United States. As they have done so, however, there is growing evidence that managing in the United States is not as easy as they anticipated, which may have implications for European-U.S. strategic alliances. Rosenzweig documented some reflections of European managers on their experiences at U.S. affiliates. Generally, he has found that European managers appreciate that Americans are pragmatic, open, forthright, and innovative. However, they also say that the tendency of Americans to be informal and individualistic means that their need for independence and autonomy on the job causes problems in their relationship with the head office Europeans. Americans simply do not take well to directives from a foreign-based headquarters.[109] Rosenzweig presents some comments from French managers on their activities in the United States.

FRENCH MANAGERS COMMENT ON THEIR ACTIVITIES IN THE UNITED STATES

- Americans see themselves as the world's leading country, and it's not easy for them to accept having a European in charge.
- It is difficult for Americans to develop a world perspective. It's hard for them to see that what may optimize the worldwide position may not optimize the U.S. activities.
- The horizon of Americans often goes only as far as the U.S. border. As a result, Americans often don't give equal importance to a foreign customer. If a foreign customer has a special need, the response is sometimes: It works here, why do they need it to be different?
- It might be said that Americans are the least international of all people because their home market is so big.[110]

Other European firms have had more successful strategic implementation in their U.S. plants by adapting to U.S. culture and management styles. When Mercedes-Benz of Germany launched its plant in Tuscaloosa, Alabama, U.S. workers and German trainers had doubts. Lynn Snow, who works on the car-door line of the Alabama plant, was skeptical of whether the Germans and the Americans would mesh well. Now, she proudly asserts that they work together, determined to build a quality vehicle. As Jürgen Schrempp, then CEO of Mercedes's parent, Daimler-Benz, observed, "'Made in Germany'—we have to change that to 'Made by Mercedes,' and never mind where they are assembled."[111]

The German trainers recognized that the whole concept of building a Mercedes quality car had to be taught to the U.S. workers in a way that would appeal to them. They abandoned the typically German strict hierarchy and instead designed a plant in which any worker could stop the assembly line to correct manufacturing problems. In addition, taking their cue from Japanese rivals, they formed the workers into teams that met every day with the trainers to problem solve. Out the window went formal offices and uniforms, replaced by casual shirts with personal names on the pocket. To add to the collegiality, get-togethers for a beer after work became common. "The most important thing is to bring together the two cultures," says Andreas Renschler, who has guided the M-Class since it began back in 1993. "You have to generate a kind of ownership of the plant."[112] The local community has also embraced the mutual goals, often having beer fests and including German-language stations on local cable TV.

The impact of cultural differences in management style and expectations is perhaps most noticeable and important when implementing international joint ventures, mergers, or acquisitions. The complexity of such alliances requires managers from each party to learn to compromise to create a compatible and productive working environment, particularly when operations are integrated.

In China, too, strategic implementation necessitates an understanding of the pervasive cultural practice of *guanxi* in business dealings. Discussed in previous chapters, *guanxi* refers to the relationship networks that "bind millions of Chinese firms into social and business webs, largely dictating their success."[113] Tapping into this system of reciprocal social obligation is essential to get permits, information, assistance to access material and financial resources, and tax considerations. Nothing gets done without these direct or indirect connections. In fact, a new term has arisen—*guanxihu*—which refers to a bond between specially connected firms that generates preferential

treatment for members of the network. Without *guanxi*, even implementing a strategy of withdrawal is difficult. Joint ventures can become hard to dissolve and as bitter as an acrimonious divorce. Problems include the forfeiture of assets and the inability to gain market access through future joint venture partners—all experienced by Audi, Chrysler, and Daimler-Benz. For example:

> *Audi's decision to terminate its joint venture prompted its Chinese partner, First Automobile Works, to expropriate its car design and manufacturing processes. The result was an enormously successful, unauthorized Audi clone, with a Chrysler engine and a First Automobile Works nameplate.*[114]

E-Commerce Impact on Strategy Implementation

> *With subsidiaries, suppliers, distributors, manufacturing facilities, carriers, brokers, and customers all over the globe, global trade is complicated and fragmented. Shipments cross borders multiple times a day. Are they compliant with all the latest trade regulations? Are they consistently classified for each country? Can you give your buyers, customers, and service providers the latest information, on demand?*[115]

As indicated in this quote, global trade is extremely complicated. Deciding on a global strategy is one thing; implementing it through all the necessary parties and intermediaries around the world presents a whole new level of complexity. Because of that complexity, many firms decide to implement their global e-commerce strategy by outsourcing the necessary tasks to **e-commerce enablers**, companies that specialize in providing the technology to organize transactions and follow through with the regulatory requirements. These specialists can help companies sort through the maze of different taxes, duties, language translations, and so on specific to each country. Such services allow small and medium-sized companies to go global without the internal capabilities to carry out global e-commerce functions. These kinds of web-based services allow a company to manage an entire global trade operation, including automation of imports and exports by screening orders and generating the appropriate documentation, paying customs charges, complying with trade agreements, and so on.[116]

CONCLUSION

Cross-border strategic alliances are becoming increasingly common as innovative companies seek rapid entry into foreign markets and as they try to reduce the risks of going it alone in complex environments. Companies that do well are those that do their groundwork and pick complementary strategic partners. Too many, however, divorce because the devil is in the details—which is what happens when a marriage made in heaven runs into unanticipated problems, such as cultural clashes and government restrictions, during actual strategic implementation. Alliances in various forms are particularly important for emerging market firms to expand to developed economies. For SMEs, they too can work to ally with MNCs in the target locations to internationalize quickly.

Summary of Key Points

- Strategic alliances are partnerships with other companies for specific reasons. Cross-border, or global, strategic alliances are working partnerships between companies (often more than two) across national boundaries and, increasingly, across industries.
- Cross-border alliances are formed for many reasons, including market expansion, cost- and technology-sharing, avoiding protectionist legislation, and taking advantage of synergies.
- SMEs can overcome their resource constraints and accelerate their internationalization process by leveraging their network relationships with other companies—such as key clients or strategic partners. Strategies include forming MNC relationships, consolidating those relationships with MNCs, and then extending the relationships to other endeavors.
- Alliances may be short or long term; they may be full global partnerships, or they may be for more narrow and specific functions such as research and development sharing.
- Alliances often run into trouble in the strategic implementation phase. Problems include loss of technology and knowledge skill-base to the other partner, conflicting strategic goals and objectives, cultural clashes, and disputes over management and control systems.

- Emerging economy firms are finding that they have to move quickly or skip various stages to expand into both developed as well as developing markets. They tend to expand globally through acquisitions and alliances and have had to be more flexible organizationally. Their motives in developing alliances often include the need to access specific resources such as technology or management skills to compete globally.
- Successful alliances require compatible partners with complementary skills, products, and markets. Extensive preparation is necessary to work out how to share management control and technology and to understand each other's culture.
- Strategic implementation—also called *functional level strategies*—is the process of setting up overall policies, administrative responsibilities, and schedules throughout the organization. Successful implementation results from setting up the structure, systems, and processes of the firm as well as the functional activities that create a *system of fits* with the desired strategy.
- Differences in national culture and changes in the political arena or in government regulations often have unanticipated effects on strategic implementation.
- Strategic implementation of global trade is increasingly being facilitated by *e-commerce enablers*—companies that specialize in providing the software and Internet technology for complying with the specific regulations, taxes, shipping logistics, translations, and so on for each country with which their clients do business.
- Many multinational companies have developed nonequity strategic alliances as a means to outsource certain activities. However, outsourcing dilemmas have urged companies to reassess this aspect of their strategies by considering not just the benefits but the costs.

Discussion Questions

7-1. Discuss the reasons that companies embark on cross-border strategic alliances. What other motivations may prompt such alliances? What are the driving forces for firms in emerging economies to embark on strategic alliances? How can SMEs expand abroad through relationships with MNCs?

7-2. Why are there an increasing number of mergers with companies in different industries? Give some examples. What industry do you think will be the next for global consolidation?

7-3. Discuss the problems inherent in developing a cooperative alliance to enhance competitive advantage, which also incurs the risk of developing a new competitor.

7-4. What are the common sources of incompatibility in cross-border alliances? What can be done to minimize them?

7-5. Explain what is necessary for companies to successfully implement a global sourcing strategy.

7-6. Discuss the political and economic situation in the Russian Federation with your class. What has changed since this writing? What are the implications for foreign companies to start a joint venture there now?

7-7. What is involved in strategic implementation? What is meant by creating a *system of fits* with the strategic plan?

7-8. Explain how the host government may affect strategic implementation—in an alliance or another form of entry strategy.

7-9. How might the variable of national culture affect strategic implementation? Consider the earlier comments by French and British managers regarding Americans as examples to highlight some of these factors.

7-10. Discuss the importance of knowledge management in IJVs and what can be done to enhance the effectiveness of that process.

Application Exercise

7-11. Research some recent joint ventures with foreign companies situated in India or Russia. How are they doing? Bring your information to class for discussion. What is the climate for foreign investors in developing economies at the time of your reading this chapter?

CASE STUDY

IKEA Finally Opens in India, Minus the Meatballs

The furniture retailer is tailoring its offerings to local tastes

In 1996, McDonald's, the US hamburger chain, opened its first store in India, an event seemingly imbued with symbolic import. Five years earlier, the government had begun to relax its tight controls over the Indian market, from which large western brands had long been excluded.

The opening of McDonald's in New Delhi was a metaphor for a country opening to the outside world. In deference to the Hindu taboo on eating beef, McDonald's replaced its core

product—the hamburger—with alternatives like mutton patties and veggie burgers. Yet Indian consumers were expected to embrace a global brand they had been long denied. I attended that milestone launch, and the hours after I ate an inaugural veggie burger was one of the few times I've ever had food poisoning in India. As it turned out, India hasn't treated McDonald's too kindly either. The brand has struggled to appeal to Indian tastes. The company also ended up in a bitter legal battle with one of its erstwhile Indian partners, triggering the collapse of its north Indian business, and severe brand damage. I recalled McDonald's misadventures last week as Ikea finally opened its long-awaited first store in India, in the southern city of Hyderabad, a dozen years after it first applied for permission to enter a market that still tantalises foreign companies with its promise.



dmitry Kalinovsky/123RF GB Ltd

In India, IKEA sells brightly coloured textiles and thousands of low-cost products in a bid to appeal to the local market

As Ikea executives and their 950-strong Indian team cheered and enthusiastic customers thronged the store, I wondered whether India would end up as a success story for the company founded in Sweden, or if it will be a cause of perpetual heartburn. Ikea has done one thing right. It refused to compromise on its determination to have 100 per cent ownership of its Indian retail business. In 2009, as the government dawdled on a promise to relax its curbs on foreign ownership in retail, Ikea abandoned plans to enter the market rather than be railroaded into a joint venture. It only re-applied to set up shop in India in late 2012, after the government agreed to permit full foreign ownership—and relaxed a requirement that foreign retailers source 30 per cent of what they sell in India from local small and medium-sized enterprises.

Like McDonald's, Ikea has also tweaked its offerings to appeal to local sensibilities. Instead of Swedish meatballs, diners at the new store's 1,000-seat restaurant can partake of chicken or veggie balls, dal and rice, or biriyani. Textiles on sale have brighter colours and busier patterns than in Ikeas elsewhere. But the company's core proposition—value-for-money furniture and home accessories—seems likely to resonate with cost-conscious Indian consumers. Around 1,000 items in the Hyderabad store are priced below Rs200 ($2.86) each, which Ikea hopes will mean something for everyone. Their cheapest item is a set of four, brightly-coloured reusable plastic spoons for just Rs15.

And, for those intimidated by self-assembly of the famous flat-pack designs, Ikea in India has tied up with local carpenters and delivery services. Customers on the first day seemed pleased. "This is a game changer," said Narendranath Reddy, a 62-year-old renovating his home. "We have been on the lookout for good quality furniture at reasonable prices, which is hard to come by." Others spoke of how long they had waited for the store's arrival.

And, back in New Delhi, a friend of mine confessed she had once bought an entire girls' bedroom set from Ikea overseas and lugged it back for her daughter. But, as companies like Cairn, Vodafone and others can attest, creating a successful business is still no guarantee of a happy ending for foreign companies in India, where unpredictable policy changes have caused major headaches. Ikea has an additional potential vulnerability in India: its heavy dependence on imported goods. In the last year, the government has reversed two decades of steady tariff-cutting and raised import duties on a wide range of items. Ikea and its Indian fans must hope the company's promise to provide attractive, affordable home furnishings isn't hit by rising tariff walls.

Source: © The Financial Times Limited 2018.

Case Questions

7-12. The IKEA company has waited a long time to get into India. Trace the events and challenges that have led up to this point.

7-13. What are the core values and strategy that IKEA wanted to implement in India?

7-14. How has IKEA been able to localize its strategic implementation in India?

Endnotes

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CHAPTER

8 Organization Structure and Control Systems

OBJECTIVES

8-1. To understand the importance of appropriate organizational structures to effective strategy implementation

8-2. To understand the structural changes necessary as the firm develops and changes strategies over time

8-3. To become familiar with the types of organizational designs suitable for the level and scope of internationalization of the firm

8-4. To understand emergent structural forms in the global economy

8-5. To understand the role of technology in the evolution of the networked structure and to appreciate the role of teams in achieving business goals

8-6. To realize how organizational design affects the manager's job, for example, on the level and location of decision making

8-7. To emphasize the role of control and monitoring systems suitable for specific situations and locations in the firm's international operations

Opening Profile: Citi Sets Post-Brexit Frankfurt Trading Hub in Motion[1]

Citigroup's new broker-dealer in Frankfurt is now fully operational as the US bank finalises its Brexit contingency plans with political negotiations stuck in limbo less than two weeks before the UK's official leaving date (as of this writing).

Citi's German investment firm has begun trading on the main European exchanges and issuing in capital markets on behalf of institutional and corporate clients that can no longer be served through its British entities, the lender said. It has also begun clearing on the Eurex exchange.

Unable to wait any longer, in recent months banks have put the finishing touches to their structural changes as the UK heads into more Brexit uncertainty after parliament rejected the deal on offer.

Financial companies have been leasing offices, moving hundreds of staff and transferring billions of assets to ensure international clients can trade without disruption across the EU after the UK's exit, when it will lose its passport to sell services across the bloc.

"Since well before the Brexit vote in 2016, all our businesses have been focused on making sure we can continue to serve our clients in the UK and EEA, irrespective of the political outcome," said David Livingstone, who was named Citi's head of Europe, Middle East and Africa in January, taking over from veteran Jim Cowles.

Citi had a better starting position than many foreign banks that used London as a hub for access to the rest of Europe. Mike Corbat, chief executive, told the Financial Times last month the lender had spent in the low hundreds of millions on Brexit because it "went into Brexit operating in 20 out of 27 EU countries" and 60 per cent of its EU staff were already outside the UK.

In 2016 Citi consolidated its 22 European Economic Area branches under its unit in Ireland, where it offers investment banking services such as loan underwriting, syndication and trading; foreign exchange; credit and interest rate derivatives; transaction banking and cash management.

Despite the structural changes, the bank decided to keep its Emea headquarters in London, where it still has about 6,000 staff.

(*Continued*)

Citi is also searching for a bigger office in Paris after boosting the number of trading jobs it plans to relocate to the city after staff lobbied to move to the French capital rather than Germany, the FT has reported.

Executives initially said they planned to add up to 150 roles in Frankfurt and as many as 100 more spread across Paris, Milan, Madrid, Dublin and Amsterdam. Now more may be going to France.

Source: © The Financial Times Limited 2019.

Strategic plans are abstract sets of decisions that cannot affect a company's competitive position or bottom line until they are implemented. Having decided on the strategic direction for the company, international managers must then consider two of the key variables for implementing strategy: the organizational structure and the control and monitoring mechanisms. One of the challenges of the strategic planning process is dealing with the level of organizational complexity that tends to arise with firms that operate across national borders. The necessity of adapting organizational structures to facilitate changes in strategy and competitive moves, and changes in the environment—most notably the uncertainty surrounding Brexit—is illustrated in this opening profile describing Citigroup's reorganization of its overseas operations to accommodate new strategic initiatives in the face of EU uncertainty. As we proceed through this chapter, we need to keep in mind the effects of strategic change and the environment (e.g., the evolution of the digital economy and uncertainty surrounding Brexit) and how firms are structured and how that affects responsibilities. We will discuss various structures that have been effective and structural challenges caused by the digital economy.

8-1. To understand the importance of appropriate organizational structures to effective strategy implementation

ORGANIZATIONAL STRUCTURE

There is no permanent organization chart for the world.… It is of supreme importance to be ready at all times to take advantage of new opportunities.[2]

ROBERTO C. GOIZUETA, (FORMER) CHAIRMAN AND CEO, COCA-COLA COMPANY

Organizational structures must change to accommodate a firm's evolving internationalization in response to worldwide competition. Considerable research has shown that a firm's structure must be conducive to the implementation of its strategy.[3] In other words, the structure must fit the strategy, or it will not work. Managers are faced with how best to attain that fit in organizing the company's systems and tasks. The failure to adapt to changing market conditions both strategically and structurally is demonstrated by the short life span of even large companies. This is particularly apparent in times of radical change such as when new technologies appear and during the economic relapse that started in 2008 and resulted in many firms, such as Eastman Kodak Inc. and Borders Bookstores, going out of business or filing for Chapter 11 bankruptcy. Even General Motors, one of the largest global companies, was tipped over the edge into bankruptcy after decades of poor management, surviving only with radical downsizing and government aid.

The design of an organization, as with any other management function, should be contingency based, taking into account the variables of that particular system at that specific point in time. Major variables include the firm's strategy, size, and appropriate technology as well as the environment where the firm operates. Given the increased complexity of the variables involved in the international context, it is no easy task to design the most suitable organizational structure and subsystems. In fact, research shows that most international managers find it easier to determine what to do to compete globally (strategy) than to decide how to develop the organizational capability (structure) to do it.[4] Additional variables affecting structural choices—geographic dispersion as well as differences in time, language, cultural attitudes, technology, and business practices—introduce further layers of complication. We will show how organizational structures need to, and typically do, change to accommodate strategies of increasing internationalization.

8-2. To understand the structural changes necessary as the firm develops and changes strategies over time

EVOLUTION AND CHANGE IN MNC ORGANIZATIONAL STRUCTURES

Historically, a firm reorganizes as it internationalizes to accommodate new strategies. The structure typically continues to change over time with growth and with increasing levels of investment or diversity and as a result of the types of entry strategy chosen. Internationalization

is the process by which a firm gradually changes in response to international competition, domestic market saturation, and the desire for expansion, new markets, cost effectiveness, and diversification. As discussed in Chapter 6, a firm's managers weigh alternatives and decide on appropriate entry strategies. Perhaps the firm starts by exporting or by acting as a licensor or licensee and then, over time, continues to internationalize by engaging in joint ventures or by establishing service, production, or assembly facilities or alliances abroad, moving into a global strategy. At each stage, the firm's managers redesign the organizational structure to optimize the strategy's chances to work, making changes in the firm's tasks and relationships and designating authority, responsibility, lines of communication, geographic dispersal of units, and so forth. This model of **structural evolution** has become known as the **stages model**, resulting from Stopford's research on 187 U.S. multinational corporations (MNCs).[5] Of course, many firms do not follow the stages model because they may start their internationalization at a higher level of involvement—perhaps a full-blown global joint venture without ever having exported, for example, or a born global e-company.

Even a mature MNC must make structural changes from time to time to facilitate changes in strategy—perhaps a change in strategy from globalization to regionalization (see Chapter 6) or an effort to improve efficiency or effectiveness. The reorganization of Aluminum Company of America (Alcoa), for example, split the company into smaller, more autonomous units, thereby giving more focus to growing businesses, such as automotive products, where the market for aluminum is strong. It also enabled Alcoa to link businesses with similar functions that are geographically divided—that is, to improve previously insufficient communication between Alcoa's aluminum operations in Brazil and its Australian counterparts. Alcoa, as with most MNCs, has found the need to adapt its structure continuously to accommodate global expansion and new ventures. Alcoa had a presence in 30 countries, employing 59,000 people worldwide. Indeed, in September 2015, Alcoa announced that it would split in two so as to separate its more profitable parts—making units from its raw aluminum operations. The move was a strategic response to greatly reduced demand for commodities from China.[6]

In March 2017, Alcoa restructured again. This time, the company combined several of its businesses—primarily, aluminum smelting, cast products and rolled products—into a new Alcoa Aluminum business unit. As a result, the company's three business units are Alcoa Bauxite, Alcoa Alumina, and Alcoa Aluminum.[7]

> *Our strategic goals include reducing complexity… Streamlining our number of business units is aligned with those goals, and will increase our operational agility, lower costs, and promote more efficient internal coordination. We will continue to review our company structure and processes to ensure that Alcoa remains resilient through all market cycles.*[8]
>
> ROY HARVEY, CEO, ALCOA

Samsung Electronics also reorganized to become more efficient to deal with the economic downturn in 2009. The company integrated four business units—semiconductors, LCDs, mobile phones, and consumer electronics—into two divisions, regarded as parts and sets. This necessitated reassigning two-thirds of its executives and relocating 1,200 staff members.[9] As of March 2015, Samsung has a new generation of smartphones, the Galaxy 5 and 6. In early 2017, Samsung embarked on further changes to its bureaucratic, top-down, hierarchical structure by reducing the number of positions under the executive level. Samsung's subsidiaries are expected to adopt the structural changes of the parent. Moreover, leadership positions will no longer be accorded based on seniority, but rather on job performance. The structural changes are intended to simplify job classifications, create an entrepreneurial culture, enhance communication, and facilitate tasks.[10]

Alcoa's and Samsung's structural changes seem to capture the organizational structure imperative—the ongoing need to reduce complexity, enhance flexibility, and achieve superior efficiency—that many MNCs face in traditional industrial sectors as well as in the digital economy.

The typical ways in which firms organize their international activities are shown in the following list. (Larger companies often use several of these structures in different regions or parts of their organization.) After the presentation of some of these structural forms, the focus will turn to transitional organizational arrangements.

- Domestic structure plus export department
- Domestic structure plus foreign subsidiary
- International division
- Global functional structure
- Global product structure
- Matrix structure

As previously stated, many firms—especially smaller ones—start their international involvement by exporting. They may simply use the services of an export management company for this, or they may reorganize into a simple *domestic structure plus export department.*

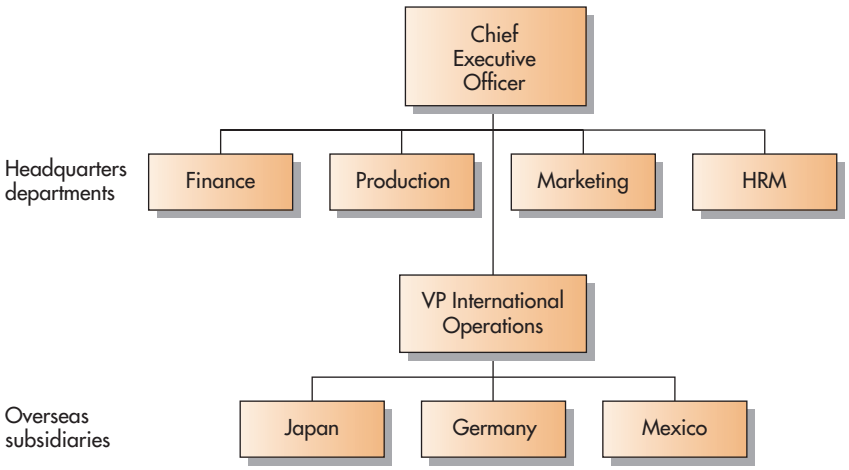
To facilitate access to and development of specific foreign markets, the firm can take a further step toward worldwide operations by reorganizing into a *domestic structure plus foreign subsidiary* in one or more countries (see Exhibit 8-1). To be effective, subsidiary managers should have a great deal of autonomy and be able to adapt and respond quickly to serve local markets. This structure works well for companies with one or a few subsidiaries located relatively close to headquarters.

With further market expansion, the firm may then decide to specialize by creating an *international division* organized along functional, product, or geographic lines. With this structure, the various foreign subsidiaries are organized under the international division, and the subsidiary managers report to its head, who is typically given the title of Vice President, International Division. This vice president, in turn, reports directly to the CEO of the corporation. The creation of an international division facilitates the beginning of a global strategy. It permits managers to allocate and coordinate resources for foreign activities under one roof and, thus, enhances the firm's ability to respond, both reactively and proactively, to market opportunities. Some conflicts may arise among the divisions of the firm because more resources and management attention tend to be channeled toward the international division than toward the domestic divisions and because of the different orientations of various division managers.

Integrated Global Structures

To respond to increased product diversification and maximize benefits from both domestic and foreign operations, a firm may choose to replace its international division with an integrated global structure. This structure can be organized along functional, product, geographic, or matrix lines.

EXHIBIT 8-1 Domestic Structure Plus Foreign Subsidiary



The **global functional structure** is designed on the basis of the company's functions—production, marketing, finance, and so forth. Foreign operations are integrated into the activities and responsibilities of each department to gain functional specialization and economies of scale. This form of organization is used primarily by small firms with highly centralized systems. It is particularly appropriate for product lines using similar technology and for businesses with a narrow spectrum of customers. This structure results in plants that are highly integrated across products and serve single or similar markets.

Much of the advantage resulting from economies of scale and functional specialization may be lost if the managers and the work systems become too narrowly defined to have the necessary flexibility to respond to local environments. An alternative structure can be based on product lines.

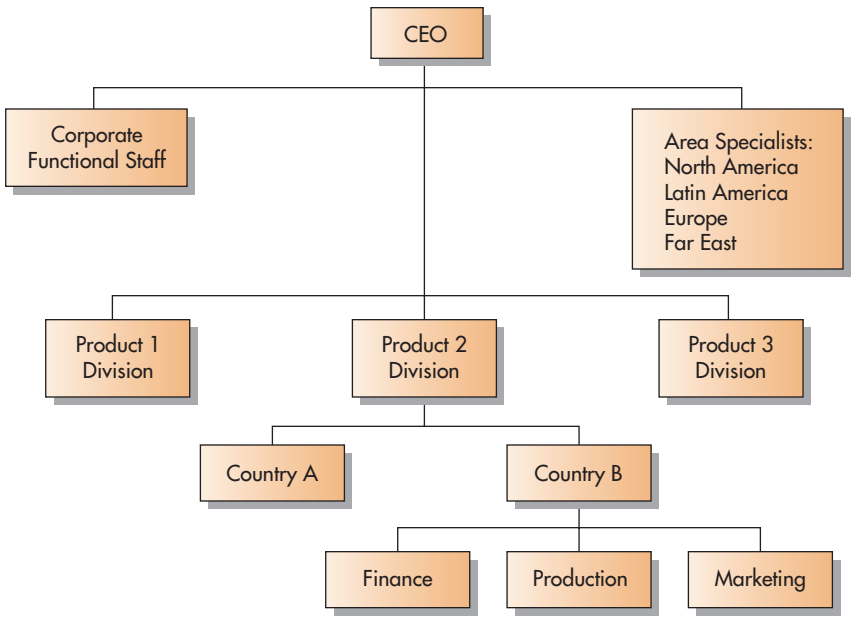
For firms with diversified product lines (or services) that have different technological bases and are aimed at dissimilar or dispersed markets, a **global product (divisional) structure** may be more strategically advantageous than a functional structure. In this structure, a single product (or product line) is represented by a separate division. Each division is headed by its own general manager, and each is responsible for its own production and sales functions. Usually, each division is a **strategic business unit** (**SBU**)—a self-contained business with its own functional departments and accounting systems. The advantages of this organizational form are market concentration, innovation, and responsiveness to new opportunities in a particular environment. It also facilitates diversification and rapid growth, sometimes at the expense of scale economies and functional specialization. H. J. Heinz Company CEO William R. Johnson came on board in April 1998 and decided that the company should restructure to implement a global strategy. He changed the focus of the company from a multidomestic international strategy using the global geographic area structure to a global strategy using the global product divisional structure. His goal was further growth overseas by building international operations; this structure also readily incorporated Heinz's Specialty Pet Food Division for marketing those products around the world.[11] In 2015, Heinz merged with Kraft Foods to form the Kraft Heinz Company. As of 2019, however, Kraft Heinz is structured according to geographic areas.[12]

Particularly appropriate in a dynamic and diverse environment, the global product structure is illustrated in Exhibit 8-2.

With the global product (divisional) grouping, however, ongoing difficulties in the coordination of widely dispersed operations may result. One answer to this problem, particularly for large MNCs, is to reorganize into a global geographic structure.

One well-known company, Volkswagen, has sought to make major structural changes following its highly publicized diesel emission scandal, as described in the accompanying "Management in Action" feature.

EXHIBIT 8-2 Global Product (Divisional) Structure



MANAGEMENT IN ACTION

Volkswagen Makes Sweeping Changes to Management and Structure[13]

Volkswagen enacted the most sweeping changes to its management board since the diesel emissions scandal of late 2015, appointing a new chief executive and establishing a corporate structure designed to speed up decision making across its sprawling portfolio of brands.

The world's largest carmaker confirmed late on Thursday that Matthias Müller, the former head of Porsche who took over the 12-brand VW Group in the wake of the diesel emissions scandal in late 2015, would step down immediately. He will be succeeded by Herbert Diess, a former BMW executive who became head of the core VW brand in the summer of 2015.

The company's supervisory board, which oversees management, voted in favour of the changes two days after a cryptic statement on Tuesday suggested the group was exploring significant changes that could include new leadership.

Chairman Hans Dieter Pötsch thanked Mr Müller, saying he was leaving the company in robust shape following the worst crisis in its eight-decade history. "Not only did he safely navigate Volkswagen through that time . . . he also fundamentally realigned the group's strategy [and] initiated cultural change," Mr Pötsch said.

Volkswagen's multi-brand empire will now be bundled into three groups labelled volume, premium and super-premium, while its trucks and buses unit is to be separated as part of a "planned preparation for capital market readiness".

Mr Diess will retain his role as head of the VW brand. Under the new structure, he will lead the volume segment, which will take on group-wide responsibilities for research and development. Rupert Stadler, the head of Audi and the new premium division, will also lead group-wide sales; Oliver Blume, head of Porsche and the super-premium division, will take on group production and is also appointed to the management board.

"The new structure streamlines group management, systematically leverages synergies in the individual operating units, and speeds up decision-making," the company said.

Mr Diess will also lead vehicle connectivity, while company IT will be led by Frank Witter, finance chief.

One person with knowledge of the new structure said it would promote the "divide and conquer" style of management seen at BMW, rather than the "control and command" structure that Mr Müller had already been trying to change.

The group has not clarified whether VW's commercial vehicles division will be bundled with the mass-volume unit or be split—with lighter vehicles joining volume cars and heavier vehicles moving in with trucks and buses.

The shake-up comes amid widespread shareholder pressure for German conglomerates to simplify their operations. VW's carmaking rival Daimler and conglomerate ThyssenKrupp are exploring similar moves, while Europe's biggest industrial group Siemens has already listed minority stakes in its health-care, renewable energy and rail units.

VW's powerful unions had been expected to vote in favour of Mr Diess's promotion, as the deal included the appointment of Gunnar Kilian, general secretary of the **works council**, to the management board. Mr Kilian's move is a rare appointment for a labour representative but a worthwhile compromise in order to install Mr Diess in the top job, according to two people close to VW management.

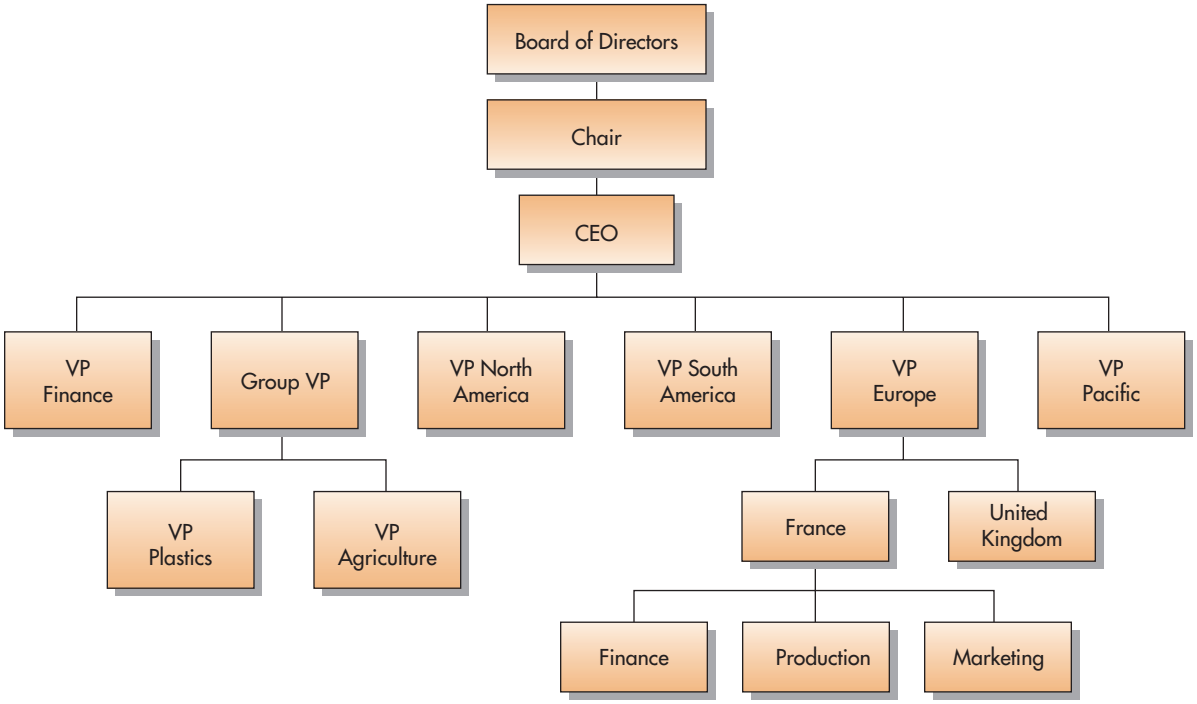
Two others besides Mr Müller stepped down: Karlheinz Blessing left his role as head of human resources, and Francisco Garcia Sanz departed as head of purchasing.

Separately, VW's and Toyota's truck divisions said on Thursday they had struck an alliance and would work together on electric vehicles and self-driving technology, in an unusual partnership between two of the world's largest motor groups.

Source: © The Financial Times Limited 2018.

In the **global geographic (area) structure**—the most common form of organizing foreign operations—divisions are created to cover geographic regions (see Exhibit 8-3). Each regional manager is responsible for the operations and performance of the countries within a given region. In this way, country and regional needs and relative market knowledge take precedence over product expertise. Local managers are familiar with the cultural environment, government regulations, and business transactions. In addition, their language skills and local contacts facilitate

EXHIBIT 8-3 Global Geographic Structure



daily transactions and responsiveness to the market and the customer. Although this is a good structure for consolidating regional expertise, problems of coordination across regions may arise.

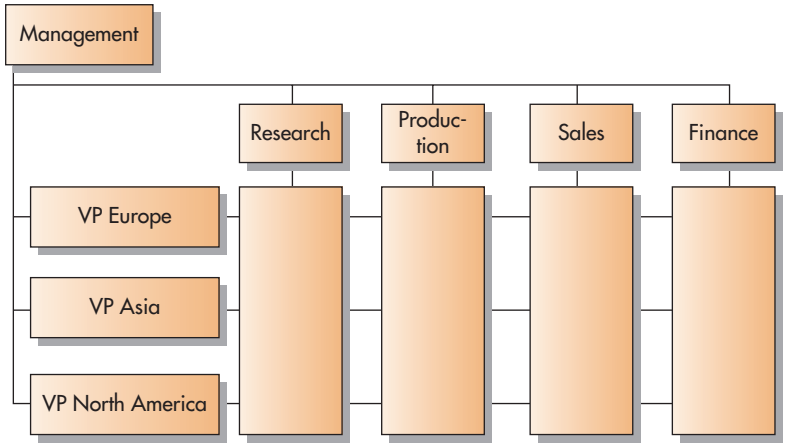
With the geographic structure, the focus is on marketing because products can be adapted to local requirements. Therefore, marketing-oriented companies, such as Nestlé and Unilever, which produce a range of products that can be marketed through similar (or common) channels of distribution to similar customers, will usually opt for this structure. Nestlé SA, for example, uses this decentralized structure, which is more typical of European companies, because it is Nestlé's policy to generate most of its sales outside of Switzerland. The company strives to be an insider in every country in which it operates.[14] Back in 2005, Nestlé reinforced its global business strategy of emphasizing its brands by making its head of marketing responsible for Nestlé's seven strategic business units (SBUs)—dairy, confectionery, beverages, ice cream, food, pet care, and food services. Those SBUs helped determine the company's regional business strategy, which then shaped the local market business strategies.[15] Still, Peter Brabeck-Letmathe, who was Nestlé's marketing manager, and later chairman, insisted that:

> *There is no such thing as a global consumer, especially in a sector as psychologically and culturally loaded as food. . . . This means having a local character.*[16]

Nestlé has a presence in almost every country in the world, including emerging markets, and it has various partnerships around the world. In 2018, Nestle sought to simplify its organizational structure in order to accelerate decision-making and responsiveness to trends with consumers around the world. Reflecting this strategic imperative, the Nestlé company website describes the organization of the food and beverage business, with some product exceptions, as being managed by geographies in three zones—Europe/Middle East/North Africa, the Americas, and Asia/Oceania/sub-Saharan Africa. However, products such as Nestlé Health Science, Nespresso, Nestlé Waters, and Nestlé Skin Health are managed on a global basis; which the company refers to as Globally Managed Businesses. Its infant nutrition business was shifted from a globally managed to a regionally managed business reported within the three zones.[17]

A **matrix structure** is a hybrid organization of overlapping responsibilities. The structure is developed to combine geographic support for both global integration and local responsiveness, and it can be used to take advantage of personnel skills and experience shared across both functional and divisional structures. In the matrix structure, the lines of responsibility are drawn both vertically and horizontally as illustrated in Exhibit 8-4. Although this method of management

EXHIBIT 8-4 **Matrix Geographic Structure**



and organization maximizes the focus of skills and experience in the company brought to bear on a particular product as well as a particular region, it often brings confusion, communication problems, and conflict over having more than one boss to whom to report as well as stress over prioritizing time among overlapping and conflicting responsibilities. Indeed, in their research of 36 Dutch organizations, including subsidiaries of global firms, Strikwerda and Stoelhorst concluded from the majority of interviewees that:

> *[E]xecutives associate the matrix organization with unclear responsibilities, a lack of accountability, and political battles over resources, resulting in risk-averse behavior and loss of market share.*[18]

8-3. To become familiar with the types of organizational designs suitable for the level and scope of internationalization of the firm

ORGANIZING FOR GLOBALIZATION

No matter what the stage of internationalization, a firm's structural choices always involve two opposing forces: the need for **differentiation** (focusing on and specializing in specific markets) and the need for **integration** (coordinating those same markets). The way the firm is organized along the differentiation–integration continuum determines how well strategies—along a localization–globalization continuum—are implemented. This is why the structural imperatives of various strategies such as globalization must be understood to organize appropriate worldwide systems and connections.

As previously presented, global trends and competitive forces have put increasing pressure on multinational corporations to adopt a strategy of **globalization**, a specific strategy that treats the world as one market by using a standardized approach to products and markets. The following are two examples of companies reorganizing to achieve globalization. IBM, for example, reorganized to achieve globalization by moving away from its traditional geographic structure to a global structure based on its 14 worldwide industry groups, such as banking, retail, and insurance, shifting power from country managers to centralized industry expert teams. Further restructuring to reduce overlapping functional responsibilities within Asia led IBM to develop its globally integrated enterprise model. In this way, previously country-based functions are now globalized. As examples, now "IBM's growth market operations are served by HR specialists in Manila, accounts receivable are processed in Shanghai, accounting is done in Kuala Lumpur, procurement in Shenzhen."[19] IBM's structure continues to evolve. Now, it uses the organizational structure as a means to simplify its products development and delivery to customers in the IT sector. For example, IBM has adopted a structure based on product division—cognitive solutions, global business services, technology and cloud platforms, and systems and global financing.[20]

And, in 2013, Microsoft, in a reversal of its divisional structure, disbanded its eight product divisions and created four new ones arranged around broader functional themes to streamline its technologies and compete better with Apple and Google in the global mobile and Internet markets. In 2018, Microsoft modified its organization to emphasize divisions—engineering groups and business functions. Specifically, Microsoft's structure included three engineering groups: Cloud and AI Group, Experiences and Devices, and Artificial Intelligence and Research.

Today, I'm announcing the formation of two new engineering teams to accelerate our innovation and better serve the needs of our customers and partners long into the future.

SATYA NADELLA, CEO, MICROSOFT, MARCH 29, 2019

Organizing to facilitate a globalization strategy typically involves rationalization and the development of strategic alliances. To achieve rationalization, managers choose the manufacturing location for each product based on where the best combination of overall cost (for example, labor, transportation, utilities, taxes), quality of products or services, technology, proximity to markets, and so on, can be attained. It often involves producing different products or component parts in different countries. Typically, it also means that the product design and marketing programs are essentially the same for all end markets around the world to achieve optimal economies of scale. The downside of this strategy is a lack of differentiation and specialization for local markets.

Organizing for global product standardization necessitates close coordination among the various countries involved. It also requires centralized global product responsibility (one manager at headquarters responsible for a specific product around the world), an especially difficult task for multiproduct companies. Henzler and Rall suggest that structural solutions to this problem can be found if companies rethink the roles of their headquarters and their national subsidiaries. Managers should center the overall control of the business at headquarters while treating national subsidiaries as partners in managing the business—perhaps as holding companies responsible for the administration and coordination of cross-divisional activities.[21]

When I am there at our global product development centers, I am meeting with the design team and reviewing design work being done there and meeting with engineers responsible for work being done specific to that region . . .

MARY BARRA, CHAIRMAN AND CEO OF GENERAL MOTORS COMPANY

A problem many companies face in the future is that their structurally sophisticated global networks, built to secure cost advantages, leave them exposed to the risk of environmental volatility from all corners of the world. Such companies must restructure their global operations to reduce the environmental risk that results from multicountry sourcing and supply networks.[22] In other words, the more links in the chain, the more chances for things to go wrong.

Dual Headquarters

Some MNCs have chosen dual headquarters within the home country, such as Amazon, which announced in 2019 that it would have its new headquarters (i.e., "HQ2") in New York City and Northern Virginia (as of this writing, NYC had subsequently rejected the deal). Similarly, U.S. based Sprint and T-Mobile adopted a dual headquarters structure following their merger.[23] Some multinational companies have dual headquarters—that is, corporate headquarters in two different countries. For instance, a number of multinationals have recently opted to split their legal, fiscal, and other personalities between various countries.

There are several strategic incentives for having a dual headquarters structure. The two most prominent motivations for dual headquarters are tax incentives and access to a broader pool of talent. A third motivation is related to the first motivation—strategic locations. The latter was the principal driver in Amazon's decision to create another headquarters.[24] Some companies opt for dual headquarters because their businesses and work forces were transformed following cross-border mergers or acquisitions. Still other companies adopted the dual headquarters approach in order to deal with a broader customer base in more distant countries. For example, Lenovo Group was a Chinese computer maker until its acquisition of IBM's personal-computer business. Although the company identifies nine operational hubs, a company spokesperson asserted, "If you have to nail it down," Lenovo's main corporate functions are split between Beijing, Singapore, and Raleigh, North Carolina (USA).[25] After completing the acquisition, the Lenovo executive team planned to move the corporate headquarters from Beijing to New York. However, Lenovo executives soon realized that having one home base slowed the company down, and thus they instituted the multi-headquarters approach to enhance responsiveness.[26] As of 2019, Lenovo lists Hong Kong at the corporate headquarters with key operations centers in Beijing, China and North Carolina.[27]

Strategic location offers some advantages with respect to economic groups—member country advantages; however, the advantages need to be carefully balanced with organizational complexity as is the case with Unilever in the following "Under the Lens" feature.



UNDER THE LENS

Unilever Backs Down on Plan to Move Headquarters from UK[28]

Group Faced Share Pressure Against Decision to Switch to Single Netherlands Base

Unilever has scrapped plans to abandon Britain after 133 years for the Netherlands after a shareholder rebellion handed chief executive Paul Polman a major defeat in his effort to transform the company's structure.

Mr Polman, who is nearing the end of his near decade-long tenure, angered some of the consumer goods group's most powerful UK shareholders by attempting to ditch its dual Anglo-Dutch stock market listing and consolidate its headquarters in Rotterdam.

Unilever executives had expressed confidence they would be able to overcome the objections, which focused on the company falling out of the FTSE 100 once it dropped its London listing. But on Friday, the board said extensive consultations showed it was "appropriate to withdraw".

Chairman Marijn Dekkers said the board continued to believe overhauling the company's dual-listing structure, with headquarters in London and Rotterdam, was in the "best long-term interests of shareholders" and it would now "consider its next steps".

Both Mr Polman and Mr Dekkers had promoted the move, which was announced in March, as part of Unilever's strategy to respond to what Mr Polman privately called the "near-death experience" of an aborted takeover attempt last year by Kraft Heinz.

> *It is rather embarrassing for management who had lobbied hard for simplification.*
>
> JAMES TARGETT, BERENBERG

It could also accelerate Mr Polman's departure, said Société Générale analyst Sriram Gurijala, because the simplification was one of the last big items on his agenda.

"This is clearly a win for UK plc but frustrating for Unilever," Berenberg analyst James Targett wrote in a note. "It is rather embarrassing for management who had lobbied hard for simplification."

The dual structure is a legacy of Unilever's formation from the merger of a Dutch margarine company and British soap maker Lever Brothers 89 years ago. The company became convinced the two headquarters were unwieldy, and billed the changes as a much-needed simplification that would make disposals and acquisitions easier.

But the plan became fraught with symbolism as Brexit approaches, given that Unilever is a big British employer and makes products well known in the UK, such as Marmite.

Three-quarters of Unilever's UK share capital were required to vote in favour for the proposal to pass. The company also needed a majority of UK shareholders present or represented to vote in favour of the move at a meeting scheduled for October 25.

Among the leading UK institutional shareholders that expressed objections to the plan were Columbia Threadneedle, Legal & General Investment Management, Schroders, Aviva Investors and M&G Investments.

If Unilever dropped out of the FTSE 100, funds that track the UK index, as well as many active funds, would have been forced to sell their Unilever stock. UK shareholders had complained they would have to liquidate without the premium that would normally be generated in a takeover, and with potential tax costs.

Rupert Krefting, head of corporate governance and stewardship at M&G, which says it owns 1.11 per cent of Unilever shares, welcomed the decision. "We're very pleased that Unilever has listened to its shareholders . . . This demonstrates the value of asset managers actively engaging with their investee companies," he said.

The decision was hailed by Greg Clark, the UK's business secretary, as a vote of confidence in Britain. "A welcome decision by Unilever board having listened to shareholders," he said. "Our industrial strategy commits us to always being an open and competitive economy and a great place to locate global headquarters."

The Dutch government, however, was forced into an embarrassing reversal, with Mark Rutte, prime minister, announcing he would "reconsider" a controversial decision to abolish a dividend tax, which was seen as an effort to convince Unilever to choose Rotterdam.

If shareholders had approved the move, Unilever would have become one holding company incorporated in the Netherlands, with shares listed in Amsterdam, London and New York.

Many UK shareholders were convinced that Unilever was seeking cover in the more protective jurisdiction of the Netherlands to prevent another hostile takeover attempt or the arrival of an activist investor like those that have taken aim at rivals Nestlé and Procter & Gamble.

But Unilever denied the ulterior motives, and promised to do away with two mechanisms it would have had recourse to under its Dutch rules to thwart an unwanted takeover. Those are preference shares with outsized voting rights and its Dutch Trust Office, or the Stichting foundation, which can issue new shares if the board deems it to be in the company's interest.

Unilever said it would proceed with the plan to cancel the Dutch preference shares although it declined to comment on whether the trust office would remain in place.

Source: © The Financial Times Limited 2019.

Organizing to Be Global, Act Local

In their rush to get on the globalization bandwagon, too many firms have sacrificed the ability to respond to local market structures and consumer preferences. Managers are now realizing that—depending on the type of products, markets, and so forth—a compromise must be made along the globalization–regionalization continuum, and they are experimenting with various structural configurations to be global and act local. One such company is Yum China, which is a Shanghai-headquartered, U.S.-listed company as described in the accompanying "Under the Lens" feature.



UNDER THE LENS

Yum China Battles McDonald's in China[29]

Yum China was split off from Yum Brands, which controls the Pizza Hut, Taco Bell and KFC fast-food chains elsewhere in the world, in 2016. Yum China has more than 8,100 outlets in more than 1,200 cities across the country. Its biggest local competitor is McDonald's.

The chains represent a study in the merits of global versus local, in every aspect of the business from management to menus. They are vying to find the formula for success across a country where neither existed until about 30 years ago.[30]

The Chinese golden arches have just celebrated their first anniversary under the majority ownership of local investment firm Citic Capital, Citic group and Carlyle. The three paid just over $2bn for their combined 80 per cent stake in the mainland and Hong Kong operations of McDonald's. "When they first opened, being western mattered. Going there was about the experience," said Jeff Walters, a Shanghai-based consultant with BCG. "They were seen as light and modern."[31]

There are no purely Chinese equivalents on the scale that the two chains have built on the mainland. "Operationally, to achieve that scale and consistency is difficult," Mr Walters added. The two rivals are still experimenting to get the mix of foreign and local right. Many customers, for example, come to McDonald's for the three flavours of congee for breakfast, the meal when consumers are least likely to experiment. They also drink mango bubble tea after finishing their burgers. Indeed, in new restaurants in fourth and fifth-tier cities, customers sometimes try to use straws as chopsticks when consuming french fries, said Phyllis Cheung, chief executive of McDonald's China.

Since Yum China was spun off from its global parent, it has already done much of the heavy lifting. KFC has expanded aggressively across the mainland and today has 6,000 stores. It has reduced costs at a time when it is difficult to raise prices. Moreover, the macroeconomic cycle is not the most propitious: in the first half of the year, consumer spending softened.[32]

Source: © The Financial Times Limited 2018.

A further example of localizing operational structure is Flipkart, an e-commerce company registered in Singapore and operating in India. Recently acquired by Walmart, it is often called the Amazon of India but uses a locally designed and operated complex pyramid structure to go local for its deliveries in India in a time-tested and accepted organization.[33] While Amazon ponders whisking parcels to customers by drones, India's leading online retailer launched a low-tech approach to deliveries—by joining forces with 5,000 dabbawallas, who ferry roughly 130,000 lunch boxes up and down India's financial capital each day;



Dmitry Kalinovsky/123RF GB Ltd

now they begin a new stage in their 120-year history by dropping into Flipkart's distribution centers to pick up everything from books to toys, for just-in-time delivery where they also collect lunches. "It is so hard to find reliable people who understand the local geographies," says Neeraj Aggarwal, an executive at Flipkart, who runs the dabbawalla partnership. "But for people in Mumbai, these guys are trusted, they are almost like family."[34]

Levi Strauss is another example of a company attempting to maximize the advantages of different structural configurations. The company has 655 company-owned stores in 31 countries, and sells its products in approximately 50,000 retail locations in 110 countries, approximately 15,000 employees, of which 5,700 are located in the Americas, 3,700 in Europe and 3,100 in Asia.[35] Approximately half of the company's revenues come from outside the United States. The company is organized into three geographic divisions:

- Levi Strauss Americas (LSA), based in the San Francisco headquarters
- Levi Strauss Europe, Middle East, and North Africa (LSEMA), based in Brussels
- Asia Pacific Division (APD), based in Singapore

In the LSEMA division, there is a network of nine sales offices, six distribution centers, and three production facilities. The headquarters are located in Brussels, Belgium. The company's European franchise partners bring the products to consumers throughout the region.[36]

Levi Strauss & Co.'s Asia Pacific Division comprises subsidiary businesses, licensees, and distributors throughout the Asia Pacific region, the Middle East, and Africa.

Thus, through these various structural global–local formats, the company has ensured its ability to respond to local needs by allowing its managers to act independently; Levi's success turns on its ability to fashion a global strategy that doesn't snuff out local initiative. It's a delicate balancing act, one that often means giving foreign managers the freedom needed to adjust their tactics to meet the changing tastes of their home markets. The company's website in 2015 states that "our goal is to expand the Levi Strauss & Co. brands in India, China, Russia, Brazil and other emerging markets."[37] Independent contractors manufacture Levi's products in 30 countries and are required to adhere to the company's code of conduct.[38]

Although strategy may be the primary means to a company's competitive advantage, the burden of realizing that advantage rests on the organizational structure and design; that structure, in turn, establishes the responsibilities and guides the decisions, actions, and communications of its employees. Because of the difficulties companies experience with trying to be glocal companies (global and local), researchers are suggesting new, more flexible organizational designs involving interorganizational networks and transnational design.

8-4. To understand emergent structural forms in the global economy

EMERGENT STRUCTURAL FORMS

Companies are increasingly abandoning rigid structures in an attempt to be more flexible and responsive to the dynamic global environment. Some of the ways they are adapting are by transitioning to formats known as interorganizational networks, global e-corporation network structures, and transnational corporation network structures, described below. In addition, many firms are finding that specific team configurations can provide the flexibility and responsiveness they need to be competitive.

Teams as a Global–Local Structure

Similar to a matrix structure, but more fluid, flexible, independent, and often short-term, are the now common global teams that crisscross functional and geographic lines on any of the formalized structures described in this chapter. Discussed further in later chapters, global teams allow for flat, self-leading structural forms within otherwise hierarchical structures and provide for integrating local knowledge, contacts, and creativity with the firm's overall strategy. Often the teams are responsible for specific projects or troubleshooting, but they also may be in place long-term for ongoing operations in multiple countries; as such, teams then create a depository of shared knowledge and experience of benefit to them and the firm. Most of their communication is virtual because of the time and costs involved in travel. Team leadership may move around to different countries, depending on the project or task involved.

An increasing number of companies, such as Cisco Systems and IBM, create customized structures according to the client needs. By selectively moving their skilled employees into cross-company teams, they can move rapidly and flexibly to take advantage of their portfolios of opportunities. To do this,

> *They assemble and disassemble teams of hundreds of people from across the company who move from opportunity to opportunity. Their reconfigurable organizations consist of a stable part and a variable part. The stable structure is usually the functional and/or geographical home for nurturing talent.*[39]
>
> J. R. GALBRAITH

Other new structural formats are evolving as emerging market companies make their rapid entrée onto the global scene, as discussed in the following "Comparative Management in Focus" section.



Comparative Management in Focus

Changing Organizational Structures of Emerging Market Companies

Rapidly changing competition and global business activities demand companies to run their worldwide operations efficiently and effectively, based on the right business models and organizational structures. Stable organizational structures and control systems are necessary to seek timely internationalization. The major variables involved in choosing the right organizational structure depend on a company's global involvement and degree of localization. Fast-growing companies from emerging markets (EMs), BRIC countries (Brazil, Russia, India, and China), and rapidly developing economies (RDEs) continue to internationalize their operations. Examples are CNOOC (China), Dr. Reddy's Laboratories (India), Embraer (Brazil), Gazprom (Russia), Haier Company (China), Infosys Technologies (India), Koc Holdings (Turkey), Lenovo Group (China), Tata Motors (India), and Wipro (India).[40] These companies are the first wave of highly successful firms benefiting from the globalization phenomenon.[41]

Interestingly, the expansion models these emerging or developing market companies seek from Asia, Latin America, and Eastern Europe are unique and may not fit with today's mainstream multinational corporation (MNC) model because of the following three reasons. First, many emerging market companies are avoiding the traditional roadmap to internationalization and are instead capitalizing on the born-global phenomenon, which means running their operations and opening subsidiaries worldwide from the beginning. Second, they are finding niche businesses where competition is limited. Third, they are thriving in old-economy industries that have been abandoned by established MNCs from developed countries.

A new breed of companies in those geographic areas have excelled in global business because of their unique organizational structures and design. Like Korean **chaebols** (industrial conglomerates), most emerging market companies were started as family businesses and entrepreneurial entities in which ownership and control of the firms resided with the families. Therefore, the control mechanism is somewhat bureaucratic and headquarters-centered. Currently, a multitude of changes are in the pipeline that will force emerging market companies to redefine their family-based governance structures and rigid control systems.

Major structural changes include simplifying hierarchies, reducing family ownerships, providing more powers to subsidiaries, and seeking organizational structures based on either the traditional MNC

(*Continued*)

model or company-specific hybrid structures. Interestingly, many emerging market companies have been following the model of "be global, act local" in becoming responsible citizens and adapting their products and services. Embraer, Haier Group, Lenovo, Mittal Steel, Orsacom, and others fit in this category. In addition, overseas Chinese business networks (OCBNs) are also changing to become part of the globalization phenomenon. Increasingly, emerging market companies from Asia, Latin America, Africa, and Eastern Europe will seek internationalization in their own unique ways, leading to hybrid structures and fast-growth entities. Of course, these newly emerging MNCs will become globally integrated, using multidomestic synergies and international/global/transnational strategies. Their future goals and scope of operations will determine organizational structures and global initiatives.

Source: Syed Tariq Anwar, Professor, West Texas A&M University, used with permission.

Brazil is typical of emerging markets for which both local and global firms must plan their strategy and organizational structures while considering the vast differences in macro- and micro-regions and infrastructures within the country. Sao Jose Dos Campos is home to Embraer, the world's third largest commercial aircraft manufacturing company, and Thales Alinear Space, the European telecommunications and space company; the city is one of the ten competitive micro-regions for doing business in Brazil, five of which are in the greater Sao Paolo metropolitan area. However, the farther one travels outside that region, the less one sees the infrastructure and pockets of competitive regions to attract businesses. Logistics and infrastructure are better in the south, but road quality is very substandard outside of the south and southeast. Firms therefore must realize that, although there are huge untapped markets in Brazil, they must recognize the nature of the emerging market needs for logistical and control systems.[42]

Business Groups

The **business group** is an organizational form that is common in developed economies (e.g., Italy and Sweden) and emerging economies (e.g., Brazil, Chile, China, India, Indonesia, South Korea, Mexico, and Thailand), but is especially prevalent in many emerging markets.[43] They tend to be comprised of legally separate firms and operate in many—often unrelated—industrial sectors. Moreover, these separate firms tend to be held together by both formal relationships (e.g., cross-holding of equity) and informal ones (e.g., family). For example, Tata Group, which has over 700,000 employees, consists of 28 publicly listed Tata enterprises with a combined market capitalization of roughly U.S.$145 billion (2018). Each Tata company operates independently with guidance and oversight provided by its own board of directors. Tata continues to operate in a broad range of industrial sectors including IT consulting, auto and truck manufacturing, steel, chemicals, beverages, financial capital, power, advances systems, hotels, and communications.[44] In countries with weak institutional environments, business groups help to overcome the institutional voids by creating their own internal markets for capital, labor, and products.[45]

In South Korea, there are very large family-run conglomerates, known as *chaebol*, which have a strong influence on South Korea's economy and very strong political influence. The word *chaebol* comes from the Korean words *chae*, which means wealth, and *bol*, which means clan or clique. In the typical *chaebol*, founding family members are inserted in ownership or key management positions, allowing the family to maintain control over all of the businesses. Chaebol have relied on strong government ties in order to obtain government subsidies, loans, and tax incentives so that they can be global competitors.[46]

Organizational Structure in the Digital Economy

As multinational companies simultaneously manage the evolving geopolitical environment and pressures to be local, the upsurge in digital technologies has facilitated the global integration of processes and strategic changes in multinational companies. As a result, organizational leaders have been required to rethink using organizational models that have been effective over the past 50 years and consider new ways in which to structure their organizations in order to achieve worldwide competitive advantage.

The Boston Consulting Group has observed three salient organizational transformations: the emergence of platform-based teaming, synchronization of centralization and decentralization, and shifting role of the headquarters.[47]

Platform-based Teaming

Over the years, multinational companies have tended to establish vertically based teams within business units or geographic areas. Horizontally based teams—across business units, functions, or geographic areas—tended to be time-consuming and increase complexity. A migration toward strategies that underscore customer-oriented solutions and outcomes coupled with digital platforms that have drastically reduced internal communication and collaborative costs has created a strategic imperative for organizations to be more nimble, flexible, and customer-oriented. In these situations, the structuring of organizational teams will need to transcend business units, functions, and geographic boundaries. As such, global collaborative platforms will pave the way for team members to communicate effectively and exploit sophisticated digital devices. For example, Rolls Royce has cross-functional expert teams that use "real-time communication and remote robotics" to interact with engineers and maintenance crews to service airplanes around the globe.[48]

Multinational companies need to move from "vertical" teams in a business unit or region to "horizontal" teams that cross businesses, functions, and locations.

Centralization and Decentralization

The second trend entails simultaneously managing centralization and decentralization of processes, functions, and decision-making authority. In an attempt to balance organizational complexity that arises with the pressures to be close to customers and without compromising control, companies such as Hindustan Unilever are allocating more decision making to its teams in local markets within India. As such, its local managers with depth of local knowledge are given the opportunity to share their information and experiences with corporate strategists with respect to product launches and positioning and customer engagement. Digital technology has enabled companies to centralize some key functions and processes.

Changing Role of the Headquarters

In many traditional MNCs, headquarters have played a leading role in organizational decision making. However, MNCs have been evolving—as noted in the examples throughout this chapter. Some MNCs are seeking to balance local and global imperatives with more autonomous country-level and regional customer-centric operations. As such, the headquarters of many MNCs is becoming smaller or perhaps shared with regional headquarters. Moreover, companies are centralizing certain functions in centers of excellence instead of headquarters to control and achieve scale efficiencies, to access local talent, or both. A Scandinavian executive asserted that digital technologies need to serve as a "spinal cord" that connects the regional operations, center of excellence, and headquarters in order to facilitate internal communication processes and ensure control, which is consistent with the notion of a network structure that embodies a transnational strategy.[49]

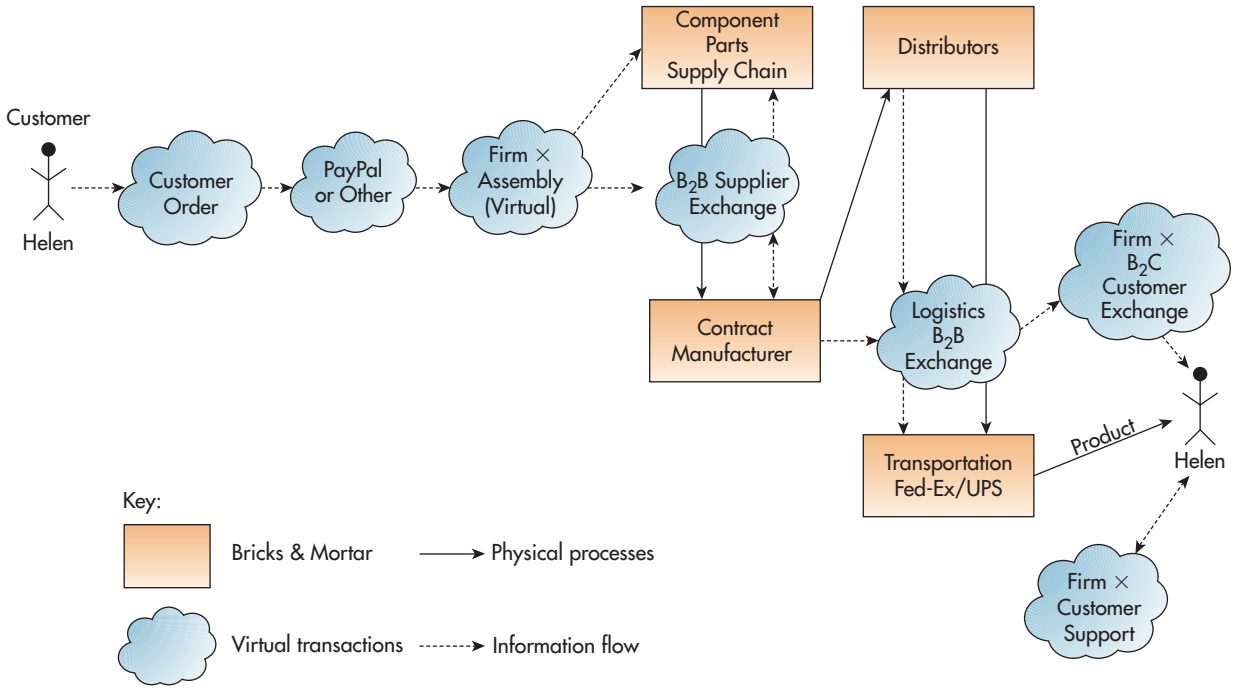
Digital Organizational Readiness

As company leaders contemplate strategic and structural changes in the digital economy, they need to understand the gaps between the current and desired levels of readiness. A Deloitte Consulting study recommends examining the gaps along five dimensions.[50]

1. The proper vision, leadership, and communications for a digital strategy
2. Desired customer engagement
3. Desired products and services and ability to develop and sell them (i.e., the right strategy)
4. Desired organization, talent, and culture
5. Desired processes, control mechanisms, and technologies



EXHIBIT 8-5 A Global E-Corporation Network Structure



The Global E-Corporation Network Structure

The organizational structure for global e-businesses, in particular for physical products, typically involves a network of virtual e-exchanges and bricks-and-mortar services, whether those services are in-house or outsourced. This structure of functions and alliances makes up a combination of electronic and physical stages of the supply chain network, as illustrated in Exhibit 8-5.

As such, the network comprises some global and some local functions. The centralized e-exchanges for logistics, supplies, and customers could be housed anywhere; suppliers, manufacturers, and distributors may be in various countries, separately or together, wherever efficiencies of scale and cost may be realized. The final distribution system and the customer interaction must be tailored to the customer-location physical infrastructure and payment infrastructure as well as to local regulations and languages.[51]

The result is a global e-network of suppliers, subcontractors, manufacturers, distributors, buyers, and sellers, communicating in real time through cyberspace. This spreads efficiency throughout the chain, providing cost-effectiveness for all parties.[52] Dell Computer is an example of a company that uses the Internet to streamline its global supply systems. It has a number of factories around the world that supply custom-built PCs to customers in that region. Customers' orders are received through call centers or Dell's own website. The order for components then goes to its suppliers, which have to be within a 15-minute drive of its factory. The component parts are delivered to the factory, and the completed customers' orders are collected within a few hours. Dell maintains Internet connections with its suppliers and connects them with its customer database so that they have direct and real-time information about orders. Customers also can use Dell's Internet system to track their orders as they go through the chain.[53]

Dell's organizational structure to implement its business model has evolved to what is known as a virtual company, or value web. Dell's strategy is to conduct critical activities in-house and outsource nonstrategic activities.

The Transnational Corporation (TNC) Network Structure

To address the globalization–localization dilemma, firms that have evolved through the multinational form and the global company seek the advantages of **horizontal organization** in the pursuit of transnational capability—that is, the ability to manage across national boundaries, retaining local flexibility while achieving global integration.[54] This capability involves linking foreign operations to each other and to headquarters in a flexible way, thereby leveraging local

and central capabilities. ABB (a global leader in power and information technologies, based in Zurich, Switzerland) is an example of such a decentralized horizontal organization. ABB operates in 100 countries with about 147,000 employees with four divisional presidents and three regional presidents. ABB prides itself on being a truly global company, with 11 board members representing ten countries—two board members have multiple citizenships.[55] Thus, this structure is less a matter of boxes on an organizational chart and more a matter of a network of the company's units and their system of horizontal communication. This involves lateral communication across networks of units and alliances rather than in a hierarchy. The system requires the dispersal of responsibility and decision making to local subsidiaries and alliances. The effectiveness of that localized decision making depends a great deal on the ability and willingness to share current and new learning and technology across the network of units. The matrix structure typical of the transnational company creates a complex coordination and control system as it attempts to combine:

- The capabilities and resources of a multinational corporation.
- The economies of scale of a global corporation.
- The local responsiveness of a domestic company.
- The ability to transfer technology efficiently, typical of the international structure.[56]

Whatever the names given to the organizational forms emerging to deal with global competition and logistics, the MNC organizational structure as we know it, with its hierarchical pyramid, subsidiaries, and world headquarters, is gradually evolving into a more fluid form to adapt to strategic and competitive imperatives. As is now well known, these more flexible forms are facilitated by the ever-developing technologies that enable various forms of electronic instant communication to connect elaborate networks of people and information around the world, regardless of their locations. In this new global web, the location of a firm's headquarters is unimportant. Various alliances tie together units and subunits in the web. Corning Incorporated, for instance, changed from its national pyramid-like organization to a global web, enabling it to make optical cable through its European partner, Siemens AG, and medical equipment with Ciba-Geigy.

In yet another structural variation, Intel, in adapting to changes in the semiconductor industry, embarked on a wholesale reorganization of its businesses. Intel's executives decided that they wanted the company to focus more on what was going on outside the business and developed a structural focus they call Platformisation—that is, customizing a range of chips in a combination suitable for a particular target market, as a response to the increasing need for speedy adaptation to the market.[57] As the world's biggest semiconductor maker, with a global workforce of over 107,000 employees worldwide, the company's general description of its approach to organizing is as follows:

> *A corporation is a living organism; it has to continue to shed its skin. Methods have to change. Focus has to change. Values have to change. The sum total of those changes is transformation.*[58]
>
> ANDY GROVE, FORMER CHAIRMAN AND CEO, INTEL

The network structure makes clear that the company's operating units link vastly different environmental and operational contexts based on varied economic, social, and cultural milieus. This complex linkage highlights the intricate task of a giant MNC to rationalize and coordinate its activities globally to achieve an advantageous cost position while tailoring itself to local market conditions (to achieve benefits from differentiation).[59]

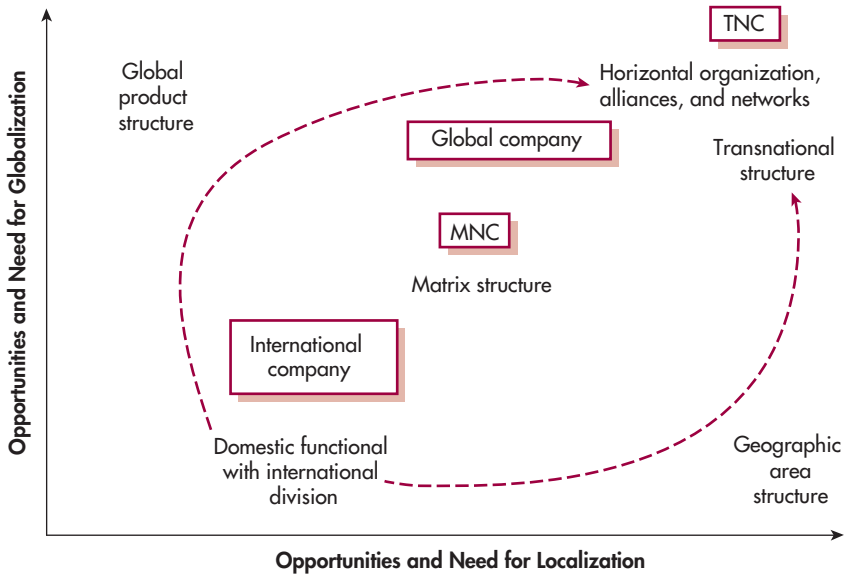
CHOICE OF ORGANIZATIONAL FORM

8-5. To understand the role of technology in the evolution of the networked structure and to appreciate the role of teams in achieving business goals

Two major variables in choosing the structure and design of an organization are the opportunities and need for (1) globalization and (2) localization. Exhibit 8-6 depicts alternative structural forms appropriate to each of these variables and the strategic choices regarding the level and type of international involvement the firm desires.

This figure thereby updates the evolutionary stages model to reflect alternative organizational responses to more recent environments and to the anticipated competitive environments ahead. The updated model shows that, as the firm progresses from a domestic to an international company—and perhaps later to a multinational and then a global company—its managers adapt

EXHIBIT 8-6 Organizational Alternatives and Development for Global Companies



Sources: Based on models by R. E. White and T. A. Poynter, "Organizing for Worldwide Advantage," *Business Quarterly* 54 (Summer 1989); John M. Stopford and Louis T. Wells Jr., *Managing the Multinational Enterprise* (New York: Basic Books, 1972); C. A. Bartlett, "Organizing and Controlling MNCs," *Harvard Business School Case Study*, No. 9 (March 1987), pp. 365, 375.

the organizational structure to accommodate their relative strategic focus on globalization versus localization, choosing a global product structure, a geographic area structure, or perhaps a matrix form. The model proposes that, as the company becomes larger, more complex, and more sophisticated in its approach to world markets (no matter which structural route it has taken), it may evolve into a **transnational corporation (TNC)**. The TNC strategy is to maximize opportunities for both efficiency and local responsiveness by adopting a transnational structure that uses alliances, networks, and horizontal design formats. The relationships between choice of global strategy and the appropriate structural variations necessary to implement each strategic choice are further illustrated in Exhibit 8-7.

Organizational Change and Design Variables

When a company makes drastic changes in its goals, strategy, or scope of operations, it will usually also need a change in organizational structure. However, other, less obvious indications of organizational inefficiency also signal a need for structural changes; conflicts among divisions and subsidiaries over territories or customers, conflicts between overseas units and headquarters staff, complaints regarding overseas customer service, and overlapping responsibilities are some of these warning signals. Exhibit 8-8 lists some indications of the need for change in organizational design.

EXHIBIT 8-7 Structural Variables to Implement Global Strategies

Strategy	Organizational Structure	Delegation	Need to Coordinate	Organizational Culture
Multidomestic	Global area	To national unit	Low	Low impact
International	Intl. Division	Centralize core; rest to units	Medium	Medium
Global	Product Group	Locate where globally optimum	High	Important
Transnational	Global Matrix	Centralized and decentralized	Very High	Crucial

Source: Based on C. W. L. Hill and E. R. Jones, *Strategic Management: An Integrated Approach,* 3rd ed. (Boston, MA: Houghton Mifflin Company 1995), p. 390.

EXHIBIT 8-8 Changes That May Necessitate New Structural Designs

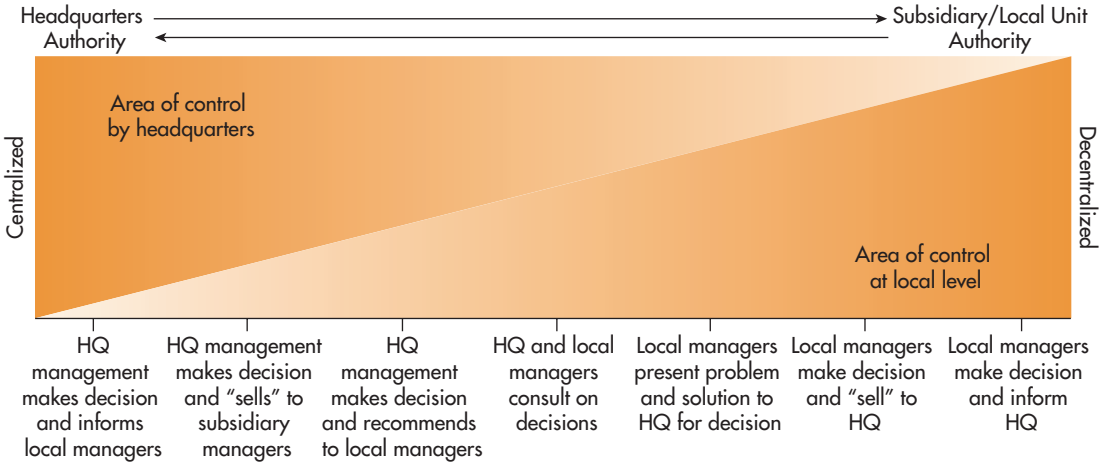
- New management with different goals and strategies
- Downturn in profitability or finances
- Lack of competitiveness; failure to meet goals or capitalize on opportunities
- Poor management, leadership, communication, delegation, or morale
- New strategic directions: growth, alliances, retrenchment; expanding globally from directing export activities to controlling overseas manufacturing and marketing units; a change in the size of operations on a country, regional, or worldwide basis; or failure of foreign operations to grow in accordance with plans and expectations
- Clashes among divisions, subsidiaries, or individuals over territories or customers in the field
- Divisive conflicts between overseas units and domestic division staff or corporate staff
- Underutilization of overseas manufacturing or distribution facilities
- Duplication of sales offices or geographic operational units within an area
- An increase in overseas customer service complaints
- Breakdowns in communications within and among organizations
- Bottlenecks, too many reporting layers, and ill-defined executive responsibilities
- Lack of innovation

Source: Based on Business International Corporation, *New Directions in Multinational Corporate Organization* (New York: Business International Corporation, 1981).

At persistent signs of ineffective work, a company should analyze its organizational design, systems, and work flow for the possible causes of those problems. The nature and extent of any design changes must reflect the magnitude of the problem. In choosing a new organizational design or modifying an existing structure, managers must establish a system of communication and control that will provide for effective decision making. At such times, managers need to localize decision making and integrate widely dispersed and disparate global operations.

Besides determining the behavior of the organization on a macro level (in terms of what the different divisions, subsidiaries, departments, and units are responsible for), the organizational design must determine behavior on a micro level. For example, the organizational design affects the level at which certain types of decisions will be made. Determining how many and what types of decisions can be made and by whom can have drastic consequences; both the locus and the scope of authority must be carefully considered. This centralization–decentralization variable actually represents a continuum. In the real world, companies are neither totally centralized nor totally decentralized. The level of centralization imposed is a matter of degree. Exhibit 8-9 illustrates this centralization–decentralization continuum and the different ways that decision making can be shared between headquarters and local units or subsidiaries. In general,

EXHIBIT 8-9 Locus of Decision Making in an International Organization



centralized decision making is common for some functions (finance, research and development) that are organized for the entire corporation, whereas other functions (production, marketing, sales) are more appropriately decentralized. Two key issues are the speed with which the decisions have to be made and whether they primarily affect only a certain subsidiary or other parts of the company as well.

As noted, culture is another factor that complicates decisions on how much to decentralize and how to organize the work flow and the various relationships of authority and responsibility. Part 4 of this book more fully presents how cultural variables affect people's attitudes about working relationships and about who should have authority over whom. At this point, it is important merely to note that cultural variables must be taken into account when designing an organization. Delegating a high level of authority to employees in a country where workers usually regard the boss as the rightful person to make all the decisions is not likely to work well. Clearly, managers must think through the interactions of organizational, staffing, and cultural issues before making final decisions.

In summary, no one way to organize is best. Contingency theory applies to organizational design as much as to any other aspect of management. The best organizational structure is the one that facilitates the firm's goals and is appropriate to its industry, size, technology, and competitive environment. Structure should be fluid and dynamic and highly adaptable to the changing needs of the company. The structure should not be allowed to be bogged down in the administrative heritage of the organization (that is, "the way we do things around here" or "what we've always done") to the point that it undermines the very processes that will enable the firm to take advantage of new opportunities.

Most likely, however, the future for the MNC structure, as well as for small businesses and born globals, lies in a global web of networked companies. Ideally, a company tries to organize in a way that will allow it to carry out its strategic goals; the staffing is then done to mesh with those strategic goals and the way the organizational structure has been set up. In reality, however, the existing structural factors often affect strategic decisions, so the result may be a trade-off of desired strategy with existing constraints. So, too, with staffing. Ideal staffing plans have to be adjusted to reflect the realities of assigning managers from various sources and the local regulations or cultural variables that make some organizing and staffing decisions more workable than others.

What may at first seem a linear management process of deciding on strategy, then on structure, and finally on staffing is actually an interdependent set of factors that must be taken into consideration and worked out as a set of decisions. Chapter 9 explores how staffing decisions are—or should be—intricately intertwined with other decisions regarding strategy, structure, and so forth. A unique set of management cadre and skills in a particular location can be a competitive advantage in itself, so it may be a smart move to build strategic and organizational decisions around that resource rather than risk losing that advantage. The following sections present some other processes that are involved in implementing strategy and are interconnected with coordinating functions through organizational structure.

8-6. To realize how organizational design affects the manager's job, for example, on the level and location of decision making

CONTROL SYSTEMS FOR GLOBAL OPERATIONS

To complement the organizational structure, the international manager must design efficient coordinating and reporting systems to ensure that actual performance conforms to expected organizational standards and goals. The challenge is to coordinate far-flung operations in vastly different environments with various work processes; rules; and economic, political, legal, and cultural norms. The feedback from the control process and the information systems should signal any necessary change in strategy, structure, or operations in a timely manner. Often the strategy, the coordinating processes, or both, need to be changed to reflect conditions in other countries. Organizations may also restructure and set up reporting systems to avoid problems preemptively that would negatively affect its processes and image.

The design and application of coordinating and reporting systems for foreign subsidiaries and activities can take any form that management wishes. MNCs usually employ a variety of direct and indirect coordinating and control mechanisms suitable for their organization structure. For example, in the transnational network structure, decision-making control is centralized to key network nodes, greatly reducing emphasis on bureaucratic control. Other specific mechanisms are summarized in the next sections.[60]

Direct Coordinating Mechanisms

Direct mechanisms that provide the basis for the overall guidance and management of foreign operations include the design of appropriate structures (discussed previously in this chapter) and the use of effective staffing practices (discussed in Chapters 9 and 10). Such decisions proactively set the stage for operations to meet goals rather than troubleshooting deviations or problems after they have occurred.

> *Staffing is not only a means of control, but also a venue through which groups and individuals bring their cultural properties into a system.*[61]
>
> ODED SHENKAR, *JOURNAL OF INTERNATIONAL BUSINESS STUDIES*, 2012

Expatriates from headquarters exert control over the foreign affiliate through the expectations of the national and corporate culture of the parent company; whereas, if the staffing assignment is through third-country nationals, it is likely that somewhat less of the corporate culture might be brought to bear locally and certainly less of the national culture of the parent.[62] In situations where parent control might be considered less important, local managers would be considered, thus delegating the control to the local level.

When McDonald's first opened its doors in Moscow in 1990, the biggest control problem was quality control for its food products. McDonald's anticipated that challenge and adopted a strategy of vertical integration for its sourcing of raw materials.[63] To control the quality, distribution, and reliability of its ingredients, McDonald's built a $40 million, 110,000-square-foot plant in a Moscow suburb to process the required beef, milk, buns, vegetables, sauces, and potatoes. In addition, the company brought the managers to Toronto, Canada, for five months of training.[64] Top management at McDonald's anticipated difficulties with the setup and daily operations of this IJV and, indeed, had been working toward the opening day for 13 years. Through careful planning for the control of crucial operational factors, they solved the sourcing, distribution, and employment problems inherent in the former Soviet Union.[65]

As of 2018, McDonald's has been successful in Russia by "going local." It has increased the number of Russian McDonald's restaurants by 6 percent year-over-year, versus 1.5 percent growth in the rest of the world. A McDonald's spokesperson said,[66] "People are only now starting to understand: We're one of the most Russian companies there is."[67] Indeed, a plant near Moscow provides fries to over 650 McDonald's restaurants in Russia.[68] By doing so, McDonald's has locally sourced 98 percent of its products in Russia, a statistic that it shares in local advertisements.

Other direct mechanisms are visits by head-office personnel and regular meetings to allow employees around the world to consult and troubleshoot. Increasingly, those meetings comprise videoconferences to allow face-to-face, if not physical, interaction among managers around the world to enable faster and less-expensive frequent meetings. Top executives from headquarters may use periodic visits to subsidiaries to check performance and help anticipate future problems. The meetings allow each general manager to keep in touch with her or his associates, with the overall mission and strategy of the organization, and with comparative performance data and new problem-solving techniques. Increasingly, the tools of technology are being applied as direct mechanisms to ensure up front that operations will be carried out as planned, in particular in countries where processes such as efficient infrastructure and goods forwarding cannot be taken for granted. An example of this is the logistics monitoring system Air Express International set up in Latin America to minimize its many problems there.

Indirect Coordinating Mechanisms

Indirect coordinating mechanisms typically include sales quotas, budgets, and other financial tools as well as feedback reports, which give information about the sales and financial performance of the subsidiary for the last quarter or year.

Domestic companies invariably rely on budgets and financial statement analyses, but for foreign subsidiaries, financial statements and performance evaluations are complicated by financial variables in MNC reports, such as exchange rates, inflation levels, transfer prices, and accounting standards.

To reconcile accounting statements, MNCs usually require three sets of financial statements from subsidiaries. One set must meet the national accounting standards and procedures prescribed by law in the host country. This set also aids management in comparing subsidiaries in the same country. A second set must be prepared according to the accounting principles and standards the

home country requires. This set allows some comparison with other MNC subsidiaries. The third set of statements translates the second set of statements (with certain adjustments) into the currency of the home country for consolidation purposes, in accordance with FASB Ruling Number 52 of 1982. A foreign subsidiary's financial statements must be consolidated line by line with those of the parent company, according to International Accounting Standard Number 3, adopted in the United States.[69]

Researchers have noted comparative differences between the use of direct versus **indirect controls** among companies headquartered in different countries. One study by Egelhoff examined the practices of 50 U.S., U.K., and European MNCs over their foreign subsidiaries. It compared the use of two mechanisms—the assignment of parent-company managers to foreign subsidiaries and the use of performance reporting systems (that is, comparing behavior mechanisms with output reporting systems).[70] The results of this study show that considerable differences exist in practices across MNC nationalities. For example, U.S. MNCs monitor subsidiary outputs and rely more on frequently reported performance data than do European MNCs. The latter tend to assign more parent-company nationals to key positions in foreign subsidiaries and can count on a higher level of behavior control than their U.S. counterparts.[71]

These findings imply that the U.S. system, which measures more quantifiable aspects of a foreign subsidiary, provides the means to compare performance among subsidiaries. The European system, on the other hand, measures more qualitative aspects of a subsidiary and its environment, which vary among subsidiaries—allowing a focus on the unique situation of the subsidiary but making it difficult to compare its performance to other subsidiaries.[72]

8-7. To emphasize the role of control and monitoring systems suitable for specific situations and locations in the firm's international operations

MANAGING EFFECTIVE MONITORING SYSTEMS

Management practices, local constraints, and expectations regarding authority, time, and communication are but a few of the variables likely to affect the **appropriateness of monitoring (or control) systems**. The degree to which headquarters' practices and goals are transferable probably depends on whether top managers are from the head office, the host country, or a third country. In addition, information systems and evaluation variables must all be considered when deciding on appropriate systems.

The Appropriateness of Monitoring and Reporting Systems

One example of differences in the expectations regarding monitoring practices, and therefore in the need for coordination systems, is indicated by a study of Japanese and U.S. firms. Ueno and Sekaran state that their research shows that "the U.S. companies, compared to the Japanese companies, tend to use communication and coordination more extensively, build budget slack to a greater extent, and use long-term performance evaluations to a lesser extent."[73] Furthermore, Ueno and Sekaran conclude that those differences in reporting systems are attributable to the cultural variable of individualism in U.S. society, compared to collectivism in Japanese society. For example, U.S. managers are more likely to use formal communication and coordination processes, whereas Japanese managers use informal and implicit processes. In addition, U.S. managers, who are evaluated on individual performance, are more likely to build slack into budget calculations for a safety net than their Japanese counterparts, who are evaluated on group performance. The implications of this study are that managers around the world who understand the cultural differences in control practices will be more flexible in working with those systems in other countries.

The Role of Information Systems

Reporting systems, such as those described in this chapter, require sophisticated information systems to enable them to work properly—not only for competitive purposes but also for purposes of performance evaluation. Top management must receive accurate and timely information regarding sales, production, and financial results to be able to compare actual performance with goals and to take corrective action where necessary. Most international reporting systems require information feedback at one level or another for financial, personnel, production, and marketing variables.

The specific types of functional reports, their frequency, and the amount of detail required from subsidiaries by headquarters will vary. Neghandi and Welge surveyed the types of functional reports submitted by 117 MNCs in Germany, Japan, and the United States.[74] They found that U.S. MNCs typically submit about double the number of reports as do German and Japanese

MNCs, with the exception of performance reviews. The Japanese MNCs put far less emphasis on personnel performance reviews than do the U.S. and German MNCs—a finding consistent with the Japanese culture of group decision making, consensus, and responsibility.

Unfortunately, the accuracy and timeliness of information systems are often less than perfect, especially in less-developed countries, where managers typically operate under conditions of extreme uncertainty. Government information, for example, is often filtered or fabricated; other sources of data for decision making are usually limited. Employees are not used to the kinds of sophisticated information generation, analysis, and reporting systems common in developed countries. Their work norms and sense of necessity and urgency may also confound the problem. In addition, their available technology and ability to manipulate and transmit data are usually limited. Management information system (MIS) adequacy in foreign affiliates is a sticky problem for headquarters managers in their attempt to maintain efficient coordination of activities and consolidation of results. Another problem is the **noncomparability of performance data across countries**—the control problem caused by the difficulty of comparing performance data across various countries because of the variables that make that information appear different—which hinders the evaluation process.

The Internet has made the availability and use of information attainable instantaneously. Many companies are starting to employ Internet MIS systems for supply-chain management. European partners Nestlé S.A. and the Danone Group, world leaders in the food industry, set up Europe's first Internet marketplace for e-procurement in the consumer goods sector, called CPGmarket.com.

In the food sector, for example, suppliers, retailers, and farmers are becoming more dependent on Internet-based information systems for end-to-end supply chain management (e.g., production, purchasing, delivery, and sales). However, any online disruption could be catastrophic.

> *We live in a just-in-time world. It provides a greater degree of efficiency in logistical activity, but if the whole thing falls over, it goes bad very quickly.*[75]
>
> RICHARD SEYMOUR, CO-FOUNDER OF SEYMOURPOWELL, A DESIGN AND INNOVATION COMPANY

Evaluation Variables across Countries

A major problem that arises when evaluating the performance of foreign affiliates is the tendency by headquarters managers to judge subsidiary managers as if all of the evaluation data were comparable across countries. Unfortunately, many variables can make the evaluation of information from one country look very different from that of another country, owing to circumstances beyond the control of a subsidiary manager. For example, one country may experience considerable inflation, significant fluctuations in the price of raw materials, political uprisings, or governmental actions. These factors are beyond the manager's control and are likely to have a downward effect on profitability—and yet, that manager may, in fact, have maximized the opportunity for long-term stability and profitability compared with a manager of another subsidiary who was not faced with such adverse conditions. Other variables influencing profitability patterns include transfer pricing, currency devaluation, exchange-rate fluctuations, taxes, and expectations of contributions to local economies.

One way to ensure more meaningful performance measures is to adjust the financial statements to reflect the uncontrollable variables peculiar to each country where a subsidiary is located. This provides a basis for the true evaluation of the comparative return on investment (ROI), which is an overall control measure. Another way to provide meaningful, long-term performance standards is to take into account other nonfinancial measures. These measures include market share, productivity, sales, relations with the host-country government, public image, employee morale, union relations, and community involvement.[76]

CONCLUSION

The structure, control, and coordination *processes* are the same whether they take place in a domestic company, a multinational company with a network of foreign affiliates, or a specific IJV. It is the extent, the focus, and the mechanisms used to organize those activities that differ. More coordination is needed in global companies and MNEs because of uncertain working environments and information systems and because of the variable loci of decision making. Headquarters managers must design appropriate systems to take into account those variables and evaluate performance.

Summary of Key Points

- An organization must be designed to facilitate the implementation of strategic goals. Other variables to consider when designing an organization's structure include environmental conditions, the size of the organization, and the appropriate technology. The geographic dispersion of operations as well as differences in time, language, and culture affect structure in the international context.
- The design of a firm's structure reflects its international entry strategy and tends to change over time with growth and increasing levels of investment, diversity, or both.
- Global trends are exerting increasing pressure on MNCs to achieve economies of scale through globalization. This involves rationalization and the coordination of strategic alliances.
- MNCs can be regarded as interorganizational networks of their own dispersed operations and other strategic alliances. Such relational networks may adopt unique structures for their particular environment while also requiring centralized coordination.
- The transnational structure allows a company to be global and act local by using networks of decentralized units with horizontal communication. This permits local flexibility while achieving global integration.
- Indications of the need for structural changes include inefficiency, conflicts among units, poor communication, and overlapping responsibilities.
- Coordinating and monitoring systems are necessary to regulate organizational activities so that actual performance conforms to expected organizational standards and goals. MNCs use a variety of direct and indirect controls.
- Financial monitoring and evaluation of foreign affiliates are complicated by variables such as exchange rates, levels of inflation, transfer prices, and accounting standards.
- The design of appropriate monitoring systems must take into account local constraints, management practices and expectations, uncertain information systems, and variables in the evaluation process.
- Two major problems in reporting for subsidiaries must be considered: (1) inadequate management information systems and (2) the noncomparability across countries of the performance data needed for evaluation purposes.
- Multinational companies face changing environments and changing customer preferences. As such, their strategies evolve, and as a result the structure needs to evolve in order to fit that strategy.

Discussion Questions

8-1. What variables have to be considered in designing the organizational structure for international operations? How do these variables interact, and which do you think are most important?

8-2. Explain the need for a firm to be global and act local. How can a firm design its organization to enable this?

8-3. What is a transnational organization? Because many large MNCs are moving toward this format, it is likely that you could at some point be working within this structure. How do you feel about that?

8-4. Discuss the implications of the relative centralization of authority and decision making at headquarters versus local units or subsidiaries. How would you feel about this variable if you were a subsidiary manager?

8-5. As an international manager, what would make you suggest restructuring your firm? What other means of direct and indirect monitoring systems do you suggest?

8-6. What is the role of information systems in the reporting process? Discuss the statement, "Inadequate MIS systems in some foreign affiliates are a control problem for MNCs."

Application Exercises

8-7. If you have personal access to a company with international operations, try to conduct some interviews and find out about the personal interactions involved in working with the organization's counterparts abroad. In particular, ask questions about the nature and level of authority and decision making in overseas units compared with headquarters. What kinds of conflicts are experienced? What changes would your interviewees recommend?

8-8. Do some research on monitoring and reporting issues facing an MNC with subsidiaries in (1) a country in Asia, and (2) a country in South America. Discuss problem areas and your recommendations to the MNC management as to how to control potential problems.

8-9. Find out about a foreign company with an IJV in the United States. Google some articles, email the company for information, and if possible visit the company and ask questions. Present your findings on the company's major control issues to the class—both at the beginning of the venture and now. What is the company doing differently in its control process compared to a typical domestic operation? Are the control procedures having the desired results? What recommendations do you have?

Experiential Exercise

In groups of four, consider a fast-food chain going into Brazil. Decide on your initial level of desired involvement in Brazil and your entry strategy. Draw up an appropriate organizational design, taking into account strategic goals, relevant variables in Brazil, technology used, size of the firm, and so on. At the next class, present PowerPoints of your organization chart and describe the operations and rationale. What are some of the major control issues to be considered?

CASE STUDY

Renault and Nissan Attempt to Ease Tension with New Board

David Keohane in Paris and Kana Inagaki in Tokyo
March 11, 2019

Renault, Nissan and Mitsubishi are to set up a new joint board in an attempt to ease tensions and strengthen integration within the world's largest car partnership following the arrest and ousting of its architect Carlos Ghosn.

The three-way car alliance is expected to announce recently appointed Renault chairman Jean-Dominique Senard as head of the new body at a joint press conference in Yokohama on Tuesday, according to people briefed on the matter. It was first reported by Nikkei in Japan.

The announcement of the new board comes at a pivotal time for the alliance, which makes more than 10m new vehicles a year, as Mr Ghosn, the ousted Nissan chairman, prepares to step up his defence after his arrest in Tokyo for alleged financial misconduct in November.

The new body with decision-making powers over operations and governance would in effect replace and integrate the existing joint ventures and other committees between the three carmakers under a single entity.

The replacement of Renault-Nissan BV and Nissan-Mitsubishi BV also comes amid investigations by the companies on whether these Amsterdam-based joint ventures were potentially used as vehicles for Mr Ghosn's alleged financial misconduct.

The complicated cross-holding arrangement between the groups would not change, Renault said on Monday as it confirmed talks on the new alliance structure. The French group owns 43 per cent of Nissan, while the Japanese group holds 15 per cent of Renault. Nissan owns 34 per cent of Mitsubishi.

Nissan and Mitsubishi declined to comment.

The tension between Renault and Nissan, the main partners, has increased in the wake of the arrest of Mr Ghosn, who was released on $9m bail last week after 108 days behind bars.

Mr Ghosn, the architect and former head of the alliance, pushed for a full merger between Renault and Nissan ahead of his arrest in November. He blames his arrest on a "plot and treason" by Nissan executives opposed to his integration plan.

Nissan has said that its internal investigation on Mr Ghosn, which it launched before his arrest, was not related to merger talks with Renault.

There are also tensions at state level as the French government, which has a 15 per cent stake in Renault, wants Mr Senard to be appointed chairman of Nissan.

The Japanese company is wary of having the same chairman as Renault to avoid recreating the role Mr Ghosn held before his arrest. It fears this would concentrate too much power under a single individual.

Meanwhile, the Tokyo District Court on Monday denied a request from Mr Ghosn's lawyers for him to attend the carmaker's meeting on Tuesday, where the decision on the joint board is expected to be made.

Mr Ghosn, who remains a director at Nissan, was released under tight bail conditions that include a ban on his having any contact with people linked to the investigations.

The former Nissan boss, who recently resigned as chief executive of Renault, has denied charges of falsification in Nissan pay and aggravated breach of trust, calling them "meritless."

Mr Senard, the respected outgoing boss of tyremaker Michelin, was appointed chairman of Renault in January and given the task of restoring trust and shoring up relations between the French company and Nissan.

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Case Questions

8-10. What has Mr. Ghosn's role been in the Renault-Nissan alliance, and what was the reason for his recent arrest? What has happened to him since then?
8-11. How was the alliance structured, and what was the proposed new alliance structure?
8-12. What is the relationship between board structure and power in organizations?

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Case 5 Amazon.com in China: Can Elaine Chang Crack the Chinese Market?

*This case was written by **Koti Vinod Babu**, under the direction of **Debapratim Purkayastha**, IBS Hyderabad.*[1]

"China is a very important market for Amazon. We're committed to growing our business here."

"The demand for international brands is rising rapidly, thanks to cross-border online shopping, which is probably one of the fastest rising trends in e-commerce."[2]

—Elaine Chang, Vice-President of Amazon and President of Amazon China, in 2017

"Amazon is a prime example of a company which thought it could succeed in an entirely different market just by continuing to do business as usual [. . .], This method of going about globalizing a product will almost never result in good success and analysts are actually calling for Amazon to pull out of China."[3]

—Clayton Jacobs, an Entrepreneur-in-Residence with and the Head of Cross-Cultural Design, at ReadWrite, in 2017

Amazon.com, Inc. (Amazon) entered China in 2004, taking over Joyo.com[4] (Joyo) for US$75 million. But as of mid-2018, Amazon held less than a 1% e-commerce market share in China, according to research firm *eMarketer*.[5] Analysts pointed out that despite its global growth, Amazon had not been able to make a mark in China. Amazon was facing stiff competition from local companies such as Jingdong Mall[6] (JD), Tencent Holdings Limited[7] (Tencent), Taobao Mall8[7] (Tmall) owned by Alibaba Group Holding Limited[9] (Alibaba), etc., despite the scorching growth of e-commerce in China.

Apart from stiff local competition, factors such as censorship by Chinese regulators over the internet, restrictions on foreign investment, and counterfeit sellers, were posing big challenges for the company in China. Analysts were left wondering whether Amazon had localized its innovations enough to appeal to the Chinese consumers and whether Amazon had really understood the Chinese-commerce market. While speculations were on about Amazon merging a certain portion of its overseas purchase business with Kaola[10] in 2019, Elaine Chang (Elaine), VP of Amazon and Amazon China president, had the big responsibility of streamlining Amazon's operations in the country and overcoming the challenges.

About Amazon

Amazon was founded in June 1994 by Jeff Bezos (Bezos). In June 1995, he launched his online bookstore, Amazon.com. It soon increased its product portfolio and became a force to reckon with in retailing. Analysts felt that by offering low prices, a wide selection, and a great customer experience, Amazon was able to drive traffic (customers) and increase sales, which in turn attracted third-party sellers and accelerated the wheel. In 2002, Amazon identified a new arena of growth by launching Amazon Web Services[11] (AWS), a platform of computing services offered online for other websites or client-side applications by Amazon. These web services provided developers access to Amazon's technology infrastructure that they could use to run virtually any type of business. The move was largely successful and within five years of its launch, AWS had grown into one of the largest computing services platforms in the world.

In 2003, Amazon expanded its overseas business by launching international websites in Asia-Pacific and European countries. To deliver goods to end consumers at a reasonable price, Amazon employed a business model called the 'Online Retailers of Physical Goods' wherein it obtained products directly from the distributors rather than stocking all the goods in its warehouse. In 2005, it launched a free shipping program for its customers called Amazon Prime,[12] wherein customers received free two-day shipping on their purchases for a fee of US$79 per year.

In 2006, Amazon developed a new business model aimed at serving an entirely different customer—the third-party seller. The company offered fulfilment services to sellers through the Fulfilment by Amazon (FBA) program where merchants sent cartons of their products to Amazon's warehouses while Amazon took the orders online, shipped the products, answered queries, and processed returns. In late 2007, it released the Kindle e-book reader for which it had to partner with independent publishers to generate content for the Kindle.

In July 2009, Amazon acquired US-based online shoe retailer Zappos.[13] In 2012, it forayed into the world of designer fashion, selling high-end clothing, shoes, handbags, and accessories through its website, Amazon Fashion.

Amazon had individual retail websites for the US, the UK and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. As of 2015, the e-retailer reported more than 304 million active customer accounts worldwide. Due to Amazon's global scope and reach, it was also considered one of the most valuable brands worldwide.[14] However, Amazon's international segment was much less compared to North American market by size as Amazon got a major portion of its income from its US market ***(Refer to Exhibit I).*** Its growth rate was also less than that in its home market. The company posted a total operating loss abroad of more than US$2.6 billion.

EXHIBIT I **Net Sales Generated from Internationally Focused Websites of Amazon.com, Inc.**

(In US$ Billions)	2016	2017	2018
United States	90.34	120.49	160.15
Germany	14.15	16.95	19.88
United Kingdom	9.55	11.37	14.52
Japan	10.8	11.91	13.83
Rest of world	11.15	17.15	24.51

Source: Adapted from www.statista.com and Amazon's annual reports.

Half of that was incurred in 2016.[15] Amazon's net revenue was US$135.99 billion, up from US$107.01 billion in 2015. For the year 2018, Amazon announced net sales of US$ 232.887 billion ***(Refer toExhibit II)***. It posted an amount of US$ 65.866 billion as international sales income for the year 2018. ***(Refer to Exhibit III)***.

E-Commerce Market in China

The e-commerce market in China started developing in the 1990s and experienced quick growth. According to the *World Bank Development report*, by January 1999, there were only 0.14 internet hosts for 10,000 people in China as compared to 1,132 per 10,000 people in the US. Most Internet Service Providers[16] (ISPs) offered connections at 33.6 kilobytes per second. Thus, logging into any site with even the simplest graphics involved a considerable waiting time. Moreover, secure pay channels for online payments were not available in China. Shoppers chose their own mode of payment – online, cash-on-delivery (COD), postal remittance, or telegraphic money order.

EXHIBIT II **Selected Consolidated Financial Data of Amazon.com, Inc. Year Ended December 31**

(In US$ millions, except per share data)	2016	2017	2018
Net product sales	94,665	118,573	141,915
Net service sales	41,322	59,293	90,972
Total net sales	135,987	177,866	232,887
Operating expenses:			
Cost of sales	88,265	111,934	139,156
Fulfillment	17,619	25,249	34,027
Marketing	7,233	10,069	13,814
Technology and content	16,085	22,620	28,837
General and administrative	2,432	3,674	4,336
Other operating expense, net	167	214	296
Total operating expenses	131,801	173,760	220,466
Operating income	4,186	4,106	12,421
Interest income	100	202	440
Interest expense	(484)	(848)	(1,417)
Other income (expense), net	90	346	(183)
Total non-operating income (expense)	(294)	(300)	(1,160)
Income before income taxes	3,892	3,806	11,261
Provision for income taxes	(1,425)	(769)	(1,197)
Equity-method investment activity, net of tax	(96)	(4)	9
Net income	$2,371	$3,033	$10,073
Basic earnings per share	$5.01	$6.32	$20.68
Diluted earnings per share	$4.9	$6.15	$20.14
Weighted-average shares used in computation of earnings per share:			
Basic	474	480	487
Diluted	484	493	500

Source: *Amazon's financial year ends on December 31. Adapted from Amazon 10k Report and other sources.

EXHIBIT III **Segment-Wise Consolidated Net Income of Amazon.com, Inc. Year Ended December 31**

(Amount in US$ Millions)	2016	2017	2018
Net Sales:			
North America	79,785	106,110	141,366
International	43,983	54,297	65,866
AWS	12,219	17,459	25,655
Consolidated	135,987	177,866	232,887
Year-over-year Percentage Growth:			
North America	25%	33%	33%
International	24	23	21
AWS	55	43	47
Consolidated	27	31	31
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:			
North America	25%	33%	33%
International	26	23	19
AWS	55	43	47
Consolidated	28	31	30
Net sales mix:			
North America	59%	60%	61%
International	32	30	28
AWS	9	10	11
Consolidated	100%	100%	100%

Source: Adapted from Amazon 10k Reports and other sources.

According to Chinese government figures, the number of internet users in China reached 210 million in 2007, a growth of 50% compared to 2006, making China the world's second-largest internet market after the US. According to the China Internet Network Information Center[17] (CNNIC), the number of internet users in China reached 162 million by the end of July 2007. Of these, 122 million surfed the internet using a broadband connection. In fact, Morgan Stanley said that China was well poised to unseat the US as the country with the largest number of internet users in the first few months of 2008. Moreover, there was tremendous scope for future growth as the penetration levels were still low, with only 16% of the population using the internet. However, where online shopping was concerned, COD remained the most preferred option, and the logistics required for mailing the goods bought online were still not in place. There was no nationwide express delivery service like FedEx or UPS as in the US. Analysts felt that the postal service in China was comparatively slow and unreliable.

However, China's imports through cross-border e-commerce started to grow considerably in 2011, mainly due to the increasing awareness among Chinese consumers about online shopping. Through e-commerce platforms, they were able to discover new products that were not formerly accessible in the Chinese market. The Government of China also supported e-commerce through certain policies. In 2014, the General Administration of Customs issued a State Council Notice which acknowledged the importance of imports through e-commerce.

There was a growing demand among the Chinese middle class for foreign goods. Alibaba reported that 33% of Chinese consumers bought items from international brands during the 24-hour Singles' Day event on November 11, 2015, with US goods making it to the top spot.[18] Despite the global financial crisis and the sluggish growth in international trade, China's cross-border e-commerce maintained a growth rate of about 30%. By 2015, China's cross-border e-commerce turnover grew from RMB[19] 800 billion (around US$123 billion) to RMB 5.2 trillion (around US$0.8 trillion), and was expected to reach RMB 6.5 trillion (around US$1 trillion) in 2016.[20] China's e-commerce retail sales were expected to increase by 42.1% to US$672.01 billion, accounting for over 40% of the global e-commerce retail sales in 2015, as estimated by eMarketer. Online retail sales amounted to US$581.61 billion in 2015, growing 33.3% compared to 2015.[21]

Analysts opined that China had become the world's largest e-commerce market by 2015. In China, rural people who used the internet were major prospective consumers for e-commerce companies. Alibaba was planning to invest RMB1 billion (US$0.16 billion) in logistics and delivery services to better aid rural shoppers. The number of internet users in China increased from 590 million in 2013 to 710 million in 2016, leading to the growth of cross-border e-commerce in China.

The Chinese Government had permitted the formation of cross-border e-commerce comprehensive 'pilot' cities. By 2016, there were 13 such cities: Hangzhou, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen, and Suzhou. Analysts felt that the prospects for Chinese sellers working in a global market were developing quickly and the stigma of 'made in China' had rapidly changed to 'branded in China'. Even small-scale sellers could distribute their goods to a large number of buyers.

E-commerce penetration amounted to 89% in Tier 1 and 2 cities like Beijing and Shanghai, but only amounted to 62% in Tier 3 and 4 cities, as per the *McKinsey iConsumer China 2016* Survey.[22] The age of the average internet user in China was 25 years and e-commerce spending was US$562.66 billion as of 2016. According to analysts, China's e-commerce market had grown with massive sales and was projected to be double the US numbers by 2018. Online shoppers who were young, urban, and highly educated along with rural customers were expected to spur China's e-commerce growth. These people had a different approach toward shopping than older people, who were considered as savers in view of the political and economic conditions in China.

E-commerce websites had fewer licensing requirements and got faster customs clearance than brick-and-mortar trade in China. As a consequence, e-commerce was replacing brick and mortar shopping, and leading global hypermarkets such as Carrefour and Wal-Mart had had to close down a number of stores in China. Besides, online shopping made it easier for consumers to access products that were not available in brick and mortar stores, like organic foods and some luxury products from other countries. Analysts opined that there was a large potential for online sales predominantly in small cities, as most of the consumers in big cities like Beijing, Shanghai, Chongqing, and Chengdu had gradually shifted to online shopping.

The online shopper base in Tier 3 and 4 cities was 257 million by 2016, which was larger than that of almost all countries in the world (except India, China as a whole, and the US).[23] The e-commerce market was expected to reach US$1.57 trillion in 2018 in China, according to *eMarketer*.[24] Online retailers were looking to expand logistics networks and services to leverage the growing demand for e-commerce from urban and rural areas in China. This was the effect of the growth in number of internet users in China which had reached 801.66 million by June 2018 ***(Refer to Exhibit IV)***.

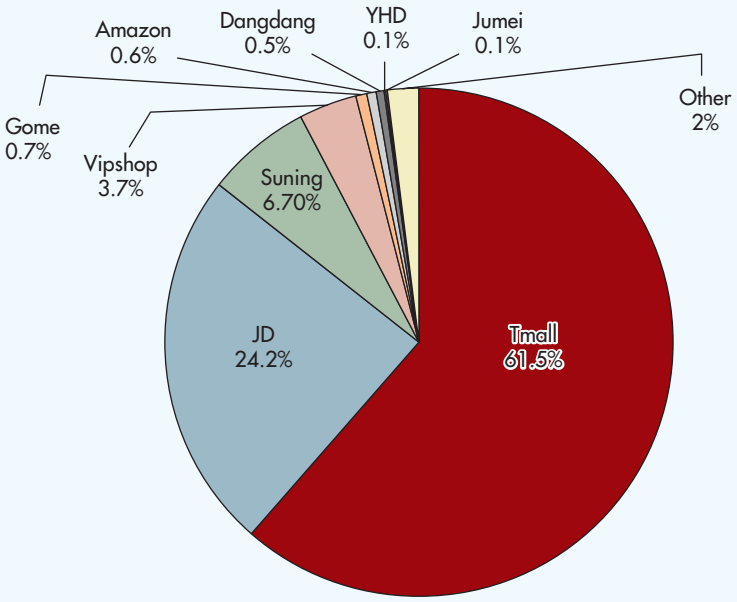
Analysts opined that the unique factor about Chinese e-commerce was its degree of centralization. This centralization had led to several benefits. Most particularly, e-commerce was promoted through ads and different social media. As a result, a purchase could be made via text, image, or video in China. Consequently, the retailers could generate sales without consumers visiting their devoted website or apps. Unlike in the US, where all major retailers managed their e-commerce sites autonomously, most of the Chinese big and small retailers operated as storefronts on Tmall. In fact, more than 75% of Chinese e-commerce was transacted through Alibaba, which included

EXHIBIT IV China's Internet Users and Penetration – (2013–2018)

Month/Year	Number of Internet Users (Millions)	Internet Penetration (%)
June/2013	590.6	44.1
December/2013	617.58	45.8
June/2014	632.00	46.9
December/2014	648.75	47.9
June/2015	667.69	48.8
December/2015	688.26	50.3
June/2016	709.58	51.7
December/2016	731.25	53.2
June/2017	751.16	54.3
December/2017	771.98	55.8
June/2018	801.66	57.7

Source: Adapted from Rocky Fu, "Quick Look: Marketing in China 2019," www.chinainternetwatch.com, January 8, 2019.

EXHIBIT V **Market Shares of Online Retail B2C E-Commerce Platforms by Gross Merchandise Volume (GMV) for Q4 2018 in China**



Source: Adapted from "Tmall and JD had a combined market share of over 85% in China's B2C e-commerce market in Q4 2018," www.chinainternetwatch.com, February 13, 2019.

Tmall. China's e-commerce B2C market share was dominated by Tmall as of 2018. (***Refer to Exhibit V***). In the US and other major markets, the customers had to use different accounts with different log-ins and passwords along with different checkout procedures for different e-commerce sites. In China, on the other hand, a customer would have one account and a uniform checkout procedure for shopping at different retailers.

Besides these domestic companies, social media played a vital role in the Chinese e-commerce market. There was also a higher inclination to use digital devices and marketing in China. Analysts felt that Tencent's innovative businesses such as WeChat[25] or Sina Weibo[26] were driving the Chinese e-commerce movement. Another encouraging factor for Chinese e-commerce was that online shopping was making it easier for Chinese customers to buy non-Chinese branded products. For instance, US customers could easily get *Levi's* jeans or organic baby food irrespective of their location. But for Chinese shoppers in Tier 2 and Tier 3 cities, this was not the case. Online shopping was the only way for them to buy such international brands.

Amazon's Foray into China

Amazon was one of the first overseas e-commerce firms permitted to do business in China. By purchasing Joyo in 2004 for about US$75 million in cash and stock, it had become "Joyo Amazon." Joyo, founded by Chinese entrepreneur Lei Jun in 2000 and headquartered in the British Virgin Islands, sold items like books, music, and videos. Before 2000, it had been an IT information service and download website. At that time, Joyo functioned as a subsidiary of Kingsoft[27] and had only five employees. But, by the latter part of the year 2000, it had grown to become the 33rd largest Chinese website.

Joyo Amazon became the seventh regional website of Amazon.com after the US, Canada, France, Germany, Japan, and the UK. As part of the deal, Amazon gained ownership of a number of Chinese subsidiaries and associates controlled by Joyo. This acquisition marked Amazon's second entry into the Asia-Pacific region. Initially, Joyo's former president, Wang Han-hua (Wang), acted as Amazon's country manager. In 2006, Amazon started adding more lines of products in China such as health and beauty products.

Initially, Amazon had only a few nationwide distributors and it concentrated on customers' preference for making COD payments while credit card payment was the transaction method preferred by most of the company's customers in the US and other regions. Amazon leveraged Joyo's network of distribution partners. Joyo's President after Wang, Lin Shuixing, said in a statement, *"Becoming a part of the Amazon family is great news for our customers."*[28] By the time Amazon entered China by collaborating with Joyo, many Chinese websites were offering e-books for free and local e-readers with hundreds of preloaded books. This made people reluctant to buy the Kindle, which was priced higher. As a result, Amazon Joyo slowly shifted to other sectors like clothing and electronics. The company initially offered direct sales but also offered a stage for independent sellers and buyers. The name Amazon Joyo was changed to "Amazon.cn" in 2011.

As of 2017, Elaine was the president of Amazon China, responsible for the strategy, business development, and overall management of Amazon's e-commerce business and the Kindle business in the country. Elaine joined Amazon as vice president and general manager of Kindle China in May 2013. She led the team to develop the Kindle and digital publishing ecosystem by successfully bringing Kindle's full product portfolio to China, growing Kindle's selection to 420,000 e-books, and building partnerships with more than 660 publishers and importers.[29] Elaine was a Bachelor of Science in Electrical Engineering from the University of Washington and a Fellow of the fifth class of the China Fellowship Program and a member of the Aspen Global Leadership Network. Prior to joining Amazon, she had worked for Intel Corporation for around 20 years, holding several management positions in the US, the Asia Pacific, and China.[30] In December 2016, Elaine was also recognized as one of the top 25 influential businesswomen by *Fortune China*.[31]

Amazon's Expansion in China

In China, Amazon had ten operations centers and 400,000 square meters of logistics-based floor space by 2011. It had signed a memorandum of understanding (MOU) with the Beijing and Ningxia governments to develop cloud computing services in 2013. As a result, it expanded AWS to China in 2014. As part of that move, AWS China developed an incubator in partnership with the Shanghai Jiading Industrial Zone Development (Group) Co. Ltd.[32] It associated with local players to provide groundwork to support AWS, and also started a program to nurture more localized services to run in the AWS cloud. The local players included ChinaNetCenter[33] and SINNET, which would be providing data centers and ISP services such as infrastructure, bandwidth, and network capabilities. Analysts felt that this was an intensive effort by Amazon to get more business from larger corporations but also to leverage a growing community of smaller and medium-sized businesses in China.

Andy Jassy, senior vice president, AWS, commented, *"Current and prospective AWS customers have asked us to build a local AWS Region in China. China represents an important long-term market segment for AWS. We are looking forward to working with Chinese customers, partners, and government institutions to help small and large organizations use cloud computing to innovate and deploy faster, save money, expand their geographic reach, and do so without sacrificing security, availability, data durability, and reliability."*[34]

Amazon entered into a tripartite memorandum of understanding (MOU) with China (Shanghai) Free Trade Zone (FTZ) and Shanghai Information Investment Inc.[35] in 2014. According to this MOU, the three parties would undertake cross-border e-commerce business and construct an online cross-border e-commerce platform, using which Chinese consumers could easily buy products that were offered in other countries by Amazon Global. Under the MOU, Amazon would capitalize and construct Amazon China International Trade headquarters in the FTZ, endorsing Shanghai as a global hub for cross-border trade. In the meantime, Amazon intended to build logistics and warehousing centers in FTZ. As a result, the product selected on Amazon.cn would enter the Chinese foreign trade zone through the cross-border e-commerce platform, while domestic high-quality products from small and medium-sized enterprises (SMEs) would be exported to overseas markets.

Amazon launched the Amazon Global Store (AGS) in November 2014 to meet the robust demands of Chinese consumers for imported products. Globally, this was the first AGS that had a local website and offered a localized shopping experience. AGS worked on bringing in genuine and high-quality products to Chinese consumers through direct imports. Doug Gurr (Gurr), then president of Amazon China, said, *"Around 5 million international orders have been placed since last November through the AGS on Z.cn*[36] *and direct shipments through Amazon global sites in the US and European Union. The statistics have shown that sales through the AGS on Z.cn tripled in the first five months of 2015. According to AC Nelson, over 50% of Chinese consumers who shopped on overseas websites have visited AGS on Z.cn since its launch. We take China as a strategically important locale from a global perspective and will continue to invest in China."*[37]

Amazon increased its logistics operations in China to control the increasing cost of shipping billions of packages. Its plans in China included managing cargo and customs for goods directed to ports in Japan, Europe, and the US. This service was started to serve Amazon's own retail operations and also hosted data for other companies. Michael Yeo, analyst at market research firm IDC said, *"The licenses that Amazon have received not only strengthens its own position as a fulfilment channel for its own cross border trade, but also allows it to act as a potential competitor to the likes of DHL, FedEx and UPS in delivery services."*[38]

In addition to this, Amazon had submitted its expansion plans in documents filed with the Chinese regulators in 2015. Amazon registered its Chinese subsidiary, Beijing Century Joyo Courier Service,[39] as a freight forwarder which did not ship but looked after customs and other documentation with China's transport ministry in 2015, allowing it to export cargo out of China. Beijing Century Joyo Courier Service also made a parallel application with the US Federal Maritime Commission[40] (FMC) in November 2015. Amazon also filed an application with the Shanghai Shipping Exchange[41] to assist as a shipping broker for 12 trade routes, including Shanghai to Los Angeles and Shanghai to Hamburg.

In 2015, Amazon launched a virtual store on Alibaba's Tmall to attract the Chinese shoppers. Items like imported food, shoes, toys, and kitchenware sourced directly from overseas suppliers were listed on Amazon's store on Tmall. Candice Huang, a spokeswoman for Hangzhou, Alibaba, commented, *"We welcome Amazon to the Alibaba ecosystem, and their presence will further broaden the selection of international products and elevate the shopping experience for Chinese consumers on Tmall."*[42] This partnership resulted in Amazon getting access to 334 million active buyers on Tmall, and increasing awareness of its brand in China. Forrester Research analyst Sucharita Mulpuru commented, *"Everyone knows that Chinese e-commerce is dominated by Alibaba and at some point you go fish where the fish are."*[43]

In 2015, Amazon acquired Twitch,[44] a platform to watch e-sports or organized video-gaming competitions, for US$970 million. The acquisition was made to leverage the fame of Twitch, which had a market of approximatelyUS$612 million per year and134 million viewers.[45]

In another effort to gain a share in the Chinese e-commerce market, Amazon launched its Prime service in China in October 2016, expecting to repeat the success it had had with the service in the US and other markets in the West. Chinese Prime users would be able to get free shipping on orders for overseas products with a minimum purchase for RMB 200 (US$29.50) and goods sold within China would be delivered for free. The Prime membership cost RMB 388 a year (US$57) in China. Amazon Prime members could also avail of unlimited free shipping with no minimum purchase on more than 9 million domestic products. To appeal to Chinese consumers, Amazon had reduced the annual membership fee to RMB188 (about US$28) for the first four months after Amazon Prime's introduction in China. However, JD and Alibaba also had membership programs which were priced lower than Amazon Prime.

Amazon opened a showroom in Sanlitun Square in Beijing in November 2016, presenting imported goods from the e-retailers of the US and UK e-commerce sites. Customers could explore different product categories such as kitchenware, children's products, apparel, and electronics. They could get demos of the products and purchase them from Amazon.cn, by scanning the product's bar code using their mobile devices. The merchandise comprised some of the 10 million products Amazon sold in China through the imported products section of Amazon.cn called *Haiwaigou*, which meant 'buy from overseas' in Chinese.

Amazon planned to hire a Chinese content development team in 2017 to entice studio heads and discuss deals for local movies and TV shows, including original content. However, experts felt that launching a domestic video service would be a bold step in a country where the media was severely censored by regulators. Russ Grandinetti, Senior Vice President of Amazon, in a statement about the launch, said, *"Launching a unique program designed for our Chinese customers shows our obsession with Chinese customer needs, and demonstrates our long-term commitment to growing our business in China. We will continue to innovate for customers in China to deliver more value over time."*[46]

Localization

According to experts, many successful multinational companies had failed in the Chinese markets because they could not design an effective localization strategy. China's language, culture, and politics offered distinctive challenges for international companies. Amazon had been trying hard to hit the sweet spot in this regard in China. For instance, non-Chinese customers typically clicked and hit the back button when they were looking back and choosing products. But the Chinese customers preferred to open different windows in their browsers/tabs to explore and choose products, and the composition of the Amazon.cn website had to take this browsing behavior into account. According to Wang, 70% of Chinese buyers chose to pay when the goods were delivered. To make it convenient for Chinese customers, Amazon introduced portable Point of Sale (POS) so that the customers could pay the delivery man via a credit card at their doorstep. Wang said, *"Localizing your service isn't about what you and I think, it's about how the market thinks."*[47]

Amazon also created a Chinese domain name Z.cn, which was re-directed to Amazon's Chinese official website Amazon.cn. The modification was done because Amazon being an English word, it was tough for Chinese consumers to remember it. In addition, China was the only country in the world in which Amazon delivered goods on its own. Amazon customers could receive their procurements usually within 2.5 days. This was possible because of the 160,000 square-meter warehouse located in Tianjin, north-eastern China. The Amazon delivery service functioned not only in major cities like Beijing and Shanghai but also covered many second-tier cities as Amazon was not subcontracting delivery in China.

Amazon first started to allow Chinese merchants to sell on Amazon's global sites in 2007. It expanded its app store to China in 2013 as mobile apps users in China had a strong liking for their local language (simplified Chinese) and close to 70% of free downloads in China were from apps that supported simplified Chinese. With the Amazon Prime membership, Amazon was focussing on enhancing Amazon's mark in China by making it more reasonable to buy foreign products from its site. Amazon launched a project called Amazon Launchpad[48] in 2014, which provided a platform for exceptional products and start-ups in China. The project could successfully help start-ups reach most Amazon consumers globally and consumers to get different products of their choice. Amazon also introduced its Fire tablet[49] in China in 2015. The tablet came installed with the feature of an English learning task to offer a personalized reading experience for the different English levels of users.

Amazon launched a Chinese language version of its management system in 2015 for its US and UK websites in 2015. Through this, Chinese merchants could get the benefit of a global product listing service that would enable them to upload product listings and sell them. Fulfilment by Amazon (FBA) was introduced for Chinese sellers which would enable them to ship to only one warehouse in Europe, which would deliver to 26 European countries with after-sales service.[50]

To help Chinese merchants sell more overseas through Amazon.com, Amazon held different events in Shenzhen and other areas in China. Sebastian Gunningham, global senior vice president at Amazon, commented, *"Amazon has an edge to help Chinese companies expand out of China. We operate 109 fulfillment centers and serve 285 million active users all over the world. We plan to increase our [ability] to facilitate Chinese manufactures creating their own brands for global consumers."*[51]

Amazon was also offering a wide range of products to Chinese customers by localizing the products according to the preferences of Chinese customers ***(Refer to Exhibit VI)***. According to a survey conducted among 900 Chinese e-commerce sellers by US-based Business2Business online

EXHIBIT VI Selected Product Categories Offered by Amazon in China

Kindle Store, Fire Tablet, Amazon Purchased Overseas	Books	Phone, Photography, Digital	Electronic Accessories, Intelligent Life
E-book reader	Chinese Books	Mobile Communications	Smart Life
Kindle eBook	Teaching materials	Intelligent living museum	Computer Accessories
Free reading software	Humanities and Social Sciences	Mobile phone accessories	Headphones, speakers and accessories
Manage content and devices	Science and technology	Digital audio and video	TV audio accessories
Kindle Help	Import books	Intelligent digital	Photography camera accessories
Fire Tablet	Kindle eBook	Photography	Office equipment and supplies
Kindle eBook	Children	Camera Accessories	TV audio accessories
Free reading software	Literature and Art	Musical instruments	Musical instrument accessories
Kindle Unlimited	Economic management		
	Inspirational and successful		
	Science and technology		
	Life		
Home, Kitchen, Home Improvement	**Computer, Office**	**Household Appliances**	**Beauty & Health**
Kitchenware	Computer	TV and stereo	High-end cosmetics shop
Furniture	Computer peripherals	Large household appliances	Hair care
Home Decoration	Network supplies	Kitchen appliances	Men's skin care
Pet Shop	Office and student supplies	Household appliances	Eye care
Home Textiles	Computer brand	Large household appliances	Facial skin care
Daily life	Storage and computer components	A protection of electrical appliances	Body Care
Home renovation	Office equipment and supplies		Perfume, essential oils
	Electronic education		Daily cleaning
			Fashion make-up
			Healthcare Supplies

Source: Adapted from https://www.amazon.cn/gp/site-directory/ref=nav_fullstore.

payments company Payoneer,[52] it was found that 62% of respondents sold goods on Amazon, compared to 45% on Wish,[53] 40% on the Alibaba-backed Aliexpress,[54] and 28% on eBay Inc.[55] (eBay).[56] According to a survey by Payoneer in 2016, online merchants in China said they favored Amazon because of its "simple and fair rules"[57] ***(Refer to Exhibit VII)***. However, the survey noted that 59% of Chinese online retailers also tended to sell on more than one marketplace, and 33% sold on more than two marketplaces.

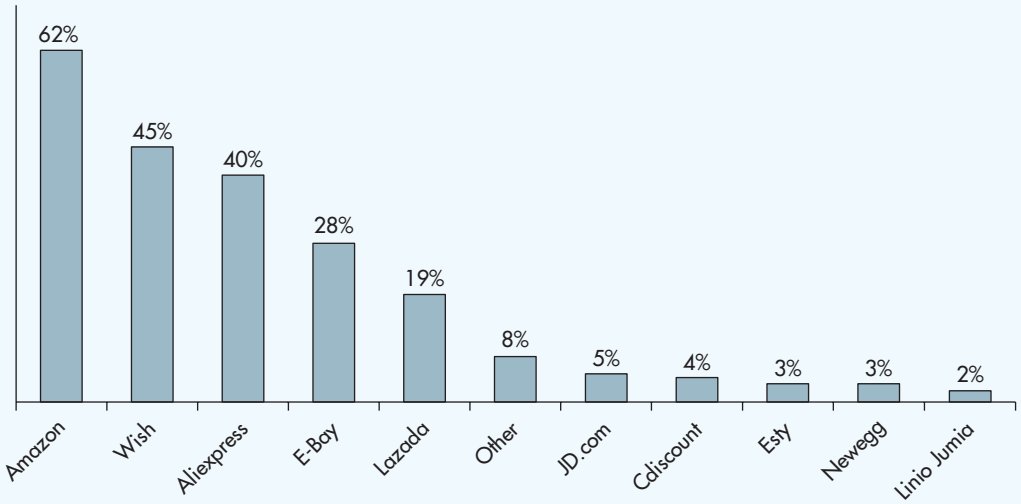
Amazon announced in November 2016 that it would add more than one million international products from Amazon UK to the AGS. This move would enable Chinese customers to buy products from the Amazon UK website directly and get the same quality of products as UK customers at value added tax (VAT) free prices. The products from Amazon UK included 12 categories including toys, shoes, personal care, baby products, apparel, luggage, and watches. The purchases by Chinese customers would be shipped directly from Amazon fulfilment centers in Europe and delivered to Chinese customers within 7 to 12 working days. Elaine said, *"Since the launch of Amazon Global Store, we keep enhancing selection, delivery and customer experience. The data shows that Amazon UK ranks as the top destination by shipped units among 5 Amazon European marketplaces for Chinese cross-border online shoppers."*[58]

Challenges in China

Robust Competition

According to analysts, Amazon's investment in China had not paid off. They pointed out that the release of the Kindle had

EXHIBIT VII Top Online Marketplaces among Chinese Sellers as of 2016



Source: Adapted from www.businessinsider.com.

not been successful and wondered why Amazon had not added a Kindle store on its Chinese website till December 2012. By that time, its competitor sites had four times the number of Chinese language books as Amazon's Kindle Store. Moreover, Amazon had moved ahead with the launch of its Kindle store in China without offering a Kindle Fire or Kindle e-reader. As a result, Chinese customers could only read Amazon's e-books using a Kindle app on their iPhones, iPads, or Android devices. However, Amazon's model of making money from selling e-books appeared unfeasible in China, where online content piracy was rampant. Some analysts felt that the first strategic move by Amazon to buy Joyo did not appear to really benefit it.

Amazon attributed this situation to regulatory problems in launching its cloud service, which was essential for users to store and access the books they purchased. As Amazon was struggling to launch its cloud service in China, local competitors like Alibaba's Aliyun[59] (Ali Cloud) and Western brands like Drop Box[60] were contending fiercely for cloud market shares in China. Eventually, Amazon's cloud service was released in China in 2013.

Some analysts contended that Amazon's strategy of operating as an autonomous online store was not fruitful in China as Alibaba's market supremacy prevented any new player from entering the e-commerce customer space. Therefore, Amazon decided to open a store on Tmall to gain more exposure to China's huge customer base. Analysts opined that Amazon, had, however, failed to recognize the requirements of the Chinese online buyers. For instance, it provided product criticisms for each listed item, whereas Tmall had an additional chat feature along with criticisms which permitted Chinese customers to interact directly with the seller. Analysts opined that Chinese consumers preferred Tmall to Amazon for this reason as Tmall permitted the customers to bargain over the price with the seller before purchasing a product.

Apart from Alibaba, the major competitor for Amazon in China was JD, which worked on a direct sales model like Amazon while also having an open market platform like Tmall. *eMarketer* forecasting director Monica Peart commented, *"Alibaba, Tmall and JD positioned themselves well to capitalize on growing consumer demand by creating their own payment systems (e.g., Alibaba's Alipay[61]) and logistical services (e.g., JD operates a self-owned logistics network). In addition, with rising incomes and increased internet access in rural areas the cultural appetite to shop digitally will continue . . ."*[62]

Amazon and Alibaba functioned on different business models. Alibaba operated on Tmall where it directly sold goods and services to the customers online. In contrast, Amazon bought goods and services from different suppliers in wholesale and sold them to customers online. Analysts pointed out that Amazon had moved into the Chinese market with the same strategy and attitude intended for American customers. For instance, while Amazon's competitors in China offered different online payment options for customers, Amazon opted for some of those options only much later. Further, customers found products priced lower on other sites than on Amazon.

Analysts pointed out that Amazon's competitors like Tmall in China had gained deep insights into the Chinese customers' needs and preferences. For instance, as Tmall had poor online support for international credit cards, it offered a wide selection of alternative money payment options. Most Chinese consumers did not have a credit card. The average income of Chinese customers was low when compared to Japanese or American customers and even if a Chinese customer had a steady income, he was issued a pre-paid debit card with VISA or MasterCard. Moreover, Alipay was one of the most prevalent on-line payment methods, and Amazon had not joined this payment gateway.

Another problem that Amazon faced in China was that its shipping speed was relatively slow. Amazon could not run its own parcel delivery system as JD did since it did not possess sufficient knowledge of Chinese locations, nor could it associate with delivery companies as diligently as its rivals such as Alibaba. Amazon's main transport source was SF Express[63] (Shunfeng). In addition, Amazon operated its own Amazon Prime delivery service called yuanpei which served only central areas of major cities in China.

Amazon's acquisition of Twitch also proved a disaster as Wang Sicong (Sicong), a Chinese billionaire, announced the unveiling of his Panda TV[64] to compete with Amazon. Sicong employed Chinese as well as overseas gaming talent and implemented strategies to leverage the synergy of e-sports and entertainment. Sicong, who was flush with funds and familiar with the local Chinese gaming culture, was well positioned to take on Amazon.

Fraudulent and Counterfeit Sellers

Another problem for Amazon in China was fraudulent third-party sellers, based mostly in China, who usually failed to deliver the orders. According to the media reports, a seller would open a new account on Amazon.cn and start choosing prevalent items to 'sell,' which they could simply select with a few clicks using Amazon's seller's platform. The seller would then exhibit these items for prices that were usually lower than other vendors. When the orders started rolling in, the so-called 'seller' would instantly claim that the items had been shipped from its facility to the customer and the customer would make the payment to the seller's account. In fact, the 'seller' would not even have the items in the first place and the customers were duped. Amazon, in general, waited for customer complaints to catch the sellers, but by then, the real criminals would have disappeared with the money.

As a result of such frauds, trusted sellers such as Birkenstock[65] decided to leave the Amazon sellers' platform. According to Birkenstock USA's CEO David Kahan, *"The Amazon marketplace, which operates as an 'open market,' creates an environment where we experience unacceptable business practices which we believe jeopardize our brand . . . Policing this activity internally and in partnership with* Amazon.com *has proven impossible."*[66]

Some industry observers felt that the Chinese consumers were not so knowledgeable as to inspect all the details regarding a product, and so many sellers were getting away with selling counterfeits. Though there was a feedback system in Amazon, it proved incapable of solving this problem. However, genuine sellers protested that Amazon was not being proactive enough in keeping counterfeiters off its site, and opined that counterfeiting did not seem to be a high-priority problem for Amazon. Companies like Bed Band Store LLC, which sold patented locks and clamps to keep fitted sheets from sliding off a bed, claimed that its business went from making US$700,000 annually in 2013 to half as much revenue in 2015 due to counterfeiting.[67]

Besides this, Amazon sellers alleged in 2016 that Chinese manufacturers were copying their designs and selling low-cost, inferior-quality products. Consumers had trouble differentiating between genuine products and fake products because the 'Fulfilment by Amazon' program authorized the purchases. This situation had left consumers in a dilemma as they tried to figure out which products were legitimate. Amazon, however, contended that it maintained a strict policy against counterfeiters: *"Amazon does not allow the sale of counterfeit items on its Marketplace and occurrences of counterfeit products are very rare. Every customer who orders on Amazon is covered by our A-Z guarantee and if they do receive counterfeit goods from a marketplace seller, we will refund or replace that item."*[68]

Elaine rolled out a new policy in 2017 in China to support the listed brands on Amazon by trying to shut down counterfeit sellers. Many of these counterfeit sellers were based in China, and it was a challenge for Elaine to stop them from entering Amazon's supply chain. Amazon also filed lawsuits against both counterfeit sellers and fake product reviewers. The company spent a lot of money and employed experts to watch out for fakes.

Chinese Government Regulations

China was particular about regulating the internet. Access to the internet was possible only through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of China. Added to that, the national networks in China were connected to the internet through state-owned international gateways, which were the only networks through which a national user could connect to the internet outside China. Amazon could not access substitute networks during occasions of disturbances, failures, or other problems with China's internet infrastructure. Besides, consistent bandwidth speed could be a problem for Amazon in China.

Amazon had to follow the regulations of the host government in the form of enforcement of contractual relationships with respect to the management and control of international businesses and licence requirements. These regulations would control foreign investment in and operation of the internet, IT retail, data centers, delivery, infrastructure, internet content, and the sale of media and other products and services. As a result, the Amazon website was operated by local companies owned by Chinese nationals in keeping with the licensing requirements in China. Amazon said in a regulatory filing to the US Securities and Exchange Commission (SEC), *"Our Chinese and Indian businesses and operations may be unable to continue to operate if we or our affiliates are unable to access sufficient funding or if China enforces contractual relationships with respect to the management and control of such businesses."*[69]

China's market regulator, the State Administration for Industry and Commerce[70] (SAIC), announced in 2015 that it would work on reducing e-commerce problems in the country, especially counterfeit products and poor customer service, according to *Tech in Asia.*[71]

The National People's Congress[72] (NPC) issued its first draft of the Electronic Commerce Law on January 26, 2017, among various laws and regulations being passed by different authorities that affected the Chinese e-commerce market.

The NPC had circulated the draft for debate to further regulate China's e-commerce market. After the draft was passed, e-commerce companies had to rigorously check and modify their operations to ensure compliance with the law. The NPC had announced, on November 7, 2017, that the NPC Standing Committee had issued a second draft of the Electronic Commerce Law. The Draft was applicable to e-commerce undertakings that included local and cross-border trade over the internet and it spoke about the deployment and security of e-commerce data and information, customer and privacy protection, and fair competition. Specifically, it considerably extended the compulsions of e-commerce operators by referencing the Cybersecurity Law of 2016 in the context of collecting and using the personal information of e-commerce users.

Michael Tan and Lynn Zhao, Partner and Associate respectively at Taylor Wessing LLP, commented, *"It will require e-commerce operators to provide users with clear methods and procedures for accessing, correcting and deleting users' information or closing user accounts, and prohibits them from imposing unreasonable conditions on users for these actions. Through this provision, the Draft will provide a more strengthened protection of the personal information of e-commerce users than the first draft [. . .] we would expect that, after it has been passed, e-commerce operators will need to strictly inspect and adjust their operations to ensure compliance with the law."*[73]

There were limitations on web content in China. Sometimes, a company could be held accountable for the illegal actions of its customers or users. China also had certain restrictions on foreign ownership of businesses. For instance, foreign investors could not own more than half of the equity in value added domestic telecom. In November 2017, Amazon agreed to sell parts of its cloud business to Beijing Sinnet Technology Co. Ltd.[74] (Sinnet) for up to RMB 2 billion (US$301 million) though it said that it was committed to the Chinese for internet-based computing that could be worth US$30 billion.[75]

An Amazon spokesperson clarified that Amazon would continue its operations in China but had been forced to divest 'certain physical infrastructure assets' in order to conform to Chinese law. Amazon said in a statement, *"Chinese law forbids non-Chinese companies from owning or operating certain technology for the provision of cloud services. As a result, in order to comply with Chinese law, AWS sold certain physical infrastructure assets to Sinnet, its long time Chinese partner and AWS seller-of-record for its AWS China (Beijing) Region."*[76]

Analysts opined that Chinese competitors were in a better position to understand and navigate the regulations in the country. For instance, Alibaba relied on a legal structure known as variable interest entity[77] (VIE), which enabled it to bypass the Chinese government's restrictions on foreign ownership of businesses in certain sectors, including information technology.[78]

The Road Ahead

The cross-border shopping via AGS had shown significant growth in China. In the first quarter of 2017, total sales from China were 11 times as much as in 2015. Chinese consumers had purchased nearly 17 million pieces of cross-border directly-delivered merchandise from Amazon China since the official opening of the cross-border direct-delivery service in October 2014.[79] However, by mid-2018, Amazon's e-commerce market share in China was less than 1%.

While some analysts felt that Amazon should pull out of China, others felt that Amazon had underinvested in China, and that it was not failing, but having less success than its competitors. However, Amazon was partially successful in weaning away some of the cross-border e-commerce market share from JD and Alibaba. But in light of the other limitations, analysts opined that there might be tough times ahead for Amazon in China. However, Amazon had global traction and the support of optimistic shareholders to back up its efforts in China. Gurr said, *"If you're not the biggest player in the market, you need to stand out from the rest by having something only you can deliver."*[80]

Can Amazon retaliate from its position and create a significant imprint in China? Can Elaine sell a foreign online marketplace to Chinese consumers who were used to buying everything from home-grown e-commerce giants such as Tmall, Taobao, and JD, and other local niche players? How?

Case Questions

1. Critically analyze Amazon's strategy in China.
2. How could Amazon face up to the fierce competition from e-commerce retailers in China?
3. Discuss the possible challenges Amazon could face in China going forward. What should it do in such a scenario?

Endnotes

1. This case was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. © 2018, IBS Center for Management Research. All rights reserved. To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: casehelpdesk@ibsindia.org www.icmrindia.org

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Case 6 Souq.com and the Battle for the Future of E-Commerce in the MENA Region

*This case was written by **Koti Vinod Babu**, under the direction of **Debapratim Purkayastha**, IBS Hyderabad.*[1]

"The walls are being knocked down. We still have work to do, but we're getting there."[2]

—Ronaldo Mouchawar, Souq's CEO, in 2017

"There is a good old-fashioned bid battle going on in the Arabian Gulf, and the way it turns out will set the stage for the future development of e-commerce in the region."[3]

—Frank Kane, an award-winning business journalist based in Dubai, in 2017

In September 2016, Middle Eastern e-commerce company Souq.com (Souq) appointed Goldman Sachs Group Inc.[4] (Goldman Sachs) to find a buyer for it. Souq was an English-Arabic language e-commerce platform, often described as the "Amazon of the Middle East." It had established itself as a leading player in the Middle East and North Africa (MENA) region and was looking for a buyer as Souq's co-founder and CEO, Ronaldo Mouchawar (Mouchawar), wanted to take it to the next phase of growth in the region.

Global e-commerce giant Amazon.com, Inc. (Amazon) approached Souq with an acquisition offer in November 2016 in an effort to expand its reach in the MENA and to exploit the untapped e-commerce market potential. However, Amazon failed in its attempt due to a disagreement with Souq over the price. In March 2017, Amazon again approached Souq and offered US$650 million for the acquisition. At the same time, leading real estate company in the Middle East, Emaar Properties PJSC (Emaar), entered the scene, making a counter bid of US$800 million.

Analysts felt that Amazon wanted to leverage Souq's well-established infrastructure in terms of order fulfilment and logistics in MENA through the acquisition while Emaar wanted to get synergetic benefits of physical as well as online shopping as it owned the biggest malls in Dubai like The Dubai Mall.[5] Notwithstanding Amazon's core competency in technology infrastructure and logistics, analysts contended that if the deal with Souq succeeded, Amazon would still have to face certain challenges in MENA, such as customers' preference for cash on delivery (COD), customers' lack of trust in online platforms, the issues with local logistics, complexity in understanding the local culture which differed vastly from Western culture, and government regulations. In the case of Emaar, analysts felt that it had local advantages like logistics flexibility, government support, knowledge of the local culture and traditions, etc. However, it lacked the advantage of global brand awareness that Amazon had. They also opined that Emaar was a strong contender in terms of financial resources and pointed out that it had offered a much more lucrative deal to Souq than Amazon. The ball was in Souq's court, and Mouchawar had to quickly decide how it would chase its growth target–by shaking hands with Amazon or with Emaar.

Background Note

About Souq

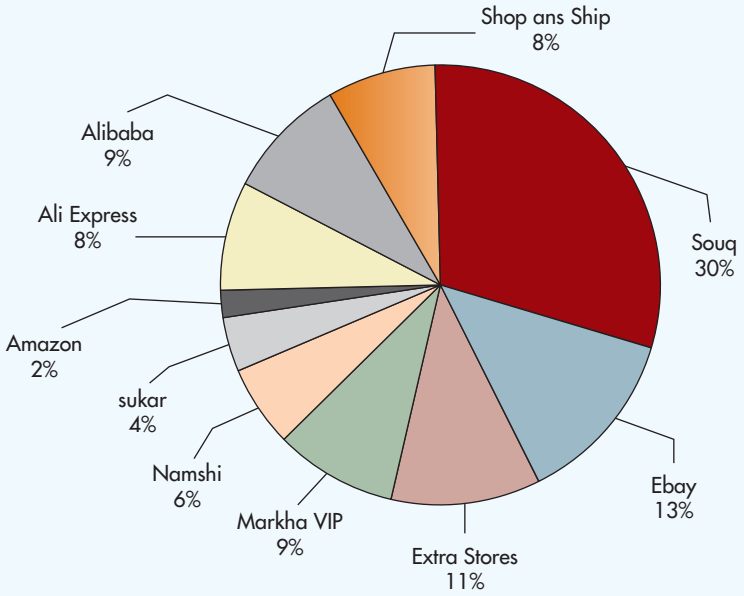
Mouchawar was a Syria-based engineering graduate who had worked in different technology companies in the US in the late 1990s. He came to the UAE in 2000, and found that there was potential for the e-commerce business in the MENA region. He first launched a consulting company handling web and e-commerce projects for the local Arab market. In 2005, he joined Maktoob, an online services company founded in Jordan. It was at that time that he hit on the idea of founding Souq along with other co-founders Samih Toukan and Hussam Khoury. Souq, started in 2005 in Dubai, began initially as an auction site linked to Maktoob. The word 'Souq' meant 'marketplace' in Arabic. The inspiration for the website's name originated from a town called 'Aleppo' in Syria where Mouchawar was born. Aleppo was considered one of the world's oldest business centers by analysts, and it had a number of marketplaces spread around the town.

Souq's offerings comprised online auctions, real estate classifieds, etc. The company started to grow due to the increasing number of orders from youths with high disposable incomes and the high internet penetration in MENA which facilitated online shopping. Eventually, Maktoob was acquired by Yahoo![6] in 2009. As a result, Souq became an independent entity, and began to change its original model of auctioning. At that point of time, the founders of Souq decided to design an e-commerce website which would cater to MENA by focusing on transforming Souq into an e-commerce website. Mouchawar said, *"The beginnings were humble and not very easy until 2009, when Maktoob was acquired by Yahoo. The minute Maktoob was sold it was very clear that the next big thing in the region would be commerce."*[7] Souq was renovated and became an e-commerce website in 2011.

Souq initially concentrated on the sale of electronic devices in the UAE, tapping the huge demand from a young population with high disposal incomes. It also leveraged the smartphone boom and the development of tablets at that point of time. Mouchawar applied advanced technology in Souq's operations. He observed the working style of other e-tailers in the international market and modified his own model accordingly to enrich the buyers' experience in terms of fulfilment, delivery, and payment.

Souq featured more than 400,000 products from international and local brands as of 2014 and established itself as one

EXHIBIT I Traffic Split and Market Share of Top E-Commerce Sites in MENA (2013)



* Data courtesy: Similarwebtool, ArabNet Riyadh
Source: Adapted from "Online Retail Gold Rush in Middle East and North Africa, 2014–Statistics and Insights."

of the leading e-commerce players in the MENA region both in terms of site traffic and market share ***(Refer to Exhibit I)***. It raised US$150 million in funding, with US$75 million received from Naspers[8] in 2014. In addition, the investors of Souq included Ballie Gifford,[9] IFC Venture Capital Group,[10] Jabbar Internet Group[11] (Jabbar), Middle East and North Africa region (MENA) Venture Investments,[12] Standard Chartered PLC,[13] and Tiger Global Management, LLC.[14]

According to Ingrid Lunden of *TechCrunch: "Souq had announced in 2016 that it had closed a funding round of over US$275 million (AED 1 billion) to continue building out its business in the region. We have confirmed with sources that Souq's post-money valuation is US$1 billion."*[15]

About Amazon

Amazon was founded in June 1994 by Jeff Bezos (Bezos). At that time, the internet was gaining popularity and was being considered as a potential business medium. To cash in on this trend, Bezos came up with the idea of selling books to a mass audience through the internet. In June 1995, he launched his online bookstore, Amazon.com, named after the river Amazon. Amazon officially opened for business on July 6, 1995. At the beginning, Amazon's business model was based on the "sell all, carry few" strategy wherein the retailer offered more than a million books online though it actually stocked only about 2,000. The remaining titles were sourced predominantly through drop-shipping wherein Amazon forwarded customer orders to book publishers, who then shipped the products directly to the consumers. By the end of 1996, Amazon was offering about 2.5 million book titles.

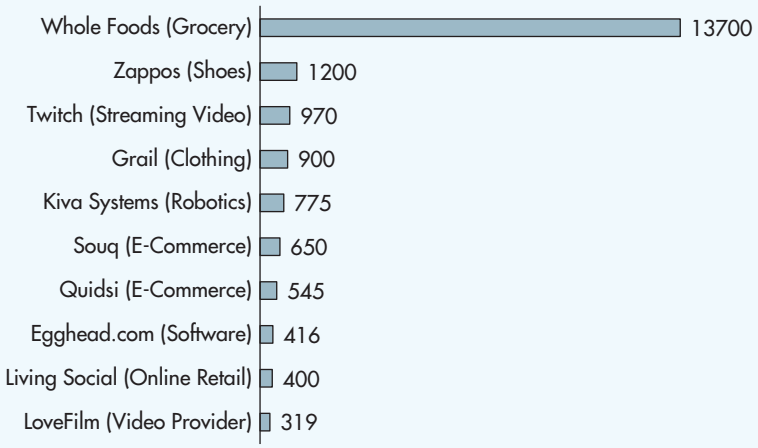
Amazon expanded its overseas business by launching international websites in the Asia-Pacific and European countries in 2003. To deliver goods to end consumers at a reasonable price, Amazon employed a business model called the 'Online Retailers of Physical Goods' wherein it obtained products directly from the distributors rather than stocking all the goods in its warehouse. In 2005, Amazon launched a free shipping program for its customers called Amazon Prime,[16] wherein customers received free two-day shipping on their purchases for a fee of US $79 per year. According to industry observers, the program disrupted the retail industry by enveloping more customers into its fold and enhancing customer loyalty.

Amazon had its presence in MENA through a partnership with Jamalon.com[17] (Jamalon), an online bookseller based in Amman, Jordan, that had been in business since 2010 and offered around 10 million titles in English and Arabic. Amazon directed Jamalon on logistics, while Jamalon provided Arabic titles to Amazon.

Amazon had individual retail websites for the US, the UK and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. As of the fourth quarter of 2015, the e-retailer reported more than 304 million active customer accounts worldwide. Due to Amazon's global scope and reach, it was also considered one of the most valuable brands worldwide.[18] However, Amazon's international segment at US$44 billion in 2016 still remained about half of its North American market by size. Growth rate was also less compared to its home market. Amazon posted a total operating loss abroad of more than US$2.6 billion, half of which was incurred in 2016.[19]

Amazon had spent US$103 million on acquisitions in 2016, according to its annual 10K filing of 2016. Analysts felt that this was a huge amount compared to many companies, but it was down from Amazon's annual acquisition totals of US$862 million in 2014 and US$690 million in 2015.[20] ***(Refer to Exhibit II)***. Analysts felt that Amazon had a lot of cash to spare for

EXHIBIT II Amazon's Top 10 Acquisitions *(Amount in US$ Millions)*



Source: Adapted from dialogic George Petras USA Today.

acquisitions. As of 2017, it had over US$13 billion in cash and cash equivalents, more than double the amount it had in July 2014. The company had become a cash machine generating US$9.7 billion in free cash flow in the 12 months ending June 30, 2017–a significant improvement from 2014 when it had only US$1.04 billion in trailing twelve months free cash flow.[21]

About Emaar

Emaar was a real estate development company founded by Mohammed Ali Alabbar (Alabbar) in 1997 in the United Arab Emirates (UAE). It was a public joint stock company[22] (PJSC) and operated globally, offering property development and management services. The UAE Government held a 32% stake in Emaar.[23] It operated in three business segments, namely real estate, leasing and related activities, and hospitality. The real estate segment was engaged in the development and sale of apartments, villas, commercial complexes, and plots of land. The leasing and related activities segment developed leases and managed malls, retail, commercial and residential spaces, while the hospitality segment developed and managed hotels, serviced apartments, and leisure activities.

Emaar's subsidiaries included Emaar Malls Group LLC and Emaar Hospitality Group LLC. Emaar had its presence in 36 markets across MENA, Pan-Asia, Europe, and North America as of 2016. Emaar was one of the largest real estate developers in the UAE and the developer of Burj Khalifa, the tallest building in the world at 2,500 feet. It was also the developer of The Burj Dubai which was the centerpiece of 'Downtown Burj Dubai', an urban project spread over two square kilometres. 'Downtown Burj Dubai' included The Dubai Mall, the largest shopping mall in the world.

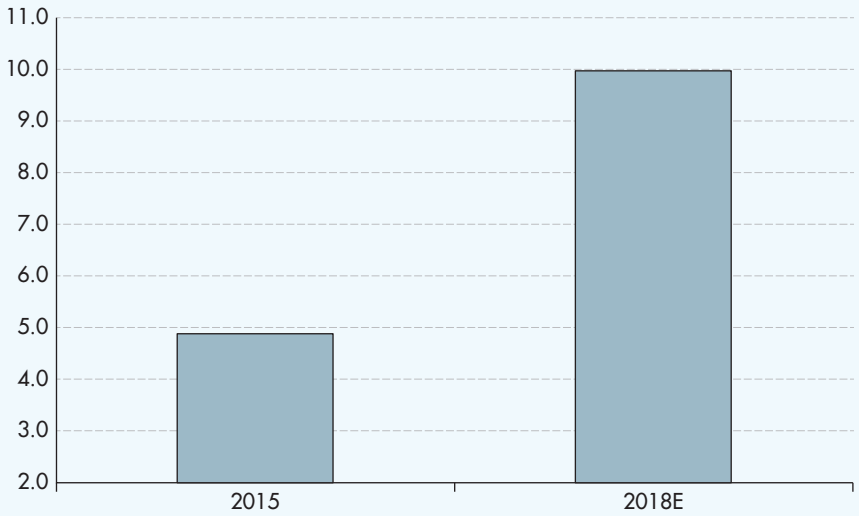
E-commerce in Mena

Experts felt that the Gulf Cooperation Council[24] (GCC) was one of the world's most mystifying platforms for e-commerce. GCC had the highest levels of GDP per capita, with most of the people having large disposable incomes. Average mobile penetration stood at more than 170% and smartphone penetration was at more than 65%. In addition, more than two-thirds of the population used the internet, with penetration in the UAE and Qatar exceeding 90% (including fixed and mobile). But the e-commerce market was limited. Despite its young, tech savvy population, shoppers in the Middle East still preferred to shop at stores. Online retail sales accounted for less than 1% of total sales in the Middle East, according to market researcher *Euromonitor International*. With an estimated market size of US$5.3 billion in 2015, e-commerce contributed only about 0.4% to the region's GDP–a tiny amount compared with more mature markets that had similar levels of GDP per capita and internet penetration.[25]

Analysts felt that while e-commerce was growing in emerging markets like Southeast Asia, India, and China, the e-commerce sector in the Middle East was showing more promise of growth and there was an exceptionally productive platform for it. The growth in e-commerce was not exclusively driven by the private sector in a country like the UAE. The UAE had taken several initiatives to develop e-commerce. For instance, it had integrated traditional offline services such as Visa services, Traffic services, and Utilities services into online platforms to provide citizens quicker and more effective public services online. In addition, the UAE government had set up the world's first purpose-built duty-free e-commerce hub 'Matajircom'[26] in 2014.

Though many countries had moderately low internet penetration rates, the information technology setup was evolving quickly across the Middle East region. For instance, in some places like Bahrain, Qatar, and the UAE, 90% of the population had access to the internet. In the case of Qatar, the country with the third highest per capita GDP worldwide, less than 20% of internet users made purchases online in 2015. Analysts opined that there was huge potential for growth of e-commerce in the Middle East region. The Middle East's e-commerce market was

EXHIBIT III Middle East E-Commerce Market *(Amount in US$ Billions)*



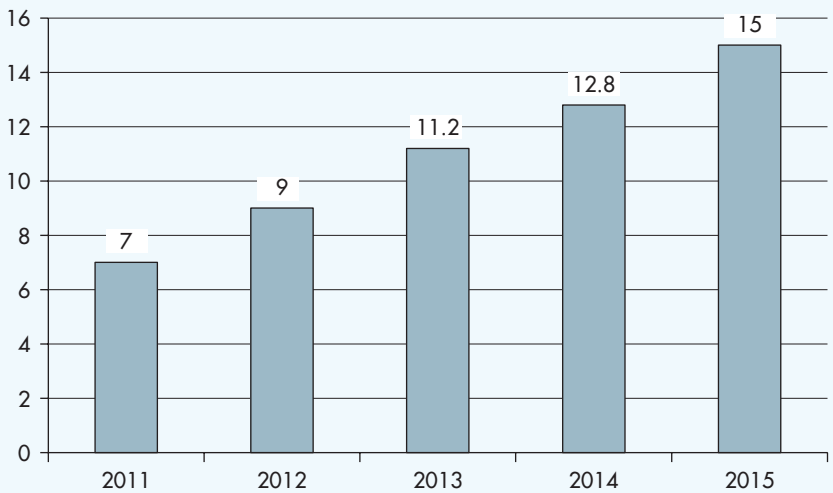
Source: http://marketrealist.com/2017/04/what-does-the-souq-acquisition-mean-for-amazon/.

expected to reach US$ 10 billion by 2018 ***(Refer to Exhibit III)***. According to a study published by *yStats.com* in 2016, the share of B2C e-commerce in total retail sales of goods in the UAE alone was forecast to triple between 2014 and 2019.[27]

By the middle of 2017, the Middle East e-commerce market was being controlled by local players like Souq and Wadi .com[28] (Wadi) and international businesses such as eBay Inc.[29] (eBay), Amazon, and Ali Express.[30] The quick development in the sector attracted huge investments. While most of the e-commerce companies had a presence in Saudi Arabia, Qatar, and the UAE, Egypt was also rising in e-commerce with over 30 million active online shoppers. E-commerce spending in the MENA region had crossed US$14 billion by the end of 2015 ***(Refer to Exhibit IV)***. The Asia Pacific region topped the total e-commerce sales by region ***(Refer to Exhibit V)***.

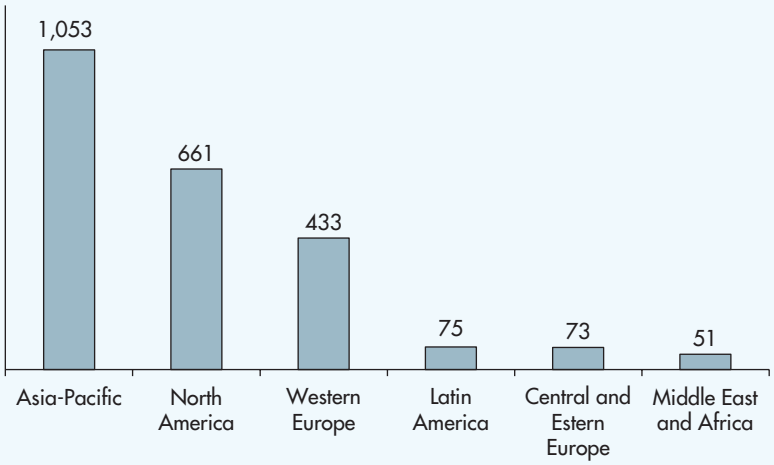
Among all the GCC countries, around 43% of internet users reported making an online purchase at least once a month. The UAE had the highest percentage of internet users who shopped online, compared to other countries in the Middle East. B2C 2010 e-commerce sales growth in the UAE was US $2 billion, 55% to 60% of the total GCC e-commerce sales, according to Visa. Saudi Arabia had the second largest e-commerce market in the GCC with an estimated US$520 million, followed by Qatar (US$375 million), Kuwait (US$280 million), Bahrain

EXHIBIT IV E-Commerce Spending in MENA Region *(Amount in US$ Billions)*



Source: PayPal Insights: e-Commerce in the Middle East 2012–2015.

EXHIBIT V E-Commerce Sales by Region *(Amount in US$ Billions)*



Source: Adapted from www.l2inc.com/daily-insights/ask-l2-how-much-of-amazons-growth-is-international.

(US$175 million), and Oman (US$70 million).[31] According to market estimates by *MyUS*, the leading facilitator for MENA consumers who wanted to purchase US merchandise online, the regional market's total value was forecast to hit the US$6.7 billion mark in 2017, up from US$4.8 billion in 2016.[32]

Hosam Arab, Cofounder and Managing Director at *Namshi*,[33] said, *"With over 90 million internet users in the Middle East, we are seeing incredible growth within the e-commerce space due to the convenience factor and wider product ranges online. However in a region where mall culture is so prevalent and the experience customers received from e-commerce players in the past was not on par with global standards, there is a lack of trust in online shopping as a whole compared to Europe and the US."*[34]

Smartphones had become prevalent in the Middle East which allowed transacting and making payments online. Broadband penetration was more than 50% in the MENA region, which was one of the highest rates of penetration in the world. The highest number of internet users in the MENA region was from Egypt, followed by Morocco and Saudi Arabia. Nevertheless, internet penetration was the highest in Qatar and the United Arab Emirates.

However, logistics was the main challenge for e-commerce in the Middle East. The existing delivery system was based on giving delivery vehicle drivers packages and phone numbers and the packages being delivered after multiple phone calls between the driver and the customer. The way the packages were delivered in the Middle East, Brazil, South America, and Russia had not changed since 1987. Analysts felt that this would lead to higher levels of product returns and high transport fees. Most of the e-commerce companies were developing in-house logistics solutions to minimize their delivery times as the Middle East market was fragmented.

Souq's Business Model

In 2011, Souq altered its model to an online shopping site akin to Amazon with a marketplace and retail items for sale on its platform. Analysts felt that Souq facilitated the feasibility of e-commerce in the Middle East region. The company sold a range of goods like diapers, shoes, and smartwatches to consumers in countries including Bahrain, Oman, Kuwait, and Egypt. Souq had acquired sukar.com[35] (sukar) in 2012 to benefit from Sukar's fashion expertise and customer service experience. Analysts felt that this acquisition could boost Souq's capacity to attract more women shoppers. Mouchawar expected the number of women shoppers to grow in the near future in MENA. He commented, *"While women are not yet a majority in e-commerce purchasing, or on the internet in general, things are changing quickly. Increased internet penetration has helped bridge that gap, as families have more internet access at home, and mobile platforms neutralize the access issue as well."*[36]

As most of the customers in MENA preferred cash on delivery (COD), Souq offered substitute payment options for the convenience of customers in areas where credit card use was uncommon. The company generated prepaid cards that were sold in physical stores and could then be used to make purchases on the website. In GCC, Souq created two effective payment platforms. One of them was CashU,[37] which was a payment gateway that was incorporated into merchants' websites and offered online prepaid coupons for customers to use on participating retail websites. To alleviate customer security apprehensions, the CashU system used advanced anti–money laundering and fraud protection technology. Another one was PayFort, which Souq owned and developed as a byproduct of CashU. PayFort allowed Souq and other traders to accept secure, encrypted credit card payments. It also offered the customers the option to pay bills in installments to enable online purchases.

Souq developed logistic solutions to deliver goods to customers in populations with no postal addresses. In 2016, it launched its logistics platform subsidiary, Q Express,[38] which owned trucks and vehicles and hired its own employees, and had complete control over end-to-end logistics solutions for

purchases made on Souq. Q Express offered same-day delivery as well as next-day delivery options. The delivery vehicles were armed with personal digital assistants for order tracking and status updates. Souq also owned warehouses across the UAE, Saudi Arabia, and Kuwait where customers could pick up their purchases. It had established a fulfilment center in Al Quoz[39] in which color-coded tape was attached to the floor to demarcate specific areas for products. Items that had arrived from suppliers were wrapped to safeguard them from dust. Products were required to stay for less than 24 hours in the warehouse, and were shipped out to customers either via Q Express or Aramex.[40] Mouchawar commented, *"Today, we're a courier company, a warehousing company, a payment company, a customer service company, a content company, and a commerce company all together."*[41]

Souq partnered with Nestlé S.A.[42] to sell its food and beverage products in Egypt in 2016. Omar El-Sahy, general manager of Souq in Egypt, said, *"We believe that e-commerce is the future for Egypt and we promise to provide our products to our clients nationwide now including foods and beverages too. Partnering with Nestlé will provide us with the opportunity to enter a market where 35.6% of household budgets are spent on groceries."*[43] Analysts felt that this strategic alliance would give Souq a good opportunity to excel in online ordering of grocery products in the MENA region.

In January 2017, Souq launched the automotive category to provide a huge selection of car accessories online with attractive deals. Analysts opined that the MENA region was observing a trend for car customization which had pushed the demand for interior car accessories and Souq could leverage this to expand its reach to millennials in the region. Saleem Hammad, General Manager at Souq, commented, *"Our endeavour is to always put our customers at the heart of our business. Constantly adding new categories is part of our drive to deliver a world-class online shopping experience to our customers and complete their purchase cart on* SOUQ.com. *In line with the digitalisation of automotive business in the region, this exciting category caters to our digitally savvy consumers that are leading the online shopping trend."*[44]

In March 2017, Souq announced the launch of its first customer experience center in Dubai, assisting customers as well as sellers across the UAE. Customers could visit the center and check the products before buying them online and even collect them from the nearest Souq center. The customers could also return or service goods previously purchased from Souq. As of March 2017, it was offering more than 8.4 million products across 31 categories including consumer electronics, fashion, health and beauty, household goods, and baby products.[45]

Souq's Successful Run

Souq eventually rose to success by introducing different categories of products on its website according to the trends in the MENA region. For these efforts, it won the MENA 'Customer Delight Award for 2013' in Dubai on November 7, 2013. This award was given after broad research about Souq by the MENA Awards Customer Delight Secretariat.[46] The MENA Awards Customer Delight Secretariat selected Souq for the award after assessing the performance of companies and collecting opinions from selected customers from 25 countries in the MENA region, after which a prominent panel of judges made the evaluation. Mouchawar commented, *"We are thrilled with this recognition, and the fact that we were selected from across a region comprising 25 countries and by such an eminent panel just makes this award even more special. Of course, the very basis of this award–and our continued success – is our customer, and it is to each one of them that we dedicate this award.* Souq.com *looks forward to being a part of people's lives across the region for many more years to come."*[47]

Souq did not reveal its financials, but reports suggested that its turnover hit AED500 million (US$136 million) in 2014.[48] Souq launched its first mobile app in 2014, which was listed by Apple Inc.[49] as one of 2014's top five mobile apps on the App Store for the MENA region.

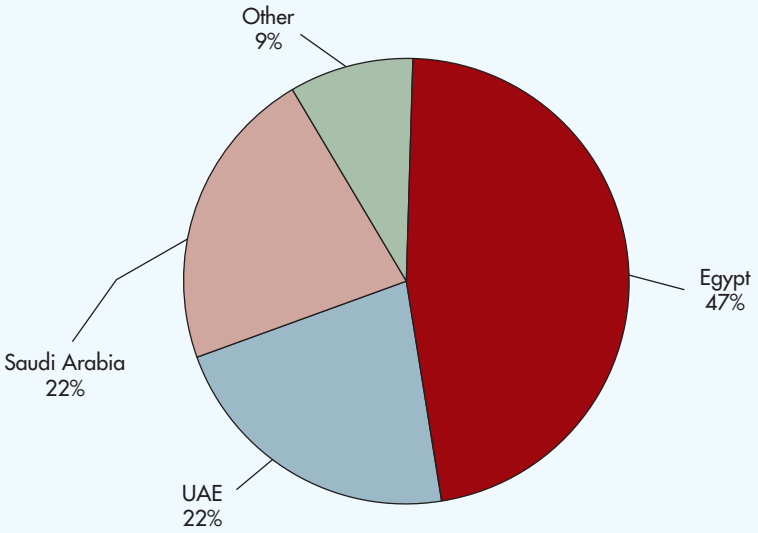
According to analysts, Souq's competitive advantage lay in the fact that it had the highest local traffic and largest buyer base in the MENA region. In addition, top strategic internet investors like Jabbar and Naspers supported it to become the largest marketplace in the region in terms of number of sellers and items. Souq featured more than 400,000 products from international and local brands as of 2014. It had localized operations in the United Arab Emirates, Saudi Arabia, Kuwait, and Egypt, and shipped products to Bahrain, Oman, and Qatar. Souq claimed to command 78% of all e-commerce traffic in the MENA region.[50] It provided extensive Arabic content in markets such as Egypt, where only 10% of the consumers used credit and debit cards to purchase online.

Souq implemented many successful marketing strategies to attract the Middle Eastern shoppers. For instance, it launched a four-day online shopping festival known as 'White Friday' in 2014. The idea of White Friday was inspired by the American tradition of 'Black Friday'.[51] The White Friday strategy attempted to reflect the culture of the Middle East as Friday was a weekend day and was reserved for worship by Muslims. Mouchawar explained, *"We wanted to own an event that was not really tied to thanksgiving as much but more tied to our Friday, our White, which is kind of positive and happy. We launched it in 2014 and it was a massive success. Last year, we did about 600,000 units, and hopefully this year we go over a million."*[52]

The top selling items during White Friday sales were perfumes, mobiles, watches, make-up, and handbags, as 35% of all sales were made via Souq's mobile app.[53] Comparing White Friday visits to the annual average, Souq was able to increase its traffic during the 2015 shopping holiday by 31% over the annual average, and further increase over annual average by another 29% in 2016.[54] According to *Arabian Business*, 600,000 items were sold across the UAE, Saudi Arabia, Kuwait, and Egypt in the White Friday event in 2016.

Souq had become the largest e-commerce vendor in the region as of 2016, featuring about 1 million products across 31 categories such as consumer electronics, fashion, health and beauty, household goods, baby clothes, watches, and perfumes. It had over 45 million visits per month and operated both as a retail site and as a marketplace for third-party sellers and had a

EXHIBIT VI Souq's Traffic Share on Desktop from March 2016 to February 2017



Source: Adapted from www.similarweb.com/blog/amazon-acquisition-of-souq-com-digital-strategy.

network of over 75,000 traders.[55] Commenting on the success of Souq, Mouchawar said, *"I think what's more important is that we become a household brand, that when everyone is thinking of buying a product through their mobile, they would check Souq and see if they get the best value and the best selection. I'd also like to think of us as a destination where young Arabs can come and find great jobs, innovate, and build teams."*[56]

Fadi Ghandour, Executive Chairman of Wamda Capital,[57] a leading venture-capital fund, felt that Souq's success was a testimony to the capability of start-ups to drive society-altering change and on how to create new industries from scratch. He said, *"Big companies aren't innovating anymore. Innovation happens at the start-up level. [If you support entrepreneurs], they're going to create wealth and they're going to create jobs. Suddenly, you will have a 21st century economy."*[58]

Souq was the most popular shopping site in two of its top three countries (i.e. Egypt and the UAE) except Saudi Arabia, which was dominated by Amazon. By 2016, Souq was receiving an average of 39 million global monthly visitors, 68% of them through desktops. This figure represented an increase of 21% since February 2015. Egypt provided the greatest amount of traffic to Souq at 47% over the previous year, followed by the UAE and Saudi Arabia, with 22% each.[59] ***(Refer to Exhibit VI)***.

Souq Looking for a Buyer

Souq was striving to excel in the e-commerce space in MENA, and experts felt that it had become a successful shopping destination in the MENA region. However, Souq started exploring different options to fuel its growth in 2016. It also considered the option of going public, but Mouchawar felt that going public was risky as Souq, being a privately owned company, could otherwise experiment with different strategies, some of which could fail., He felt the better option would be to join hands with other big players from the same industry. Another reason for Souq to look for a buyer was that the e-commerce industry was dynamic in nature and it had to compete with both smaller local e-tailers as well as multinational companies like Amazon and Aliexpress. Mouchawar felt that associating with a strong contender would reduce the competitive pressure for Souq.

Some industry observers opined that though Souq had succeeded in giving a tough fight to its competitors in MENA, it had witnessed a substantial increase in Amazon's presence across MENA, and even lost its major share in Saudi Arabia. For this reason, Souq was likely to look for a strong buyer so that it could win over the local competitors like noon.com[60] (Noon) and global competitors like Aliexpress. Souq appointed Goldman Sachs to find buyers with existing investors Tiger Global Management and Naspers open to selling part of their holdings in September 2016. According to *Bloomberg*, at least a 30% stake in Souq had attracted interest from Amazon as well as private equity firms and family-owned companies. Advisors to Souq were said to have reached out to a large number of potential bidders for the stake, which might value the firm at at least US$1.2 billon.[61]

Amazon Bids for Souq

Bezos visited Dubai Mall in November 2016 and this was perceived as a hint of Amazon's plans to enter the Middle East's emerging e-commerce market. Amazon approached Souq for acquisition in November 2016 offering an amount of US$700 million. However, Souq was believed to be seeking US$1 billion, which was much more than Amazon's offer.[62] Indian company Flipkart Online Services Pvt. Ltd.[63] (Flipkart) also approached Souq for acquisition in November 2016. But, Souq walked away from this deal too after a disagreement on the price. Amazon approached Souq again for acquisition in March 2017 with a bid of about US$650 million, which was less than its first bid.

According to analysts, Amazon had certain motives for buying Souq. For instance, Souq had fulfilment centers located

in Egypt, Kuwait, Saudi Arabia, and the UAE. These fulfilment centers were supported by a set of operations like customer service, engineering, and retail and had 2,500 employees. By acquiring Souq, Amazon could leverage those fulfilment centers and kick-start selling with nominal changes in the operations. Apart from this, if the deal with Souq was successful, Amazon would have direct access to Souq's 75,000 merchants, including two million products across 30 categories which would take care of the demand and supply factors in MENA. Amazon could also leverage Payfort, which was an online payment gateway popular in MENA.

Another advantage for Amazon was that it could leverage its global popularity in MENA. Andrew Kitson (Kitson), a senior analyst with London-based *BMI Research*, opined that Amazon's decision to acquire Souq indicated its intention to move quickly into the Middle East market rather than building up its presence from scratch.[64] Analysts also opined that Amazon could be earning more in MENA than it was earning at the moment if it operated in a full-fledged manner. Experts opined that Amazon, instead of starting from scratch–a costly and time-consuming affair–could start its operations quickly by acquiring Souq. They also felt that Amazon could absorb its biggest competitor in MENA like Souq instead of competing with it.

According to analysts, Amazon's core competency lay in technology infrastructure, logistics which facilitated quick delivery, huge market share in the e-book market, and brand reputation. By leveraging these competencies with the added infrastructure of Souq, analysts felt that Amazon could excel in MENA as it had in the US.

Digital marketing specialist Mai Gamal contended that the potential for Amazon's operations in the region might be "game changing," while specifically referring to fast delivery operations and customer services. *"With Amazon, you can return whatever product you don't like without hassle, and you can communicate your complaints very easily, something we really lack in the region,"*[65] she said.

However, Amazon had to face certain challenges if it succeeded in its bid for Souq. Analysts contended that acquisitions might be the fastest and easiest way to move into a market, but when cultures, infrastructure, and regulations were varied, the acquiring company frequently failed to develop the acquired company. They opined that Amazon would have to face several challenges if it succeeded in the acquisition of Souq, like the preference for COD in the Middle East region, customers' lack of trust in online platforms, data security concerns, issues with local logistics, the culture and traditions differing from Western culture, and local government regulations. If Amazon's acquisition of Souq succeeded, it would mark the company's first move into serving the MENA region, which covered a total of 50 million consumers across several countries, and was also a relatively untapped e-commerce market.

Emaar Enters the Scene

Emaar had also submitted a US$800 million bid for Souq in March 2017 competing with Amazon. The Emaar bid included a US$500 million up-front payment and a guaranteed 15% internal rate of return for Souq shareholders.[66] Analysts felt that Emaar's entry into the fray raised the stakes in the battle to buy Souq. Alabbar already had plans to start Noon, which was slated as an US$1 billion project that would have an initial focus on fashion and luxury products, but which would be changed into a full-fledged e-commerce portal. In fact, Noon was funded by the Saudi Arabian government and 65 private Arabian Gulf investors to the tune of US$1billion.[67] It offered 20 million products through its platform.

Emaar's acquisition proposal for Souq happened when there were speculations in the media that Souq had accepted Amazon's bid. *"Emaar Malls has submitted a bid of $800m for* Souq.com *in line with the strategy to align e-commerce with physical shopping,"*[68] said the statement signed by Ahmad Thani Al Matrooshi, vice chairman of Emaar Malls. Analysts opined that Emaar had made a bid for Souq challenging Amazon. They also opined that the Emaar bid offered a tempting premium for Souq in such a way that even if Souq had formerly made a deal with Amazon, it would have to re-evaluate the deal in light of the new bid by Emaar.

According to some industry observers, Emaar wanted to maintain its foothold in online shopping too as it was in the physical shopping space via malls in the UAE. As a local player, Emaar enjoyed certain benefits compared to Amazon. It had a major stake in local logistics company Aramex, which would also be a major source for logistics for Amazon in case it succeeded in the bid. Aramex would support Emaar due to its stake in it. Apart from that, Emaar would face less regulatory hurdles and it had funding support from the local governments. It was also well-versed in the local culture and traditions.

Analysts felt that by adding Souq to its belt, Emaar could command the e-commerce business in MENA. David Macadam, the chief executive at the Middle East Council of Shopping Centres, commented, *"Bricks and mortar growth is slowing whereas online has huge growth potential. Dubai Mall and Marina Mall are fantastic but they cannot offer the growth that online can. Online sales make up about 3 per cent of the region's sales against 12–15 per cent in more mature geographies. The bricks and mortar business with the online business would have some great synergies."*[69] However, overexposure to Dubai, operations and funding strategy, dependence on local government, labor problems, and quality issues were considered to be hurdles for Emaar.

The Road Ahead

Analysts opined that Souq could leverage the global brand value of Amazon in MENA for its further growth if the deal with Amazon succeeded but they were sceptical about the deal's success. The reason for this was the advantageous position of Emaar with its strong presence in MENA and local government's backing. Some analysts opined that Noon plus Souq versus Amazon would be a fair fight. Some of the big corporates in the Middle East had their fingers crossed over the result of the Souq auction. Aramex was counting on Alabbar as a potential investor and was expecting to benefit from more money-spinning fulfilment contracts from Noon plus Souq.

Majid Al-Futtaim[70] (MAF), the UAE-based malls operator, was also extremely concerned over the result of the Souq sale in January 2017, to the extent that it was also cited as a possible bidder for Souq.

Analysts felt that Amazon could not replicate the success it enjoyed in the US in the rest of the world, particularly in the fast growing countries in the East. In China, it was contesting with Alibaba Group Holding Limited[71] (Alibaba) and in India, it had to fight with big local rivals like Flipkart. Some analysts opined that the countries in the MENA region had a lot of untapped e-commerce potential but had their own distinctive cultures, which might not make Amazon the behemoth of the e-commerce in MENA.

The choice was left to Mouchawar and the management team at Souq as they contemplated their move carefully. Analysts considered this as a battle royal for the future of e-commerce in the Middle East. Omar Kassim, founder of market platform JadoPado.com,[72] said, *"High drama in our corner of the world. An interesting development even though I think the Amazon transaction is almost wrapped up. This will give some shareholders [souq.com] pause as the delta between Amazons's assumed offer of $650m and Emaar Malls' bid is $150m [higher]. The management team have a fiduciary duty to their shareholders to achieve the best possible outcome."*[73]

Case Questions

1. Critically analyze the reasons for Souq's success in MENA. Do you think that the decision to sell out is a good option for Souq to realize its growth objective?
2. Evaluate the options before Souq in relation to the bids by Amazon and Emaar.
3. If you were in Ronaldo Mouchawar's place, what would your decision be? What are the implications for this decision going forward?

Endnotes

1. This case was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. © 2018, IBS Center for Management Research. All rights reserved. To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: casehelpdesk@ibsindia.org Source: www.icmrindia.org
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Case 7 Coming to America: A Successful Japanese Acquisition in Global Business

This case was written by Syed Tariq Anwar, Professor of Marketing and International Business at West Texas A&M University.[1]

The SoftBank-Sprint Merger: 2012–2019

Within the topics of cross-border mergers and acquisitions (M&As) and global business environment, this case analyzes and discusses SoftBank's 2013 acquisition of Sprint, which at the time was the third largest mobile telephone firm in the U.S. Unlike other multinational corporations (MNCs) from Japan, SoftBank at the time of the merger was a high-flying telecom, technology and Internet firm that had grown by leaps and bounds since its inception in 1981. SoftBank bought Sprint for $21.6 billion and continues to be one of the major telecom and Internet firms in Japan with revenues of over $80 billion. In 2019, SoftBank also announced its proposal to merge with T-Mobile, a well-known German telephone company which is owned by Deutsche Telecom.

In the history of U.S.-Japan business relations, the SoftBank-Sprint merger was the largest purchase by a Japanese firm in North America, which caused concerns among the telecom companies in the U.S. The case analyzes pre- and post-merger developments that took place in the SoftBank-Sprint tie-up and negotiations. The acquisition also revealed complexities in the negotiation process which emerge from global business and firms' corporate rivalries. Because of its timeliness, the case contributes to the debate of cross-border M&As and expansion in the telecom industry.

In global business, cross-border M&As are common and are used by companies to seek growth and global expansion. At the same time, cross-border M&As are often impacted by complex forces and regulatory hurdles. Other factors may include firms' bargaining tactics, corporate agendas, and investor-specific strategies. Cross-border M&As can also become highly complex because of firms' marketing operations and intertwined global business activities.[2]

Such was the case when SoftBank of Japan acquired Sprint in 2013. The $21.6 billion acquisition of Sprint by SoftBank represented a major corporate breakthrough in the business world. Behind this high-profile acquisition, we witnessed a major achievement on the part of SoftBank's CEO Masayoshi Son and his corporate team and investors from Japan and North America (see Figure 1). Along with other fast growing high-tech firms from East Asia (see Alibaba, Baidu, Foxconn, Rakuten, Samsung, Tencent, etc.),[3] SoftBank stands out in the crowded telecom and Internet market because of its marvelous initiatives, bold acquisitions, and high-profile growth.

In the global telecom and media sectors, Son was praised by industry experts and analysts alike. Brooker in *Fast Magazine* commented: "the most powerful person in Silicon Valley."[4] Negishi and Knutson in 2014 in *The Wall Street Journal* remarked: "the 56-year Mr. Son, a maverick billionaire and one of Japan's best known CEOs wants to use Sprint to upend the U.S. wireless industry . . . .".[5] *The Economist* further added: "SoftBank cannot offer Sprint airwaves in America, but it can bring plenty of cash to the table, thanks to Japan's near-zero interest rates."[6] de la Merced in *The New York Times* corroborated: "Deal to buy Sprint is SoftBank's biggest gamble."[7] Nakamoto and Soble in *Financial Times* further observed: "SoftBank is no stranger to daring mergers and acquisitions, including cross-border ones."[8] These complements, praises, and favorable opinions about SoftBank reflect the company's long-term ambitions, growth, and global expansion.

In the business world, global firms and MNCs are bought and sold on a regular basis because of their long-term synergies and operational strategies. Also important are the firms' restructuring and rationalization plans that aim at long-term growth and internationalization. Globalization is another catalyst in this never-ending process. Companies design business models and corporate structures that aim at seeking internationalization and global expansion.[9] There are many global industries that witness cross-border M&As and tie-ups on a regular basis. One such industry is the global telecom sector (equipment manufacturers, handsets manufacturers, and service providers/telephone firms), which often crosses national borders to seek alliances, joint ventures, and global expansion.

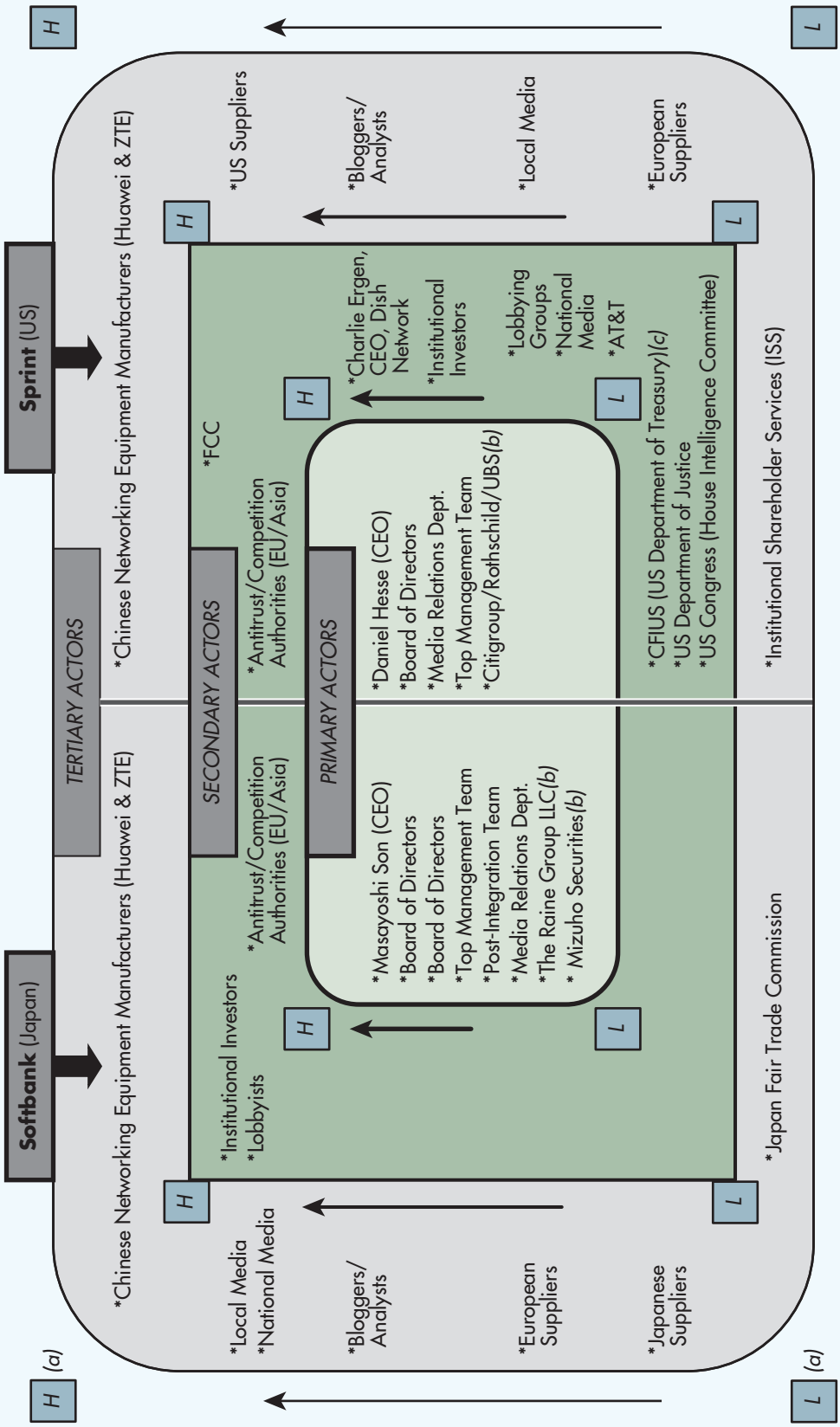
The telecom industry and its wireless sector is a prominent area in global business. Many telecom firms seek international operations, alliances, and corporate tie-ups. The industry's value chains remain diverse and complex because of new technologies and consumer demand. We witnessed the same corporate activities with SoftBank and Sprint when the two telecom players merged in 2013.

To discuss further, this case is divided into the following sections. Section one briefly discusses the SoftBank-Sprint merger. Section two provides operational issues of cross-border M&As. Section three discusses data and case-based research. Section four analyzes the SoftBank-Sprint merger and its complex negotiations, and pre- and post-merger developments. Section five provides implications, trends, and future research directions. The last section concludes the case and its major developments.

Cross-Border M&As: Issues and Realities

Cross-border M&As are common in the business world and are pursued by MNCs for growth and expansion. These mergers mostly take place in developed countries because of their industry-specific opportunities and business models. Mergers and acquisitions can result in healthy synergies as well as long-term

FIGURE 1 **Primary, secondary, and tertiary actors in the SoftBank-Sprint merger negotiations (2012–2013)**



Source: Format adapted from Anwar, S. T. (2019). "Kraft's acquisition of Cadbury: Was it an amicable transatlantic merger or a hostile take-over"? *Thunderbird International Business Review*, 61(2), p. 446. Author's compilation and research (2012–2014). See: *CNBC, The Economist, Financial Times, The Japan Times, The New York Times, Reuters, The Wall Street Journal, Yahoo Finance*, etc. Notes: *(a).* Level of involvement in the merger negotiations: *L*-Low; *H*-High. *(b)*. For a list of financial, legal, and regulatory advisors/agencies, see: http://newsroom.sprint.com /news-releases/sprint-and-softbank-announce-completion-of-merger.htm. *(c)*. CFIUS: Committee on Foreign Investment in the United States.

TABLE 1 Major opportunities, problems, and failures of cross-border M&As: Selected literature-based research and findings

Success factors and opportunities of cross-border M&As:

- Cross-border M&As create new markets, corporate synergies, and strategies.
- Cross-border M&As may lead to "*comparative advantage*"; acquiring firms often outcompete competitors.[10]
- Issues of market entry in the merger process are important for growth and expansion.
- In cross-border M&As, "*asset exploitation"* and *"asset augmentation*" are important.[11]
- Seeking a balance between "*exploration and exploitation*" is necessary when dealing with cross-border M&As.[12]
- In the merger process, positive synergies are possible for those buying firms which maintain well-tested business models and corporate assets.
- In M&As, firms with good learning curve and knowledge are often successful.[13]
- "*English language fluency*" is necessary in cross-border M&As.[14]
- Knowledge management plays a critical role in cross-border M&As.
- Issues of how best to deal with "*strategic assets*" and "*firm-specific resources and capabilities*" of acquired firms are critical in M&As.[15]

Problems and failures of cross-border M&As:

- Issues of manpower and retention can be complex and problematic in M&As.
- "*Value destruction*" is a major problem in cross-border M&As.[16]
- Country-specific institutions determine the success of cross-border M&As.
- In cross-border M&As, countries do not like their strategic firms to be acquired and sold.[17]
- In global business, cultural differences are major problems in M&As.
- "*Linguistic distance and lingua franca proficiency*" and "*language difficulties*" can create problems in M&As.[18]
- "*Culture clashes; cultural differences; culture-dependent problems*" are major hindrances in cross-border M&As.[19]
- "*Value destroying acquisitions*" are the result of firms' ill-conceived planning and corporate hubris.[20]
- Host countries' "*national economic security*" can be a major problem when seeking cross-border M&As.[21]

growth.[22] Table 1 provides literature-based highlights and findings of cross-border M&As which deal with opportunities, problems, and failures. To discuss further, the following two sections discuss these success factors and problems:

Success Factors, Opportunities, and Problems

In cross-border M&As, company-specific culture and operational strategies play a critical role regarding the merger's success and failure. These may encompass strategic changes, corporate governance, labor and regulatory hurdles, and stakeholders' involvement. Other issues are knowledge creation and synergies of "exploration-exploitation"-based strategies that can capture growth and expansion.[23] In M&As, companies often seek new technologies and product lines to remain healthy in their growth, expansion, and long-term prospects.[24]

Acquisitions can take the forms of "platform acquisition," "bolt-on acquisition," or just buying "strategic assets."[25] Cross-border M&As mostly aim at "asset exploitation or asset augmentation"[26] and can create new ventures. At the same time, newly created business entities can become redundant entities if managed haphazardly. Employee turnover problems can disrupt the process. Cross-border M&As can also be impacted by "double taxation" hurdles and regulatory disruptions. Companies can be impacted by country-specific corruption, weak governance, and bureaucratic hurdles.[27] Negative areas that impact M&As can culminate from contractual changes and complex negotiations. The impact of linguistic differences and language issues may also cause problems in the post-integration period.[28] These may lead to communication problems and operational disruptions. In addition, the pace of integration can be determined by the firms' business models, competitive advantage, and financial prowess.

The SoftBank-Sprint Merger and Its Complex Negotiations

As stated earlier, the global telecom industry is a major sector in the business world and carries distinct value chains which are made up of telecom equipment firms, handset manufacturers, and service providers. The industry is widely located worldwide because of heightened consumer demand and growing opportunities. Changing technologies, regulatory environment, and mass consumption, cross-border M&As are becoming common in the telecom industry and are used by firms to target diverse markets and regions. As stated earlier, M&As are common in the business world and companies seek inter-organizational cooperation and acquisitions to expand and grow in domestic and global markets. In cross-border M&As, we often witness complex negotiations which demand experience and time.

The negotiations process can be time consuming and technically tricky and may revolve around the "RBC Framework" ('relationships, behaviors and conditions'),[29] "interpersonal trust,"[30] "consensus building,"[31] and Machiavellian-based strategies and bargaining tactics.[32] During the takeover process, media coverage often becomes critical and higher stock prices are common occurrences because of competition among the bidders.[33] Outside stakeholders can also influence the negotiation process because of job losses and displacement of workers.

SoftBank and Sprint witnessed the same issues and hurdles in their negotiations in 2012–2013. Table 2 provides a detailed list of developments and activities that took place in

TABLE 2 Major corporate activities in the SoftBank-Sprint merger: Pre- and post-merger negotiations and corporate developments (2012–2019)

• October 2012	–SoftBank proposes to acquire Sprint for $19.2 billion; the deal could close in 2013. –AT&T complains that Softbank's control of Sprint and Clearwire provides the company an unfair advantage since it gives more U.S. wireless spectrum to SoftBank.
• January 2013	–U.S. Department of Justice expresses its concern for the SoftBank-Sprint merger and asks the Federal Communications Commission to delay approving the merger.
• March 2013	–U.S. government objects and would like to oversee SoftBank-Sprint's future purchases of telecom gear from Huawei and ZTE, which are two firms from China that supply telecom equipment. –SoftBank and Sprint agrees not to purchase Chinese networking equipment from Huawei and ZTE.
• April 2013	–Dish Network, a major satellite TV provider from the U.S., shows its desire to acquire Sprint for $25.5 billion; the merger could build the largest network for mobile, broadband, and TV infrastructure. –Regardless of Dish Network's offer, SoftBank expects to have its acquisition of Sprint move forward by buying the company in July 2013. –Dish Network asks U.S. regulators to investigate the SoftBank-Sprint merger because of national security concerns and possible involvement of Chinese telecom equipment providers. –SoftBank CEO Masayoshi Son calls Dish Network's bid for Sprint *'incomplete and illusory*'.
• May 2013	–Dish Network chairman Charlie Ergen criticizes SoftBank and comments: *'culture matters'* in the SoftBank-Sprint merger. –SoftBank CEO Son tries to persuade Sprint shareholders regarding SoftBank's 4G expertise and its competitive long-term prospects in Japan and North America. –SoftBank promises to work with the U.S. government because of national security concerns and future telecom-related contracts. –SoftBank-Sprint merger gets clearance from the CFIUS and the U.S. Dept. of Treasury.
• June 2013	–SoftBank reveals that it may acquire T-Mobile if its Sprint bid fails. –SoftBank-Sprint merger is approved by the U.S. Department of Justice. –SoftBank raises its offer for Sprint to $21.6 billion in cash and stock. –Sprint shareholders approve Softbank's offer of $21.6 billion. –Dish Network withdraws its bid for Sprint.
• July 2013	–FCC approves SoftBank's acquisition of Sprint. Softbank completes its acquisition of Sprint on July 10; owns 72% of Sprint shares; the company is called Sprint Corp. –The acquisition encompasses $21.6 billion; $5 billion in cash to support Sprint's balance sheet and $16.6 billion to entice Sprint's shareholders. –Dan Hesse becomes CEO of Sprint; Masayoshi Son is the Chairman of the board; Ronald Fisher serves as a director and president of SoftBank Holdings Inc.
• 2014	–Marcelo Claure is appointed as the new CEO of Sprint.
• 2015–2016	–Sprint operates as a subsidiary of SoftBank and continues to be number three telecom firm in the U.S. The company continues to compete with its main competitors in the U.S.
• 2017	–Because of the merger, Softbank accumulates $30 billion debt. –SoftBank and Saudi Arabia collaborate to start a $100 billion technology fund called 'Vision Fund', which remains active in the tech sector. Major investors of Vision Fund include Saudi Arabia's Public Investment Fund and Abu Dhabi'a Mubadala Investment Co.
• 2018	–SoftBank and T-Mobile propose merging the two companies, eventually having a major telecom firm.
• 2019	–Sprint and T-Mobile plan on merging the two firms if approved by the U.S.'s antitrust authorities and the U.S. Congress. The merger aims at launching 5G technology. –SoftBank invests $200 million into a European Fund, which was started by Abu Dhabi's state investment company Mubadala.

Source: Welch, C. (2012). *SoftBank buys Sprint: Everything you need to know about the multi-billion acquisition*, (October 18), (http://www.theverge.com/2012/10/18/3521256/softbank-buys-sprint-acquisition-news-rumors). Accessed on October 17, 2014. For newspapers, periodicals, and websites (2012–2019, various issues), see: *CNBC, The Economist, Financial Times, The Japan Times, The New York Times, The Wall Street Journal*, and *Yahoo Finance*.

the negotiation process. In October 2012, SoftBank proposed to acquire Sprint for $19.2 billion and the deal was supposed to close in 2013. AT&T took notice of the merger and filed a complaint against SoftBank. In January 2013, the U.S. Department of Justice raised its concern for the SoftBank-Sprint merger and asked the Federal Communications Commission (FCC) to delay approving the merger. In March 2013, the U.S. government objected and wanted to oversee SoftBank-Sprint's future purchases of telecom equipment from China's Huawei and ZTE. Because of national security concerns, SoftBank and Sprint agreed not to purchase networking gear from Chinese firms. In April 2013, Dish Network, a major satellite company from the U.S., entered into the bidding process and showed its desire to acquire Sprint for $25.5 billion. This proposal was aimed at building the largest network for mobile, broadband, and TV infrastructure in the U.S. Dish Network also asked the U.S. regulators to investigate the merger because of national security concerns and involvement of telecom equipment manufacturers from China.

SoftBank CEO Son called the Dish Network's bid "incomplete and illusory."[34] In May 2013, Dish Network chairman Charlie Ergen criticized SoftBank and insisted on keeping Sprint in the U.S. During this process, SoftBank promised to work with the U.S. government because of national security concerns. In the coming months, the SoftBank-Sprint merger was approved by the Committee on Foreign Investment in the United States (CFIUS) and the U.S. Department of Justice. Eventually, SoftBank raised its bid to $21.6 billion in cash and stock and ended up acquiring Sprint. Dish Network could not pay this amount and later withdrew its bid for Sprint. In July 2013, the FCC approved SoftBank's acquisition of Sprint and the company's buyout of Clearwire. The new company was called Sprint Corp. Under the leadership of Son and his corporate team, Sprint Corp. continued to grow by seeking restructuring and rationalization.[35]

Primary, Secondary, and Tertiary Actors in the Merger Process

Figure 1 provides an illustrative and detailed involvement of primary, secondary, and tertiary actors who became embroiled in the SoftBank-Sprint merger. Primary actors included Masayoshi Son, board of directors, Japanese banks, top management team, post-integration team, company's media relations department, and the Raine Group LLC and Mizuho Securities as investment advisory firms. Secondary actors involved in the merger negotiation encompassed institutional investors, lobbyists, and antitrust/competition authorities from the European Union and Asia. Tertiary actors included Chinese networking equipment manufacturers, local and national media, bloggers/analysts, Japanese suppliers, and Japan Fair Trade Commission. In the case of Sprint, primary and secondary actors remained actively involved within and outside the company and exerted wide-ranging influence regarding the merger's efficacy and application of fair trade standards. A major primary actor who became the key spokesperson during negotiations was Daniel Hesse, CEO of Sprint. Other primary actors included board of directors, media relations department, top management team, post-integration team, and investment advisors such as Citigroup, Rothschild, UBS, and others.

As required in M&As, the FCC and antitrust/competition authorities from the EU and Asian countries (China, India, and others) had to approve the merger after its filing. Interestingly, the U.S. Department of Treasury's CFIUS, the U.S. Department of Justice, and the House Intelligence Committee of the U.S. Congress made their own inquiries and investigation during the merger proceedings. A few concerns were raised by these committees regarding national security issues and involvement of Chinese networking equipment manufacturers. Charlie Ergen, CEO of Dish Network, raised his company's concerns about the involvement of Chinese companies. Institutional investors, lobbying groups, and national media remained part of the secondary actors but had no major role in the outcome of the merger. Tertiary actors such as U.S. suppliers, bloggers/analysts, local media, AT&T, and Institutional Shareholder Services (ISS) were somewhat sparse and had a limited impact on the outcome of the merger.

Applying the issues of complex negotiations, we come to know three major outcomes that emerged from the merger: (a) national security concerns were raised regarding the involvement of Chinese networking equipment manufacturers; (b) objections of Dish Network and AT&T did not materialize in the absence of proper justifications; and (c) institutional investors and lobbying groups found no evidence that damaged competition in the telecom sector and its related areas. Figure 1 reveals a complex array of actors and players within the merger negotiations. The three actors' involvement in the ten-month merger proceedings testifies that global business remains complex and multifaceted regarding its competition and operational environment.

Implications and Changing Trends

In global business, cross-border M&As encourage companies to seek future growth and expansion. Designing companies' core competencies and marketing strategies can be complex and a daunting task. These activities also encompass firms' products, global operations, and value chains. The following developments, trends, and future research remain important in the case discussion:

Issues of Post-Merger Integration

Post-merger integration brings synergies as well as problems. On many occasions, companies in cross-border M&As struggled with unexpected events, media frenzy, cultural adjustment, and misalignment of corporate strategies. A few approaches to fix post-merger integration include "consolidation, standardization, coordination, and intervention."[36] Regardless of post-integration approaches and their implementation, cross-border M&As pose problems in the long run when markets and technologies change. Both firms had to deal with the post-merger integration period because of two distinct corporate cultures, competition, and changing technologies.

Materializing Future Growth and Expansion

In the SoftBank-Sprint merger, both companies sought the tie-up because of future opportunities, growth, and expansion. In 2013, Sprint maintained 53,252,000 subscribers with a market share of 16.7 percent. This was a reasonable market share, which attracted SoftBank to the U.S. market. Sprint had the network and organizational skills to operate in the U.S. efficiently and was familiar with the market as well. This was a major asset that SoftBank spotted in Sprint for its future growth and expansion. The company's network was particularly well known and helped SoftBank to fulfill its ambitious agenda for growth and expansion. Since SoftBank was never a major player in the U.S. telecom market, Sprint's acquisition opened new opportunities and markets to the company. SoftBank also wanted to increase its growth and expansion and compete effectively with DoCoMo and KDDI, which were the two largest telecom firms in Japan.[37]

Post-Merger Corporate Developments

To consolidate its corporate position and business growth, Sprint announced it was acquiring T-Mobile in July 2014. This move was aimed at creating a $32 billion merger. The plan was somewhat ambitious on the part of Sprint. The FCC took notice and objected to Sprint's acquisition of T-Mobile, eventually rejecting the merger. In 2019, Sprint and T-Mobile restarted the process of merging their firms again because of competition and market opportunities.[38]

Industry-Specific Issues, Competition and Markets

In the global telecom industry, competition has been heightened because of saturation and crowded markets. Such is the case with the U.S. telecom market that remains attractive. Like UK's Vodafone, which one time owned 43 percent of Verizon in the U.S. market, SoftBank will keep its ownership of Sprint in a low-profile manner. This can strengthen the Japanese company and its expansion in the U.S.

Future Issues and Expansion

Like other MNCs, SoftBank may use its U.S. hub to seek additional acquisitions and start technology funds. This is evident from SoftBank's acquisition of UK-based Arm Holdings, which is a unique chip-design firm.[39] In addition, SoftBank started a $100 billion Vision Fund in collaboration with Saudi Arabia and the UAE to seek new startups in the high-tech sector.[40] SoftBank's future ambitions and growth plans for the U.S. market are evident from the firm's $20 million investment in Alibaba, which turned $50 billion after the company's IPO in the U.S. SoftBank also invested in high-profile companies such as Yahoo Japan, Arm Holdings (UK), Boston Dynamics (U.S.), Uber (U.S.), Lyft (U.S.), Didi Chuxing (China), Ola (India), Grab (Singapore), and others. Son's entrepreneurial ambitions and visionary personality aim at making SoftBank a truly global empire in the Internet and telecom sectors. As a third player in the U.S. telecom market, Softbank's acquisition of Sprint was slow to gain traction in the telecom market because of debt and market hurdles. In global business, cross-border M&As encourage new research avenues, which may include corporate tie-ups, FDI-related activities, and other opportunities. This is particularly evident in the Silicon Valley and high-tech centers worldwide.

Concluding Comments

The SoftBank-Sprint merger is a useful case-based exercise in international management. Merging two large-scale business entities can be tricky if corporate cultures diverge and remain separated. The main lessons learned from the SoftBank-Sprint merger are: (1) cross-border M&As are useful but tricky because of market entry issues and expansion; (2) foreign acquisitions normally fail because of weaker corporate governance, complex value chains, and questionable business models; and (3) companies with established brands and operations can add value to their mergers if planned well. In conclusion, SoftBank's acquisition of Sprint was not well received by other telecom firms in the U.S. and most of the companies remained wary of SoftBank's ambitious agenda and expansion plans. At the same time, SoftBank injected additional funds in Sprint to revive the company and its expansion plans. As of 2019, Sprint can revive its growth and future expansion if it merges with T-Mobile. On the other hand, the SoftBank-Sprint merger made a good precedent for Japanese MNCs that plan on seeking expansion in North America and beyond.

Case Questions

1. What are your views of SoftBank's acquisition of Sprint in the U.S.'s telecom industry?
2. Investigate and discuss SoftBank and Sprint's core competencies in Japan and the U.S.?
3. Analyze and discuss the changing telecom industry (as of 2020) in the U.S.?
4. What lies ahead for Sprint in the telecom sector?
5. What did you learn from the SoftBank-Sprint merger?

Endnotes

1. An earlier version of this work was presented at the 2015 Southwest Case Research Association Conference, Houston, Texas (March 11–12, 2015). The material in this case is intended to be used as a basis for classroom and academic discussion rather than to illustrate either effective or ineffective handling of a managerial situation and business practices. © 2019: Syed Tariq Anwar
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PART

4 Global Human Resources Management

PART OUTLINE

CHAPTER 9
Staffing, Training, and Compensation for Global Operations

CHAPTER 10
Developing a Global Management Cadre

CHAPTER 11
Motivating and Leading



CHAPTER

9 Staffing, Training, and Compensation for Global Operations

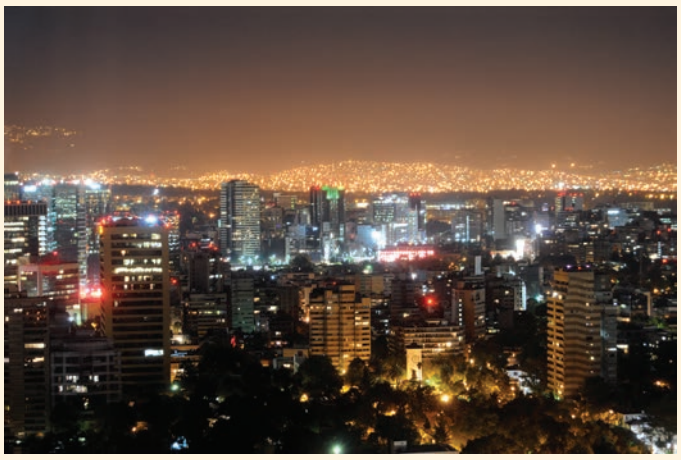
OBJECTIVES

- **9-1.** To understand the strategic importance to the firm of the IHRM function and its various responsibilities
- **9-2.** To learn about the major staffing options for global operations and the factors involved in those choices
- **9-3.** To emphasize the need for managing the performance of expatriates through careful selection, performance management, and global teams
- **9-4.** To appreciate the necessity of cross-cultural training, job-specific training techniques, and appropriate compensation for expatriate performance
- **9-5.** To discuss the role of host country managers and the need for their training and appropriate compensation packages

Opening Profile: Staffing Company Operations[1]

Back in the 2015 Brookfield Global Relocation Trends Survey (GRTS), firms' human resources (HR) staffs from 143 MNCs were asked to identify the top three countries that represented new assignment locations for them. They were China, Brazil, and the UAE. Those that were considered the most challenging for assigning people, as well as for the assignees, were Brazil, India, and China, followed by Russia.[2] However, a distinction was made between relatively developed cities, such as Mexico City, pictured here, and less-developed locations in other areas of those countries. Going into 2020, however, while little has changed about the locations, staffing in those countries has become very competitive.

In addition to the challenge of assigning and maintaining expatriates in emerging market economies, the ability to staff subsidiaries in emerging market economies with local managers has become a major challenge in the race for recruiting and retaining local talent. Emerging economies such as Brazil, Russia, India, and China have been developing so rapidly and have so attracted increasing overseas investment that they have outpaced the supply of suitable mid- and upper-level managers in their own markets. Foreign firms wishing to expand their investments in such economies are competing for what talent is available with both local companies and other global companies; however, they are falling



Frontpage/Shutterstock

behind the curve in not recognizing that they need different approaches than those they use domestically. The problem is so acute that many companies have had to reconsider how fast they can expand in developing economies.

As multinational companies seek to place the right people in the right positions in the right locations at the right time, global relocation services have become more important—especially as MNCs' strategies and structures continue to evolve. MNCs that invest in global talent management enable them to reach new talent and further develop existing talent with multinational experience and skills. In today's competitive environment, MNCs need to develop global relocation services that customize their services to deal with the challenges and opportunities associated with workforce mobility.[3]

The international expansion of companies has coincided with a growing need for a "mobile workforce" that accepts transfer assignments worldwide. A 2018 report by Global Mobility Solutions on global relocation reveals some emerging trends. First, support programs need to take into consideration spousal career needs. Second, global relocation programs need to ensure flexibility because the challenges and opportunities associated with an assignment can vary from location to location. Third, more countries are imposing constraints on number and types of working visas and work permits, thus restricting relocation transferees to enter the country legally to work for their respective companies. Fourth, relocation programs are employing more technology to assist transferees during their relocation process when they need it, regardless of their location. Mobile technology is making it possible for transferees to obtain and share information (e.g., uploading expenses for prompt reimbursement). Fifth, the growing need for specialized relocation services has prompted global relocation programs to outsource some activities to organizations with expertise managing specific relocation tasks and services.[4]

Reasons for the shortage of upper-level managers vary by country. Research by Ready et al. shows that although Brazil has an influx of new graduates available to staff at the low- to mid-management level, there is a deficit at the upper levels. In India, there is also a surplus at the lower level but a deficit starting at the middle levels; one additional explanation is the brain drain, in particular in the technology industry. In Russia, there is a deficit at all management levels because of decades of operating under a planned economy, together with the great increase in demand by foreign companies. In China, there is a sizable surplus at the entry level—though of varying quality—but a considerable deficit at all levels up from there.[5]

> *Competition for talent in emerging markets is heating up. Global companies should groom local highfliers—and actively encourage more managers to leave home.*[6]

Clearly, the competition for talent has become global, as has the competition for jobs. The brain drain from emerging economies has contributed to the dearth of local talent available. Over a million Chinese went to the United States to study between 1978 and 2006, and 70 percent of them did not go back. However, that trend has declined significantly as of 2018, according to Wei Yang, president of the National Natural Science Foundation of China, who stated, "Just 10 years ago, the flow of talent was at about seven Chinese students leaving for every one that came back. Now it's six [students] returning in every seven. . .The brain drain is almost over."[7]

Another problem pertains to recruiting and retaining highly sought managers, which has raised salary requirements.[8] In addition, local firms in developing economies such as China are growing rapidly and becoming global themselves, thereby attracting local talent for their own companies. Added to these variables, there has been a decline in the willingness of managers to take assignments abroad—57 percent in 2018 versus 64 percent in 2014—perhaps because of global turmoil and uncertainty and concerns for their families' safety in some areas, as well as a growing concern about the spouse/partner's career. According to the BCG survey, professional mobility varies, of course, as more than 90 percent of Indians and 70 percent of Brazilians are willing to work abroad.[9] Other countries that revealed an increase in the willingness of people to work abroad were Ireland, Germany, the UK, and the United States, with increased opportunities in countries such as China and many central and eastern European countries. For instance, Poland, Croatia, Slovenia, and Romania are significantly below the global mobility average due, in large part, to stronger economic conditions and increased investment. The BCG study also showed that 67 percent of the employees in technology and digital economy jobs are willing to accept assignments overseas.

The reasons for employees' willingness to work abroad have shifted. According to the 2014 BCG survey, the most frequent reason was broadening one's personal experience. Although that reason remains important to respondents in the 2018 BCG study, better career opportunities and standard of living are now more important to respondents.

The United States remains the top destination for employees to work abroad. Germany has become the second most attractive location (up from fourth in 2014). Canada remains the third most attractive location, followed by Australia (up from seventh in 2014). The UK dropped to fifth in the ranking (second in 2014).[10]

(*Continued*)

The challenge to companies operating around the world is not only to recruit capable local managers but also to retain them. Problems regarding immigration and cultural adaptation persist.[11] Advice from professionals includes growing your own—that is, to provide sufficient training and career mentoring to elicit loyalty with managers; and, in particular, to balance local human resource needs with global standards. This may require tailoring employment packages to local markets to attract and keep top talent rather than applying global policies for the sake of global consistency.[12]

Ready et al. suggest a framework for attracting and retaining talent that recognizes that managers in developing markets are motivated by factors that are a function of their culture, business practices, and personal goals and usually dissimilar to what is expected in the home office. They conclude that successful companies offer more than a good salary and comprise four distinguishing characteristics that provide meaning for potential recruits in emerging markets:[13]

- ***Brand:*** That is, a global name brand known for its excellence and with a distinctive competence in a particular area, for example, technology, in which new recruits would have confidence in their future.
- ***Purpose:*** That is, a company that is breaking into new markets with new models and strategy, giving new employees a chance to be part of something meaningful.
- ***Opportunity:*** That is, a company that provides a fast-track training and career path for new recruits.
- ***Culture:*** That is, a company that has an organizational culture of openness and transparency for employees, with support for their work and career development.[14]

9-1. To understand the strategic importance to the firm of the IHRM function and its various responsibilities

THE ROLE OF IHRM IN GLOBAL STRATEGY IMPLEMENTATION

We believe the war for talent will continue to be the major human resource issue to 2020, when the people pipeline looks to be the most crucial variable separating winners and losers in the marketplace. . . . Global mobility will play a key role in solving the labor availability conundrum.[15]

PricewaterhouseCoopers' 14th Annual CEO Survey

Although the phrase "war for talent" was coined more than 30 years ago, the challenge remains. In fact, HR experts contend that it has escalated—"it's downright hard and complex."[16] Companies around the world are having a difficult time hiring the best talent in order to help navigate the competitive battlefield—that is, helping company executives with identifying potential threats and discovering new opportunities.[17]

This chapter's opening profile describes the challenges involved in assigning, recruiting, and retaining suitable managers to staff operations abroad, where the burgeoning demand for talent is outstripping the supply. In addition, retention of local managers requires continuing effort; the high turnover rate in Asia, for example, is largely attributable to local managers feeling that those in the firm's headquarters don't understand them and their roles.[18] Other challenges for companies around the world include growing workforce mobility and the increasing trend of outsourcing service and professional jobs, which have now joined manufacturing jobs in the category of boundaryless human capital (discussed in previous chapters).

The need to outsource employees is just one of the complex issues for international human resource (IHR) managers as they seek to support strategic imperatives (see Chapter 6). Global firms are finding that their practices of outsourcing skilled and professional jobs have implications for their human resource practices at home and around the world. Consequently, a firm such as Infosys, one of India's top outsourcing companies, also experiences complex human resource challenges involved in recruiting, training, and compensating increasingly sophisticated employees in its attempt to meet the escalating demand for its services; in addition, Infosys has the same challenges with its operations abroad.

In the ongoing pursuit of global competitive advantage, some MNCs have begun to rethink the traditional job roles by experimenting with "talent-based" frameworks. For example, Microsoft is experimenting with a new platform-for-talent architecture that involves a "gig mindset." It has created an internal market for its managers to search for people with specific skill sets and for employees to pursue opportunities that leverage their capabilities

or help develop new ones. In addition, Microsoft has sought to make work flexibility the new norm. It also has sought to assess the downstream effects of talent sharing on various HRM processes such as performance management, and learning and development. Lastly, their platform for talent approach has led to an increase in the use of freelance talent for various projects.[19] According to Mercer consulting, "Microsoft is stepping thoughtfully and strategically into the future of work, setting the ground rules for their platform-for-talent approach, and building a business case for change."[20]

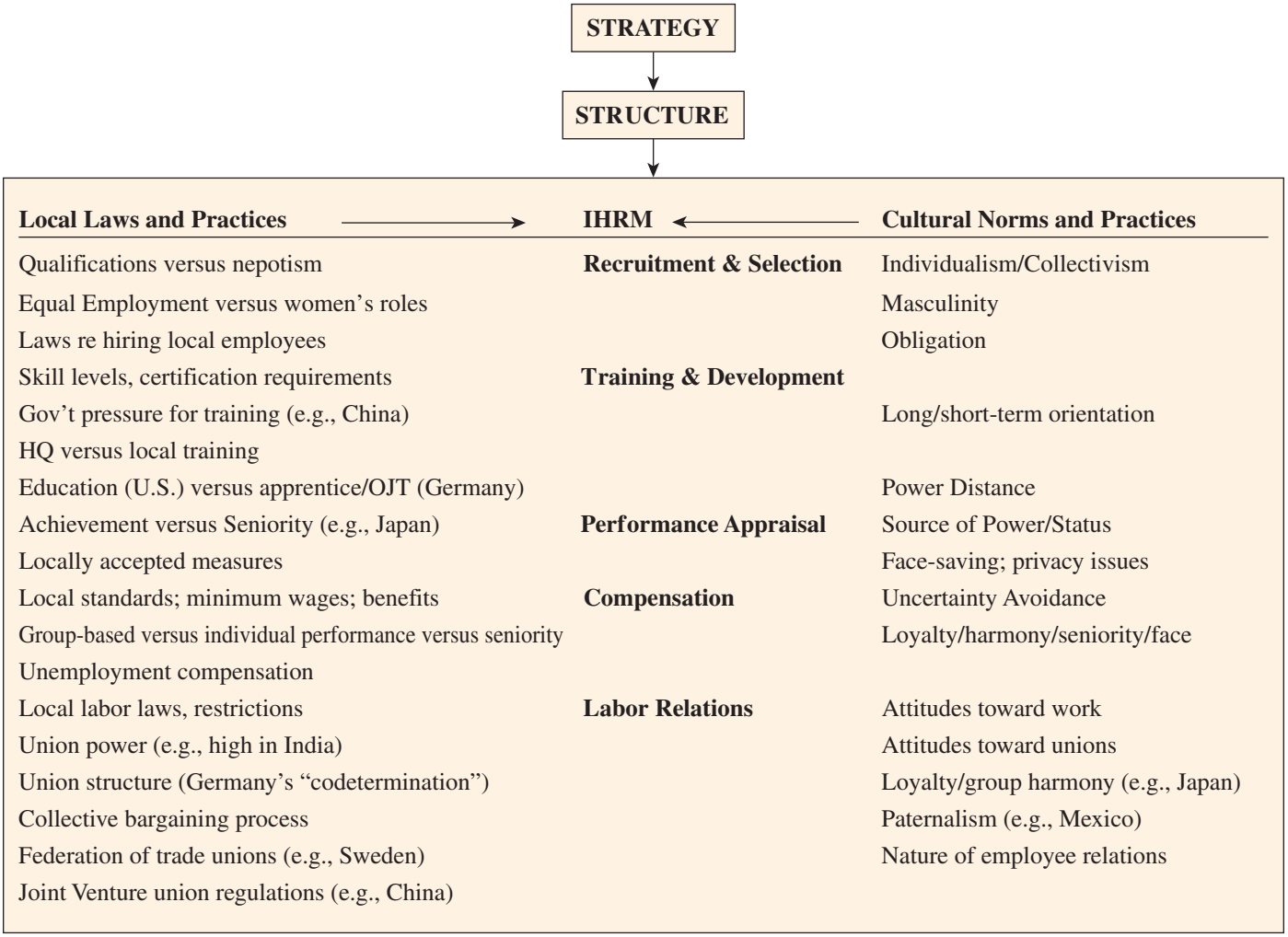
It is clear, then, that a vital component of implementing global strategy is *international human resource management* (IHRM). Executives questioned about the major challenges the HR function faces in the global arena cited "(1) enhancing global business strategy, (2) aligning HR issues with business strategy, (3) designing and leading change, (4) building global corporate cultures, and (5) staffing organizations with global leaders."[21] IHRM is therefore increasingly being recognized as a major determinant of success or failure in international business. In a highly competitive global economy, where the other factors of production—capital, technology, raw materials, and information—can increasingly be duplicated, "the caliber of the people in an organization will be the only source of sustainable competitive advantage available to U.S. companies."[22] Corporations operating overseas need to pay careful attention to this most critical resource—one that also provides control over other resources. In fact, increasing recognition is being given to the role of *strategic human resource management (SHRM)*—that is, the two-way role of HRM in both helping to determine strategy and implementing it. That role in helping the organization develop the necessary capabilities to enact the desired strategy includes the reality that strategic plans are developed in large part based on the resources the firm possesses, including the human resources capabilities.[23] IBM is one company that clearly uses its global workforce to convey and implement its strategy of a globally integrated company—doing business with clients in whatever location—more than 175 countries.[24] The majority of IBM's employees are in countries such as India, Japan, Britain, and Brazil. Indeed, IBM employs 130,000 people for its Indian operations—roughly one-third of its total employees—which now exceeds its U.S. work force.[25] The company uses various staffing modes and considers international assignments important to its goal of global integration. For example, in India, employees focus on the full range of IBM's businesses—managing the computing needs of MNCs and performing research related to visual search, artificial intelligence, and computer vision for self-driving cars.

The IHRM function comprises varied responsibilities involved in managing human resources in global corporations, including recruiting and selecting employees, providing preparation and training, and setting up appropriate compensation and performance management programs. Although firms would like to harmonize their IHRM practices around the world, considerable and powerful variables confound that goal, making it either impractical or undesirable for many localities. Among these are the complexities of local government laws and regulations, varying cultural norms and practices, and the long-entrenched and accepted business practices in the local area. Some examples are shown in Exhibit 9-1. These factors, in turn, are influenced by national variables in the political, economic, legal, and institutional arena as well as by competitive factors. Of particular importance to the IHRM function is the management of expatriates—employees assigned to a country other than their own—discussed in this chapter and the next, and working within host-country practices and laws is discussed in the following chapter.

At the first level of planning, decisions are required on the staffing policy suitable for a particular kind of business, its global strategy, and its geographic locations. Key issues involve the difficulty of control in geographically dispersed operations, the need for local decision making independent of the home office, and the suitability of managers from alternate sources.

The interdependence of strategy, structure, and staffing is particularly worth noting. Ideally, the desired strategy of the firm should dictate the organizational structure and staffing modes considered most effective for implementing that strategy. In reality, however, there is usually considerable interdependence among those functions. Existing structural constraints often affect strategic decisions; similarly, staffing constraints or unique sets of competencies in management come into play in organizational and, sometimes, strategic decisions. It is thus important to achieve a system of fits among those variables that facilitates strategic implementation.

EXHIBIT 9-1 Influences on Local HRM Practices



9-2. To learn about the major staffing options for global operations and the factors involved in those choices

STAFFING FOR GLOBAL OPERATIONS

Global mobility must be open to change, bring innovative ideas, and adapt to emerging technology solutions and shifting employee and consumer preferences.[26]

LISA JOHNSON, CROWN WORLD MOBILITY'S CONSULTING GROUP

International experience is a requirement for the development of leaders in multinational companies, so providing global mobility remains an ongoing concern. A survey of global mobility trends by Crown World Mobility revealed several salient trends pertaining to staffing around the globe. First, respondents stressed that the accompanying partner is becoming increasingly influential; however, this trend has evolved because of the growing number of dual-career families and male accompanying spouses. Second, respondents revealed confusion in terms of measuring mobility return on investment (ROI). Although companies have tended to focus on career development and retention post-assignment as key metrics, Crown emphasized that "assignment ROI will need to be agile to reflect the priorities of companies, business functions and employees."[27] The third trend pertains to the changing demographics with respect to global mobility. As millennials and early-career employees consider positions abroad, offering employees cash— lump sum payments and/or cash allowances—for their mobility needs is becoming more prevalent. Another trend pertains to the notion of well-being, which has expanded beyond traditional employee benefits such as flex-hours and maternity leave.[28]

In addition to the global war for talent, there are now considerable strategic competitive challenges for some firms regarding the need to "(a) reduce and remove talent in order to lower the costs of operations, (b) locate and relocate operations around the world, and

(c) obtain equally competent talent anywhere in the world at lower wages."[29] Firms use short-term assignments and commuter assignments to nearby countries to reduce costs.[30]

Depending on the firm's primary strategic orientation and stage of internationalization, as well as situational factors, managerial staffing abroad falls into one or more of the following staffing modes—ethnocentric, polycentric, regiocentric, and global. When the company is at the internationalization stage of strategic expansion, and has a centralized structure, it will likely use an **ethnocentric staffing approach** to fill key managerial positions with people from headquarters—that is, **parent-country nationals (PCNs)**. Among the advantages of this approach, PCNs are familiar with company goals, products, technology, policies, and procedures—and they know how to accomplish things through headquarters. This policy is also likely to be used when a company notes the inadequacy of local managerial skills and determines a high need to maintain close communication and coordination with headquarters. For German companies, the most important reason for assigning expatriates was "to develop international management skills." For companies in Japan and the United Kingdom, it was "to set up a new operation," and in the United States, it was "to fill a skill gap."[31]

Frequently, companies use PCNs for the top management positions in the foreign subsidiary—in particular, the chief executive officer (CEO) and the chief financial officer (CFO)—to maintain close control. PCNs are usually preferable when a high level of technical capability is required. They are also chosen for new international ventures requiring managerial experience in the parent company and when there is a concern for loyalty to the company rather than to the host country—such as when proprietary technology is used.

In addition, the strategic goal of understanding the needs and opportunities in emerging markets has led an increasing number of top-level executives, including board members and CEOs, to assign themselves to Asia. As an example, in 2011, John Rice, vice chairman of GE and president and chief executive of global growth and operations, relocated to Hong Kong with his wife. Saying his motives were part substance and part symbolism, Mr. Rice conceded that, "Being outside the United States makes you smarter about global issues. It lets you see the world through a different lens."[32] According to a survey by the Economist Corporate Network, 45.3 percent of respondents expected to have board members in Asia by 2016.[33] Others in the survey noted that their continuing presence gave them more access to key leaders who regarded them as more committed to the region.

Generally speaking, however, there can be important disadvantages to the ethnocentric approach, including (1) the lack of opportunities or development for local managers, thereby decreasing their morale and their loyalty to the subsidiary; and (2) the poor adaptation and lack of effectiveness of expatriates in foreign countries. Procter & Gamble, for example, routinely appointed managers from its headquarters for foreign assignments for many years. After several unfortunate experiences in Japan, the firm realized that such a practice was insensitive to local cultures and underused its pool of high-potential, non-American managers.[34] Furthermore, an ethnocentric recruiting approach does not enable the company to take advantage of its worldwide pool of management skill. This approach also perpetuates particular personnel selections and other decision-making processes because the same types of people are making the same types of decisions.

With a **polycentric staffing approach**, local managers—**host-country nationals (HCNs)**—are hired to fill key positions in their own country. This approach is more likely to be effective when implementing a multinational strategy. If a company wants to act local, staffing with HCNs has obvious advantages. These managers are naturally familiar with the local culture, language, and ways of doing business, and they already have many contacts in place. In addition, HCNs are more likely to be accepted by people both inside and outside the subsidiary, and they provide role models for other upwardly mobile personnel. For these and other reasons, Tata Consultancy Services (TCS) follows this staffing policy for some of its subsidiaries, as detailed in the accompanying "Under the Lens" section.

With regard to cost, it is usually less expensive for a company to hire a local manager than to transfer one from headquarters, frequently with a family and often at a higher rate of pay. Transferring from headquarters is a particularly expensive policy when the manager and her or his family do not adjust and have to be transferred home prematurely. Rather than opening their own facilities, some companies acquire foreign firms as a means of obtaining qualified local personnel. Local managers also tend to be instrumental in staving off or more effectively dealing

with problems in sensitive political situations. Some countries, in fact, legally require a specific proportion of the firm's top managers to be citizens of that country.

One disadvantage of a polycentric staffing policy is the difficulty of coordinating activities and goals between the subsidiary and the parent company, including the potentially conflicting loyalties of the local manager. Poor coordination among subsidiaries of a multinational firm could constrain strategic options. An additional drawback of this policy is that the headquarters managers of multinational firms will not gain the overseas experience necessary for any higher positions in the firm that require the understanding and coordination of subsidiary operations.

In the **global staffing approach**, the best managers are recruited from within or outside of the company, regardless of nationality. This practice—recruiting **third country nationals (TCNs)**—has been used for some time by many European multinationals. Now, HRM professionals everywhere are realizing that "the emergence of a global talent pool following China and India's decade of growth will increasingly influence talent development and acquisition."[35]

A global staffing approach has several important advantages. First, this policy provides a greater pool of qualified and willing applicants from which to choose, which, in time, results in further development of a global executive cadre. As discussed further in Chapter 10, the skills and experiences those managers use and transfer throughout the company result in a pool of shared learning that is necessary for the company to compete globally.

Second, where third-country nationals are used to manage subsidiaries, they usually bring more cultural flexibility and adaptability to a situation, as well as bilingual or multilingual skills, than parent-country nationals, especially if they are from a similar cultural background as the host-country coworkers, and they are accustomed to moving around. In addition, when TCNs are



UNDER THE LENS

Tata's Staffing Challenges in the United States[36]

Tata Consultancy Services (TCS) provides IT services, business solutions, and outsourcing around the world. The Indian company, which sends thousands of employees abroad to work in client locations, is part of the Tata Group—one of India's largest industrial conglomerates—and currently has over 417,000 employees representing 151 nationalities across 46 countries.[37]

In 2008, TCS decided to buy a facility in Milford, Ohio, to be closer to a number of *Fortune* 500 clients in the area and to hire American graduates from the several nearby universities. TCS's strategy is to compete with consultancy giants such as IBM and Accenture on their home turf. More than half of TCS's revenue is from North America, with about 16,000 employees. TCS was anxious to compete for the estimated $52 billion in U.S. federal contracts. In 2011, TCS had 450 employees in Ohio, nearly all American, partly because of the difficulty of getting visas for Indians, and the company had plans to hire a further 500-plus, adding to its 215,000-strong global workforce.[38]

Factors affecting TCS's staffing practices in the United States include the Ohio government's ban in September 2010 on outsourcing government contracts to overseas operations, and the difficulty in finding sufficient numbers of qualified engineers in the United States. Even so, TCS faces a cost increase of around seven times for a U.S. worker compared with one hired to do similar work in India.

While balancing the "war for talent" challenge with the growing need to relocate top talent in MNCs, there is a slippery slope for companies considering nonlocal talent for key positions. In 2018, TCS's U.S. operations were sued for alleged discrimination in hiring based on race and national origin. TCS is not alone, as Infosys and HCL Technologies have endured lawsuits. Prior lawsuits on TCS's U.S. hiring practices have been thrown out of court according to a TCS spokesperson: "Indeed, the federal court in California previously rejected a class-action for hiring discrimination by the same law firm concerning TCS' hiring practices, citing the same issues."[39]

Clearly, the staffing challenges TCS faces in its U.S. subsidiary are just the tip of the iceberg for an IT company needing highly qualified employees around the world. In its attempt to attract and retain skilled local talent continually, Tata's HR vice president stresses the importance of recognizing the varying factors that will motivate people in its different locations. The company "has a tailored employee value proposition for each of its major markets."[40] The company understands, for example, that quality is of paramount importance to its managers in India; that in China, its managers are primarily interested in opportunities for personal development; and that the U.S. managers look for interesting jobs.

placed in key positions, employees perceive them as acceptable compromises between headquarters and local managers; thus, appointing them works to reduce resentment.

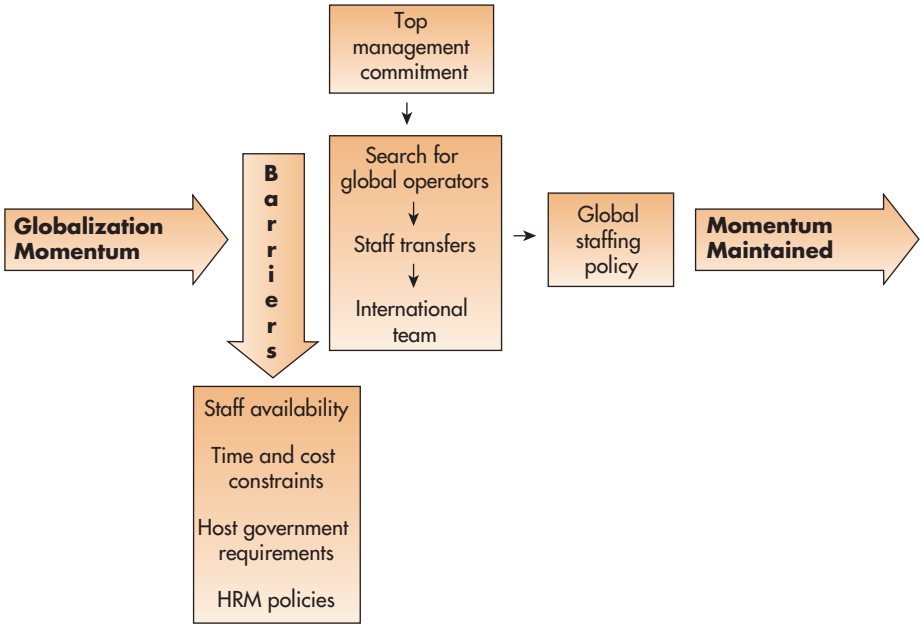
Third, it can be more cost-effective to transfer and pay managers from some countries than from others because their pay scale and benefits packages are lower. Indeed, firms with a truly global staffing orientation are phasing out the ethnocentric concept of a home or host country. In fact, as globalization increases, terms such as *TCNs, HCNs*, and *expatriates* are becoming less common because of the kind of situation in which a manager may leave her native Ireland to take a job in England, then be assigned to Switzerland, to China, and so on, without returning to Ireland. As part of that focus, the term **transpatriate** is increasingly replacing the term *expatriate.* Firms such as Philips, Heinz, Unilever, IBM, and ABB have a global staffing approach, which makes them highly visible and seems to indicate a trend.

Overall, firms still tend to use expatriates in key positions in host countries that have a less familiar culture and in less-developed economies. Clearly, this situation arises out of concern about uncertainty and the ability to control implementation of the corporation's goals. However, given the generally accepted consensus that staffing, along with structure and systems, must fit the desired strategy, firms desiring a truly global posture should adopt a global staffing approach. That is easier said than done. As shown in Exhibit 9-2, such an approach requires the firm to overcome barriers such as the availability and willingness of high-quality managers to transfer frequently around the world, dual-career constraints, time and cost constraints, conflicting requirements of host governments, and ineffective human resource management policies.

In a **regiocentric staffing approach**, recruiting is done on a regional basis—say, within Latin America for a position in Chile. This staffing approach can produce a specific mix of PCNs, HCNs, and TCNs, according to the needs of the company or the product strategy.

More recently, a staffing option known as **inpatriates** has been used to provide a linking pin between the company's headquarters and local host subsidiaries. Inpatriates are managers with global experience who are transferred to the organization's headquarters country so that their overseas business and cultural experience and contacts can facilitate interactions among the country's far-flung operations.[41] U.S.-based Rackspace inpatriated some of its European executives to the United States in order to integrate new ideas and experiences into their "Racker" mindset.[42]

EXHIBIT 9-2 **Maintaining a Globalization Momentum**



Source: Based on and adapted from D. Welch, "HRM Implications of Globalization," *Journal of General Management* 19, No. 4 (Summer 1994), pp. 52–69, used with permission of Braybrooke Press, 2011.

Inpatriate managers can provide communication of strategic goals, change processes, and provide continuity among revolving expatriates and host nationals; in addition, they can facilitate multicultural management teams in global organizations.[43] Nestlé, for example, brings in managers at all levels from around the world to its Swiss headquarters to ensure that its executives become acquainted with the firm's best talent. The inpatriates are also happy to do this because they gain relationships all around and can network with one another in addition to gaining the knowledge and familiarity with the firm's headquarters people and processes.[44] Other companies that have brought inpatriate managers into their headquarters operations are Quaker Chemical Company (Guus Lobsen, Holland); Coca-Cola Co. (John Hunter, Australia); and Sara Lee Corporation (Cornelis Boonstra, Holland).

A critical success factor in the use of inpatriates is their ability to develop acceptance and trust among the people in the various locations, making it imperative for the firm to retain them on a long-term basis.[45] For their part, there is considerable challenge in that inpatriates are expected "to become a parent country manager in language and lifestyle, yet play a double role as a host country national" when returning home.[46] Some of the pros and cons of the different staffing practices are shown in Exhibit 9-3.

What factors influence the choice of staffing policy? Among them are the strategy and organizational structure of the firm as well as the factors related to the particular subsidiary (such as the duration of the particular foreign operation, the types of technology used, and the production and marketing techniques necessary). Factors related to the host country also play a part (such

EXHIBIT 9-3 Key Advantages and Drawbacks of Global Staffing Practices

	Advantages	Drawbacks
PCNs	• Transfer and control firm strategy	• Costly to relocate family
	• Assignments abroad develop managers	• Little development of HCNs
	• Integrate knowledge firm-wide	• Lack local familiarity/contacts
	• Suitable managers not available locally	• PCN/family adaptation problems
	• Protect proprietary technology	• Limits use of global skills/ideas
HCNs	• Firm "acts local"; develops HCNs	• May have short-term loyalty
	• Familiarity with culture, procedures, politics, language, contacts, laws	
	• Fulfill government hiring requirements	
	• Can hit the ground running versus PCNs	
	• Likely to be less costly	• Less firm-wide coordination
	• Local role model; employee morale	• Possible conflict of interests
	• Business may be more accepted	
TCNs	• Broad global experience	• Little development of HCNs
	• Pool of shared learning	• May lack local contacts
	• Cultural flexibility and adaptability	• Complex to manage and harmonize
	• Language skills	
	• Often more acceptable than PCNs	• Less acceptable than HCNs
	• Often less-costly transferees	• Costly compared to HCNs
	• Liaison between HQ and local firm	
Inpatriates	• Linking pin between firm HQ and local host subsidiaries	• Does not replace need for PCNs or HCNs
	• Utilizes overseas experience and contacts to coordinate global operations	• Probably still perceived as an HQ manager
	• Provide continuity among revolving PCNs and HCNs	• Difficulty in gaining trust
	• Facilitate global multicultural teams	

as the level of economic and technological development, political stability, regulations regarding ownership and staffing, and the sociocultural setting).[47] Clearly, there are many complex factors and interactions to consider. As a practical matter, however, the choice often depends on the availability of qualified managers in the host country. Most MNCs use a greater proportion of PCNs (also called expatriates) in top management positions, staffing middle and lower management positions with increasing proportions of HCNs (locals) as one moves down the organizational hierarchy. The choice of staffing policy has a considerable influence on organizational variables in the subsidiary, such as the locus of decision-making authority, the methods of communication, and the perpetuation of human resource management practices. These variables are illustrated in Exhibit 9-4. The ethnocentric staffing approach, for example, usually results in a higher level of authority and decision making in headquarters compared to the polycentric approach.[48]

Without exception, all phases of IHRM should support the desired strategy of the firm. In the staffing phase, having the right people in the right places at the right times is a key ingredient of success in international operations. An effective managerial cadre can be a distinct competitive advantage for a firm.

EXHIBIT 9-4 **Relationships among Strategic Mode, Organizational Variables, and Staffing Orientation**[49]

Aspects of the Enterprise	Orientation			
	Ethnocentric	**Polycentric**	**Regiocentric**	**Global**
Primary strategic orientation/stage	International	Multidomestic	Regional	Transnational
Perpetuation (recruiting, staffing, development)	People of home country developed for key positions everywhere in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people everywhere in the world developed for key positions everywhere in the world
Complexity of organization	Complex in home country; simple in subsidiaries	Varied and independent	Highly interdependent on a regional basis	"Global Web": complex, worldwide alliances/network
Authority; decision	High in headquarters	Relatively low in headquarters	High in regional headquarters and/or high collaboration among subsidiaries	Collaboration of headquarters and subsidiaries around the world
Evaluation and control	Home standards applied to people and performance	Determined locally	Determined regionally	Globally integrated
Rewards	High in headquarters; low in subsidiaries	Wide variation; can be high or low rewards for subsidiary performance	Rewards for contribution to regional objectives	Rewards to international and local executives for reaching local and worldwide objectives based on global company goals
Communication; information flow	High volume of orders, commands, advice to subsidiaries	Little to and from headquarters; little among subsidiaries	Little to and from corporate headquarters, but may be high to and from regional headquarters and among countries	Horizontal; network relations; "virtual" teams
Geographic identification	Nationality of owner	Nationality of host country	Regional company	Truly global company, but identifying with national interests ("glocal")

The initial phase of setting up criteria for global selection, then, is to consider which overall staffing approach or approaches would most likely support the company's strategy, as previously discussed—such as HCNs for localization, the (multilocal) strategic approach, and transpatriates and inpatriates for a global strategy. These are typically just starting points using idealized criteria, however. In reality, other factors creep into the process, such as host-country regulations, stage of internationalization, and—most often—who is both suitable and available for the position. It is also vital to integrate long-term strategic goals into the selection and development process, especially when rapid global expansion is intended. Insufficient projection of staffing needs for global assignments will likely result in constrained strategic opportunities because of a shortage of experienced managers suitable to place in those positions.

The selection process is set up as a decision tree in which the progression to the next stage of selection or the type of orientation training depends on the assessment of critical factors regarding the job or the candidate at each decision point. The simplest selection process involves choosing a local national because minimal training is necessary regarding the culture or ways of doing business locally.[50] However, to be successful, local managers often require additional training in the MNC company-wide processes, technology, and corporate culture. If a local national cannot fill the position, yet the job requires a high level of interaction with the local community, careful screening of candidates from other countries and a vigorous training program are necessary.

Most MNCs tend to start their operations in a particular region by selecting primarily from their own pool of managers. Over time, and with increasing internationalization, they tend to move to a predominantly polycentric or regiocentric policy because of (1) increasing pressure (explicit or implicit) from local governments to hire locals (or sometimes legal restraints on the use of expatriates) and (2) the greater costs of expatriate staffing, particularly when the company has to pay taxes for the parent-company employee in both countries.[51] In addition, in recent years, MNCs have noted an improvement in the level of managerial and technical competence in many countries, negating the chief reason for using a primarily ethnocentric policy in the past. One researcher's comment represents a growing attitude: "All things being equal, a local national who speaks the language, understands the culture and the political system, and is often a member of the local elite should be more effective than an expatriate alien."[52] However, concerns about the need to maintain strategic control over subsidiaries and to develop managers with a global perspective remain a source of debate about staffing policies among human resource management professionals. A globally oriented company such as ABB (Asea Brown Boveri), for example, has 500 roving transpatriates who are moved every two to three years, thus developing a considerable management cadre with global experience.[53]

For MNCs based in Europe and Asia, human resource policies at all levels of the organization are greatly influenced by the home-country culture and policies. For Japanese subsidiaries in Singapore, Malaysia, and India, for example, promotion from within and expectations of long-term loyalty to and by the firm are culture-based practices transferable to subsidiaries.

MANAGING EXPATRIATES

9-3. To emphasize the need for managing the performance of expatriates through careful selection, performance management, and global teams

The survey identified three significant challenges facing corporations: finding suitable candidates for assignments, helping employees—and their families—complete their assignments, and retaining these employees once their assignments end.[54]

If some of your expatriates are about to jump ship because they are not getting paid on time, their families are miserable or their taxes are fouled up, it may be time to move beyond low-tech tools.[55]

HR MAGAZINE

An important responsibility of IHR managers is that of managing expatriates—employees they assign to positions in other countries—whether from the headquarters country or third countries. Most multinationals underestimate the importance of the human resource function in the selection, training, acculturation, and evaluation of expatriates. However, although the number of employers sending staff abroad is on the rise, only half actually have policies in place to govern these assignments, research shows. In fact, the Brookfield Global Relocation Trends Survey

concluded that, although career management was stated as a challenging international assignment management issue by company respondents, only 22 percent indicated that they had a formal career-management process in place, and only 19 percent had an international assignment candidate pool in place.[56]

In addition, too often HR managers are not aware that expatriates are unhappy until they find out they are losing valuable, experienced managers to another company. So, in addition to ensuring that there is personal contact with expatriates, a number of firms are turning to technological applications to keep track of visas and immigration status, payroll and compensation packages, taxes, housing, and so on, which can make or break the family's situational satisfaction.[57]

Expatriate Selection

The selection of personnel for overseas assignments is a complex process. While matching the firm's criteria for selection with the motivation and suitability of potential candidates, it is also useful to bear in mind the reasons candidates might have for taking the assignment. In their survey of reasons people would consider a foreign assignment, the Boston Consulting Group (BCG), with a sample size of 203,756 from respondents around the world, found a high level of willingness to work abroad (64 percent) among those looking for new job opportunities; the top ten reasons were as follows: broaden personal experience, acquire work experience, better career opportunities, an overall attractive job offer, improved salary prospects, better standard of living, ability to live in a different culture, for the challenge, learn a new language, and meet new people to build new networks.[58]

From the firm's perspective, criteria for selection are based on the same success factors as in the domestic setting, but additional criteria must be considered, relative to the specific circumstances of each international position. Unfortunately, many HRM directors have a long-standing, ingrained practice of selecting potential expatriates simply on the basis of their domestic track records and their technical expertise.[59] The need to ascertain whether potential expatriates have the necessary cross-cultural awareness and interpersonal skills for the position is too often overlooked.

Research by Mansour Javidan points to three major global mind-set attributes that successful expatriates possess.

- Intellectual capital, or knowledge, skills, understanding, and cognitive complexity
- Psychological capital, or the ability to function successfully in the host country through internal acceptance of different cultures and a strong desire to learn from new experiences
- Social capital, or the ability to build trusting relationships with local stakeholders, whether they are employees, supply chain partners, or customers[60]

It is also important to assess whether the candidate's personal and family situation is such that everyone is likely to adapt to the local culture. Studies have shown that there are five categories of success for expatriate managers: job factors, relational dimensions such as cultural empathy and flexibility, motivational state, family situation, and language skills. However, deciding before the expatriate goes on assignment whether he or she will be successful in those dimensions poses considerable problems for recruitment and selection purposes. Whereas language skills, for example, may be easy to ascertain, characteristics such as flexibility and cultural adjustment—widely acknowledged as most vital for expatriates—are difficult to judge beforehand. To address the problem of predicting how well an expatriate will perform on an overseas assignment, Tye and Chen studied factors that HR managers used as predictors of expatriate success. They found that the greatest predictive value was in the expatriate characteristics of stress tolerance and extraversion and less in domestic work experience, gender, or even international experience. The results indicate that a manager who is extraverted (sociable, talkative) and who has a high tolerance for stress (typically experienced in new, different contexts such as in a foreign country) is more likely to be able to adjust to the new environment, the new job, and interaction with diverse people than those without those characteristics. HR selection procedures, then, often include seeking out managers with those characteristics because they know there will be a greater chance for successful job performance and less turnover likelihood.[61]

These expatriate success factors are based on studies of American expatriates. One could argue that the requisite skills are the same for managers from any country—and particularly so for third-country nationals. A study of expatriates in China, for example, found that expatriate success factors included performance management, training, organizational support, willingness to relocate, and strength of the relationship between the expatriate and the firm.[62]

Expatriate Performance Management

Deciding on a staffing policy and selecting suitable managers are logical first steps, but they do not alone ensure success. When staffing overseas assignments with expatriates, for example, many other reasons, besides poor selection, contribute to *expatriate failure* among U.S. multinationals. A large percentage of these failures can be attributed to poor preparation and planning for the entry and reentry transitions of the manager and his or her family. One important variable, for example, often given insufficient attention in the selection, preparation, and support phases, is the suitability and adjustment of the spouse (discussed further in Chapter 10). The inability of the spouse to adjust to the new environment has been found to be a major—in fact, the most frequently cited—reason for expatriate failure in U.S. and European companies.[63] Despite these obvious concerns, few companies include the spouse in the interviewing process. The following is a synthesis of the factors researchers and firms frequently mention as the major causes of expatriate failure.

- Selection based on headquarters criteria rather than assignment needs
- Inadequate preparation, training, and orientation prior to assignment
- Alienation or lack of support from headquarters
- Inability to adapt to local culture and working environment
- Problems with spouse and children—poor adaptation, family unhappiness
- Insufficient compensation and financial support
- Poor programs for career support and repatriation

In considering the overall family adjustment and happiness, it is important to pay attention to the trailing spouse—that is, the spouse or partner of the person taking the assignment overseas. Whether the situation is that the spouse wants to work in the new location but has not found a position or that the couple has made a decision for the spouse to devote the time to the children and household, HR should attempt to help the couple or family have a positive experience and thus retain the employee and facilitate a successful assignment. Regardless of the family situation, to be successful, the assignment must include career support and repatriation programs. Failure to do so often results in the type of situation described in the following "Under the Lens" feature.



UNDER THE LENS

Expatriate Employees Struggle to Readjust to Old Lives[64]

Without Support, Returning Staff May Use Their Experience Abroad to Find Another Job

Early in her career with a big-four professional services company, Annaliese Allen was seconded from her home town of Melbourne to the company's Chicago office, which needed more people urgently. The move was easy. She was well-paid, eager to explore and made to feel special. Life was good—until she boarded the plane home after more than two years away.

In Chicago, Ms Allen had impressed decision makers with her aptitude for policy work. Once home, however, she discovered that her overseas achievements counted for little. She was given tax compliance work, a business area that was growing but a poor fit for her talents.

She felt unappreciated and adrift. "In the States, I had been doing lots of strategic consulting and meeting very senior executives . . . when I moved back to Melbourne, I was sitting doing tax returns."

After two months she resigned, and went to work for the US business on local terms. "I had been trying to return to my old life, when I had become a different person," she says.

Ms Allen calls her unhappy homecoming an "extreme return failure"—a combination of professional disappointment and a dose of reverse culture shock. Yet her experience of a good assignment followed by a bad return is common.

How employers support the people they send abroad colours how those employees look back on their experiences and how they approach their next role. If things go badly, an employee may use their international know-how to find another job.

Yet research by Cartus, a relocation business, found even employers that do a lot to help employees and their families move abroad neglect basics, such as asking how the assignment went or helping in the readjustment after a period away. Seventy-eight per cent of employers did not know if they were losing recently returned staff to competitors because they did not collect data.

Foreign assignments are expensive: an industry rule-of-thumb is that sending people abroad costs two-to-three times the cost of employing them at home, says Diane Douiyssi, a director at Brookfield Global Relocation Services. So why do companies pay repatriation scant attention?

One reason may be that other tasks seem more urgent. When organisations send people abroad, often it is "to find an immediate solution to a problem", says Tanya Thouw, head of HR global mobility at SAP. What the employee will do once the problem is fixed barely features. David Enser, who heads international mobility at Adidas and co-founded the RES Forum, an international HR network, says this is short-sighted. Many multinational employers including his own "[have lost] expensively developed talent through lack of forward planning".

Talking to people from day one about the roles that might be open to them when they return—something just 23 per cent of companies do, according to a survey by Brookfield Global Relocation Services—might result in fewer post-assignment fallouts.

In the absence of discussion misunderstandings abound, says Benjamin Bader, a professor at Leuphana University of Lunebürg and a co-author with the University of Hamburg of a study on repatriation conducted with the RES Forum. The employee sees the assignment as a passport to promotion, but the employer simply wants someone to get the job done, and is not making any promises.

Employers who struggle to persuade people to accept assignments need to think carefully about what employees expect on their return. To overcome a perception that people were "sent overseas and forgotten", Adidas introduced new contracts for some types of fixed-term assignments, guaranteeing people a right of return and help finding their next role.

Oliver Schramm, a senior director at Adidas, is on an assignment to Oregon, for a minimum of three years, accompanied by his family. He says that "having a job ticket back to Germany" removes the financial worry that he might not have a job to return to. He and his wife have retirement-age parents and want their children to resume education in the German school system. "Knowing that we will return means that we are able to enjoy our adventure," he says.

Even when bosses are supportive, employees may be wise to seize the initiative. The Leuphana and Hamburg study found expatriates who networked and banged on the HR department's door ended up with bigger and better-paid roles.

The research found that the staff who received the biggest rewards were not always those who had achieved most while abroad. In fact, performance appeared to have virtually no effect on what the employee did next.

That could imply that companies are promoting the wrong people because their HR systems are not set up to share information across the organisation, Prof Bader believes. "If you perform extremely well and HQ doesn't know, that's really a frustration."

Given the vagaries of international moves, the best strategy for individuals is to prepare for all eventualities. Katherine Cox, a client director at Schroders, in London, advises expatriates to keep in contact with as many senior figures as possible while abroad.

While on a four-year secondment to New York, Ms Cox made a point of dropping into the London office on trips home and scheduling catch-ups with senior colleagues. It landed her a job with a former boss in a business area she enjoyed.

Encouraging people to share knowledge might also soften the comedown that follows a foreign adventure. The realisation that, as Mr Enser puts it, "no one is as interested in your stories as you are", comes on top of the stress of getting the utilities reconnected and finding the children a new school.

SAP improved its repatriation policies after discovering that the number of people resigning within three years of returning home was, as Ms Thouw puts it, "higher than we wanted it to be". It now limits assignments to three years (two years with a possible 12-month extension), and pairs expatriates with mentors based in their home country.

"If you send someone abroad for five years, home [can] really seem like a strange country," Ms Thouw says. Your friends' interests may no longer be your interests, colleagues may have come and gone and even local etiquette that you took for granted may now seem alien.

But what if re-embracing the day-to-day feels too tame after making your mark in an unfamiliar culture? After working in the US, Ms Allen returned again to Australia — and this time stayed put.

(*Continued*)

"I bought myself a tourist guide and told myself I was a tourist in my own country. It made returning home much more fun."

WHAT EMPLOYERS CAN DO TO HELP

Returning home can be as big an upheaval as moving away, but is rarely as well-supported. Here, managers, HR specialists and returned expatriates offer tips on how employers can help:

MANAGE EXPECTATIONS

If the assignment's purpose is to do a job that needs doing, say so. Allowing people to uproot on the false belief that a promotion will follow almost always ends badly.

REWARD THE RIGHT PEOPLE

Keep tabs on progress and make it easy for home and away bosses to swap notes.

HELP EXPATRIATES STAY CONNECTED

Encourage employees to stay in touch with colleagues, and offer home-country mentors, ideally former expatriates who can smooth the path home.

PLAN FOR REPATRIATION

Have a process that kicks in well before repatriation, and make someone responsible for helping the employee find their next role.

PUT KNOWLEDGE TO USE

Creating opportunities for people to share what they learnt abroad shows their international experience is valued—and benefits the business.

Source: © The Financial Times Limited 2016.

After careful selection based on the specific assignment and the long-term plans of both the organization and the candidates, plans must be made for the preparation, training, and development of expatriate managers. In the following sections, we discuss training and development and then compensation. However, it is useful to note that these should be components of an integrated performance management program, specific to expatriates, which includes goal setting, training, performance appraisal, and performance-related compensation. Some insight into the variability of performance management functions can be gleaned from the accompanying "Comparative Management" in Focus feature.



Comparative Management in Focus

Expatriate Performance Management Practices: Samples from Five Countries

Hsi-An Shih et al. conducted a study in which they interviewed expatriates and human resource professionals in global information technology companies headquartered in five countries. These were Applied Materials (American) with 16,000 employees in 13 countries, Hitachi High Technologies (Japanese) with 470,000 employees in 23 countries, Philips Electronics (Dutch) with 192,000 employees in 60 countries, Samsung (Korean) with 173,000 employees in 20 countries, and Winbond Electronics (Taiwanese) with 47,000 employees in six countries. Shih et al. found that those companies used standardized forms from headquarters rather than tailoring them to the host environment; as such, they reflected the company culture but not the local culture in which those expatriates were operating. There also was lack of on-the-job training from those companies.[65] The differences in procedures for goal setting, performance appraisal, training, and performance-related pay among those five companies are detailed in Exhibit 9-5.

EXHIBIT 9-5 **Expatriate Performance Management from MNEs of Five National Origins**

Company	Goal Setting	Performance Appraisal	Training and Development	Performance-related Pay
AMT (American)	Short-term: sending unit's general manager Long term: host country's general manager	Annual performance appraisal Open feedback Interview	Applied global university Seldom take training programs while on assignment No clear connection between performance result and career development	Clear link between performance and compensation Cash bonuses and stock options
Hitachi (Japanese)	Self-setting, then finalized by host-country manager	Annually for managerial purposes, biannually for development purposes; One-way feedback discussion Seldom take training programs while on assignment	Orientation Language training Can apply to host location supervisor No clear connection between performance result and career development	Link between performance and compensation not clear Seniority-based pay system Cash bonuses
Philips (Dutch)	Self-setting, then finalized by host-country manager	Biannual performance appraisal; Open feedback in interview	Orientation Seldom take training programs while on assignment No clear connection between performance result and career development	Clear link between performance and compensation Cash bonuses and stock options
Samsung (Korean)	Self-setting, then finalized by host-country manager	Biannually for managerial purposes, annually for development purposes; Open feedback in interview	Orientation Language training Can apply to host location supervisor No clear connection between performance result and career development	Clear link between performance and compensation Senior managers: cash bonuses and stock options Ordinary expatriates: cash bonuses
Windbond (Taiwanese)	Self-setting, then finalized by host-country manager	Biannual performance appraisal; Feedback depends on manager	Orientation Seldom take training programs while on assignment Can apply to host location supervisor No clear connection between performance result and career development	Clear link between performance and compensation Cash bonuses and stock options

Source: Adapted from His-An Shih, Yun-Hwa Chiang, and In-Sook Kim, "Expatriate Performance Management from MNEs of Different National Origins," *International Journal of Manpower* 26, No. 2 (2005), pp. 161–162. Reprinted with permission of Emerald Group Publishing Ltd., 2011.

Global Team Performance Management

Global teams are discussed more fully in Chapter 10. But here, we must recognize that expatriate performance often includes performance as a team, typically based on discussions and decisions made with team members in various countries, cultures, and time zones, thus most often conducted virtually through teleconferencing, Skyping, and various social media, but also

sometimes personally. As with any HR decision, care must go into the selection and training of the people who will comprise the team so that the advantages of insight, local knowledge, and group creativity will support the firm's strategic plans. Clearly, as described throughout this book, a first is to include cross-cultural training specific to team members with whom the interactions will take place. This can be followed up by an initial face-to-face group meeting to develop trust, feel out communication styles, and iron out practical matters such as the language to use and the time of day for virtual meetings that would work for everyone. From the team leader's perspective, it is also important to find a way to mesh leadership styles and be creative about how the team as a whole can adapt to one another.[66] Often, differences in the relative emphasis and leadership styles depend on the stage of the project at hand. For example, as concluded from a study by Zhang et al. on the scope of the project management process, team members from the Netherlands wanted a very predetermined and formal process, compared with team members from China, who preferred flexibility in the project goals and scope.[67]

9-4. To appreciate the necessity of cross-cultural training, job-specific training techniques, and appropriate compensation for expatriate performance

EXPATRIATE TRAINING AND DEVELOPMENT

It is clear that preparation and training for cross-cultural interactions are critical. Nevertheless, studies have shown that some MNCs provide only limited training to expatriates. The most common reasons for insufficient predeparture training are: time constraints; training cost pressures; the short-term nature of the assignments does not warrant consideration; the belief that ideal candidates do not need predeparture training; and insufficient numbers of training experts. Interestingly, European MNCs dedicate consider time and expenditure to expatriate training.[68]

A Global Relocation Trends Survey revealed that attrition rates for expatriates were more than double the rate of nonexpatriates. It found that 21 percent of expatriates left their companies during the assignments, and another 23 percent left within a year of returning from the assignment.[69] Moreover, about half of those who remain longer in their overseas assignment function at a low level of effectiveness. The cost alone of a failed expatriate assignment ranges from $200,000 to $1.2 million. The indirect costs may be far greater, depending on the expatriate's position. Relations with the host-country government and customers may be damaged, resulting in a loss of market share and a poor reception for future PCNs.

Both cross-cultural adjustment problems and practical differences in everyday living present challenges for expatriates and their families. Examples are evident from a survey of expatriates in which they ranked the countries that presented the most challenging assignments to them, along with some pet peeves from their experiences.

> ***China:*** A continuing problem for expatriates; one complained that at his welcome banquet, he was served duck tongue and pigeon head.
>
> ***Brazil:*** Expatriates stress that cell phones are essential because home phones don't work.
>
> ***India:*** Returning executives complain that the pervasiveness of poverty and street children is overwhelming.
>
> ***Indonesia:*** Here you need to plan ahead financially because landlords typically demand rent two to three years in advance.
>
> ***Japan:*** Expatriates and their families remain concerned that, although there is excellent medical care, the Japanese doctors reveal little to their patients.[70]

Even though cross-cultural training has proved to be of high value in making the assignment a success, only 20 percent of companies surveyed had formal cross-cultural training for expatriates.[71] Much of the rationale for this lack of training is an assumption that managerial skills and processes are universal. In a simplistic way, a manager's domestic track record is used as the major selection criterion for an overseas assignment.

In most countries, however, the success of the expatriate is not left so much to chance. Foreign companies provide considerably more training and preparation for expatriates than U.S. companies do. Therefore, it is not hard to understand why Japanese expatriates experience significantly fewer incidences of failure than their U.S. counterparts, although this may be partially because fewer families accompany Japanese assignees. Japanese multinationals typically have recall rates of below 5 percent, signifying that they send abroad managers who are far better prepared and more adept at working and flourishing in a foreign environment.[72] The demands on expatriate managers have always been as much a result of the

multiple relationships that they have to maintain as they are of the differences in the host-country environment. Those relations include family relations; internal relations with people in the corporation, both locally and globally, especially with headquarters; external relations (suppliers, distributors, allies, customers, local community, etc.); and relations with the host government. It is important to pinpoint any potential problems that an expatriate may experience with those relationships so that these problems may be addressed during predeparture training. Problem recognition is the first stage in a comprehensive plan for developing expatriates. The three areas critical to preparation are cultural training, language instruction, and familiarity with everyday matters.[73] In the model shown in Exhibit 9-6, various development methods are used to address these areas during predeparture training, postarrival training, and reentry training. These methods continue to be valid and used by many organizations. Two-way feedback between the executive and the trainers at each stage helps to tailor the level and kinds of training to the individual manager. The desired goal is the increased effectiveness of the expatriate because of familiarity with local conditions, cultural awareness, and his or her family's needs in the host country.

EXHIBIT 9-6 IHRM Process to Maximize Effectiveness of Expatriate Assignments



Cross-Cultural Training

Training in language and practical affairs is quite straightforward, but cross-cultural training is not; it is complex and deals with deep-rooted behaviors. The actual process of cross-cultural training should result in the expatriate learning both content and skills that will improve interactions with host-country individuals by reducing misunderstandings and inappropriate behaviors.

CULTURE SHOCK

The goal of training is to ease the adjustment to the new environment by reducing **culture shock**, a state of disorientation and anxiety about not knowing how to behave in an unfamiliar culture. The cause of culture shock is the trauma people experience in new and different cultures, where they lose the familiar signs and cues that they had used to interact in daily life and where they must learn to cope with a vast array of new cultural cues and expectations.[74] The symptoms of culture shock range from mild irritation to deep-seated psychological panic or crisis. The inability to work effectively, stress within the family, and hostility toward host nationals are the common dysfunctional results of culture shock—often leading to the manager giving up and going home.

It is helpful to recognize the stages of culture shock to understand what is happening. Culture shock usually progresses through four stages, as described by Oberg: (1) *honeymoon*, when positive attitudes and expectations, excitement, and a tourist feeling prevail (which may last up to several weeks); (2) *irritation and hostility*, the crisis stage when cultural differences result in problems at work, at home, and in daily living—expatriates and family members feel homesick and disoriented, lashing out at everyone (many never get past this stage); (3) *gradual adjustment*, a period of recovery in which the expatriate gradually becomes able to understand and predict patterns of behavior, use the language, and deal with daily activities, and the family starts to accept its new life; and (4) *biculturalism*, the stage in which the manager and family members grow to accept and appreciate local people and practices and become able to function effectively in two cultures.[75] Many never get to the fourth stage—operating acceptably at the third stage—but those who do report that their assignment is positive and growth oriented. In recognition of the importance of helping expatriates adapt to the local environment, companies such as PepsiCo provide a number of localized programs to aid the transition. PepsiCo's 600 expats and their families are encouraged to join the company's health and wellness programs and various local sports programs such as soccer in Dubai, ping-pong in China, and Zumba in Latin countries. The company believes such activities help their people adjust to the new culture and get involved in the local community. In addition, the company provides families language lessons and help with child tuition.[76]

In addition to family and organizational support, HCN coworkers can provide considerable help for expatriate adjustment. A recent study by Ashish Mahajan and Soo Min Toh concluded that expatriates who sought advice from HCN coworkers whom they felt were credible and likeable reported greater satisfaction with their work and adjustment.[77] Clearly, most expatriates have a number of avenues at their disposal to help in the adjustment process for them and their families if they seek them out and take advantage of the local coworkers and friends.

SUBCULTURE SHOCK

Similar to culture shock, though usually less extreme, is the experience of **subculture shock**. This occurs when a manager is transferred to another part of the country where there are cultural differences—essentially from what she or he perceives to be a majority culture to a minority one. The shock comes from feeling like an immigrant in one's own country and being unprepared for such differences. For instance, someone going from New York to Texas will experience considerable differences in attitudes and lifestyle between those two states. These differences exist even within Texas, with cultures that range from roaming ranches and high technology to Bible-belt attitudes and laws to areas with a mostly Mexican heritage.[78] As with other regions in the world, expatriates coming to the United States might need considerable adjustment after working in, say, San Francisco, California, and then being posted elsewhere in the United States.

Training Techniques

Many training techniques are available to assist overseas assignees in the adjustment process, although too often programs include only some language coaching and introduction to the host country.

EXHIBIT 9-7 Corporate Programs to Develop Global Managers

- ABB (Asea Brown Boveri) rotates about 500 managers around the world to different countries every two to three years in order to develop a management cadre of transpatriates to support their global strategy.
- PepsiCo has an orientation program for its foreign managers, which brings them to the United States for one-year assignments in bottling division plants.
- British Telecom uses informal mentoring techniques to induct employees into the ways of their assigned country; existing expatriate workers talk to prospective assignees about the cultural factors to expect (www.FT.com).
- Honda of America Manufacturing gives its U.S. supervisors and managers extensive preparation in Japanese language, culture, and lifestyle and then sends them to the parent company in Tokyo for up to three years.
- General Electric likes its engineers and managers to have a global perspective whether or not they are slated to go abroad. The company gives regular language and cross-cultural training for them so that they are equipped to conduct business with people around the world (www.GE.com).

Most training programs take place in the expatriate's own country prior to leaving. Although this is certainly a convenience, the impact of host-country programs can be far greater than those conducted at home because there is no better way for someone to experience the culture and the local people than actually being there. Some MNCs are beginning to recognize that there is no substitute for on-the-job training (OJT) in the early stages of the careers of managers they hope to develop into senior-level global managers. Exhibit 9-7 shows some global management development programs for junior employees.

In addition, according to Eduardo Caride, Telefonica's regional manager in Latin America, there is no better training than the experience managers get by working in one country and then being able to use that knowledge and experience in another country; in addition, the relationships that are made around the world greatly facilitate business transactions.[79] After assignments in Miami, Telefonica's head office in Spain, and then Argentina, he says:

> *I can tell you, it helps to have been on both sides of the world.*[80]
>
> EDUARDO CARIDE, TELEFONICA, *HARVARD BUSINESS REVIEW*

INTEGRATING TRAINING WITH GLOBAL ORIENTATION

In continuing our discussion of strategic fit, it is important to remember that training programs, like staffing approaches, should be designed with the company's strategy in mind. Although it is probably impractical to break down those programs into many variations, it is feasible at least to consider the relative level or stage of globalization that the firm has reached, because obvious major differences would be appropriate—for example, from the initial export stage to the full global stage. Exhibit 9-8 suggests levels of rigor and types of training content appropriate for the firm's managers, as well as those for host-country nationals, for four globalization stages—export, multidomestic, multinational, and global. It is noteworthy, for example, that the training of host-country nationals for a global firm has a considerably higher level of scope and rigor than that for the other stages and borders on the standards for the firm's expatriates.

As a further area for managerial preparation for global orientation—in addition to training plans for expatriates and for HCNs separately—there is a particular need to anticipate potential problems with the interaction of expatriates and local staff. In a study of expatriates and local staff (inpatriates) in Central and Eastern European joint ventures and subsidiaries, Peterson found that managers reported a number of expatriate behaviors that helped them integrate with local staff but also some that were hindrances (see Exhibit 9-9).[82] Clearly, this kind of feedback from MNC managers in the field can provide the basis for expatriate training and help HCNs anticipate and work with the expatriates to meet joint strategic objectives.

With new growth opportunities around the world, some MNCs have developed global learning programs that encourage employees to think globally. One such company is financial

EXHIBIT 9-8 Stage of Globalization and Training Design Issues[81]

Export Stage	MNC Stage
Training Need: Low to moderate *Content:* Emphasis should be on interpersonal skills, local culture, customer values, and business behavior. *Host-Country Nationals:* Train to understand parent-country products and policies.	*Training Need:* High moderate to high *Content:* Emphasis should be on interpersonal skills, two-way technology transfer, corporate value transfer, international strategy, stress management, local culture, and business practices. *Host-Country Nationals:* Train in technical areas, product and service systems, and corporate culture.
MDC Stage	**Global Stage**
Training Need: Moderate to high *Content:* Emphasis should be on interpersonal skills, local culture, technology transfer, stress management, and business practices and laws. *Host-Country Nationals:* Train to familiarize with production and service procedures.	*Training Need:* High *Content:* Emphasis should be on global corporate operations and systems, corporate culture transfer, customers, global competitors, and international strategy. *Host-Country Nationals:* Train for proficiency in global organization production and efficiency systems, corporate culture, business systems, and global conduct policies.

EXHIBIT 9-9 Factors That Facilitate or Hinder the Integration of Expatriate Staff with Local Staff

Facilitates Integration	Hinders Integration
Relationship-building	Not using team concept
Speaking the local language	Not learning local language
Knowledge sharing	Withholding useful information
Cultural adaptability/flexibility	Spouse and family problems in adjusting
Respect	Superior and autocratic behavior
Overseas experience	Limited time in assignment
Develop local value-added from venture	Headquarters mentality
Encourage local innovation	Dominate from head office

Source: Based on R. B. Peterson, "The Use of Expatriates and Inpatriates in Central and Eastern Europe Since the Wall Came Down," *Journal of World Business* 38 (2003), pp. 55–69.

services provider MasterCard, which provides services and support in over 200 countries. To create a global mindset among its employees, MasterCard employs formal training programs, short-term project teams, new technologies, and on-the-job business experiences. The company also offers online language programs, as well as programs dealing with remote management and cross-cultural communications so that employees learn to work effectively with co-workers and customers worldwide.[83]

According to Mastercard's Chief Learning Officer, Ann Schulte, "As we've built this global payments network, one of our greatest strengths has been developing a workforce that reflects the incredible diversity of the people and perspectives of the world. It's allowed us to understand and cater to the consumer experience in a way that has both a global consistency and local relevance."[84] Thinking globally has become instinctive at MasterCard and has become woven into the fabric of its leadership development framework.

Global relocation services provider Cartus takes the global mindset a step further by enhancing global competency development of its employees while helping its clients embrace a global mindset. Cartus, for example, offers cross-cultural training programs for employees and their families on extended overseas assignments.

> *Our clients' need for a global mindset within the employee base drives our business, both cross-cultural training and language training … Even international assignments for tech transfer provide the opportunity for increasing global competency development, and ultimate success requires it.*[85]
>
> Carolyn Ryffel, Director of Global Training Consultant Network and Curriculum Design, Cartus

Compensating Expatriates

> *If you're an expatriate working alongside another expatriate and you're being treated differently, it creates a lot of dissension.*[86]
>
> Christopher Tice, Manager, Global Expatriate Operations, DuPont Inc

The significance of an appropriate compensation and benefits package to attract, retain, and motivate international employees cannot be overemphasized. Compensation is a crucial link between strategy and its successful implementation. There must be a fit between compensation and the goals for which the firm wants managers to aim. So that they will not feel exploited, employees need to perceive equity and goodwill in their compensation and benefits whether they are PCNs, HCNs, or TCNs. The premature return of expatriates or the unwillingness of managers to take overseas assignments can often be traced to their knowledge that the assignment is detrimental to them financially and usually to their career progression. One company that recognizes the need for a reasonable degree of standardization in its treatment of expatriates is DuPont. The company has centralized programs in its Global Transfer Center of Expertise for its approximately 400 annual international relocations so its expatriates know that everyone is getting the same package.

Expatriate costs include *initial costs* (i.e., one-time costs incurred at the beginning of expatriate assignments); *assignment-specific costs* (i.e., ongoing costs that arise during a particular expatriate assignment); and *repatriation costs* (i.e., costs that arise at the conclusion of an expatriate assignment). From the firm's perspective, the high cost of maintaining appropriate compensation packages for expatriates has led many companies—Colgate-Palmolive, Chase Manhattan Bank, Digital Equipment, General Motors, and General Electric, among others—to find ways to cut the cost of PCN assignments as much as possible. According to a relocation consulting firm, "A USD $100,000/year manager assigned overseas can cost a company over one million dollars during the duration of a typical 3-year assignment."[87]

Firms try to cut overall costs of assignments by either extending the expatriate's tour, since turnover is expensive—especially when there is an accompanying family to move—or assigning expatriates to a much shorter tour as an unaccompanied assignment.

Designing and maintaining an appropriate compensation package is more complex than it would seem because of the need to consider and reconcile parent- and host-country financial, legal, and customary practices. The problem is that although little variation in typical executive salaries at the level of base compensation exists around the world, a wide variation in net spendable income is often present. U.S. executives abroad may receive more in cash and stock, but they have to spend more for what foreign companies provide, such as cars, vacations, and entertainment allowances. In addition, the manager's purchasing power with that net income is affected by the relative cost of living. The cost of living is considerably higher in most of Europe than in the United States. In designing compensation and benefit packages for PCNs, then, the challenge to IHRM professionals is to maintain a standard of living for expatriates equivalent to their colleagues at home, plus compensating them for any additional incurred costs. This policy is referred to as "keeping the expatriate whole."[88]

To ensure that expatriates do not lose out through their overseas assignment, the **balance sheet approach**, or **home-based method** (see Exhibit 9-10 for an example), is often used to equalize the standard of living between the host country and the home country and add some compensation for inconvenience or qualitative loss.

EXHIBIT 9-10 The Balance Sheet Approach to Expatriate Compensation Package—Hypothetical Examples (Estimates in U.S. Dollars)

Sample Components for Expat	Chicago	Tokyo	Mexico City
Base Salary + COLA	$100,000	$150,000	$75,000
Relocation Allowance (20%)		30,000	15,000
Housing Allowance (20%)		30,000	15,000
Private Education for Two Children		30,000	20,000
Two Trips per Year Home for Four		12,000	10,000
	$100,000	252,000	135,000

Additional costs not estimated here include any local tax differential, health insurance, placement services for spouse, moving expenses and home sale, predeparture training and preparation, etc., as well as other negotiated items. In some "dangerous" locales, there will be additional costs pertaining to the safety of personnel, such as insurance, security guards, etc.

According to Mercer's 2017 International Assignment Survey, 31 percent of the MNC respondents pay expatriates in the home currency, 23 percent pay expatriates in the host currency, while 27 percent of the respondents split the expatriate compensation between home- and host-country currencies. The study found that U.S. MNCs are less likely to split expatriate compensation between the two currencies compared to European MNCs. Instead, 54 percent of the U.S. MNC respondents pay the entire expatriate salary in the home country currency.

The core principle of the balance sheet calculation is the notion of avoiding gains and losses. That is, an expatriate should derive no gains nor incur any losses stemming from cost-of-living differences or currency appreciation (depreciation). As a result, expatriate compensation tends to consist of (1) **spendable income** for daily living expenditures in the host country and (2) **nonspendable income** for savings and other expenditures such as education and housing (e.g., furniture, rent, and mortgages). This component may also include mobility premiums and hardship allowances paid by the MNC.[89]

In fairness, the MNC is obliged to make up additional costs that the expatriate would incur for taxes, housing, and goods and services. The tax differential is complex and expensive for the company, and MNCs generally use a policy of tax equalization. This means that the company pays any taxes due on any type of additional compensation that the expatriates receive for their assignments; the expatriates pay in taxes only what they would pay at home. The burden of foreign taxes can be lessened, however, by efficient tax planning—a fact that small firms often overlook. The timing and methods of paying people determine what foreign taxes are incurred. For example, a company can save on taxes by renting an apartment for the employee instead of providing a cash housing allowance. All in all, MNCs have to weigh the many aspects of a complete compensation package, especially at high management levels, to effect a tax equalization policy. The total cost to the company can vary greatly by location; for example:

> *Expatriates in Germany may incur twice the income tax they would in the U.S., and they are taxed on their housing and cost-of-living allowances as well. This financial snowball effect is a great incentive to make sure we really need to fill the position with an expatriate.*[90]

Managing expatriate compensation is a complex challenge for companies with overseas operations. All components of the compensation package must be considered in light of both home- and host-country legalities and practices. Those components include:

Salary: Local salary buying power and currency translation, as compared with home salary; bonuses or incentives for dislocation

Taxes: Equalizing any differential effects of taxes as a result of expatriate's assignment

Allowances: Relocation expenses; cost-of-living adjustments (COLA); housing allowance for assignment and allowance to maintain house at home; trips home for expatriate and family; private education for children

Benefits: Health insurance; stock options

The **localization**, or **going-rate, approach** pays the expatriate the going rate for similar positions in the host country, plus whatever allowances and benefits for the assignment that the manager negotiates. With the basic pay similar to other managers in the host country, no matter where they come from, there is less resentment and more opportunity for open cooperation. However, when the going rate in a location is less than that in the home country—which is likely to be the case with a U.S.-based expatriate—she or he is likely to be reluctant to accept that assignment unless there are considerable perks in addition to the salary.

With the increasing number of companies that operate around the world and assign and move personnel (whether one calls them expatriates, transpatriates, or inpatriates) from one country to another, the design of equitable pay scales has become exceedingly complex. In an International Assignments Policies and Practices Survey by KPMG, companies noted the need to "review mobility policies to focus on harmonization of the treatment of globally mobile employees."[91] Should those managers in similar positions who come from different countries to a host country be paid according to the MNE headquarters location, or the host location, or that manager's home location? Or should they all be paid the same according to a globally determined rate for that job? Further complications arise from any legal or cultural restrictions on compensation in a particular location.

Most important, to be strategically competitive, the compensation package must be comparatively attractive to the kinds of managers the company wishes to hire or relocate. Some of those managers will, of course, be local managers in the host country. This, too, is a complex situation requiring competitive compensation policies that can attract, motivate, and retain the best local managerial talent. In many countries, however, it is a considerable challenge to develop compensation packages appropriate to the local situation and culture while also recognizing the differences between local salaries and those expatriates or transpatriates expect (that difference itself often being a source of competitive advantage).

TRAINING AND COMPENSATING HOST-COUNTRY NATIONALS

9-5. To discuss the role of host country managers and the need for their training and appropriate compensation packages

Training HCNs

The continuous training and development of HCNs and TCNs for management positions is also important to the long-term success of multinational corporations. As part of a long-term staffing policy for a subsidiary, the ongoing development of HCNs will facilitate the transition to an indigenization policy. Furthermore, multinational companies like to have well-trained managers with broad international experience available to take charge in many intercultural settings, whether at home or abroad, and, increasingly, in developing countries.

Kimberly-Clark, for example, with more than 60,000 employees around the world, has steadily increased its talent development and training programs in all countries but, more recently, has focused on developing markets. "In Latin America, the average employee has gone from receiving practically no training time to about 38 hours each year. By contrast, workers in Europe now receive 40 hours per year—eight hours more than in 1996."[92]

Training for HCNs by foreign companies operating in the United States can be quite surprising for managers operating in their own country when they have to learn new ways. Toyota is an example of how employees at all levels must be trained in the Toyota Way. As recounted by Ms. Newton, a 38-year-old Indiana native who joined Toyota after college 15 years ago and now works at the North American headquarters in Erlanger, Kentucky:

> *For Americans and anyone, it can be a shock to the system to be actually expected to make problems visible. Other corporate environments tend to hide problems from bosses.*[93]

What Ms. Newton is referring to are the colored bar charts against a white bulletin board, which represent the work targets of individual workers, visibly charting their successes or failures to meet those targets. This is part of the Toyota Way. The idea is not to humiliate but to alert coworkers and enlist their help in finding solutions. Ms. Newton, now a general manager in charge of employee training and development at Toyota's North American manufacturing subsidiary, said it took a while to accept that fully.[94]

Certainly, there is no arguing with success—in 2009, Toyota became the largest global automaker in sales. The training institute in Mikkabi has trained more than 700 foreign executives, including cultural orientation with the same intensity as its training in the production processes. Core concepts such as ownership of problems and visibility are impressed upon new employees. A sense of shared purpose is conveyed with open offices—often without even cubicle partitions between desks.[95]

In 2015, Toyota's newest Kentucky plant began production of its luxury brand, Lexus ES 350, which required more time for each production step, more sensory tasks, and more specialized skills. Roughly 75 percent of the Lexus employees came from its Camry plant. Toyota's Camry workers were transferred only to Lexus areas where there was a skill match. This HR initiative proved so effective that Toyota employed it throughout its Kentucky operations.

The Lexus staff received roughly 1.5 million hours of training, mostly from Lexus trainers who were brought in from Japan. The U.S. Lexus plant workers were trained on the principles of *Takumi*, or master craftsman, which is an expertise that is revered and highly valued in the Lexus plants in Japan. The Lexus training also embraced *kodawari,* which is a Japanese principle that means every tiny detail matters. For example, the plant's master stitcher was required to master origami with the nondominant hand in order to enhance dexterity. Similarly, Lexus workers had to learn to use their senses "to detect a flaw that is as minute as a thread of human hair." The Lexus training involved extensive book learning as well.

> *Before those team members ever touched a car, they were required to learn, then recite from memory, the information held in those pages. Which on average was 90 steps per process.*[96]
>
> Wil James, President of Toyota Manufacturing USA

Many multinationals, in particular chains, wish to train their local managers and workers to bridge the divide between, on the one hand, the firm's successful corporate culture and practices and, on the other, the local culture and work practices. One example of how to do this in China is Starbucks, which is featured in the following "Management in Action."



MANAGEMENT IN ACTION

Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in China

> *When we first started, people didn't know who we were and it was rough finding sites. Now landlords are coming to us.*
>
> David Sun,
> President of Beijing Mei Da Coffee Company (Former Starbucks Partner for Northern China), *The Economist*, October 6, 2001

As we see from the preceding quote, Starbucks has achieved a remarkable penetration rate in China, given that it is a country of devoted tea drinkers who do not take readily to the taste of coffee.

Starbucks is no stranger to training leaders from around the world into the Starbucks style. As of 2019, Starbucks has 24,000 store-owned and licensed locations in 75 countries, as detailed here:

Locations around the globe: Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Belgium, Bolivia, Brazil, Brunei, Bulgaria, Canada, Chile, Mainland China, Colombia, Costa Rica, Curacao, Cyprus, Czech Republic, Denmark, Egypt, El Salvador, Finland, France, Germany, Greece, Guatemala, Hong Kong, Hungary, India, Indonesia, Ireland, Japan, Jordan, Korea, Kuwait, Lebanon, Macau, Malaysia, Mexico, Monaco, Morocco, Netherlands, New Zealand, Norway, Oman, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russia, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, and Vietnam.[97]

As of 2018, Starbucks has 3,600 stores in over 150 cities throughout China. According to the company's China CEO, Belinda Wong, "Starbucks is opening one store in China every 15 hours."[98]

Company managers nevertheless have had quite a challenge in recruiting, motivating, and retaining managers for its Beijing outlets (and, more recently, in its Qunguang Square outlet in Central China). Starbucks' primary challenge has been to recruit good managers in a country where the demand for local managers by foreign companies expanding there is far greater than the supply of managers with any experience in capitalist-style companies. Chinese recruits have stressed that they are looking for an

FIGURE 9-1 A Starbucks Coffee Shop in Old Beijing-Style Building in Beijing, China



Source: © Jack Young-Places/Alamy

opportunity to train and advance in global companies rather than for money. They know that managers with experience in Western organizations can always get a job. The brand's pop-culture reputation is also an attraction to young Beijingers.

In the early days of Starbucks China, the company exposed the recruits to java-style culture as well as trained them for management. Starbucks brought them to Seattle, Washington, for three months to give them a taste of the West Coast lifestyle and the company's informal culture, such as Western-style backyard barbecues.

Then they were exposed to the art of cappuccino making at a real store before dawn and concocting dozens of fancy coffees. They received the same intensive training as anyone else anywhere in the world. One recruit, Mr. Wang, who worked in a large Beijing hotel before finding out how to make a triple grande latte, said that he enjoyed the casual atmosphere and respect. The training and culture were very different from what one would expect at a traditional state-owned company in China, where the work was strictly defined and has no challenge for employees.

In 2012, Starbucks reaffirmed its long-term commitment to China by establishing Starbucks China University. The University offers training programs, for example, that deal with coffee knowledge and culture training. Moreover, it provides customized courses in retail and related training as well as leadership development vis-à-vis digital and mobile platforms.

> *Our partners are at the heart and soul of our signature Starbucks experience and also the cornerstone of Starbucks success. It is therefore critical that Starbucks continues to invest in their development.*[99]
>
> BELINDA WONG, CURRENT CEO, STARBUCKS CHINA

Ms. Wong's commitment to training and professional development is reinforced by the growing need for managerial talent. In 2018, she reflected on Starbuck's growth in China, "I need to promote a store manager every day. . . I need to promote a district manager once a week and an area director once a quarter."[100]

Starbucks has found that motivating their managers in Beijing is multifaceted. They know that people won't switch jobs for money alone. They want to work for a company that gives them an opportunity to learn. They also want to have a good working environment and a company with a strong reputation. The recruits have expressed their need for trust and participation in an environment where local nationals traditionally are not expected to exercise initiative or authority. In all, what seems to motivate them more than anything else is their dignity.

Source: www.Starbucks.com, Corporate Information, April 16, 2019; Associated Press, "Starbucks Reorganizes for Growth," www.nytimes.com; J. Adamy, "Starbucks Raises New-Stores Goal, Enters iTunes Deal," *Wall Street Journal*, October 6, 2006; "China: Starbucks Opens New Outlet in Beijing," Info-Prod (Middle East) Ltd., July 20, 2003; "Coffee with Your Tea? Starbucks in China," *Economist*, October 6, 2001.

Many HCNs are, of course, receiving excellent training in global business and Internet technology within their home corporations. For example, the German media company Bertelsmann has specialized training programs to develop and retain local managers. In India, for example, its high-potential employees can apply for an INSEAD Global Executive MBA.[101] Whether in home corporations, MNC subsidiaries, or joint ventures in any country, managerial training to facilitate e-business adoption is taking on increasing competitive importance to take advantage of new strategic opportunities. Although large companies are well ahead of the curve for information and communication technologies (ICT), there is considerable need for small and medium-sized enterprises (SMEs) to adopt such knowledge-creating capabilities.

Managerial training in ICT is particularly critical for firms in new economy and emerging markets and, taken together, can provide advantage for rapid economic growth in regions such as Eastern Europe. Research by Damaskopoulos and Evgeniou addressed these needs by surveying more than 900 SME managers in Slovenia, Poland, Romania, Bulgaria, and Cyprus. Although most managers recognized the opportunities in implementing e-business strategies, they also noted the urgent need for training to take advantage of those opportunities. Some of the training needs and issues those SME managers perceived are shown below. Some of these factors are at the firm level, whereas other issues relate to the market and regulatory levels, such as the need to increase security for commercial activity on the Internet.[102] Such findings highlight the need to recognize the strategy-staffing-training link and its importance to the overall growth of emerging economies.

Training Priorities for E-Business Development[103]

- How to develop a business plan and an e-business strategy
- How to develop the partnerships and in-house expertise for e-business
- How to finance e-business initiatives
- Addressing security and privacy concerns
- How to set up electronic payments
- How to develop good customer relations on the Internet
- Training in technology management
- How to collect marketing intelligence online

In another common scenario also requiring the management of a mixture of executives and employees, American and European MNCs presently employ Asians as well as Arab locals in their plants and offices in Saudi Arabia, bringing together three cultures: well-educated Asian managers living in a Middle Eastern, highly traditional society who are employed by a firm reflecting Western technology and culture. This kind of situation requires training to help all parties effectively integrate multiple sets of culturally based values, expectations, and work habits.

Compensating HCNs

How do firms deal with the question of what is appropriate compensation for host-country nationals, given local norms and the competitive needs of the firm? For the most part, firms adjust pay according to market conditions and design methods for job grading and incentive plans.[104]

Of course, no one set of solutions can be applicable in any country. Many variables apply—including local market factors and pay scales, government involvement in benefits, the role of unions, the cost of living, and so on. In Eastern Europe, for example, Hungarians, Poles, and Czechs spend a considerable portion of their disposable income on food and utilities. Therefore, East European managers must have cash for about 65 to 80 percent of their base pay, compared to about 40 percent for U.S. managers (the rest being long-term incentives, benefits, and perks). In addition, they still expect the many social benefits the old government provided. To be competitive, MNCs can focus on providing goods and services that are either not available at all or are extremely expensive in Eastern Europe. Such upscale perks can be used to attract high-skilled workers.

In Japan, in response to a decade-long economic slump, companies are revamping their HRM policies to compete in a global economy. The traditional lifetime employment and guaranteed tidy pension are giving way to the more Western practices of competing for jobs, of basing pay on performance rather than seniority, and of making people responsible for their own retirement fund decisions.[105]

A key concern of Western managers in China and India, as well as of the firms that outsource there, is the rapidly rising pay rates in those countries and a shortage of top talent. This talent shortage is especially problematic in India. With the considerable growth in emerging markets, foreign firms trying to get on the bandwagon there are finding themselves in a war for talent. With that kind of supply–demand ratio for local skilled managers, salaries are being pushed up; that situation then lowers the rationale for hiring local managers instead of sending expatriates.

According to Citigroup, it is also imperative to make clear what benefits, as well as salary, come with a position because of the way compensation is perceived and regulated around the world.[106] In Latin America, for example, an employee's pay and title are associated with what type of car he or she can receive.

CONCLUSION

The IHRM function is a vital component of implementing the global strategy of a firm. In particular, managing the IHRM functions for and in emerging and developing markets presents complex challenges at all employee levels; these include the war for talent for managerial and professional people and the issues of outsourcing employees in those markets. Careful decisions regarding the appropriate staffing policy for foreign locations are crucial to the success of the firm's operations, particularly because of the lack of proximity to and control by headquarters executives. In particular, the ability of expatriates to initiate and maintain cooperative relationships with local people and agencies will determine the long-term success, even the viability, of the operation. In a real sense, a company's global cadre represents its most valuable resource. Proactive management of that resource by headquarters will result in having the right people in the right place at the right time, appropriately trained, prepared, and supported. MNCs using these IHRM practices can anticipate the effective management of the foreign operation, the fostering of expatriates' careers, and, ultimately, the enhanced success of the corporation.

Summary of Key Points

- Global human resource management is a vital component of implementing global strategy and is increasingly recognized as a major determinant of success or failure in international business.
- The main staffing alternatives for global operations are the ethnocentric, polycentric, regiocentric, and global approaches; the use of inpatriates supplements those choices. Each approach has its appropriate uses, according to its advantages and disadvantages and, in particular, the firm's strategy.
- The causes of expatriate failure include the following: poor selection based on inappropriate criteria, inadequate preparation before assignment, alienation from headquarters, inability of manager or family to adapt to local environment, inadequate compensation package, and poor programs for career support and repatriation.
- The three major areas critical to expatriate preparation are cultural training, language instruction, and familiarity with everyday matters.
- Appropriate and attractive compensation packages must be designed by IHRM staffs to sustain a competitive global expatriate staff. Compensation packages for host-country managers must be designed to fit the local culture and situation as well as the firm's objectives.

Discussion Questions

9-1. What are the major alternative staffing approaches for international operations? Explain the relative advantages of each and the conditions under which you would choose one approach over another.

9-2. Why is the HRM role so much more complex, and important, in the international context?

9-3. Discuss the challenges involved in staffing operations in emerging markets.

9-4. Explain the common causes of expatriate failure. What are the major success factors for expatriates? Explain the role and importance of each.

9-5. What are the common training techniques for managers going overseas? How should these vary as appropriate to the level of globalization of the firm?

9-6. Explain the balance sheet approach to international compensation packages. Why is this approach so important? Discuss the pros and cons of aligning the expatriate compensation package with the host-country colleagues compared to the home-country colleagues.

9-7. Discuss the importance of a complete program for expatriate performance management. What are the typical components for such a program?

Application Exercises

9-8. Make a list of the reasons you would want to accept a foreign assignment and a list of reasons you would want to reject it. Do they depend on the location? Compare your list with a classmate's and discuss your reasons.

9-9. Research a company with operations in several countries and ascertain the staffing policy used for those countries. Find out what kinds of training and preparation are provided for expatriates and what kinds of results the company is experiencing with expatriate training.

Experiential Exercise

This can be done in groups or individually. After the exercise, discuss your proposals with the rest of the class.

You are the expatriate general manager of a British company's subsidiary in Brazil, an automobile component parts manufacturer. You and your family have been in Brazil for seven years, and now you are being reassigned and replaced with another expatriate—Helen Fleming. Helen is bringing her family: Rupert, an instructor in computer science, who hopes to find a position; a son, age twelve; and a daughter, age fourteen. None of them has lived abroad before. Helen has asked you what she and her family should expect in the new assignment. Remembering all the problems you and your family experienced in the first couple of years of your assignment in Brazil, you want to facilitate their adjustment and have decided to do two things.

9-10. Write a letter to the new expatriate about what to expect both on the job and in the community. Tell the new expat about some of the cross cultural conflicts that may be encountered with coworkers and employees and how to handle them.

9-11. Set up some arrangements and support systems for the family and design a support package for them, with a letter to each family member about what to expect.

CASE STUDY

Kelly's Assignment in Japan

Well, it's my job that brought us here in the first place . . . I am going to have to make a decision to stick with this assignment and hope I can work things out or to return to the United States and probably lose my promised promotion after this assignment—maybe even my job.

As she surveyed the teeming traffic of downtown Tokyo from her office window, Kelly tried to assess the situation her family was in, how her job was going, and what could have been done to lead to a better situation four months ago when she was offered the job.

As a program manager for a startup Internet services company, she had been given the opportunity to head up the sales and marketing department in Tokyo. Her boss said that "the sky's the limit" as far as her being able to climb the corporate ladder if she was successful in Tokyo. She explained that she did not speak Japanese and that she knew nothing about Japan, but he said he had confidence in her because she had done such a great job in Boston and in recent short assignments to London and Munich. Moreover, the company offered her a very attractive compensation package that included a higher salary, bonuses, a relocation allowance, a rent-free apartment in Tokyo, and an education allowance for their two children, Lisa and Sam, to attend private schools. She was told she had two days to decide, and that they wanted her in Tokyo in three weeks because they wanted her to prepare and present a proposal for a new account opportunity there as soon as possible. Her boss said they would hire a relocation company to handle the move for her.

That night Kelly excitedly discussed the opportunity with her husband, Joe. He was glad for her and thought it would be an exciting experience for the whole family. However, he was concerned about his own job and what the move would do to his career. She told him that her boss had said that Joe would probably find something or be transferred there, but that her boss did seem unconcerned about that. In the end, Joe felt that Kelly should have this opportunity, and he agreed to the move. He talked to his boss about a transfer and was told that the manager would look into that and get back to him. However, he knew that his company was having layoffs because of the

economic decline that was taking its toll on profits. The problem was that Kelly had to make a decision before he could fully explore his options, so Kelly and Joe decided to go ahead with the plans. To sweeten the deal, Kelly's company had offered to buy her house in Boston since the housing market decline had her concerned about whether she could sell without taking a loss.

After the long trip, they arrived at their apartment in Tokyo; they were tired but excited, but did not anticipate that the apartment would be so tiny, given the very high rent that the company was paying for it. Kelly realized at once that they had included way too much in their move of personal belongings to be able to fit into this apartment. Undaunted, they planned to spend the weekend sightseeing and looked forward to some travel. Japan was beautiful in the spring, and they were anxious to see the area.

On Monday, Kelly took a cab to the office. She had emailed requesting a staff meeting at 9 A.M. She knew that her immediate staff would include seven Japanese, two Americans, and two Germans—all men. Her assistant, Peter, to whom she had not yet spoken, was an American who had also just arrived, coming from an assignment in London. He greeted her at the elevator, looking surprised, and they proceeded to the conference room, where everyone was awaiting the new boss. Kelly exchanged the usual handshake greetings with the Westerners and then bowed to the Japanese; an awkward silence and exchange took place, with the Japanese looking embarrassed. While she attempted a greeting in her limited Japanese that she had studied on the plane, she was relieved to find that the Japanese spoke English, but they seemed very quiet and hesitant. Peter then told her that they all thought that "Kelly" was a man, and they all attempted a laugh.

After that, Kelly decided that she would just meet with Peter and postpone the general meeting until the next day. She asked them each to prepare a short presentation for her on their ideas for the new account. Whereas the Americans and Germans said they would have it ready, the Japanese seemed reluctant to commit themselves.

Meanwhile, at home Joe was looking into the schools for the children and trying to make some contacts to look for a job. Travelling, getting information, and shopping for groceries proved bewildering, but they decided that they would soon get acquainted with local customs.

At the office the next day, Kelly received a short presentation from the Westerners on the staff, but when it came to the Japanese, they indicated that they had not yet had a chance to meet with their groups and other contacts to come to their decisions. Kelly asked them why they had not told her the day before that they needed more time, and when could they be ready. They seemed unwilling to give a direct answer and kept their eyes lowered. In an attempt to lighten the atmosphere and get to know her staff, Kelly then began chatting casually and asked several of them about their families. The Americans chatted on about their children's achievements, the Germans talked about their family positions, and the Japanese went silent, seemingly very confused and offended.

Still attempting to get everyone's ideas for an initial proposal to the potential new client, Kelly later asked one of the Americans who had been there for some time what he thought was the problem and delay in getting presentations from the Japanese. He told her that they did not like to do individual presentations, but rather wanted to gain consensus among themselves and their contacts and present a group presentation. Having learned her lesson, but feeling irritated, she asked him to intervene and have the presentations ready for the next week. When that time came, the Japanese made the rest of the presentations but, oddly, they seemed to be addressed primarily to Peter. Later, Kelly decided to finalize her own presentation to put forth a proposal for the client, which she set up for the following week.

At home, Joe said that he had not heard anything from his company in Boston and asked Kelly to contact her company again to request some networking in Tokyo that might lead to job opportunities for him. Kelly said she would do that, but that there didn't seem to be any one person back home who was keeping up with her situation or giving any support about that or about her job.

The children, meanwhile, complained that, although their schools were meant to be bilingual English–Japanese, a majority of the children were Japanese and did not speak English; Lisa and Sam felt confused and left out. They were disoriented by the different customs, classes, and foods for lunch. At home, they complained that there was no backyard to go out to play, and they could not get their programs on the television or understand the Japanese programs.

Back at the office, Kelly worked with her staff to finalize the proposal but noticed a strained atmosphere. Peter told her that some of them would drop by a local bar for a drink after work, which helped the whole group to relax together. However, she felt that she could not do that, nor that she would be accepted as a female.

The next week, as arranged, Kelly and Peter went to the offices of the client; she knew that a lot was riding on getting this big new contract. She had asked Peter to let them know ahead of time that she is a woman, yet the introductions still seemed strained. She planned to get straight down to business, so when the client company's CEO handed her his business card, she put it in her pocket without a glance and did not give him her card. Again, she noticed some shock and embarrassment all around. (She found out much later that a business card is very important to a Japanese businessman because it conveys all his accomplishments and position without having to say it himself.) Flustered, she tried to make light of the situation, patted him on the back, and asked him what his first name was, saying, rather loudly, that hers was Kelly. He went quiet again, backed away from her, and, with his head bowed, whispered, "Michio." He glanced around at his Japanese colleagues rather nervously.

After a period of silence, Michio pointed to the table of refreshments, and indicated that they sit and eat; however, Kelly was anxious to present her PowerPoint slides and went to the end of the table where the equipment was and asked Peter to set up the slides. As she proceeded to go through the proposal, telling them what her company could do for them, she paused and asked for questions. However, when Michio and his two colleagues asked questions, they directed them to Peter, not to her. In fact, they made little eye contact with her at all. She tried to remain cool, but insisted on answering the questions herself. In the end, she sat down and asked Michio what he thought of the proposal. He bowed politely and said, "Very good," and that he would discuss it with his colleagues and get back to her. However, Kelly did not hear from them, and after a couple of weeks, she asked Peter to follow up with them. He did that but reported that they were not going to pursue the contract. Frustrated, she said, "Well, why did Michio say that it looked very good, then?" She knew that it was a very competitive proposal and felt that something other than the proposed contract was to blame for the loss of the contract.

Disillusioned, but determined not to give up without success in the assignment, Kelly took a cab to go home and think about it, but the driver misunderstood her and went the wrong way and got stuck in traffic. She felt discouraged and wished that she had some female American friends to whom she could confide her problems.

When Kelly got home, Peter was angrily trying to fix dinner, complaining about the small appliances and inability to understand the food packages or how to prepare the food. He said he needed something else to do, but that a job did not seem to be on the horizon for him. He was also concerned about continuing to live in such a high-cost city on only one salary.

Kelly went to the other room to see the children; they were fighting and complaining that they had nothing to do and wanted to go home. Kelly felt that the three months they had been there was not a fair trial and was wondering what to do. She wished she had had more time to prepare for this assignment, and whenever she contacted the home office, no one seemed able to advise her.

Case Questions

9-12. Explain the clashes in culture, customs, and expectations that occurred in this situation.
9-13. What stage of culture shock is Kelly's family experiencing?
9-14. Turn back the clock to when Kelly was offered the position in Tokyo. What, if anything, should have been done differently and by whom?
9-15. You are Kelly. What should you do now?

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CHAPTER

10 Developing a Global Management Cadre

OBJECTIVES

10-1. To appreciate the importance of international assignments in developing top managers with global experience and perspectives and to understand the benefits and costs associated with expatriate assignments

10-2. To recognize the need to design programs for the careful preparation, adaptation, and repatriation of the expatriate and any accompanying family, as well as programs for career management and retention, thereby also transferring knowledge to and from host operations

10-3. To become familiar with the use of global management teams to coordinate host country and cross-border business

10-4. To recognize the varying roles of women around the world in international management

10-5. To understand the variations in host-country labor relations systems and the impact on the manager's job and effectiveness

Opening Profile: The Expat Life[1]

In the last few months, I have met a number of expats who have moved here to Europe from London because their companies are relocating in order to be within the EU market if Brexit goes through.

AUTHOR'S FAMILY CONTACTS IN EUROPE, JANUARY 2019

What is it like to take an assignment abroad? Well, if you were one of the expats from the west who was living the good life in Moscow, for example, life took an abrupt turn when they were recalled in 2014–2015 because so many western companies were pulling out as a result of the sanctions on Russia. But, if you were an expat from China you were one of the sudden surges of people moving to Moscow to take up the slack in business opportunities left open by western companies.

This situation—as well as the uncertainty that surrounds Brexit as of this writing in 2019—makes it clear that expats' lives are vulnerable to sudden changes in the political and business climate around the world. Would you like to be an expat (expatriate)? Is it an adventure or a hardship? Experiences of those who have done a stint abroad are mixed, but it is clear that it is very likely an opportunity that will present itself at some point during your career. Most companies with global business transactions want their top employees to have overseas experience. According to Cartus' 2018 *Trends in Global Relocation: Biggest Challenges* survey of 205 mobility managers from across the globe, 28% of expats are under 35 years of age (Gen Y/Millennials); 47% are 35–52 (Gen X); and 25% are 53 or older (Baby boomers). Moreover, the Cartus 2018 survey revealed that females represent 40 percent of the global relocation assignees. Another study indicated that expats are now as likely to be Asian as North American or Western European.[2] Procter & Gamble, for example, established a Global Mobility program roughly 35 years ago. With its increased global reach, Procter & Gamble's program has expanded to more than 2500 expatriates in 71 countries.[3]

Experiences vary by job type, especially by location. Adjustment is easier for those who go to places where the culture and business practices are similar to their own. Those transitioning between

Western Europe and the United States or Canada, for example, typically adapt easier than those going to China or Yemen, as related below. Some expatriates enjoy perks that they do not get at home, and others find they fare worse financially, either while overseas or when they return home. In addition, with more firms expanding operations in emerging economies, expats often face considerable challenges such as inefficient infrastructure; limited housing, medical, or educational facilities; security risks; and political instability. Such conditions often mean that the assignment is turned down or that the manager will decide to go without his or her family. In most places, assignees expect the assignment to be career-broadening and hope it will leverage them to a promotion. Some expat experiences are described below.

The global environment can change quickly for expats. Expatriate assignments can include perquisites such as obtaining a nanny, chauffeur, or bodyguard.[4] In Shanghai, there are 70,000 expatriates from around the world, in various capacities. For those in the finance industry, the expat package typically includes round trips home a year; fees for a real estate agency; moving expenses; at least one month of temporary accommodation; and language classes if required. For an accompanying family, fees for private schools, for example, are usually included as well as help for the spouse to find a job. A cost of living adjustment is typically included as well as an adjustment for tax equalization.

FIGURE 10-1 Enjoying London



Rawpixel/Fotolia

Another trend among expats is stringing together shorter, back-to-back assignments or agreeing to longer-term deployments.[5] In many circumstances, the adventure that started out with many concerns turns out to be one that the expats and their families do not want to end. Those people have settled into their positions and lives in the host country and enjoy their situations. For example, one reporter assigned to Beijing extended the assignment for a fourth year, "For me, it was an easy decision. The three years that seemed so ominous turned out to be not nearly enough time to settle into a new life." The family wanted to do more traveling as well as really understand and enjoy the culture of Beijing.[6]

Assignments in some locations can turn out to be more challenging.

Robert Kneupfer, a lawyer, reflects that, in spite of inconveniences such as the 17-year wait for a telephone line and the absence of any McDonald's restaurants, the five years spent in Budapest on behalf of the international law firm Baker & McKenzie were a "defining moment both personally and professionally." Kneupfer's advice: "Don't sweat the small stuff. You need to appreciate the bigger-picture experience."[7] To do that, preparation is important for a positive experience. That advice aligns with many others as discussed throughout this chapter and the preceding chapter. First and foremost, you and any accompanying family members must familiarize yourselves ahead of time with the local people and their culture, their language and communication style, and their ways of living and doing business. Most important, prepare your family for the stages of adjustment they will go through so that they know what to expect; plans must be made to integrate them as quickly as possible into the local schools, church, social life, and so on. It also helps if you can meet with other expat families in the area who will provide

(*Continued*)

both practical and emotional support. In addition, research shows that part of the pre-departure training should include setting up a mentor in the headquarters office or in the local area so that regular support will be available as well as some visibility for your career continuity.

Further advice from a well-traveled expat comes from Philip Shearer, Group President, Clinique, Estee Lauder. His mother was French, his father British, and he was born in Morocco. After going to college in France and then business school in the United States, he worked at a pharmaceutical company in Minneapolis. Then he worked in France, Mexico, Britain, Japan, and again in the United States for companies such as L'Oréal and the Elizabeth Arden division of Eli Lilly.

Shearer's advice melds with that of other successful expats who seem to be able to distill their experiences and travels to arrive at common themes. They recommend that, above all, you should be yourself and gain a reputation for being trustworthy. In that way, people will trust you and relate to you no matter where you are from. Shearer warns, however, that Americans generally show off too much. "But in the end, you have to deliver. And that's the same all over the world."[8]

After investing over a million dollars in my overseas experience, I thought someone, somewhere in the organization would want to know what I have learned. I was wrong.[9]

INTERNATIONAL MANAGER

A crucial factor in global competitiveness is the ability of the firm to maximize its global human resources in the long term. In the globalized economy, the knowledge and management resources, as well as the skilled and non-skilled employee resources, required for the firm to succeed are no longer concentrated in a single region but are distributed around the world. There are various categories of those resources—both people and processes—that IHR managers and others must develop and maintain; in particular it is essential for them to:

- Maximize long-term retention and benefits of an international cadre through career management so that the company can develop a top management team with global experience.
- Develop effective global management teams.
- Understand, value, and promote the role of women in international management to maximize those underused resources.
- Work with the host-country labor relations system to effect strategic implementation and employee productivity.

10-1. To appreciate the importance of international assignments in developing top managers with global experience and perspectives and to understand the benefits and costs associated with expatriate assignments

EXPATRIATE CAREER MANAGEMENT

Martin Walker, senior director of the Global Business Policy Council at A. T. Kearney, a consultancy, maintains that the dearth of talent is mainly evident at the very top: "Shortages do exist—most notably, of people with the internationalized business skills to thrive at senior management level in global companies."[10]

It is clear from the preceding quote that the road to the top necessitates managers to have overseas experience. For the firm, the ability to develop a top management team, globally experienced, depends largely on the success of expatriates' assignments—and that depends on the ability to manage the transitions for the expatriate and any accompanying family members well.

According to the Cartus survey on "*Trends in Global Relocation: 2018 Biggest Challenges*," managers who are mobile across national borders face three primary challenges: cost control, immigration, and tax compliance. Cost control was listed as the top challenge by 68 percent of global relocation managers; however, 44 percent of the survey respondents indicated that it was a bigger challenge in previous years. Immigration (i.e., knowledge of and adherence to country-specific requirements) was ranked as the second biggest challenge by 53 percent of the respondents; yet deemed a bigger challenge than in previous years by 70 percent of the respondents. Tax compliance was considered a top challenge by 49 percent of the respondents. The tax compliance challenges stems from underestimating the tax implications for expatriate assignments or from failing to consider them.[11]

Another area receiving more attention is data security. The 2018 survey reinforces that data security remains a focal point for many organizations. For example, a large percentage of respondents—40 percent—indicated that compliance with the EU General Data Protection Regulation (GDPR) represents a substantial issue for both organizations and supply chain partners.[12]

International assignments can have a very favorable effect on an expat's career progression with opportunities for advancement into more challenging managerial roles within the company. Companies that institute changes to the way they manage talent mobility show a higher promotion rates for their mobile employees (e.g., expats). However, companies that do not make changes to their talent mobility programs reveal a different story—a lower promotion rate for mobile employees. These results show that companies that make the requisite changes to their talent mobility programs realize the value of their expatriates.[13]

Preparation, Adaptation, and Repatriation

In a Brookfield Global Relocation Survey study of global mobility trends, 61 percent of the survey respondents revealed that their companies communicate the significance of expatriate assignments to employees' careers. However, only 41 percent of the respondents indicated that their companies use mobility policies in the recruitment process for external candidates and only 23 percent have a clearly defined process that incorporates career planning from assignment acceptance—thus creating a talent management gap.[14]

Effective human resource management of a company's global cadre does not end with the overseas assignment. It ends with the successful repatriation of the executive into company headquarters. A study by Heidrick & Struggles, the international headhunting firm, revealed that international experience is extremely important to being appointed as a non-executive director (NED) in the Asia-Pacific region. For instance, 61 percent of New Zealand's newly appointed NEDs possessed experience abroad, followed by Australia (52%), Hong Kong (43%), and Singapore (39%). The study further revealed that approximately one-third of the appointees were non-local in Australia (36%), Hong Kong (30%), New Zealand (30%), and Singapore (29%).[15] Clearly, these companies have paid careful attention to what is necessary for successful assignments, career management, and repatriation of their experiences and skills. Such firms realize that long-term, proactive management of such critical resources should begin with the end of the current assignment in mind—that is, it should begin with plans for the repatriation of the executive as part of his or her career path. The management of the reentry phase of the career cycle is as vital as the management of the cross-cultural entry and training. Otherwise, the long-term benefits of that executive's international experience may be negated. Shortsightedly, many companies do little to minimize the potential effects of **reverse culture shock** (return shock). In fact, a KPMG survey concluded that "25 percent of organizations surveyed do not know if assignees have left the organization within 12 months of returning from international assignment. For repatriated assignees that are tracked as leaving the organization soon after returning from assignment, the overriding reason cited is the lack of an appropriate job after repatriation."[16] For smaller companies, little, if any pre- or post-assignment counseling was provided.

A study by Lazarova and Caligiuri with 58 expatriates from four North American companies found that repatriates who received supportive practices from their firms felt that their companies had an interest in their careers and well-being and so were more likely to stay with the firm upon reentry. The expatriates cited the following HRM practices as important to them.

- Visible signs that the company values international experience
- Career planning sessions
- Communications with home office of details of the repatriation process
- Continuous communications with the home office
- Agreement about position upon repatriation[17]

Reverse culture shock occurs primarily because of the difficulty of reintegrating into the organization but also because, generally speaking, the longer a person is away, the more difficult it is to get back into the swing of things. Not only might the manager have been overlooked and lost in the shuffle of reorganization, but her or his whole family might have lost social contacts or jobs and feel out of step with their contemporaries. These feelings of alienation from what

has always been perceived as home—because of the loss of contact with family, friends, and daily life—delay the resocialization process. Such a reaction is particularly serious if the family's overall financial situation has been hurt by the assignment and if the spouse's career has also been kept on hold while he or she was abroad.

For companies to maximize the long-term use of their global cadre, they need to make sure that the foreign assignment and the reintegration process are positive experiences. This means careful career planning, support while overseas, and use of the increased experience and skills of returned managers to benefit the home office.

The Role of the Expatriate Spouse

> *We began to realize that the entire effectiveness of the assignment could be compromised by ignoring the spouse.*[18]
>
> STEVE FORD, CORPORATION RELOCATIONS, HEWLETT-PACKARD

Many companies are beginning to recognize the importance of providing support for spouses and children—in particular because both spouses are often corporate fast-trackers and demand both sets of needs to be included on the bargaining table. Research shows that 83 percent of married expatriates were accompanied by their spouses. However, although about half of the spouses were employed before the assignment, only 11 percent were employed during the assignment.[19] In ECA International's 2016 *Managing Mobility Survey*, 54 percent of the respondents expressed concerns about the impact of a long-term assignment on their spouses' careers. Another top concern was the effect on family and relationships.[20] That survey also indicated that 50 percent of the respondents stated that when families are unable to adapt to an overseas assignment, cultural issues were the top reason. Changes in circumstance back in the home country were identified as the second most frequently stated reason.[21]

Firms often use informal means, such as intercompany networking, to help find the trailing spouse a position in the same location. They know that with the increasing number of dual-career couples, if the spouse does not find a position, the manager will very likely turn down the assignment. They decline because they cannot afford to lose the income or because the spouse's career may be delayed entirely if he or she is out of the workforce for a few years. Companies such as Hewlett-Packard, Shell, Medtronic, and Monsanto offer a variety of options to address the dual-career dilemma. Clearly, then, the selection process must include spouses, partners, and entire families. Global assignments must take account of the expatriate's personal concerns and future career; otherwise, the company will face the possibility of early return and a possible doubling of the chances for employee attrition.

At Procter & Gamble, employees and spouses destined for China are sent to Beijing for two months of language training and cultural familiarization. Nissho Iwai, a Japanese trading company, gets together managers and spouses who are leaving Japan with foreign managers and spouses who are on their way there. In addition, the firm provides a year of language training and information and services for Japanese children to attend schools abroad.



UNDER THE LENS

Should I Stay or Should I Go? Overseas Jobs Demand the Extra Mile[22]

Even Sympathetic Employers Assume that Female Staff Will Face Problems When Posted Abroad

For Andrea Huggard-Caine, being sent to Italy as part of a team that was handling a Citibank acquisition in the 1980s was life-changing.

"It broadens your vision," says Ms Huggard-Caine, who was born in Argentina and brought up in Brazil, where she was educated at an American school. "I'm multicultural and speak five languages. But until I actually lived abroad, I did not have it all figured out from a multicultural perspective," says Ms Huggard-Caine, who now has her own consulting business.

In a corporate setting, an overseas posting can be a way for women to achieve a breakthrough in their careers. More than 80 per cent of the women that Stacie Berdan, an author and consultant, interviewed for her book *Get Ahead by Going Abroad* said their international posting had helped them secure more senior positions.

In a globalised economy, international experience benefits everyone's career. However, Ms Berdan says that for women trying to stand out in a male-dominated business world, overseas experience is particularly helpful.

"The women I interviewed said there were opportunities they did not have in their home market that they could tap into somewhere else, and that they could use [the experience] to differentiate themselves," she says.

However, while overseas postings provide benefits, they also come with particular challenges for women. These range from the practical, such as navigating unfamiliar childcare and school systems, to the question of the "trailing spouse" or working in cultures where male suspicion of women in business persists.

"A major concern is the role of the husband," says Mara Swan, executive vice-president of global strategy and talent at ManpowerGroup, the recruitment company. "In certain countries, it's not as accepted if they're not working and they're taking over the role of the woman."

While many international cities and organisations have well-established social opportunities for expat wives, the needs of accompanying husbands have until recently been overlooked.

Similarly, executives in some countries can be reluctant to accept women as business leaders. In that case, says Ms Swan, "the most important thing is to establish that she's a decision maker, and often that has to come from the top," says Ms Swan. "The endorsement is very important."

Such problems can be overcome. "I was late-20s and blonde and in Asia, and I was not taken seriously at first," says Ms Berdan, who worked for several years in Hong Kong at Burson-Marsteller, the communications firm. "But once you deliver, that's all people care about."

For some women, the first hurdle may be winning the overseas posting in the first place. "The vast majority of the world is open to women, yet companies are unsure and see it as high risk," says Ms Berdan. "A lot of it has to do with the fact that HR departments are not global and make assumptions."

This may help explain why the proportion of women expats working in business remains small. While the 2016 Global Mobility Trends Survey — from BGRS, the global relocation services firm — recorded the highest proportion of female expats in the survey's 21-year history, they still made up just 25 per cent of the total.

Nevertheless, demand from women for overseas postings is rising. In a recent survey by PwC, the professional services firm, more than 70 per cent of millennial women — born between 1980 and 1995 — said they wanted to work outside their home country.

In competitive labour markets, therefore, companies that want to attract the best employees need to be ready to support and encourage their female executives to work abroad. Ms Berdan argues that HR departments have a key role in this: they can both challenge any resistance towards women seeking overseas positions and encourage those who have not yet considered the advantages of an overseas posting.

All expats have to excel at what they do — "and that's gender neutral," she says. The further question for employers is "about making sure opportunities are open to everybody".

Source: © The Financial Times Limited 2018.

Expatriate Retention

Managers returning from expatriate assignments are two to three times more likely to leave the company within a year because attention has not been paid to their careers and the way they fit back into the corporate structure back home.[23]

Firms must design support services to provide timely help for the manager and, therefore, are part of the effective management of an overseas assignment. The overall transition process experienced by the company's international management cadre over time comprises three phases of transition and adjustment that must be managed for successful socialization to a new culture and resocialization back to the old culture. These phases are (1) the exit transition from the home country, the success of which will be determined largely by the quality of preparation the expatriate has received; (2) the entry transition to the host country, in which successful acculturation (or early exit) will depend largely on monitoring and support; and (3) the entry transition back to the home country or to a new host country, in which the level of reverse culture shock and the ease of re-acculturation will depend on previous stages of preparation and support.[24]

A company may derive many potential benefits from carefully managing the careers of its expatriates. By helping managers make the right moves for their careers, the company will be able to retain people with increasing global experience and skills.

However, from the individual manager's perspective, most people understand that no one can look out better for one's interests than oneself. With that in mind, managers must ask themselves,

and their superiors, what role each overseas stint will play in career advancement and what proactive role each will play in one's own career. Retaining the returning expatriate within the company (assuming he or she has been effective) is vitally important to gaining the knowledge and benefit from the assignment. Yet, as discussed earlier, the attrition rate for expatriates is about double that of non-expatriates for the following reasons.

- Expatriates are more marketable and receive more attractive offers from other employers.
- Expatriates find that their compensation packages on overseas assignments are more generous than at home and go from one company to another to take advantage of that.
- Expatriates feel unappreciated and dissatisfied both during and after the assignment and leave the company.[25]

It is essential, therefore, for the company to pay careful attention to maintaining and retaining the expatriate by managing both the assignment and the repatriation of the expatriate and the family.

10-2. To recognize the need to design programs for the careful preparation, adaptation, and repatriation of the expatriate and any accompanying family, as well as programs for career management and retention, thereby also transferring knowledge to and from host operations

THE ROLE OF REPATRIATION IN DEVELOPING A GLOBAL MANAGEMENT CADRE

In the international assignment, both the manager and the company can benefit from the enhanced skills and experience the expatriate gains. Many returning executives report an improvement in their managerial skills and self-confidence. Some of these acquired skills, as reported by Adler, include the following.

- **Managerial skills, not technical skills:** Learning how to deal with a wide range of people, to adapt to their cultures through compromise, and not to be a dictator
- **Tolerance for ambiguity:** Making decisions with less information and more uncertainty about the process and the outcome
- **Multiple perspectives:** Learning to understand situations from the perspective of local employees and businesspeople
- **Ability to work with and manage others:** Learning patience and tolerance—realizing that managers abroad are in the minority among local people; learning to communicate more with others and empathize with them[26]

Knowledge Transfer

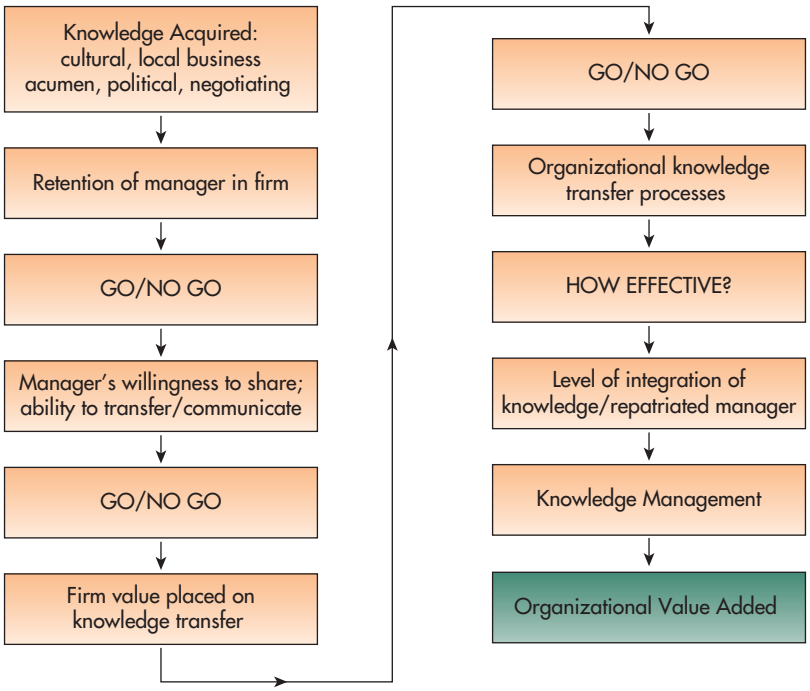
In addition to the managerial and cross-cultural skills expatriates acquire, the company benefits from the knowledge and experience those managers gain about how to do business overseas and about new technology, local marketing, and competitive information. Expatriates have long served as facilitators of intra-firm knowledge transfer and application. Traditionally, it has been assumed that the role of expatriates is partly to bring knowledge from the corporate headquarters to subsidiaries; however, it is clear that there is a potential strategic advantage when expatriates acquire knowledge while on international assignment and bring it back to the center of the organization or disseminate it across other subsidiaries.[27] For example, expatriates may accumulate knowledge from abroad in five areas:

- Knowledge about **what** (such as differences in customer preferences)
- Knowledge about **why** (e.g., understanding how cultural differences affect cross-cultural understanding)
- Knowledge about **how** (e.g., management skills such as delegating responsibilities)
- Knowledge about **when** (e.g., knowledge about the effect of timing)
- Knowledge about **who** (e.g., relationships created over the life of an assignment)[28]

Expatriate experience not only brings knowledge about culture differences but also creates insights about HQ–subsidiary relations, from which ideas about improving business can be derived.[29] However, as Lazarova and Tarique found, "repatriates' motivation to contribute to collective organizational learning is primarily driven by the fit between their individual career objectives and the career development opportunities offered by the organization upon return."[30] They found that several

conditions have to be met to transfer knowledge successfully. First, the repatriates have to (a) have valuable knowledge to transfer and (b) be motivated to transfer that knowledge; secondly, organizations need to (a) have the right tools to capture knowledge, and (b) create the right incentives for repatriates to share their knowledge. Knowledge transfer is optimized when the type of knowledge repatriates gain is matched by the right knowledge transfer mechanisms—for example, by assigning repatriates to strategic teams—and when career opportunities the organization provides are congruent with repatriate career goals and aspirations.[31] Exhibit 10-1 illustrates the conditions and process by which knowledge may be successfully integrated into the organization.

EXHIBIT 10-1 Variables Influencing Success of Knowledge Transfer from Repatriated Manager



Source: Based on M. Lazarova and Ibraiz Tarique, "Knowledge Transfer upon Repatriation," *Journal of World Business*, 40, 4 (2005): 361–373.

The company should therefore position itself to benefit from that enhanced management knowledge if it wants to develop a globally experienced management cadre—an essential ingredient for global competitiveness—in particular when there is a high degree of shared learning among the organization's global managers. If the company cannot retain good returning managers, their potential shared knowledge is not only lost but also conveyed to another organization that hires that person. This can be very detrimental to the company's competitive stance. Some companies are becoming quite savvy about how to use technology to employ shared knowledge to develop their global management cadre, to service their customers better, and—as a side benefit—to store the knowledge and expertise of their managers around the world in case they leave the company. That knowledge, it can be argued, is an asset in which the company has invested large amounts of resources. A successful repatriation program, then, starts before the assignment. The company's top management must set up a culture that conveys the message that the organization regards international assignments as an integral part of continuing career development and advancement and that it values the skills of the returnees. The company's objectives should be reflected in its long-range plans, commitment, and compensation on behalf of the expatriate. Unfortunately, most companies do very little to minimize attrition by returning international assignees, with only 14 percent guaranteeing a position upon the assignee's return.[32] However, GE is one company that sets a model for effective expatriate career management. With hundreds of expatriates worldwide, it takes care to select only the best managers for overseas jobs and then commits to placing them in specific positions upon reentry.

10-3. To become familiar with the use of global management teams to coordinate host country and cross-border business

GLOBAL MANAGEMENT TEAMS

MNCs realize it is essential to maximize their human assets in the form of global management teams so they can share resources and manage the transnational transfer of knowledge. The term **global management team** describes a collection of managers in or from several countries who must rely on group collaboration if each member is to experience optimum success and goal achievement. Whirlpool International, for example, is a U.S.–Dutch joint venture with administrative headquarters in Comerio, Italy, where it is managed by a Swede and a six-person management team from Sweden, Italy, Holland, the United States, Belgium, and Germany. To achieve the individual and collective goals of the team members, international teams must have a global perspective but at the same time share the expectations of the corporate culture; they also must be *glocal*—able to respond to the local market while still be adept at coordinating the parts of the firm. The role and importance of international teams increase as the firm progresses in its scope of international activity. Similarly, the manner in which multicultural interaction affects the firm's operations depends on its level of international involvement, its environment, and its strategy.

The team's ability to work effectively together is crucial to the company's success. In addition, technology facilitates effective and efficient teamwork around the world. This was found by the Timberland U.K. sales conference planning team. In the past, the company's large sales conferences were cumbersome to organize because their offices were in France, Germany, Spain, Italy, and the United Kingdom. Then the team started using the British Telecom (BT) Conference Call system for the arrangements, which saved them much travel and expense. The company subsequently adopted the BT Conference Call system for the executive team's country meetings. Teleconferencing and videoconferencing are now much of the way of life for global businesses. However, research indicates that face-to-face meetings are the best way to kick off a virtual team project so that the members can agree on goals and schedules and who is responsible for what. IBM project teams start with all members in a personal meeting to help to build an understanding of the other members' cultures and set up a trusting relationship.[33]

For global organizations and alliances, the same cross-cultural interactions hold as in MNCs and, in addition, considerably more interaction takes place with the external environment at all levels of the organization. Therefore, global teamwork is vital, as are the pockets of cross-cultural teamwork and interactions that occur at many boundaries.[34] For the global company, worldwide competition and markets necessitate global teams for strategy development, both for the organization as a whole and for the local units to respond to their markets.

When a firm responds to its global environment with a global strategy and then organizes with a networked glocal structure (see Chapter 8), various types of cross-border teams are necessary for global integration and local differentiation. These include teams between and among headquarters and subsidiaries; transnational project teams, often operating on a virtual basis; and teams coordinating alliances outside the organization.[35] In joint ventures, in particular, multicultural teams work at all levels of strategic planning and implementation as well as on the production and assembly floor. Clearly, the team's success is highly dependent on the members' ability to understand the culture and communication style of members in other countries. The United Kingdom is one example where considerable differences in behavior, expectations of business protocol, and communication are often dismissed by other Westerners because of the assumption of similarity between English-speaking countries. This brings to mind a quote often attributed to Winston Churchill, "Britain and America are two nations divided by a common language."

Virtual Global Teams

> *Virtual groups, whose members interact through computer-mediated communication systems (such as desktop video conferencing systems, email, group support systems, the Internet, and intranets), are linked across time, space, and organizational boundaries.*[36]

As illustrated in the diagram, advances in communication now facilitate virtual global teams formed of people working from home or work, while traveling, or anywhere in the world, using their laptops or tablets, Wi-Fi, and smartphones. **Virtual global teams**, a horizontal networked structure with people around the world conducting meetings and exchanging information through the Internet, enable the organization to capitalize on 24-hour productivity. In this way, too, knowledge is shared across business units and across cultures.[37] The advantages

and cost savings of virtual global teams are frequently offset by their challenges—including cultural misunderstandings and the logistics of differences in time and space, as shown in Exhibit 10-2. Group members must build their teams while bearing in mind the group diversity and the need for careful communication.[38]

Virtual Global Teams



Source: Janos Levente/Shutterstock

EXHIBIT 10-2 Operational Challenges for Virtual Global Teams

Geographic Dispersal:	The complexity of scheduling communications such as teleconferences and video conferences across multiple time zones, holidays, and so on. Lack of face-to-face meetings to establish trust or for cross-interaction processes such as brainstorming.
Cultural Differences:	Variations in attitudes and expectations toward time, planning, scheduling, risk taking, money, relationship building, and so on. Differences in goal sets and work styles arising out of such variables as individualism/collectivism; the relative value of work compared with other life factors; and variable sets of assumptions, norms, patterns of behavior.
Language and Communications:	Translation difficulties, or at least variations in accents, semantics, terminology, or local jargon. Lack of personal and physical contact, which greatly inhibits trust and relationship building in many countries; the social dynamics change. Lack of visibility of nonverbal cues makes interpretation difficult and creates two-way noise in the communication process.
Technology:	Variations in availability, speed, acceptability, and cost of equipment necessary for meetings and communications through computer-aided systems. Variable skill levels and willingness to interact through virtual media.

Source: Some of this content is based on Kenneth W. Kerber and Anthony F. Buono, "Leadership Challenges in Global Virtual Teams: Lessons from the Field," *SAM Advanced Management Journal* 69, no. 4 (2004): 4–10.

MANAGEMENT IN ACTION

The Emergence of a Virtual Multinational Enterprise[39]

Geoff Perlman founded Xojo, Inc. in 1996. The company originally engaged in custom software development—companies would hire his company to create a unique software solution for some business problem they had because they did not have the internal talent to do it themselves. About a year later, the company began transitioning to being a developer of software tools that other developers use to create software. The business started out of Geoff Perlman's house and when that would no longer hold them, he acquired office space in Austin, Texas (USA).

In 2008, Xojo's CEO Geoff Perlman noticed that about half of the office space was empty. He observed that when he hired talent, the new employees tended to not relocate to Austin. Perlman noted, "In the software space, we had reached the point where it was practical for people to work remotely and we didn't want moving to be an issue. So when the candidates said they would take the job if they didn't have to move, we accepted that. From the very beginning we had people who were remote so we had already gotten used to the idea."

Since his company was using only half its office space, Perlman met with his Austin staff and asked them how they would feel about working exclusively from home. He recalled, "There were mixed feelings about it but mostly people liked the idea. Many occasionally worked from home so it wasn't entirely alien to them." As a test, Perlman told everyone in the Austin office to work from home for the next month. During that month, he and his executive team would determine what changes would have to be made to various systems. At the end of the month, employees seemed happy working from home, so we were ready to make the necessary systems changes. Following the move to a virtual multinational organization, Perlman's executive administrative assistant, who started out in Austin, then moved to Northern California. In 2018, she moved to Oregon and has been given ever-increasing responsibility. Over the years, Perlman hired several overseas software programmers, who were always remote by virtue of their locations.

Geoff Perlman recognized that being a virtual multinational organization comes with challenges. "When you go virtual, you start to realize just how much of your operation is dependent on physical proximity to your co-workers. We were used to walking into someone's office with a document or discussing a new plan over lunch. When you are virtual, being in the physical presence of a co-worker is exceptionally rare. It only occurs once a year at our annual conference for most of my staff. There are some here in Austin but we even only get together for lunch a few times a year at most."

Perlman also mentioned, "The instinct many have is to keep operating the way you always have but that simply will not work. We had to reimagine how we would operate if we were no longer mostly in the same office together. We had an on-premise telephone system. That had to go and be replaced with one that was hosted. We were using on-premise accounting software. When I needed data, I'd go to accounting and get reports or sit down with someone and review data on the screen. We switched to a hosted solution where anyone who had a legitimate need for the information on a regular basis, could get to it through a web browser. Our servers and e-commerce system had to be moved to virtual, hosted platforms. Basically, anything physical had to become virtual. That's a lot of infrastructure change."

Because interaction is so critical, Perlman had to decide how that was going to work as well. He adopted three systems that are used based upon how quickly one needs information. He contended that "emailing is for answers that aren't needed today. Text chatting is used for answers needed today and video conferencing is used for answers needed now or when a conversation or meeting needs to take place. Additionally, the virtual equivalent of meeting in the break room is just connecting with a co-worker on Zoom (videoconferencing provider). Some of our employees just hang out on Zoom while they work so they don't feel like they're working alone."

Another challenge pertains to weak working relationships in an office environment. In a virtual environment, the relationships between these individuals deteriorate over time. The Xojo CEO stated, "We partially solve this by having company meetings once a month on Zoom where we each talk about what's going on both professionally and personally as well as answer a question that one of us comes up with that hopefully reveals something about each of us the others didn't know before."

Perlman confessed that when you work from home, the lines often blur between one's personal and professional life. "We have fixed workdays and hours when we are expected to be at work but we have learned that if we ask someone a question via Slack (group text chatting software) or email on a Saturday afternoon, there's a good chance we will get a reply. I think we have a corporate culture that is attractive enough to our employees that no one feels the need to enforce hard and fast rules about being at work versus being on their own time."

In light of the challenges, there are many benefits to a virtual organization. No commuting, increased productivity, more flexible schedule, flexible workspace, fewer health issues (no catching a cold

from a sick co-worker), more personalized workplace, and even healthier eating habits. According to CEO Geoff Perlman, "The greatest benefit to the organization was one we had not expected. When you have half your staff in an office and half remote, you often end up with two forms of communication. For those in your office, you just walk over and talk to them. With remote staff, it's a different system. Perhaps you call, email or text. Having two different methods of communication resulted in remote team members often being left out of conversations because it was more work to include them. Now that everyone is remote, all meetings are handled the same way, through video conferencing and we know from the software who is available and who is not. Thus the playing field is completely level and no team members feel out of the loop anymore."

VIRTUAL MNE BEST PRACTICES

Teams need a daily huddle. This is a very short (5 to 10 minutes) meeting where each person discusses what they intend to accomplish that day. According to Xojo CEO Geoff Perlman, "it makes sure everyone is aware of what others are working on so effort isn't wasted due to lack of communication and it creates subtle peer pressure as no one wants to report every day that they are still working on what they said they'd finish yesterday. It's important that the people in the huddle all have direct impact on each other. The engineering team for example has a huddle. No one from marketing attends as they aren't working closely enough together on a daily basis."[40]

Establish core hours. Your co-workers need to know they can reach you face to face (well, virtually face to face anyway). However, since you are virtual, you're likely to have people in different time zones. At Xojo, Perlman established core hours of 10 AM to 4 PM CT (USA) for North America. His co-workers in Europe attend the morning engineering huddle.

Establish monthly company meetings: A monthly company meeting is a great way to boost positive relationships between co-workers who communicate infrequently. According to Perlman, "It also is a great way for people in different departments to learn about what's going on outside their own department. It's a great time for leadership to talk about new directions and/or progress towards existing goals."[41]

Ensure first-rate communications technology. Communication is the life-blood of any organization. In a virtual company, team members are almost entirely dependent upon technology for communication. Make sure that the software/services you use for email, text chatting, screen-sharing and video conferencing are reliable and high quality.

Metrics: Metrics are something all organizations should have but they are even more important in virtual ones as they are a clear indicator of performance. However, Perlman urges caution, "Be careful what you measure because that IS what you will get. Measure the wrong thing and there's a good chance you will get the wrong thing. For example, if Marketing is supposed to generate leads, it may be your instinct to measure that. However, that could result in Marketing generating more and more leads but not necessarily quality ones."[42]

Managing Transnational Teams

The ability to develop and lead effective transnational teams (whether they interact virtually, physically, or, as is most often the case, a mixture of both) is essential in light of the increasing use of foreign subsidiaries, joint ventures, and other transnational alliances. The primary corporate question is how to integrate a diverse pool of cultural values, traditions, and norms in order to be competitive. These challenges were experienced when Nomura, Japan's largest investment bank, acquired most of Lehman Brothers' operations in Asia, Europe, and the Middle East in October 2008, following Lehman's collapse. Nomura had to absorb hundreds of Lehman employees immediately. Although Nomura is the acquirer, it tried to transform its own culture to be more globally competitive. As observed by one manager:

> *Nomura has "a completely domestic culture" . . . one based on Japanese customs of employment, and where company loyalty is strong, decision-making is slow and tolerance for risk is low.*[43]

Both the Japanese and the Americans trying to work together felt the cultural divide. In particular, the Japanese were shocked when Nomura's management introduced American-style pay and career structures.[44]

Teams comprising people located in far-flung operations are faced with often-conflicting goals of achieving greater efficiency across those operations, responding to local differences, and facilitating organizational learning across boundaries; conflicts arise based on cultural differences, local work norms and environments, and varied time zones. A study by Joshi et al. of a 30-member team of human resource (HR) managers in six countries in the Asia-Pacific region showed that network analysis of the various interactions among team members can reveal when and where negative cross-cultural conflicts occur and, thus, provide top management with information for conflict resolution so that a higher level of **synergy** may be attained among the group members. The advantages of synergy include a greater opportunity for global competition (by being able to share experiences, technology, and a pool of international managers) and a greater opportunity for cross-cultural understanding and exposure to different viewpoints. The disadvantages include problems resulting from differences in language, communication, and varying managerial styles; complex decision-making processes; fewer promotional opportunities; personality conflicts, often resulting from stereotyping and prejudice; and greater complexity in the workplace.[45] In the Joshi study, the greatest conflict and, therefore, lack of synergy, was not, as one would expect, resulting from the headquarters subsidiary power divide. Rather, the critical conflicts were between the Country A subsidiary and Country B subsidiary, given the required communication and workflow patterns between them. What are other ways that management can ascertain how well its international teams are performing and what areas need to be improved? In recognizing the areas needing better team management, executives in a study by Govindarajan and Gupta ranked five key tasks based on their level of importance, as follows.

Tasks for Global Business Teams[46]

- Cultivating trust among members
- Overcoming communication barriers
- Aligning goals of individual team members
- Obtaining clarity regarding team objectives
- Ensuring that the team possesses necessary knowledge and skills

The managers also rated the level of difficulty to accomplish that task. The researchers concluded from their study that the ability to cultivate trust among team members is critical to the success of global business teams if they want to minimize conflict and encourage cooperation.[47]

Following are some general recommendations the researchers make for improving global teamwork.

- Cultivate a culture of trust; one way to do this is by scheduling face-to-face meetings early on, even if later meetings will be virtual
- Rotate meeting locations; this develops global exposure for all team members and legitimizes each person's position
- Rotate and diffuse team leadership
- Link rewards to team performance
- Build social networks among managers from different countries[48]

What other techniques do managers actually use to deal with the challenge of achieving cross-cultural collaboration in multinational horizontal projects? A comparative study of European project groups in several countries by Sylvie Chevrie revealed three main strategies.[49]

- **Drawing upon individual tolerance and self-control:** In this R&D consortium, the Swiss manager treated all team members the same, ignoring cultural differences, and the team members coexisted with patience and compromise. Many of the members said they were used to multinational projects and just tried to focus on technical issues.

- **Trial-and-error processes coupled with personal relationships:** This is a specific strategy in which the project manager sets up social events to facilitate acquaintance of the team members with one another. Then, they discover, through trial and error, what procedures will be acceptable to the group.
- **Setting up transnational cultures:** Here the managers used the common professional, or occupational, culture, such as the engineering profession, to bring the disparate members together within a common understanding and process.

The managers in the study admitted their solutions were not perfect but met their needs as best they could in the situation. Chevrie suggests that, where possible, a "cultural mediator" should be used who helps team members interpret and understand one another and come to an agreement about processes to achieve organizational goals.[50]

THE ROLE OF WOMEN IN INTERNATIONAL MANAGEMENT

10-4. To recognize the varying roles of women around the world in international management

Whether in global management teams, as expatriates, or as host-country nationals, the importance of women as a valuable, and often-underused resource should not be overlooked in IHRM efforts to maximize the company's global management cadre. On February 26, 2015, Christine Lagarde, Managing Director of the International Monetary Fund (IMF), explained on various news programs its committee's action plan to discuss with heads of state what can be done to improve their country's economic progress by removing or lessening the roadblocks to females working there—cultural and practical. For example, in Japan, she proposed that more women could take jobs if the government instituted a child-care plan. And, in fact, in August 2015, Prime Minister Shinzo Abe announced a new law requiring companies with over 300 employees to set targets for hiring more women managers—at the time, women comprised only 11 percent of supervisory or managerial positions. Child-care was not addressed in the new law and remains an obstacle. This move was heralded as:

A Step Forward for 'Womenomics' in Japan.[51]

The Wall Street Journal, August 28, 2015

Although it is clear that women are increasingly making their way into the international management cadre, their numbers and influence vary greatly around the world.

In light of the growing presence of females in the corner suite, the 2018 ranking by *Fortune* magazine of the most powerful women in business in the United States revealed only 25 female CEOs of large companies, down from 32 female CEOs in 2017.[52] At the top of the list are Mary Barra, CEO of General Motors (#10); Gail Boudreaux of Anthem (#29), Ginni Rommetty, Chairman, CEO, and President of IBM (#34), Marilyn Hewson of Lockheed Martin (#59), Safra Catz of Oracle (#82), and Phebe Novakovic of General Dynamics (#99). The decline was due, in large part, to the retirements of Indra Nooyi of PepsiCo, Denise Morrison of Campbell Soup Co., and Sheri McCoy of Avon. Another high-profile executive who stepped down was Hewlett Packard CEO Meg Whitman, who previously served as CEO at eBay. Females served as CEO of only 5 percent of major North American firms as of the beginning of 2018.[53]

The *Fortune* article includes a separate list of "Most Powerful Women: International." The European region led the way with 22 of the top 50 female executives: Emma Walmsley, CEO of GlaxoSmithKline, UK; Ana Botin, Executive Chair of Banco Santander, Spain; and Isabelle Kocher, CEO of Engie, France. For the Asia region, 18 women made the list including Dong Mingzhu, Chairwoman and President of Gree Electric Appliances, China; Chua Sock Koong, Group CEO of Singapore Telecommunications; Ho Ching, Executive Director and CEO of Temasek, Singapore. *Fortune* also pointed out that Alibaba is a great company for fostering talented women and featured Maggie Wei Wu, CFO of Alibaba, and Lucy Peng, Alibaba's CEO, Lazada. Also, the list featured Rakefet Russak-Aminoach, President and CEO of Leumi Group, Israel.[54]

Although women's advancement in some global companies is impressive, it is still true that there are limitations on managerial opportunities for many women in their own country—some more than others—and there are even more limitations on their opportunities for expatriate assignments.

EXHIBIT 10-3 Global Gender Gap Report, 2017 Rankings

Country	Ranking	Global Index Score
Iceland	1	0.878
Norway	2	0.830
Finland	3	0.823
Rwanda	4	0.822
Sweden	5	0.816
UK	15	0.770
Canada	16	0.769
Israel	44	0.721
USA	49	0.718
Mexico	81	0.692
China	100	0.674
Japan	114	0.657
Pakistan	143	0.546
Yemen	144	0.516

Source: www.weforum.org/reports/the-global-gender-gap-report-2017.

The gap between what executive men and women earn fell sharply in Britain and the United States after a global focus on sexism in the workplace forced new laws to address the gaping imbalance, said executive wage comparison website The Pay Index. According to the 2017 Global Gender Gap Report, Iceland ranks first among 144 countries in terms of gender parity, followed by Norway, Finland, Rwanda, and Sweden, as shown in Exhibit 10-3. The United Kingdom and Canada were ranked 15th and 16th, respectively. The United States was ranked 49th while Japan was listed at 114th.[55] "We must have gender pay parity—but we need parity in workplace support, leadership development, mentorship and sponsorship, and career opportunity, too," stated Sarah Alter, president of the U.S.-based Network of Executive Women.[56]

Whereas women represent 50 percent of the world's higher education graduates, they occupy only 25 percent of the management positions. In a 2017 McKinsey study, women tended to use more leadership behavior that enhances firm performance than their male counterparts. Moreover, they found that companies in the top quartiles for female representation on executive committees achieved higher return on equity than companies without female representation—22 percent versus 15 percent. McKinsey surveyed top executives regarding the leadership behaviors that would be most effective in addressing the challenges of the future. The results showed that the behaviors most important to enhancing performance were those embraced most frequently by women—for example, intellectual stimulation, inspiration, and participative decision making.[57]

The reasons for the different opportunities for women among various countries can often be traced to the cultural expectations of the host countries—the same cultural values that keep women in these countries from the managerial ranks. In Japan, for example, women faced two key barriers in the workplace—the lack of childcare facilities and the Japanese workstyle, according to CEO Takeshi Niimami of Suntory Holdings Limited. He stressed that Japanese firms need to curtail working hours, exploit communication networks, and enhance flexibility.[58]

Boardroom diversity has improved; however, women still tend to be underrepresented in many countries. On average, women accounted for 17.3 percent of corporate board members and 77.4 percent of MSCI ACWI companies had at least one female director in 2017. In general, European companies tend to have more women on their boards (40.8 percent in France, 35.8 percent in Italy, 33.7 percent in Finland, and 26.8 percent in the UK) than the United States (21.7 percent), India (13.8 percent) and Japan (5.3 percent). Moreover, French, Italian and Norwegian companies all had at least three female board members.[59] Indeed, numerous European countries—for example, Finland, France, Germany, Italy, and the Netherlands—have gender board quotas.[60] According to a 2018 European Commission report, women served as board chair in 7.1 percent of the companies.[61]

Given the powerful figure at the top in Germany—Chancellor Angela Merkel—it seems surprising to see the low female participation at the top levels, "but a decade of earnest vows

from the corporate sector has not dented male-dominated Deutschland AG . . . all 30 DAX companies are run by men."[62] Clearly, traditional cultural values about gender roles in Germany, as well as lifestyle and laws, can account for much of the disparity in Germany. For example, most children attend school only in the mornings, which restricts the ability for both parents to work. Nevertheless, in spite of considerable recent government encouragement in its attempts to capitalize on females as an economic resource, only about 14 percent of German mothers with one child resume full-time work and only 6 percent of those with two children. Even though the German birthrate—at 1.39—is the lowest in Europe and even though there is a generous 14-month shared parental leave after childbirth, German mothers have a strong tendency to stay home with their children.

In their 32-country study on the cultural indicators of the reasons for the variation in the participation of women in management around the world, Toh and Leonardelli found a relationship between loose and tight cultures and the presence of women in the firms of those countries. They conclude that in tight cultures, such as Germany and South Korea, the norms of expected behavior are more clear and rigid, with norms of traditional male attitudes, and thus have far fewer women in leadership positions than those in loose cultures such as New Zealand and Hungary.[63] In loose cultures, people are more open to change and variations in expectations, so the general attitude in the leadership of firms in those cultures is one of a more open and positive perspective of women leaders.

> *Organizations don't do nearly enough, in my view, with regard to trying to design work differently, in order to better facilitate a more flexible work/life scenario. For me this means visibly and actively assisting women, ensuring they are able to shape their work days to best meet their family responsibilities—this could mean working part-time for a period, job-sharing, working from home, having more control over when the workday starts and finishes. It involves trust and mutual respect.*[64]
>
> Gail Kelly, former CEO, Westpac

There are considerable differences in female workforce participation around the globe. For instance, India has one of the world's lowest rates with only 27 percent of working-age females having paid jobs outside the home. That rate compares with Arab societies but falls well below prosperous East Asian countries, in which nearly two-thirds of women work.[65] The low rate in India can be attributed, in part, to insufficient manufacturing jobs. However, another barrier stems from strong societal norms—in particular, deeply held beliefs about women's place in the home and interactions with men who are not part of the family. In more affluent families, men do not want their wives to work. As such, India's strong economic growth over the past 15 years has yielded a drop in both the absolute number of women working and the percentage.[66]

Opportunities for indigenous female employees to move up the managerial ladder in a given culture depend on the values and expectations regarding the role of women in that society. In Japan, for example, the workplace has traditionally been a male domain as far as managerial careers are concerned (although rapid changes are now taking place, as previously pointed out). To the older generation, a working married woman represented a loss of face to the husband because it implied that he was not able to support her. The younger generation and increased global competitiveness have brought some changes to traditional values regarding women's roles in Japan. More than 60 percent of Japanese women are now employed, including half of Japanese mothers, but largely in part-time and temporary positions. How and when the new law and cultural changes will affect the number of Japanese women in managerial positions remains to be seen. Currently, only about 11 percent are in managerial positions, compared with about 45 percent in the United States and 30 percent in Sweden, for example. One can understand the problems Japanese women face when trying to enter and progress in managerial careers when we review the experiences of Yuko Suzuki, who went into business for herself after the advertising company she worked for went bankrupt. However, she could not gain respect or even attention from customers, who often asked her who her boss was after she finished a presentation. She eventually hired a man to accompany her, which increased her sales, but, to her dismay, customers would only establish eye contact with him, even though she was doing the talking and he had nothing to do with the company.[67] Japanese labor economists observe that, "Japan has gone as far as it can go with a social model that consists of men filling all of the economic, management and political roles."[68]

The lack of expatriates who are female or represent other minority groups does not reflect their lack of desire to take overseas assignments. Indeed, studies indicate women's strong willingness to work abroad and their considerable success on their assignments. For example, Adler's major study of North American women working as expatriate managers in countries around the world showed that they are, for the most part, successful.[69]

Women and minorities represent a significant resource for overseas assignments—whether as expatriates or as host-country nationals—a resource that U.S. companies underuse. Adler studied this phenomenon regarding women and recommends that businesses (1) avoid assuming that a female executive will fail because of the way she will be received or because of problems female spouses experience; (2) avoid assuming that a woman will not want to go overseas; and (3) give female managers every chance to succeed by giving them the titles, status, and recognition appropriate to the position—as well as sufficient time to be effective.[70]

10-5. To understand the variations in host-country labor relations systems and the impact on the manager's job and effectiveness

WORKING WITHIN LOCAL LABOR RELATIONS SYSTEMS

If you have to close a plant in Italy, in France, in Spain or in Germany, you have to discuss the possibility with the state, the local communities, the trade unions; everybody feels entitled to intervene . . . even the Church.[71]

JACOB VITTORELLI, FORMER DEPUTY CHAIRMAN OF PIRELLI

An important variable in implementing strategy and maximizing host-country human resources for productivity is that of the labor relations environment and system within which the managers of a multinational enterprise (MNE) will operate in a foreign country. Differences in economic, political, and legal systems result in considerable variation in labor relations systems across countries. It is the responsibility of the IHRM function to monitor the labor relations systems in host countries and advise local managers accordingly. In fact, that information should be considered one input to the strategic decision of whether to operate in a particular country or region.

The Impact of Unions on Businesses

European businesses, for example, continue to be undermined by their poor labor relations and by inflexible regulations. As a result, businesses often have to move jobs overseas to cut labor costs, resulting from a refusal of unions to grant any reduction in employment protection or benefits to keep the jobs at home. In addition, European firms wishing to operate elsewhere in Europe or to move to other countries have to weigh carefully the labor relations systems and their potential effect on strategic and operational decisions, as well as political and economic changes, as illustrated in the accompanying "Under the Lens" feature.



UNDER THE LENS

German Manufacturer to Close Two UK Plants[72]

Move by Schaeffler Threatens 600 Jobs at its Llanelli and Plymouth Plants

A German manufacturer of automobile and industrial parts is to shut two UK facilities that together employ almost 600 people, a decision it attributed to changes in economic conditions and demand for its products.

Schaeffler delivered the news to workers at its Llanelli and Plymouth plants on Tuesday morning, and added that the uncertainty around Britain's departure from the EU had been a contributing factor.

"The changes to our UK footprint are designed to make us more efficient by relocating parts of our production closer to where our products are used," said Juergen Ziegler, Schaeffler's regional chief executive.

"Brexit is clearly not the single decisive factor behind our decision-making for the UK market, but the need to plan for various complex scenarios has brought forward the timing."

The €14bn turnover a year company explained that demand for mechanical car components supplied by its Llanelli plant in south Wales, which employs roughly 220 people, was falling with the rise of electric cars and only predicted to decline further.

Its Plymouth factory, in south-west England, which has a workforce of 365, produces spindle bearings and specialised bearings among other items. Despite being profitable, it will be consolidated into a larger American sister plant that makes similar products, since both factories are currently underused.

Only 15 per cent of the goods Schaeffler produces in the UK remain in the country, with the majority exported to mainland Europe.

Production from the two plants will be relocated to China, South Korea and Germany, though Schaeffler emphasised that its biggest UK manufacturing site in Sheffield would remain open. In addition, the German group will combine two logistics centres in England.

The Unite trade union vowed to oppose the closures. Tony Burke, assistant general secretary, said: "This is yet another body blow for the UK's automotive supply chain and the wider car industry. It should leave no one in any doubt as to what is in store if the UK crashes out of the European Union without a deal that secures tariff free frictionless trade."

The announcement came a day after Michelin stunned workers with plans to close its Dundee factory with the loss of 845 jobs. However, the French tyremaker said its decision had "nothing to do with" the UK's impending EU departure.

After talks with the company and trade unions in Dundee on Tuesday, Derek Mackay, Scotland's economy secretary, announced the creation of an action group of officials and local politicians to explore options for the site.

"I have met members of Michelin's group executive and they have agreed to consider a proposition that we will bring forward, to secure a sustainable future for the plant," Mr Mackay said, without giving details.

He later told the Scottish parliament: "We will leave no stone unturned in our efforts to keep this plant operational in Dundee."

Michelin said the Dundee plant had faced difficulties, despite investment of £70m in recent years, because of changes in the car market that cut demand for premium tyres of the 16-inch and smaller sizes it manufactures. The factory has also faced increasing competition from "entry-level" Asian rivals.

"The accelerated market transformation has made the [Dundee] plant unsuitable and its conversion is not financially viable," Michelin said. Unite said on Tuesday it had been working on a flexibility agreement including voluntary redundancies and reduced shifts that it said would make the Dundee plant financially viable in the long term.

Source: © The Financial Times Limited 2018.

Organized Labor around the World

Labor union membership has been on the decline across most developed nations. In 1985, 30 percent of workers were labor union members in OECD countries. As of 2018, union membership had dropped to 16 percent. According to OECD statistics, approximately 81 million workers are part of labor unions in its member states. Moreover, roughly 155 million workers partake in collective agreements at various levels (e.g., national or regional). That said, the percentage of workers covered by collective agreements has declined from 45 percent in 1985 to 32 percent in 2017. The reasons for the drop in union membership include technological and organizational changes, international expansion of firms, and most noticeable, the decline of the manufacturing sector in OECD member countries.[73]

Labor union membership rates vary greatly across OECD countries. For example, Iceland has a labor union membership rate of 90.4 percent—the highest among OECD countries. Sweden ranks second with union membership rate of 66.1 percent. In contrast, Japanese and Australia union membership rates are substantially lower—roughly 17 percent and 13 percent, respectively. As of 2018, the U.S. union membership rate is 10.1 percent, which is down sharply from 21.0 percent in 1983.[74]

The traditional trade union structures in Western industrialized societies have been in *industrial unions*, representing all grades of employees in a specific industry, and *craft unions*, based on certain occupational skills. More recently, the structure has been conglomerate unions, representing members in several industries—for example, the metalworkers unions in Europe, which cut across industries, and general unions, which are open to most employees within a country.[75] The system of union representation varies among countries. In the United States, most unions are national and represent specific groups of workers—for example, truck drivers or airline pilots—so a company may have to deal with several national unions. A single U.S. firm—rather than an association of firms representing a worker classification—engages in its own negotiations.

In Japan, on the other hand, it is common for a union to represent all workers in a company. In recent years, company unions in Japan have increasingly coordinated their activities, leading to some lengthy strikes.

Industrial labor relations systems across countries can be understood only in the context of the variables in their environment and the sources of origins of unions. These include government regulation of unions, economic and unemployment factors, technological issues, and the influence of religious organizations. Any of the basic processes or concepts of labor unions, therefore, may vary across countries, depending on where and how the parties have their power and achieve their objectives, such as through parliamentary action in Sweden. For example, collective bargaining in the United States and Canada refers to negotiations between a labor union local and management. However, in Europe, collective bargaining takes place between the employer's organization and a trade union at the industry level.[76] This difference means that North America's decentralized, plant-level, collective agreements are more detailed than Europe's industry-wide agreements because of the complexity of negotiating myriad details in multi-employer bargaining. In Germany and Austria, for example, such details are delegated to works councils by legal mandate.[77]

The resulting agreements from bargaining also vary around the world. A written, legally binding agreement for a specific period, common in Northern Europe and North America, is less prevalent in southern Europe and Britain. In Britain, France, and Italy, bargaining is frequently informal and results in a verbal agreement valid only until one party wishes to renegotiate.[78]

Other variables of the collective bargaining process are the objectives of the bargaining and the enforceability of collective agreements. Because of these differences, managers in MNEs overseas realize that they must adapt their labor relations policies to local conditions and regulations. They also need to bear in mind that, although U.S. union membership has declined by about 50 percent in the past 30 years, in Europe, overall, membership is still quite high, particularly in Italy and the United Kingdom—though it, too, has been falling, but from much higher levels.

Most Europeans are covered by collective agreements, whereas most Americans are not. Unions in Europe are part of a national cooperative culture among government, unions, and management, and they hold more power than in the United States. Increasing **privatization** will make governments less vulnerable to this kind of pressure. It is also interesting to note that some labor courts in Europe deal separately with employment matters from unions and works councils.

In Japan, labor militancy has long been dead since labor and management agreed 40 years ago on a deal for industrial peace in exchange for job security. Unions in Japan have little official clout, especially in the midst of the Japanese recession. In addition, not much can be negotiated because wage rates, working hours, job security, health benefits, overtime work, insurance, and the like have traditionally been legislated. However, global competition is putting pressure on companies to move away from guaranteed job security and pay. Often, however, the managers and labor union representatives are the same people, a fact that limits confrontation, as does the cultural norm of maintaining harmonious relationships.

In the industrialized world, tumbling trade barriers are also reducing the power of trade unions because competitive multinational companies have more freedom to choose alternative production and sourcing locations. Most new union workers—about 75 percent—will be in emerging nations such as China and Mexico, where wages are low and unions are scarce. However, in some countries, such as India, outmoded labor laws are very restrictive for MNEs, making it difficult to lay off employees under any circumstances and forcing foreign companies to be very careful in their selection of new employees.

In China, for example, in a surprising move, the government passed a new law that will grant power to labor unions, in spite of protests by foreign companies with factories there. The order was in response to a sharp rise in labor tension and protests about poor working conditions and industrial accidents.[79] The All-China Federation of Trade Unions claimed that foreign employers often force workers to work overtime, pay no heed to labor-safety regulations, and deliberately find fault with the workers as an excuse to cut their wages or fine them. The move, which underscores the government's growing concern about the widening income gap and threats of social unrest, is setting off a battle with American and other foreign corporations that have lobbied against it by hinting that they may build fewer factories in China.[80]

Protests arose after Walmart, the world's biggest retailer, was forced to accept unions in its Chinese outlets; other MNCs then joined the effort to get the Chinese government to reverse its

decision. State-controlled unions in China have traditionally not wielded much power; however, after years of reports of worker abuse, the government seems determined to give its union new powers to negotiate worker contracts, safety protection, and workplace ground rules.[81] However, in spite of such well-publicized incidences, the union situation in China is generally regarded as *The Economist* states in the following:

> *In name, the All-China Federation of Trade Unions (ACFTU) is a vast union bureaucracy running from the national level to small enterprises. In practice it is controlled by the Communist Party at the national level and, in companies, is mostly a tool of the management.*[82]
>
> *The Economist*

Chinese managers often ignore workers' basic rights for reasonable working conditions, safety, and even the right to be paid. At Foxconn Technology, for example, which is a major supplier to several electronics giants such as Hewlett Packard, Apple, and Microsoft, there were large protests in January 2012 by workers at its Wuhan plant that involved threats from some workers to commit suicide. The employees were protesting that they had been forced to work long hours under poor conditions with little pay. Foxconn resolved the dispute and, under pressure from Apple and other companies, pledged to improve working conditions in China.[83] Increasing protests and strikes across China are partly attributed to more awareness of labor laws as well as to inflationary pressures. The next day, Apple, following the lead of companies such as Intel and Nike, released a list of its major suppliers, including a list of troubling practices at some of those.[84]

During the period August 2017 to April 2018, China Labor Watch sent investigators into Hengyang Foxconn. The investigative team noted that agency staff—referred to as dispatch workers—constituted more than 40% of the workforce, which violated the legal limit of 10%. Furthermore, dispatch workers and regular workers faced different working conditions. For example, dispatch workers received only eight hours of pre-job safety training, far below the 24 hours required by Chinese law. As for compensation, dispatch workers earn an hourly wage of 14.5 RMB ($2.26 USD) for normal hours and overtime hours. Also, dispatch workers received no paid sick leave, whereas regular workers receive 80 percent of their pay during sick leave. Although Foxconn claimed that it "works hard to comply with all relevant laws and regulations" and that it seeks to rectify infractions immediately, the CLW report suggests that there is still room for improvement.[85]

However, because problems occur in factories from which Apple's suppliers outsource, or that supply parts to the suppliers, retaining control and oversight is very difficult. Perhaps, as discussed in Chapter 2, the improved social responsibility of foreign firms operating in China might exert pressure for better working conditions for Chinese employees. In China, foreign subsidiaries must comply with the Trade Union Law. However, there is more pressure for them to unionize than domestic firms for at least two reasons. First, foreign subsidiaries offer competitive wages, resulting in higher payments made to the ACFTU. Second, there is the perception that foreign subsidiaries "westernize" Chinese workers, so unionization is viewed as a countermeasure so that the Chinese Communist Party has a vehicle through which to communicate with the nation's labor force. Furthermore, policymakers have a stated goal of having 90% of all companies to have collective bargaining agreements.[86]

Historically, the existence of unions in the West has been linked closely to improved social responsibility toward workers, and countries around the world are beginning to catch up as far as improved conditions for workers. This happens when unions are permitted and have some power or when governments exert pressure to improve life for workers so that unions will not take hold. However, strict adherence to union regulations is often traded off by all parties for the local factory to remain competitive and viable and thus provide jobs and a reasonable level of living conditions compared to those experienced previously.

Convergence versus Divergence in Labor Systems

In October 2006, the International Trade Union Confederation (ITUC) was formed in Vienna, comprising the affiliated organizations of the former ICFTU (International Confederation of Free Trade Unions), and WCL (World Confederation of Labor) and eight other national trade union organizations, to form a global body.[87] As of 2018, the ITUC is the world's largest trade union representing 207 million workers through its 331 affiliated organizations in 163 countries

and territories. Its objective is to promote and defend workers' rights vis-à-vis cross-border cooperation between trade unions and within major global institutions. It focuses on "*trade union and human rights; economy, society and the workplace; equality and non-discrimination; and international solidarity*."[88]

Political changes, external competitive forces, increased open trade, and frequent moves of MNCs around the world are forces working toward convergence in labor systems. **Convergence** occurs as the migration of management and workplace practices around the world reduce workplace disparities from one country to another. This occurs primarily as MNCs seek consistency and coordination among their foreign subsidiaries and as they act as catalysts for change by exporting new forms of work organization and industrial relations practices.[89] It also occurs as harmonization is sought, such as for the EU countries, and as competitive pressures in free-trade zones, such as the NAFTA countries, eventually bring about demands for some equalization of benefits for workers.[90] It would appear that economic globalization is leading to labor transnationalism and will bring about changes in labor rights and democracy around the world.

Other pressures toward convergence of labor relations practices around the world come from the activities and monitoring of labor conditions worldwide by various organizations. One of these organizations is the International Labor Organization (ILO)—comprising union, employer, and government representation—whose mission is to ensure that humane conditions of labor are maintained. Other associations of unions in different countries include various international trade secretariats representing workers in specific industries. The activities and communication channels of these associations provide unions and firms with information about differences in labor conditions around the world.[91]

However, there are considerable forces for continued **divergence** of unions. These include government attitudes toward unions; union competition to attract foreign investment and provide jobs locally; different approaches to structuring unions; as well as how to organize collective bargaining and deal with workers' rights. Exhibit 10-4 shows the major forces for and against convergence in labor relations systems.

EXHIBIT 10-4 Trends in Global Labor Relations Systems

Forces for Global Convergence →	Dynamic Forces Acting on Current System	← Forces to Maintain or Establish Divergent Systems
Global competitiveness		National labor relations systems and traditions
MNC presence or consolidation initiatives		Social systems
Political change		Local regulations and practices
New market economies		Political ideology
Free-trade zones: harmonization		Cultural norms
(EU), competitive forces (NAFTA)		Competition for jobs
Technological standardization, IT		Collective bargaining methods
Declining role of unions		
Agencies monitoring world labor practices		

Adapting to Local Industrial Relations Systems

Although forces for convergence are found in labor relations systems around the world (as discussed previously), for the most part, MNCs still adapt their practices largely to the traditions of national industrial relations systems, with considerable pressure to do so. Those companies, in fact, act more like local employers, subject to local and country regulations and practices. Although the reasons for continued divergence in systems seem fewer, they are very strong—notably, political ideology and the overall social structure and history of industrial practices. In the European Union (EU), where states are required to maintain parity in wage rates and benefits under the Social Charter of the Maastricht Treaty, a powerful defense of cultural identity and social systems still

exists, with considerable resistance by unions to comply with those requirements. Managers in those MNCs also recognize that a considerable gap often exists between the labor laws and the enforcement of those laws—in particular in less-developed countries.

USMCA and Labor Relations in Mexico

Government control over union activities is very strong, and although some strikes occur, union control over members remains rather weak. Most labor unions are affiliated with the Institutional Revolutionary Party (PRI) through the Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos—CTM).

In 2018, the leaders of United States, Mexico and Canada signed a new trade agreement—called USMCA—which replaces NAFTA. Pending Congressional approval, one of the most salient differences in the USMCA compared with NAFTA pertains to protections for workers in the three member countries. For example, Mexico has agreed to pass laws giving workers the right to real union representation, to extend labor protections to migrant workers (who are often from Central America), and to protect women from discrimination.[92]

According to the USMCA, U.S. automakers that assemble their cars in Mexico will be required to use more U.S.-made parts in order to gain tariff relief. This aspect of the new trade agreement benefits U.S. factory workers. Moreover, roughly 40 percent of those cars require workers to earn at least $16 per hour, which is three times more than the minimum wage in Mexico. The new agreement permits each country to sanction each other for labor infractions that impact trade, which differs from the NAFTA agreement.[93]

Many foreign firms set up production in Mexico—using the advantages of NAFTA, and now USMCA—at least in part for the lower wages and lower overall cost of operating there, as well as low transportation costs to the United States—and the Mexican government wants to continue to attract that investment as it has for many years before NAFTA, and now under the USMCA. For comparison, the accompanying "Comparative Management in Focus" feature examines labor relations in Germany.



Comparative Management in Focus

Labor Relations in Germany

In February 2018, IG Metall announced a labor deal in the German state of Baden-Wuerttemberg that gave workers a 4.3% increase in pay, thus preventing more labor disruptions for companies such as Daimler AG.[94]

INDUSTRYWEEK.COM, FEBRUARY 6, 2018

The new labor agreement was finalized after intense negotiations and even a few 24-hour walkouts. It stretched over 27 months. The protracted negotiations raised concerns about the broader economic implications from stagnating wages in Europe's largest economy.

"We're glad that we could reach a compromise after negotiating some 13 hours today that we can describe as bearable, but that also includes painful elements," ElringKlinger AG Chief Executive Officer and Suedwestmetall's top negotiator Stefan Wolf said at a press briefing in Stuttgart.

The collective bargaining drew heavy interest from the European Central Bank as economists have sought to determine the longer-term impact of stagnating wages in Germany.[95]

In spite of the commitment to IG Metall, Germany's **codetermination** law (mitbestimmung) is coming under pressure from German companies dealing with global competition and the results of global trends of outsourcing, industrial restructuring, and the expansion of the service sector.[96] That pressure is increasingly taking the form of concession bargaining to keep jobs at home.

Mitbestimmung refers to the participation of labor in the management of a firm. The law mandates representation for unions and salaried employees on the supervisory boards of all companies with more than 2,000 employees and works councils of employees at every work site. Companies with 2,000 or more staff have to give employees half the votes; those with 500 employees or more have to give a third of supervisory board seats to union representatives.[97] Unions are well integrated into managerial decision-making and can make a positive contribution to corporate competitiveness and

(*Continued*)

MAP 10-1 Germany and Western Europe



Source: Deloitte Services LP

restructuring; this seems different from the traditional adversarial relationship of unions and management in the United States. However, the fact is that German firms, in the form of affiliated organizations of companies, have to contend with negotiating with powerful industry-wide unions. Employment conditions that would be negotiated privately in the United States, for example, are subject to federal mandates in Germany—a model unique in Europe. Germans on average work fewer hours than those in any other country than the Netherlands.[98] Under pressure from global competition, German unions incurred huge membership losses. In 2015, 17.7 percent of employees in Germany are union members, compared to 24.7 percent in the United Kingdom and 67 percent in Sweden.[99] As a result, the unions are now more willing to make concessions and trade flexibility for increased job security.

In Germany, the vast majority of union members are in the DGB—the main union confederation. However, within the DGB, its individual unions such as IG Metall have considerable independence

and power. Unions tend to be organized by industry—e.g., metal workers, public sector workers, retail workers. Trade union membership has tended to be strongest among manual workers in the manufacturing sector and public services. However, it is generally weaker among employees in the private services sector.[100]

The union works councils play an active role in hiring, firing, training, and reassignment during times of reorganization and change.[101] Because of the depth of works council penetration into personnel and work organization matters, as required by law, its role has been described by some as "co-manager of the internal labor market."[102] This situation has considerable implications for how managers of MNCs plan to operate in Germany.

IG Metall (Industriegewerkschaft Metall—Industrial Union of Metalworkers) had nearly 3.9 million members as of 2018, representing workers at Germany's biggest companies.[103] IG Metall has traditionally negotiated guidelines regarding pay, hours, and working conditions on a regional basis. IG Metall's proactive role on change illustrates the evolving role of unions by leading management thinking instead of reacting to it. In addition, management and workers tend to work together because of the unions' structure. Indeed, such institutional accord is a powerful factor in changing deeply ingrained cultural traits. Codetermination has clearly helped to modify German managerial style from authoritarian to something more akin to humanitarian without, it should be noted, altering its capacity for efficiency and effectiveness.[104] This system compares to the lack of integration and active roles for unions in the U.S. auto industry—for example, conditions that limit opportunities for change.

Pay for German production workers has been among the highest in the world, about 150 percent of that in the United States and about ten times that in Mexico. German workers also have the highest number of paid vacation days in the world and prefer short workdays. Foreign companies operating in Germany also have to be aware that termination costs—-including severance pay, retraining costs, time to find another job, and so on—are very high, and that is assuming the company is successful in terminating the employee in the first place, which is very difficult to do in Europe. This was brought home to Colgate-Palmolive when it tried to close its factory in Hamburg. The company offered the 500 employees an average severance of $40,000 each, but the union would not accept, and eventually Colgate had to pay a much higher (undisclosed) amount.

Conflicting opinions over the value of codetermination are increasingly evident as business practices become increasingly subject to EU policies. A major concern was that firms from other countries that were considering cross-border mergers would be discouraged by the EU statute that would oblige them to incorporate codetermination if the new company includes significant German interests.

CONCLUSION

The role of the IHRM department has expanded to meet the strategic needs of the company to develop a competitive global management cadre. Maximizing human resources around the world requires attention to the many categories and combinations of those people, including expatriates, inpatriates, host-country managers, third-country nationals, global teams, and local employees. Competitive global companies need top managers with global experience and understanding. To that end, attention must be paid to the needs of expatriates before, during, and after their assignments to maximize their long-term contributions to the company.

Summary of Key Points

- Expatriate career management necessitates plans for retention of expatriates during and after their assignments. Through retention, the firm can benefit from the knowledge and experiences attained on assignments; otherwise, the next firm that hires the returnee will benefit from that knowledge. Support programs for expatriates should include information from and contact with the home organization as well as career guidance and support after the overseas assignment.
- Expatriates' assignments offer employees an opportunity to obtain valuable international experience that can have a positive influence on their career trajectories. Nevertheless, employees must evaluate both the benefits and costs prior to accepting an expatriate assignment.
- The expatriate's spouse plays a crucial role in the potential retention and effectiveness of the manager in host locations. Companies should ensure the spouse's

interest in the assignment, include him or her in the predeparture training, and provide career and family support during the assignment and upon return.

- Global management teams offer greater opportunities for competition—by sharing experiences, technology, and international managers—and greater opportunities for cross-cultural understanding and exposure to different viewpoints. Disadvantages can result from miscommunication and cross-cultural conflicts and greater complexity in the workplace.
- Virtual global teams enable cost-effective, rapid knowledge sharing and collaboration. Establishing regular communication and routines, as well as exploiting technology can help to reduce cross-cultural and logistical challenges.
- Women represent an underused resource in international management, especially since they tend to employ more leadership behaviors that enhance firm performance. One reason for this situation is the assumption that culturally based biases may limit the opportunities and success of female managers and employees.
- The labor relations environment, system, and processes vary around the world and affect how the international manager must plan strategy and maximize the productivity of local human resources.
- Labor unions around the world are becoming increasingly interdependent because of the operations of MNCs worldwide, the outsourcing of jobs around the world, and the leveling of the playing field for jobs.

Discussion Questions

10-1. What steps can the company's International HRM department take to maximize the effectiveness of the expatriate's assignment and the long-term benefit to the company?

10-2. Discuss the role of reverse culture shock in the repatriation process. What can companies do to avoid this problem? What kinds of skills do managers learn from a foreign assignment, and how can the company benefit from them? What is the role of repatriation in the company's global competitive situation?

10-3. What are the reasons for the small numbers of female expatriates? What more can companies do to use women as a resource for international management?

10-4. What is a virtual global management team? How do the members interact? Discuss the advantages and the challenges these teams face. Suggest some ways to maximize the effectiveness of virtual teams across borders.

10-5. Discuss the reasons behind the growing convergence and interdependence of labor unions around the world.

10-6. Discuss the ways in which an expatriate assignment can benefit an employee's career. Discuss circumstances in which you would decline an expatriate assignment.

Application Exercise

10-7. Interview one or more managers who have held positions overseas. Try to interview two people of different genders. Ask them about their experiences both in the working environment and in the foreign country generally. How did they and their families adapt? How did they find the stage of reentry to headquarters, and what were the effects of the assignment on their career progression? What differences do you notice, if any, between their expatriate experiences?

10-8. Create a 5- to 10-year plan for your career goals. Discuss how expatriate assignments can help achieve those goals.

Experiential Exercise

Form groups of six students, divided into two teams, one representing union members from a German company and the other representing union members from a Mexican company. These companies have recently merged in a joint venture, with the subsidiary to be located in Mexico. These union workers, all line supervisors, will be working together in Mexico. You are to negotiate six major points of agreement regarding union representation, bargaining rights, and worker participation in management, as discussed in this chapter. Present your findings to the other groups in the class and discuss.

CASE STUDY

Expat Tax Breaks for Brexit Bankers: FT Readers Respond

A selection of opinions on the causes and consequences of Brexit job moves

Niki Blasina, Monika Pronczuk and FT Readers
November 2, 2018

In our recent project analysing the generous tax breaks available to London bankers moving to the European continent, we invited readers to comment on Brexit-related job moves or share their experience navigating expatriate tax regimes.

We received hundreds of responses about tax incentives and other factors to consider when making a relocation decision.

The article also triggered a broader discussion about the estimated number of jobs that could move due to Brexit and the potential economic effects of such to both the UK and Europe.

Here are some of the best submissions.

Tax incentives are not the whole story

"If you have to relocate, there is a lot more to be looked at: Paris may have nice incentives, but is also one of the most expensive places in Europe. The Netherlands have one of the highest qualities of life in Europe, eg with regards to public services, safety, etc. Luxembourg has a generally low level of income tax, and only very limited capital gains tax — and no tax on inheritance in direct line of succession, which is pretty unique on the continent. You may also want to consider how difficult the local language is, and how much you need to learn to get by in daily life . . . Just following the tax incentive may leave you high and dry if you want to stay there for more than a few years."

— *Athanase*

Quality of life in Italy beats London

"I got the chance to move out of London and relocate to Italy. I am quite glad. Besides the tax incentives mentioned in the article, overall I could enjoy a higher quality of life.

Housing in London is [becoming] more and more expensive, requiring even professionals earning well above the median salary to commute back and forth for hours . . .

In the UK, public higher education is much more expensive than in France, the Netherlands, Italy, etc, where it is usually free or costs a few hundred euros per year . . .

You need to eat at least three times a day, having a tasty meal in Italy instead of the usual junk food would definitely make your day better.

Living in Milan, you can spend weekends at the beach in the summer and go skiing in the winter just 1h/2h away by car.

— *Luc321*

Increase in income inequality

"I certainly understand the rationale for these tax incentives, but they also create greater income inequality, something the French and Italians in particular rail against, and certainly run counter to the EU's condemnation of corporate tax incentives for companies that relocate to Ireland et al."

— washu

Chasing bankers is the wrong approach

"Fighting for London bankers is short sighted. EU countries should work together to make their financial market more robust and more uniform, not fight to get bankers. The markets will punish Eurozone countries soon if this is not done."

— Tocqueville

Will locals be outpriced?

"Has anyone actually asked the non-financial markets people, who already live in Paris or Milan, if they want to encourage the creation of a "financial markets colony" in their cities? Without question this will result in a reduction in the quality of life of those residents, who will be priced out of their current way of life."

— Sensiblelaw

Job moves are being finalised now

"We're finalising our contracts, relocation and commuting packages now. People will be told late November their jobs are moving and will have until February/March to decide . . . It's happening. And not in insignificant numbers."

— Leviathan

IT jobs will need to move too

"A lot of IT support and operations will also need to be moved to the EU. There's been a steady drip feeding from the UK into eastern Europe for first line support services (call centres, not IT intensive work). But from Brexit onwards, there will need to be quite a lot more than that. Data will need to reside in the EU, because of regulatory requirements."

— Riccardo Ferri

New jobs elsewhere will curb City growth

"The reality is that the initial set-up of entities in other EU countries is just the beginning. It is a first step. Every bank, asset manager or Fintech will then start staffing those offices in the future instead of their entities in London . . . Even a company like ours, with just 100 people, we are moving an initial five to the EU, but also seven new hires will be allocated to our offices in Madrid instead of London. It is the long term which will see London's City shrinking."

— Platipus

Not many jobs are moving

"I work in financial services and have done so for many years. I hear of very few job losses to the continent as a result of Brexit."

— Deveron

Source: © The Financial Times Limited 2018.

Case Questions

10-9. Assume you are working in London and your company wants to relocate you to one of their branches throughout Europe and has given you a choice. You have a spouse and two children of school age. Consider various capitals in Europe. Draw up a list of your priorities for relocation and assess three locations. What are your first and second choices?

10-10. What would be your choice as a single person?

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CHAPTER

11 Motivating and Leading

OBJECTIVES

11-1. To understand the complexity and the variables involved in cross-cultural motivation

11-2. To become familiar with the global leader's role and environment and what makes a successful global leader

11-3. To discuss the research on leadership and how leadership styles and practices vary around the world

11-4. To understand the variables that necessitate contingency leadership: culture, context, people, and situations

Opening Profile: Motoi Oyama of Asics: The Globally Minded Shoe Ambassador[1]

Back in 2001, shortly after Motoi Oyama moved to the Netherlands to become head of Asics Europe, he ordered a survey on brand recognition across the region. Half the respondents thought Asics was American. More than 40 per cent had no idea where the company was from.

Mr Oyama was ecstatic.

In his view the entire success of his sportswear company, which commands an eclectic cult following of long-distance runners, wrestlers, breakdancers and fans of Quentin Tarantino films, pivots upon being neutral and global. His leadership, says the 68-year old who became chief executive in 2011, has been focused on enhancing those qualities and of running a group that can leverage what he calls the borderless, function-obsessed nature of sports.

"The lucky thing is the name," he says, reaching for one of the many running shoes within the immediate grasp of his chair and pulling out the tongue to show off the Asics emblem. "Nobody knew we were Japanese . . . I accepted that [the survey result] was a very good thing for us. The shoes are good for running. That's what is important . . . nothing national should be added to the brand."

Since 2000—and largely through his efforts—Asics (the name was inspired by a Latin phrase) has gone from being a company with 30 per cent overseas sales to 75 per cent in the last financial year. The overseas push, he says, was a direct response to criticism from business partners outside Japan—once in the mid 1980s and again in the early 2000s. Both occasions caused him to accelerate efforts outside Japan. He was accused of allowing Asics to remain a "sleeping tiger"—a potentially winning product but unable or unwilling to take the tough decisions required to take on the big global sportswear groups.

His response, which came far earlier than other more globalised Japanese companies, was first to insist that English became the lingua franca across the group and then to pull back all his Japanese managers from overseas to leave the job of expansion to locals.

The balance should continue to shift towards overseas sales, he says, as Asics pushes further into China, where marathon running has taken off, and India, where the company hopes to break into the

(*Continued*)

cricket shoe market. The 2020 Tokyo Olympics, of which Asics is a major sponsor, will be a significant opportunity to put the brand directly under the noses of the 40m foreign visitors Japan expects that year.

All this comes from a slightly unlikely setting. Asics head office is an unassuming building in an industrial park on the outskirts of Kobe—the city where founder Kihachiro Onitsuka produced his first basketball shoe under the Onitsuka Tiger brand. As Mr Oyama eagerly reminds, the shoes were so good that Nike founder Philip Knight's first business was as their distributor in the US.

Perhaps to underline his status as a globally minded globaliser, Mr Oyama punctuates his conversation with a near constant stream of references to the many periods of his career spent outside Japan. He describes the decision to revive the Onitsuka Tiger brand as a specific fashion line in 2002, and the marketing coup of actress Uma Thurman wearing the shoes in the film Kill Bill as a key element in boosting the brand's profile globally. The mention of the hit Tarantino film elicits a deep guffaw of satisfaction from the Asics boss.

A blunt realist, he notes the various management bruises he has sustained doing battle with Nike, Adidas and Puma and the hit his consolidated sales projections have taken (analyst forecasts for 2020 are about Y425bn, $3.8bn) as e-commerce and competition have bitten. He reels off lessons learnt both from vaunted international sports superstars such as Novak Djokovic (whose customised left shoe he asks to be brought in to the meeting room) and far-flung managers of sports retail outlets.

Freshest in his mind are the trends he spotted observing the passing feet of runners at the previous weekend's Boston Marathon. "There were more lighter-coloured uppers," he says, fretting that Asics latest premium marathon shoe may be too dark for current tastes.

Boston is one of a growing number of key fixtures in the Asics calendar as a company that once dominated the long-distance running market has—in his characteristically candid assessment—lost huge numbers of customers to competitors in years where the range on offer was not quite right.

"We were number one but we lost that because of the product and other brands. But we can come back now because we know why we lost share," says Mr Oyama.

In particular, he says, Asics failed to respond quickly enough to the fact that fitness trends in the US were pushing customers towards 5km and 10km runs and a softer sole than his company was producing at the time. Redressing all that, he says, is absolutely critical to the company's future. And to its share price, which almost tripled in value in the first four years of Mr Oyama becoming CEO, but have since shed the lion's share of that.

For this challenge, Mr Oyama has reunited the company with a key tenet of the founder's view of shoemaking: "What he hated most was a reliance on the gut feeling of craftsmen. He always believed that shoe design should be based on biomechanical data—to study the exact human movements required by the sport." That imperative, when translated from 1949 to 2019, has again demanded leadership. As well as the existing battery of R&D investments and data that Asics has used to design shoes, the company in 2016 bought fitness-tracking app Runkeeper. The user data it generates have helped produce the MetaRide—a $250 shoe that purports to save a runner's energy and which he believes will bring Asics back to the top of its core game.

"It's a challenging situation. But there are no borders in sporting goods. It's about whether the athletes like the shoes. . ."

Source: © The Financial Times Limited 2019.

Motivating

The two things that people will always be better at than machines are motivating others and coming up with original ideas.[2]

LUCY KELLAWAY, *FINANCIAL TIMES*

After managers set up a firm's operations by planning strategy, organizing the work and responsibilities, and staffing those operations, they turn their attention to everyday activities. This ongoing behavior of individual people carrying out various daily tasks enables the firm to accomplish its objectives. Getting those people to perform their jobs efficiently and effectively is at the heart of the manager's challenge. As illustrated in the opening profile, Motoi Ayama recognized that the challenge of motivating and leading in overseas operations requires the involvement of and delegation to local managers and workers.

Motivation—and therefore appropriate leadership style—is affected by many powerful variables (societal, cultural, and political). When considering the Japanese culture, for example,

as discussed throughout this book, it is not surprising to find that Japanese MNC Fujitsu uses some motivational techniques very different from those used in the West, such as when it cut the salaries of around 14,000 managers to motivate them and their subordinates to work harder. Fujitsu management said that if the company met their profit goal for the year the managers might have their full salaries restored. The logic was to build a sense of urgency and team spirit. Japanese workers typically feel a strong kinship to their employers and will work harder if they see their managers making similar sacrifices for the group goals.[3] Clearly, Fujitsu's decision to cut pay is based on the Japanese tradition of sink or swim, coworkers and employer banding together, and its collectivist culture.

Our objective in this chapter is to consider motivation and leadership in the context of diverse cultural milieus. We need to know what, if any, differences exist in the societal factors that elicit and maintain behaviors leading to high employee productivity and job satisfaction. Are effective motivational and leadership techniques universal or culture based?

CROSS-CULTURAL RESEARCH ON MOTIVATION

11-1. To understand the complexity and the variables involved in cross-cultural motivation

Motivation is very much a function of the context of a person's work and personal life. That context is greatly influenced by cultural variables, which affect the attitudes and behaviors of individuals (and groups) on the job. The framework of this context was described in Chapter 3 and illustrated in Exhibit 3-1.

This perspective of the overall context of a person's life on motivation was confirmed by a recent research study by Irem Uz on the concept of cultural tightness and looseness (CTL) among 68 countries, which found:

> *[T]raditional societies to be tighter, and industrialized societies to be looser.*[4]
>
> *Journal of Cross-Cultural Psychology*

A tight culture is one with pervasive norms and practices of sanctioning deviance from norms; people's values, norms, and behavior are similar to one another. People in tight societies preferred to live near those who are similar to them; and they tend to feel better when there is order and predictability in their lives; they tend to be risk-averse. Uz found the five most "tight" countries to be Morocco, Indonesia, Egypt, Bangladesh, and Jordan. Loose cultures, then, are at the opposite end of the range of CTL; the most "loose," according to the study were Belgium, Luxembourg, France, Great Britain, and Sweden.[5] Of course, there is a wide range of differences between tight and loose; and, as always, we caution that any such findings do not take account of individual or regional differences. That is, we cannot stereotype, only generalize to show some ideas of how to lead in various environments.

These findings have considerable implications for both motivation and leadership in that managers must recognize the impact of the commonly accepted norms of behavior in a society and how it affects work attitudes and relationships on the job.

Some overlap with Uz's findings can be observed by applying Hofstede's research on the cultural dimensions of individualism—uncertainty avoidance, masculinity, and power distance, for example—which allows us to make some generalized assumptions about motivation such as the following.

- High uncertainty avoidance suggests the need for job security, whereas people with low uncertainty avoidance would probably be motivated by more risky opportunities for variety and fast-track advancement.
- High power distance suggests motivators in the relationship between subordinates and a boss, whereas low power distance implies that people would be more motivated by teamwork and relations with peers.
- High individualism suggests people would be motivated by opportunities for individual advancement and autonomy; collectivism (low individualism) suggests that motivation will more likely work through appeals to group goals and support.
- High masculinity suggests that most people would be more comfortable with the traditional division of work and roles; in a more feminine culture, the boundaries could be looser, motivating people through more flexible roles and work networks.

More recent research, based on Hofstede's dimensions of individualism and masculinity, was conducted by Gelade, Dobson, and Auer. They compared what 50,000 workers in a global pharmaceutical company in 29 nations valued most in their jobs and how that positively affected their company. The results, based on Hofstede's individualism dimension, showed that the higher the level of national individualism (such as is typical in the United States), the more employees valued their autonomy, opportunities for personal achievements, and a work–life balance. This compared with employees in the more collectivistic countries (such as in China and Singapore), who apparently were more motivated when they felt that their jobs fully used their skills and when they felt that the company was providing them with good working conditions, fringe benefits, and training.[6] The findings based on the masculinity dimension were that the higher the level of masculinity (such as in Japan and Mexico), the more motivated employees were when given opportunities for high pay, personal accomplishment, and job advancement. This compared with those from more feminine cultures (such as in Denmark and Sweden), who claimed that factors related to their relationships with their managers and coworkers provided more commitment to the organization. The authors conclude that:

> *These findings show that the sources of organizational commitment are culturally conditioned and that their effects are predictable from Hofstede's value dimensions.*[7]
>
> JOURNAL OF CROSS-CULTURAL PSYCHOLOGY

Misjudging the importance of these cultural variables in the workplace may result not only in a failure to motivate but also in demotivation. Rieger and Wong-Rieger present the following example.

> *In Thailand, the introduction of an individual merit bonus plan, which runs counter to the societal norm of group cooperation, may result in a decline rather than an increase in productivity from employees who refuse to openly compete with each other.*[8]

In considering what motivates people, we have to understand their needs, goals, value systems, and expectations. No matter what their nationality or cultural background, people are driven to fulfill needs and achieve goals, but what are those needs, what goals do they want to achieve, and what can motivate that drive to satisfy their goals?

The Meaning of Work

Because the focus in this text is on the needs that affect the working environment, it is important to understand first what work means to people from different backgrounds. For most people, the basic meaning of work is tied to economic necessity (money for food, housing, and so forth) for the individual and for society. However, the additional connotations of work are more subjective, especially about what work provides other than money—achievement, honor, social contacts, and so on.

Another way to view work, however, is through its relationship to the rest of a person's life. The Thais call work *ngan,* which is the same as the Thai word for "play," and they tend to introduce periods of play in their workdays. On the other hand, most people in China, Germany, and the United States have a more serious attitude toward work. Especially in work-oriented China, seven-day workweeks with long hours and few days off are common. A study of average work hours in various countries conducted by Steers found that Koreans worked longer hours and took fewer vacation days than workers in most countries.[9] The conclusion was that the Koreans' hard work was attributable to loyalty to the company, group-oriented achievement, and emphasis on group harmony and business relationships.

Studies on the meaning of work in eight countries were carried out by George England and a group of researchers who are called the Meaning of Work (MOW) International Research Team.[10] Their research sought to determine a person's idea of the relative importance of work compared to that of leisure, community, religion, and family. They called this concept of work **work centrality**, defined as "the degree of general importance that working has in the life of an individual at any given point in time." The results showed, for example, that the Japanese hold work to be very important in their lives; the Brits, on the other hand (the birth country of one of the co-authors), seem to like their leisure time more than those in the other countries surveyed. However, given the complexity of cultural and economic variables involved in

people's attitude toward work, the results are difficult to generalize, in particular the implications of on-the-job work motivation. More relevant to managers (as an aid to understanding culture-based differences in motivation) are the specific reasons for valuing work. What kinds of needs does the working environment satisfy, and how does that psychological contract differ among populations?

The MOW research team provided some excellent insights into this question when it asked people in the eight countries what they valued about work and what needs their jobs satisfied. Their research results showed the relative order of importance overall as follows.

- A needed income
- Interest and satisfaction
- Contacts with others
- A way to serve society
- A means of keeping occupied
- Status and prestige[11]

Note the similarities of some of these functions with Maslow's need categories[12] and Herzberg's categories of motivators and maintenance factors. (Frederick Herzberg's research focused on how some people are motivated by internal aspirations and life goals, whereas others are primarily motivated by the job conditions.[13]) Clearly, these studies can help international managers anticipate what attitudes people have toward their work, what aspects of work in their life context are meaningful to them, and therefore what approach the manager should take in setting up motivation and incentive plans.

In addition to the differences among countries within each category—such as the higher level of interest and satisfaction derived from work by the Israelis as compared with the Germans—it is interesting to note the within-country differences. Although income was the most important factor for all countries, it apparently has a far greater importance than any other factor in Japan. In other countries, such as the Netherlands, the relative importance of different factors was more evenly distributed.

The broader implications of such comparisons about what work means to people are derived from considering the total cultural context. The low rating the Japanese give to the status and prestige found in work, for instance, suggests that those needs are more fully satisfied elsewhere in their lives, such as within the family and community. In the Middle East, religion plays a major role in all aspects of life, including work. The Islamic work ethic is a commitment toward fulfillment, so business motives are held in the highest regard.[14] Muslims feel that work is a virtue and an obligation to establish equilibrium in one's individual and social life. The Arab worker is defined by his or her level of commitment to family, and work is perceived as the determining factor in the ability to enjoy social and family life.[15] A study of 117 managers in Saudi Arabia by Ali found that Arab managers are highly committed to the Islamic work ethic and that there is a moderate tendency toward individualism.[16]

Exhibit 11-1 shows the results of the study and gives more insight into the Islamic work ethic. A different study by Kuroda and Suzuki found that Arabs are serious about their work and that favoritism, give and take, and paternalism have no place in the Arab workplace. They contrasted this attitude to that of the Japanese and Americans, who consider friendship to be an integral part of the workplace.[17]

Other variables affect the perceived meaning of work and how it satisfies various needs, such as the relative wealth of a country. When people have a high standard of living, work can take on a meaning different from simply providing the basic economic necessities of life. Economic differences among countries were found to explain variations in attitudes toward work in a study by Furnham et al. of more than 12,000 young people from 41 countries on five continents. Specifically, the researchers found that young people in Far East and Middle Eastern countries reported the highest competitiveness and acquisitiveness for money, whereas those from North America and South America scored highest on work ethics and mastery (that is, continuing to struggle in order to master something).[18] Such studies show the complexity of the underlying reasons for differences in attitudes toward work—cultural, economic, and so on—must be taken

EXHIBIT 11-1 The Islamic Work Ethic: Responses by Saudi Arabian Managers

Item*	Mean*
Islamic Work Ethic	
1. Laziness is a vice.	4.66
2. Dedication to work is a virtue.	4.62
3. Good work benefits both one's self and others.	4.57
4. Justice and generosity in the workplace are necessary conditions for society's welfare.	4.59
5. Producing more than enough to meet one's personal needs contributes to the prosperity of society as a whole.	3.71
6. One should carry work out to the best of one's ability.	4.70
7. Work is not an end in itself but a means to foster personal growth and social relations.	3.97
8. Life has no meaning without work.	4.47
9. More leisure time is good for society.	3.08
10. Human relations in organizations should be emphasized and encouraged.	3.89
11. Work enables man to control nature.	4.06
12. Creative work is a source of happiness and accomplishment.	4.60
13. Any man who works is more likely to get ahead in life.	3.92
14. Work gives one the chance to be independent.	4.35
15. A successful man is the one who meets deadlines at work.	4.17
16. One should constantly work hard to meet responsibilities.	4.25
17. The value of work is derived from the accompanying intention rather than its results.	3.16

*On a scale of 1–5 (5 = highest)
Source: Based on Abbas J. Ali, *Journal of Psychology* 126, No. 5 (1992), pp. 507–519.

into account when considering what needs and motivations people bring to the workplace. All in all, research shows a considerable cultural variability affecting how work meets employees' needs.

The Needs Hierarchy in the International Context

How can a manager know what motivates people in a specific country? Certainly, by drawing on the experiences of others who have worked there and by studying the likely type of motivational structure for the culture in that region.

People's opinions of how best to satisfy their needs vary across cultures also. One clear conclusion is that managers around the world have similar needs but show differing levels of satisfaction of those needs derived from their jobs. Variables other than culture may be at play, however. One of these variables may be the country's stage of economic development. Whatever the reason, many companies that have started operations in other countries have experienced differences in the apparent needs of the local employees and how they expect work to be recognized. For example, Japanese automaker, Mazda, experienced this problem in its Michigan plant. Japanese firms tend to confer recognition in the form of plaques, attention, and applause, and Japanese workers are likely to be insulted by material incentives because such rewards imply that they would work harder to achieve them than they otherwise would. Instead, Japanese firms focus on group-wide or company-wide goals, compared with the American emphasis on individual goals, achievement, and reward.

When considering the cross-cultural applicability of Maslow's hierarchy of needs theory, then, it is not the needs that are in question as much as the ordering of those needs in the hierarchy. The hierarchy reflects the Western culture, where Maslow conducted his study. He concluded that people progress from satisfying basic needs on to satisfying belongingness and esteem needs, and then to self-actualization needs.[19] However, different hierarchies might better reflect

other cultures. For example, Eastern cultures focus more on the needs of society rather than on the needs of individuals. It is difficult to observe or measure the individual needs of a Chinese person because, from childhood, these are meshed with the needs of society. Clearly, however, along with culture, the political beliefs at work in China dominate many facets of motivation. Traditionally, workers have been given exact and detailed prescriptions of what is expected of them as members of a factory, workshop, or work unit. This results in conformity at the expense of creativity. Workers are accountable to their group, which is a powerful motivator. Because being unemployed has not been an option in China until recently, it has been important for employees to maintain themselves as cooperating members of the work group, and this cultural norm still largely prevails in much of China.[20] Money is also a motivator, stemming from the historical political insecurity and economic disasters that have perpetuated the need for a high level of savings.[21]

Although more cross-cultural research on motivation is needed, one can draw the tentative conclusion that managers around the world are motivated more by intrinsic than by extrinsic factors. Considerable doubt remains, however, about the universality of Western theories because it is not possible to take into account all the relevant cultural variables when researching motivation. Different factors have different meanings within the entire cultural context and must be considered on a situation-by-situation basis. The need to consider the entire national and cultural context is shown in the "Comparative Management in Focus: Motivation in Mexico" feature, which highlights motivational issues for Mexican workers and indicates the meaning of work to them.



Comparative Management in Focus

Motivation in Mexico

In Mexico, everything is a personal matter; but a lot of managers don't get it. To get anything done here, the manager has to be more of an instructor, teacher, or father figure than a boss.

ROBERT HOSKINS, MANAGER, LEVITON MANUFACTURING, JUAREZ

To understand the cultural milieu in Mexico, we can draw on research concluding that the Mexican people as a whole rank high on both power distance (the acknowledgment of hierarchical authority) and on uncertainty avoidance (a preference for security and formality over risk). In addition, they rank low on individualism, preferring collectivism, which values the good of the group, family, or country over individual achievement.[22] Recent research by Davila and Elvira concluded that, "This cultural trend has given rise to a 'paternalistic' leadership style in which personal and social relationships are key to working and leading employees effectively."[23]

It is important for managers to recognize that Mexican society is very hierarchical, with a clear power structure for family, religion, business, politics, and other areas of life. People are accorded respect according to their age, sex, and rank or position.[24]

The Mexican culture, generally, is being-oriented, compared to the doing-oriented culture that prevails in the rest of North America; business takes a backseat to socializing.[25] Integral to the being-orientation is the high-context and implicit communication style of most Mexicans; much takes place on the level of nonverbal cues, and the assumption of unspoken communication is based on the personal relationships and trust developed with colleagues. Implicit communication is also based on the importance attached to respect, whereas any conflict would lose face for all concerned.[26] On the other hand, they maintain a small personal space with others and are a "touching" society. They are also frequently very expressive and passionate communicators. In addition, that being-orientation leads to a rather fluid attitude toward time, whereas relationships and commitment to individuals frequently take precedence over scheduled time commitments.[27]

It is said that Mexicans work to live compared to those in the United States, for example, who live to work. One reason for that is that in Mexico the family is of central importance; loyalty and commitment to family and friends frequently determine employment, promotion, or special treatment for contracts. Decisions and actions are usually based on what is good for the family and the group.[28] For many Mexican males, the value of work lies primarily in its ability to fulfill their culturally imposed responsibilities as head of household and breadwinner rather than to seek individual achievement. Machismo (sharp role differentiation based on gender) and prestige are important characteristics of the Mexican culture.

(*Continued*)

As a people, speaking very generally, Mexicans are very proud and patriotic; *respeto* (respect) is important to them, and a slight against personal dignity is regarded as a grave provocation.[29] Mexican workers expect to be treated in the same respectful manner that they use toward one another. As noted by one U.S. expatriate, foreign managers must adapt to Mexico's "softer culture"; Mexican workers "need more communication, more relationship-building, and more reassurance than employees in the U.S."[30] The Mexican people are very warm and have a leisurely attitude toward time; face-to-face interaction is best for any kind of business, with time allowed for socializing and appreciating the Mexicans' cultural artifacts, buildings, and so forth. Taking time to celebrate a worker's birthday, for instance, will show that you are a *simpático* boss and will increase workers' loyalty and effort. The workers' expectations of small considerations that seem inconsequential to U.S. managers should not be discounted. Personal relationships are of utmost importance to the Mexican people, usually taking priority over work goals. Trust in friends and family takes precedence over purely business relationships, so that networking through personal contacts is the best way to do business. The following are some general guidelines on the Mexican culture to guide foreign managers in Mexico.

- Family and friends are first priority; maintaining those relationships and trust takes precedence over outsiders, thus are important for business success.
- The Mexican employee works to live; scheduling and time management is secondary.
- Mexicans are fatalistic, based on strong religious influence.
- Mexicans are nationalistic; history and tradition are important.
- Work harmony is important; Mexicans are sensitive to conflict situations and need to maintain face.
- Mexicans are very proud; status is evidenced by title, position, and formality in dress and etiquette.

Most managers in Mexico find that the management style that works best there is authoritative and paternal. Paternalism is expected; the manager is regarded as *el patrón* (pronounced "pah-trone"), or the father figure, whose role it is to take care of the workers as an extended family.[31] Employees expect managers to be the authority; they are the elite—power rests with the owner or manager and other prominent community leaders. Frequently, if not told to do something, the workers will not do it, nor will they question the boss or make any decisions for the boss.[32] Nevertheless, employees perceive the manager as a person, not as a concept or a function, and success often depends on the ability of a foreign manager to adopt a personalized management style, such as by greeting all workers as they arrive for their shifts. To be effective, managers need to realize that a psychological contract between the manager and the worker encompasses the work group and the community as a whole. This should include:

- Investment in employees, including salary, benefits, education, training, and development.
- Cooperative efforts in labor relations.
- Community-centered CSR practices.[33]

Generally speaking, many Mexican factory workers doubt their ability to influence the outcome of their lives personally. They are apt to attribute events to the will of God or to luck, timing, or relationships with higher authority figures. For many, decisions are made on the basis of ideals, emotions, and intuition rather than on objective information. However, individualism and materialism are increasingly evident, particularly among the upwardly mobile high-tech and professional Mexican employees.

Corrective discipline and motivation must occur through training examples, cooperation, and, if necessary, subtle shaming. As a disciplinary measure, it is a mistake to insult a Mexican directly; an outright insult implies an insult to the whole family. As a motivation, one must appeal to the pride of the Mexican employees and avoid causing them to feel humiliated. Given that, getting ahead is often associated more with outside forces than with one's own actions; the motivation and reward system becomes difficult to structure in the usual ways.

Past experiences have indicated that, for the most part, motivation through participative decision-making is not as effective as motivation through the more traditional and expected autocratic methods. With careful implementation, however, the mutual respect and caring that the Mexican people have for one another can lead to the positive team spirit needed for the team structure to be used successfully by companies. One example is GM's highest-quality plant in the world in Ramos Arizpe, near Saltillo, Mexico.[34] In a study by Nicholls et al, the Mexican executives surveyed gave some suggestions for implementing work teams. They suggested the following.

- Foster a culture of individual responsibility among team members.
- Anticipate the impact of changes in power distribution.
- Provide leadership from the top throughout the implementation process.
- Provide adequate training to prepare workers for teamwork.
- Develop motivation and harmony through clear expectations.
- Encourage an environment of shared responsibility.[35]

For the most part, Mexican workers expect that authority will not be abused but rather will follow the family model in which everyone works together in a dignified manner according to their designated roles.[36] Any event that may break this harmony, or seems to confront authority, will likely be covered up. This may result in a supervisor hiding defective work, for example, or, as in the case of a steel conveyor plant in Puebla, a total worker walkout rather than using the grievance process.[37] Contributing to these kinds of problems is the need to save face for oneself and to respect others' place and honor. Public criticism is regarded as humiliating. Employees like an atmosphere of formality and respect. They typically use flattery and call people by their titles rather than their names to maintain an atmosphere of regard for status and respect.

The business culture in Mexico is also attributable to prevailing economic conditions in Mexico, which include low levels of education, training, and technical skills. A context of continuing economic problems and a relatively low standard of living for most workers help explain why Maslow's higher-order needs (self-actualization, achievement, status) are generally not very high on most Mexican workers' lists of needs. In discussing compensation, Mariah de Forest, who consults for American firms in Mexico, suggests the following.

> *Rather than an impersonal wage scale, Mexican workers tend to think in terms of payment now for services rendered now. A daily incentive system with automatic payouts for production exceeding quotas, as well as daily/monthly attendance bonuses, works well.*[38]

Global economic problems and cutbacks in auto manufacturing have also affected Mexico, making money a pressing motivational factor for most employees. Benefits that most workers cannot afford are prized. For example, since workers highly value the enjoyment of life, many companies in Mexico provide recreation facilities—a picnic area, a soccer field, and so forth. Bonuses are expected regardless of productivity. In fact, it is the law to give Christmas bonuses of 15 days of pay to each worker. Fringe benefits are also important to Mexicans; because most Mexican workers are poor, the company provides the only source of such benefits for them. In particular, benefits that help to manage family-related issues are positive motivators for employees at least to show up for work. To this end, companies often provide on-site health care facilities for workers and their families, nurseries, free meals, and even small loans in crisis situations.[39] In addition, companies that understand the local infrastructure problems often provide a company bus to minimize the pervasive problems of absenteeism and tardiness.

The foregoing statements are broad generalizations about Mexican factory workers. Increasing numbers of American managers are in Mexico because under the previous agreement—NAFTA—U.S. businesses were motivated to move operations there. And, as of this writing in 2019, the new agreement, USMCA, following final ratification, promises to be encouraging for new business opportunities in Mexico. For firms on U.S. soil, managers may employ many Mexican-Americans in an intercultural setting, and they have become known to be very hard-working people in both business and societal settings. As the second-largest and fastest-growing ethnic group in the United States, Mexican-Americans represent an important subculture requiring management attention as they take an increasing proportion of the jobs there and continue to move up the managerial ladders.

Research shows that little conclusive information is available to answer a manager's direct question of exactly how to motivate in any particular culture. The reason is that we cannot assume the universal applicability of the motivational theories, or even concepts, that have been used to research differences among cultures. Furthermore, the entire motivational context must be taken into account. For example, Western firms entering markets in both Russia and Eastern Europe invariably run into difficulties in motivating their local staffs. Except for the younger generation, most workers have been accustomed to working under entirely different circumstances and usually do not trust foreign managers. Typically, then, the work systems and responsibilities must be highly structured because workers in Eastern Europe and Russia are less likely to use their own judgment in making decisions and because managerial skills are less developed.[40] Russia, for

example, while rapidly becoming Westernized in the big cities, still presents foreign managers challenges regarding motivation and leadership styles.

In sum, motivation is situational, and savvy managers use all they know about the relevant culture or subculture—consulting frequently with local people—to infer the best means of motivating in that context. Furthermore, tactful managers consciously avoid an ethnocentric attitude in which they make assumptions about a person's goals, motivations, or work habits based on their own frames of reference, and they do not make negative value judgments about a person's level of motivation because it differs from their own.

Many cultural variables affect people's sense of what is attainable and thus affect motivation. One example is how much control people believe they have over their environment and their destiny—whether they believe that they can control certain events and not just be at the mercy of external forces. Although people in the United States typically feel a strong internal locus of control, others attribute results to, for example, the will of God (in the case of Muslims) or to the good fortune of being born in the right social class or family (in the case of many Latin Americans). For example, whereas most Westerners feel that hard work will get the job done, many Hong Kong Chinese believe that outcomes are determined by *joss,* or luck. Clearly, then, managers must use persuasive strategies to motivate employees when they do not readily connect their personal work behaviors with outcomes or productivity. Nevertheless, there can be considerable variance in managerial quality within a country as discussed in the following "Under the Lens" feature.



UNDER THE LENS

Bad Bosses Are Making the UK's Productivity Puzzle Worse[41]

Having a chief we believe can walk the walk, not just talk the talk, shapes how we feel about our work.[42]

GAVIN KELLY

The Office, starring 21st-century Britain's most cringemaking boss, David Brent, may have finished almost 15 years ago, but poor management is just as present in our lives today as it was back then. Bad bosses on TV are certainly amusing but the joke, in the end, is on us.

British management is part of our productivity problem. UK practices lag behind other leading economies such as the US, Canada, Japan, Germany and Sweden, and account for up to a third of the gap in productivity between companies and countries.

It is true that the vanguard of British business leaders are as good as the best in the world. But the gap between the best and the rest remains large. What is more, managers, like drivers, tend to think they are better than average.

Concern about management quality is as old as Britain's productivity challenge itself—though as angst about the UK's relative economic performance gets ever more acute, it would be nice to think the focus on management would acquire a fresh urgency.

Britain has, after all, undertaken a 30-year experiment. In generations past, bosses griped that they were held back as they were denied the right to manage. Business would thrive if only it weren't encumbered with outdated industrial relations, restrictive practices and a lack of highly skilled workers. Once unshackled, the argument went, managerial best practice would spread, workplace innovation would flow and productivity rise. Well, bosses' wishes were granted: employment regulation became among the most business friendly in the advanced world, unions withered, graduate numbers surged and executive pay ballooned. The result? All these years later we can now return an informed judgment: managerial mediocrity still reigns.

The link between the state of British management and national prosperity is not, however, all that we should fret about. What all too rarely gets discussed in policy circles—in sharp contrast to countless conversations in canteens, pubs and living rooms across the country—is the impact that our bosses have on the quality of our working lives.

Management gurus and human resources professionals have long spoken breezily about strategies for "employee engagement". Cut through the verbiage, though, and you will find little hard-edged evidence about the impact of different types of chiefs on the wellbeing of workers. Fortunately, that is

changing. Research by Andrew Oswald, a professor of economics and behavioural science at Warwick University, is shining a light inside the black box called "management" in order to understand how it affects workers. The findings are telling.

Having a boss judged by staff to be highly competent, as opposed to a dud, has twice as positive an effect on job-satisfaction as the difference between being high paid and low paid. The evidence suggests that having a boss who we believe can walk the walk, not just talk the talk, powerfully shapes how we feel about our work.

Some perspective is needed here. A challenging boss may, for instance, make us feel uneasy before inspiring us to greater things. And there is far more to good management than technical know-how. We should recognise, too, that tempting though it may be to pin all problems on the personal shortcomings of Brent-esque bosses, this is to miss the bigger picture. Bad managers are often the product of bad business models. And they, at least in part, reflect policy failings. All too often we remain loath to trace persistent managerial weaknesses back to root causes.

Yet the impact of inept management on job satisfaction should give us a jolt. Bad bosses spread misery. Britons have learnt just to shrug their shoulders or have a laugh about this. But our wellbeing, as well as wealth, depends on whether we act on it.

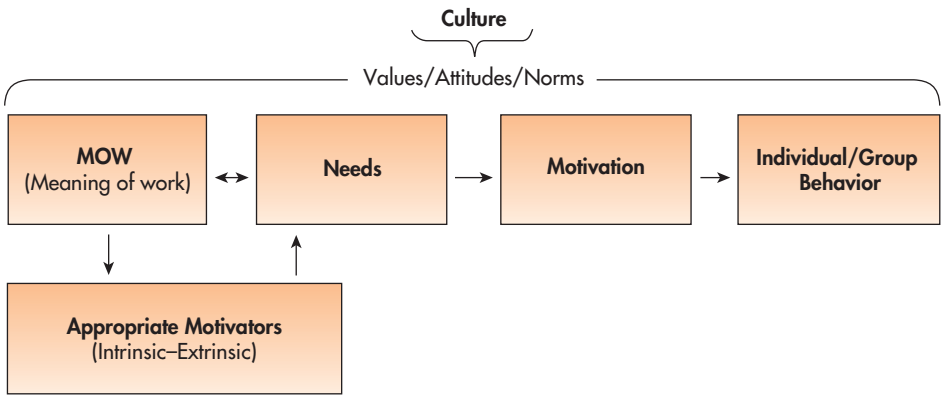
Source: © The Financial Times Limited 2018.

Culture and Job Motivation

The role of culture in the motivational process is shown in Exhibit 11-2. An employee's needs are determined largely by the cultural context of values and attitudes—along with the national variables—in which he or she lives and works. Those needs then determine the meaning of work for that employee. The manager's understanding of what work means in that employee's life can then lead to the design of a culturally appropriate job context and reward system to guide individual and group employee job behavior to meet mutual goals.

Incentives and rewards are an integral part of motivation in a corporation. Recognizing and understanding different motivational patterns across cultures leads to the design of appropriate reward systems.

EXHIBIT 11-2 The Role of Culture in Job Motivation



Reward Systems

In the United States, there are common patterns of rewards, varying among levels of the company and types of occupations and based on experience and research with Americans. Rewards usually fall into five categories: financial, social status, job content, career, and professional. The relative emphasis on one or more of these five categories varies from country to country. In Japan, for example, reward systems are based primarily on seniority since the 1950s; however lifetime employment and seniority-based rewards have been coming under scrutiny. The proposed changes have been met with some resistance. For example, Sony and Hitachi switched to a Western model where salary is based on skills and performance. Some staff members found it difficult to adjust to a performance-based system. Moreover, managers had to assess employee

performance more diligently—based on their achievements.[43] In addition, a distinction is made there between the regular workforce and the temporary workforce, which traditionally comprises women expected to leave when they start a family. As is usually the case, the regular workforce receives considerably more rewards than the temporary workforce in pay and benefits and the allocation of interesting jobs.[44] For the regular workforce, the emphasis is on the employee's long-term effectiveness in terms of behavior, personality, and group output. Rewarding the individual is frowned on in Japan because it encourages competition rather than the desired group cooperation. Therefore, specific cash incentives are usually limited. In Taiwan, recognition and affection are important; company departments compete for praise from top management at their annual celebration.

In contrast, the entire reward system in China is very different from that of most countries. The low wage rates are compensated for by free housing, schools, and medical care. Although egalitarianism still seems to prevail, the recent free-enterprise reform movements have encouraged *duo lao, duo de* (more work, more pay). One important incentive is training, which gives workers more power. One approach used in the past—and one that seems quite negative to Americans—is best illustrated by the example of a plaque award labeled "Ms. Wong—Employee of the Month." Although Westerners would assume that Ms. Wong had excelled as an employee, actually this award given in a Chinese retail store was for the worst employee; the plaque was designed to shame and embarrass her.[45] Younger Chinese in areas changing to a more market-based economy have seen a shift toward equity-based rewards, most likely resulting from a gradual shift in work values.[46]

Mercer Global HR Consulting Firm stressed several advantages to adopting an International Pay Structure as multinational firms battle to recruit top talent worldwide.[47] For example, an IPS approach can help to:

- Assure consistency—on a global or regional basis
- Achieve transparent and streamlined compensation packages
- Attract and retain superior talent worldwide
- Ensure that pay is based solely on the specific position/assignment rather than an employee's home-based perception
- Provide market-driven competitive compensation packages
- Maintain employees' purchasing power across locations

> *[A]n IPS [International Pay Structure] places a value on a job in the global or regional talent market, and enables organizations to define compensation packages that best meet the needs of both the employee and the employer without necessarily being constrained by the borders of the country the employee is based in*[48]
>
> MERCER, GLOBAL HR CONSULTING FIRM, 2019

Mercer's *Global Talent Trends 2019* survey underscored these advantages as respondents indicated that the top rewards priorities were offering more diverse incentives; differentiating rewards for superior performers; and developing creative rewards for talent with high-demand skills. Also, respondents mentioned skill-based compensation, career progression/experience-based rewards; compensation transparency; and equity-driven pay bands as top reward priorities.[49]

No doubt culture plays a significant role in determining the appropriate incentive and reward systems around the world. Employees in collectivist cultures such as Japan, Korea, and Taiwan would not respond well to the typical U.S. merit-based reward system to motivate employees because that would go against the traditional value system and would disrupt the harmony and corporate culture.

> *Just as retailers personalize digital advertisements to engage customers, companies can make the day-to-day work experience more relevant for individual employees. What helps employees thrive at work varies by country . . . Making the work experience relevant to individual employees helps them grow and thrive.*[50]
>
> *GLOBAL TALENT TRENDS, 2019*

EXHIBIT 11-3 What Helps Employees to Thrive in the Workplace in Various Countries

	Japan	Mexico	Brazil	Canada	Germany	India	Singapore	France	USA	Hong Kong
Priority 1	2	3	2	2	5	3	1	4	1	1
Priority 2	3	1	3	1	4	5	2	3	2	8
Priority 3	8	5	7	6	1	1	3	1	6	3

1=Work/life balance
2=Recognition for achievements
3=Learning opportunities
4=Fun environment
5=Meaningfulness of assignments
6=Sense of belonging
7=Empowerment
8=Effective leadership—clear direction

Source: Global Talent Trends 2019, Mercer.com; p. 22.

Indeed, countries differ with respect to what enables employees to prosper in the workplace. As Exhibit 11-3 shows, knowing the important priorities in each country can bring out the best in a global workforce and can be a potent source of worldwide competitive advantage.

Leading

Research results label French captains of industry as "autocrats," Germans as "democrats," and British as "meritocrats."[51]

DDI, LEADERS ON LEADERSHIP SURVEY

This section on leadership (and the preceding quote) prompts consideration of the following questions: To what extent, and how, do leadership styles and practices vary across countries? What are the forces perpetuating that divergence? Where, and why, will that divergence continue to be the strongest? Is there any evidence for convergence of leadership styles and practices around the world? What are the forces leading to that convergence, and how and where will this convergence occur in the future? What implications do these questions have for cross-cultural leaders?

The task of helping employees realize their highest potential in the workplace is the essence of leadership. The goal of every leader is to achieve the organization's objectives while achieving those of each employee. Today's global managers realize that increased competition requires them to be open to change and to rethink their old culturally conditioned modes of leadership.

THE GLOBAL LEADER'S ROLE AND ENVIRONMENT

11-2. To become familiar with the global leader's role and environment and what makes a successful global leader

The greatest competitive advantage global companies in the twenty-first century can have is effective global leaders. Yet this competitive challenge may require managerial and cultural changes. People tend to rise to leadership positions by proving themselves able to lead in their home-country corporate culture and meeting the generally accepted behaviors of that national culture. However, global leaders must broaden their horizons, both strategically and cross-culturally, and develop a more flexible model of leadership that can be applied anywhere—one that is adaptable to locational situations around the world.[52]

In a survey of 197 global HR executives, Thomas, Bellin, Jules, and Lynton found that those executives "believe that tomorrow's leaders will need to be more diverse than today's—especially in terms of thought styles and work experiences."[53] The study highlighted the need for global experience, industry experience, and thought styles.

The critical factors necessary for successful leadership abroad have come to be known as the global mind-set. Typically, that mind-set compares with the traditional mind-set in the areas of general perspective, organizational life, work style, view of change, and learning.[54] Harvard

EXHIBIT 11-4 The Global Mind-set of Successful Leaders

Personal work style	High "cultural quotient" (CQ) Open-minded and flexible Effective cross-cultural communicator and collaborator Team player in a global matrix Supports global objectives and balances global with local goals and practices
General perspective	Broad, systems perspectvei Personal autonomy and emotional resilience Change is welcomed and facilitated Enables boundaryless organizations Operates easily in cross-cultural and cross-functional environments Global learning is sought and used for career development

Source: Based on Walker et al., 2003; and Gary P. Ferraro, *The Cultural Dimension of International Business,* 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2006).

Business School authors Javidan et al. describe a leader with a global mind-set as having three major qualities.

- "Intellectual capital: the general knowledge and capacity to learn, including global business savvy
- Psychological capital: the openness to differences and capacity to change, such as a thirst for adventure
- Social capital: the ability to build trusting relationships with and among people who are different from you, including intercultural empathy and diplomacy"[55]

Other researchers describe the attributes in terms of the manager's personal work style and general perspective; they articulate some of the typical actions and attitudes of a leader with a global mind-set as shown in Exhibit 11-4.

Morrison, Gregersen, and Black found further information regarding leadership effectiveness abroad; their research involved 125 global leaders in 50 companies. They concluded that effective leaders must have global business and organizational savvy. They explain global business savvy as the ability to recognize global market opportunities for a company and having a vision of doing business worldwide. Global organizational savvy requires an intimate knowledge of a company's resources and capabilities to capture global markets as well as an understanding of each subsidiary's product lines and how the people and business operate on the local level. Morrison et al. outline four personal development strategies through which companies and managers can meet these requirements of effective global leadership: travel, teamwork, training, and transfers (the four Ts).[56]

Travel, of course, exposes managers to various cultures, economies, political systems, and markets. Working on global teams teaches managers to operate on an interpersonal level while dealing with business decision-making processes that are embraced by differences in cultural norms and business models. Although formal training seminars also play an important role, most of the global leaders interviewed said that the most influential developmental experience in their lives was the international assignment. Increasingly, global companies are requiring their managers who will progress to top management positions to have overseas assignment experience. The benefits accruing to the organization depend on how effectively the assignment and repatriation are handled, as discussed in Chapter 10. Many top leaders in the world, for example, have had their start with both homegrown training and an international assignment, which provided them with considerable skills to operate in the global marketplace. However, many multinational companies are looking beyond the home country to tap foreign executives as illustrated in the accompanying "Under the Lens: Japanese Boards Move to Open Up to Overseas Executives."



UNDER THE LENS

Japanese Boards Move to Open Up to Overseas Executives[57]

Toyota Wants to Pay Executives More to Attract the Best of International Talent

Toyota recently proposed to shareholders that it be allowed to lift the cap on total executive compensation to ¥4bn ($36m) a year. The move was a modest request from Japan's most valuable company and the world's second-largest carmaker.

What caught investors' attention, however, was not the meagre amount, but the company's stated reason for the change: Toyota said it wanted more flexibility on pay to help attract foreign executives.

The carmaker currently has just one non-Japanese board member, Frenchman Didier Leroy. But investors and analysts interpreted this year's shareholder proposal as a sign that the carmaker plans to inject more diversity into its management, which has traditionally consisted of a long-serving group of Japanese executives.

Toyota is not alone. Companies across the Japanese market have started seeking more diverse leadership as they acquire businesses overseas, with the recruitment of international talent seen as important to remain competitive. In May, Japan's biggest bank Mitsubishi UFJ Financial Group said it will appoint two non-Japanese outside directors for the first time.

Among Japanese firms in the Nikkei 225 stock index, 14.7 per cent had at least one foreign director on their boards last year, compared with 11 per cent in 2013, but still much lower than the 33 per cent of FTSE 100-listed companies in the UK, according to recruiters Spencer Stuart.

Bankers say the shift will add international flavour to corporate strategies and help Japanese companies improve their management of overseas acquisitions.

In the past year alone, several big companies have stumbled after purchases of foreign businesses went awry. Toshiba is struggling for survival as it wrestles with the fallout from an ill-fated purchase of Westinghouse in 2006. Japan Post took a $3.6bn writedown on Toll Holdings, the Australian logistics business it bought in 2015.

While the reasons for the soured deals vary, some companies have drawn criticism for the way they have governed their overseas subsidiaries. In particular, bankers observe there are concerns that Japanese acquirers become too satisfied with closing the deal without working out the harder part of integration strategy. In some cases, Japanese buyers have taken a hands-off approach, only to intervene when problems arise. By that time, however, it may be already too late as Toshiba's travails have illustrated. Other overseas acquisitions have come to grief when companies dispatched executives from Tokyo who took control and prompted a mass departure of local managers.

In general, Japanese acquirers have lacked ways to motivate local executives to work closely with their new parent, in part because promotion of executives based at overseas units had been rare. But there are some encouraging signs of change. After Suntory's $16bn takeover of Beam in 2014, the Japanese whisky group added Matt Shattock, chief executive of the US spirits maker, to the Japanese board. SoftBank will also revamp its management structure in June to install seven foreigners to its 11-member board, including the chief executives of US carrier Sprint and UK chip designer Arm.

There is still a long way to go until foreign executives are a common feature of the Japanese corporate scene and the experience of foreign executives has been less than encouraging. Michael Woodford, who started his career at a UK medical devices company that was later acquired by Olympus, was ousted as president of the Japanese group after just six-and-a-half months. His alleged offence: exposing a long running accounting fraud in 2011. Julie Hamp, Toyota's chief communications officer, was arrested two years ago on suspicion of illegally importing a prescription drug from the US.

The proposed change at Toyota—which will see the maximum amount of ¥4bn shared among the group's nine board members—may still not be enough to attract executives from outside Japan as it hunts for top talent in autonomous driving and artificial intelligence. Last year, six of the 10 best-paid executives at publicly listed Japanese companies were foreigners, with SoftBank's former president Nikesh Arora alone earning ¥10.3bn.

But change seems inevitable. Japan's traditional reliance on seniority-based management is crumbling fast, and there is a clear sense of alarm as Toyota, Panasonic and Sony all talk about hiring international talent with both the broader skills and mindset to survive the next wave of technological innovation.

Source: © The Financial Times Limited 2019.

Effective global leadership involves the ability to inspire and influence the thinking, attitudes, and behavior of people anywhere in the world. The importance of the leadership role cannot be overemphasized, because the leader's interactions strongly influence the motivation

and behavior of employees and, ultimately, the entire climate of the organization. The cumulative effects of one or more weak managers can have a significant negative impact on the ability of the organization to meet its objectives.

Managers on international assignments try to maximize leadership effectiveness by juggling several important, and sometimes conflicting, roles as (1) a representative of the parent firm, (2) the manager of the local firm, (3) a resident of the local community, (4) a citizen of either the host country or of another country, (5) a member of a profession, and (6) a member of a family.[58]

The leader's role comprises the interaction of two sets of variables—the content and the context of leadership. The content of leadership comprises the attributes of the leader and the decisions to be made; the context of leadership comprises all those variables related to the particular situation.[59] The increased number of variables (political, economic, and cultural) in the context of the managerial job abroad requires astute leadership. Some examples of the variables in the content and context of the leader's role in foreign settings are given below.[60] The multicultural leader's role thus blends leadership, communication, motivational, and other managerial skills within unique and ever-changing environments. We will examine the contingent nature of such leadership throughout this section.

The Leader and the Job[61]

- Leadership experience and technical knowledge
- Cultural adaptability
- Clarity of information available in host area
- Level of authority and autonomy
- Level of cooperation among partners, government, and employees

The Job Context

- Level of authority granted to leader
- Physical location and local resource availability
- Host professional contacts and community relations
- Organizational structure, scope of internationalization, technology, and so on
- Business environment: social-cultural, political-economic, level of risk
- Systems of staffing, coordination, reward system and decision making, locally and in home office

Women in Global Leadership Roles

As we consider the variables of the leader, the job, and the job context in the international arena, and the fact that women in leadership positions around the world encounter specific sets of these variables, it is useful to gain some insight into their particular sets of circumstances and challenges, as illustrated in the following "Under the Lens" section.



UNDER THE LENS

French Companies Lead the Way on Gender Diversity

Luxury Brand Kering and Hospitality Group Sodexo Have Majority of Women Board Members[62]

France's ambitious moves to increase gender diversity among its top companies are paying off as it leads the way over the number of women on boards at European corporates.

The largest listed French companies have an average of 44 per cent of women on their boards, topping the inaugural European diversity index with the highest number on the continent. Nine groups listed on the Paris CAC 40 exchange have a majority of women or an equal number of females on their boards, according to research by European Women on Boards (EWOB) and data provider Ethics & Boards.

French luxury brand Kering and hospitality company Sodexo have a majority female board of directors and nine other groups have reached parity. This has helped Paris hit its target of a quota of 40 per cent of females on boards for companies listed on the CAC 40 by 2017. France has also proposed a requirement that companies narrow their gender pay gap or face fines.

However, despite the progress in non-executive roles, there has been criticism about the failure of senior women to break through in top executive positions. In the UK, the latest review found that the number of female chief executives had fallen from 15 to 12 over the past year. There was also scant improvement in the top non-executive role of chair.

The number of female chairs in the FTSE 350 had only risen from 17 to 22, according to the Hampton-Alexander women on boards review, which was published earlier this month. Still, the research from EWOB and Ethics & Boards was encouraging. They published the rankings of the 200 largest European listed companies from the Stoxx 600 on Wednesday. It covers EWOB's nine member countries—Belgium, Czech Republic, Finland, France, Germany, Italy, the Netherlands, Spain and the UK. Overall, 11 companies in the index have reached board gender parity: Accor, Axa, Bouygues, Diageo, Kering, Legrand, Publicis Group, Sodexo, Terna, Total and Vivendi. Nine are French-listed, the others are British and Italian.

"Diversity is really part of sustainable growth," said Monique Lempereur, chairwoman of EWOB and managing director of Continental Carbon Company Europe, in an interview with the Financial Times. Based on data compiled by Ethics & Boards, EWOB has used its index to issue awards to recognise diversity on the board and within the leadership team of the various companies.

Sodexo won the award for the most diverse board that is chaired by a woman. Sophie Bellon leads a board of seven women and six men. The award is "very powerful recognition" of the company's efforts to promote diversity said Ms Bellon. The prize for the board with the highest per cent of women went to Kering, owner of Gucci, Alexander McQueen and other brands, with 60 per cent female directors. A few years ago Kering appointed a majority of women to the board in an effort to lead on gender parity by setting an example at the top, said François-Henri Pinault, chief executive and chairman of Kering. British-based pharmaceutical group GSK won the prize for a company led by a woman with the most diverse board. Emma Walmsley is chief executive and GSK's board is 46 per cent women.

An increasing body of research suggests that more diverse boards improve decision making and financial returns. Over the past decade countries brought in a patchwork of targets, voluntary initiatives and quotas. Norway led the way with France, Italy, Germany and Belgium among the countries establishing legal quotas. Others such as Denmark, Netherlands, and the UK have opted for softer, more voluntary regimes.

Last month California became the first US state to require public companies to have a female board member. Beyond government, big investors such as BlackRock and Japan's Government Pension Investment Fund, or GPIF, have also begun to champion the cause. There is debate about whether a binding quota or voluntary target is more effective. However, Therese Murphy from the European Institute for Gender Equality, said the "disparity (between member states) shows it is difficult to effect change without positive action, which can come in the form of legal measures, such as quotas, or voluntary company initiatives".

In the UK, the voluntary target succeeded—the 100 largest British listed companies had 26.1 per cent women on their boards by 2015, more than the 25 per cent target and they are on track to achieve the 2020 ambition of 33 per cent. However, EWOB's Ms Lempereur said: "As soon as you go to (smaller) companies that do not have quotas . . . the percentage of women in board positions is significantly lower and we see the same as well at the executive committee." The UK's smaller FTSE 350 have a rate of 26.7 per cent and 75 companies appear to have stopped efforts after appointing one female non-executive—a so-called one and done. Increasing diversity in the leadership and senior management team requires organisational change and takes time to deliver results, but female non-executive directors can set an example. "If women see a woman at the top, they can expect they will have their fair chance to progress," said Ms Lempereur. "If there are only white men, they may think twice about joining that company."

Source: © The Financial Times Limited 2018.

Global Team Leadership

As discussed in previous chapters, global teams have become common means of organizing management projects and ongoing operations around the world. Their complexity is evident because the teams comprise people from several countries, various cultures, and probably different languages; add to that multicultural cauldron the usual virtual communication mode, and the leadership challenge is considerable without the personal contact and individual contexts that typically give the leader clues and cement relationships. Studies have concluded that to be effective in such a multicultural mix, teams should be composed of managers willing both to lead and to follow, to have open discussion and decision making; that is, to use a team model of shared leadership in which the leadership role can be fluid and flexible as it passes from one to another according to the team goals.[63] A study by Lisak and Erez concluded that "individuals who scored high on the three global characteristics—of cultural intelligence, global identity, and openness

to cultural diversity—were significantly more likely to emerge as leaders than were other team members."[64] They recommend that the selection of team members and leaders take particular account of the specific global work culture in which the teams will need to operate to succeed.

> *I think you need to get over the temptation to repeat a process or system that works well in one location for every other location—i.e. this is how we did it in Silicon Valley or London or Sydney, so this is how we're going to do it in Paris or Tokyo . . . The same can be true of managing people, not every culture responds to the same process. You need to be willing to be flexible and occasionally change your process to meet the needs of a different country or culture.*[65]
>
> ERIC YUAN, FOUNDER AND CEO, ZOOM VIDEO COMMUNICATIONS, INC.

The Role of Technology in Leadership

Globalization and technology have been and continue to be the two great drivers of change in the content and context of leaders' jobs at all levels. Although some say that the pace of globalization is slowing down, as discussed in Chapter 1, there is no doubt that all agree that the pace of technological change continues to accelerate, and thus affects leadership.

> *Across industries, technology is changing everything. It's become embedded in products and services and is essential for core processes and service delivery. CEOs and business leaders must ask: How can we manage digital innovation, digitize and support the core business, and reduce complexity and risk? How do we accelerate the digital transformation? How do we create value with our technology function—now and in the future?*[66]
>
> BOSTON CONSULTING GROUP, APRIL 8, 2015

Clearly, the leader's role at all levels is rapidly changing along with each new technological development. Affecting leaders' plans and decisions, for example, is the Internet of Things, permitting computer-to-computer instructions and decisions, often controlling a complex global supply chain; the use of robotics in manufacturing, health care, engineering, and so on; and firms' intranets, which permit knowledge sharing and product information throughout global operations. It is clear that big data analytics (cloud-based intelligence for businesses to collect and analyze large amounts of data) is here to stay and bring considerable benefits to firms' managers. There is no turning back, and for all leaders, "new technologies will force you to reconfigure your strategy, your operations, and your whole approach to business."[67]

Individual managers are realizing that the Internet is changing their leadership styles and interactions with employees as well as their strategic leadership of their organizations. They have to adapt to the hyperspeed environment of e-business as well as to the need for visionary leadership in a whole new set of competitive industry dynamics. Some of these new-age leadership issues are discussed in the following feature, "Management in Action: Leadership in a Digital World."

11-3. To discuss the research on leadership and how leadership styles and practices vary around the world

CROSS-CULTURAL RESEARCH ON LEADERSHIP

Numerous leadership theories focus in various ways on individual traits, leader behavior, interaction patterns, role relationships, follower perceptions, influence over followers, influence on task goals, and influence on organizational culture.[68] Here it is important to understand how the variable of societal culture fits into these theories and what implications can be drawn for international managers as they seek to provide leadership around the world. Although leadership is a universal phenomenon, what makes effective leadership varies across cultures.

In addition to research studies that indicate variations in leadership profiles, the generally accepted image that people in different countries have about what they expect and admire in their leaders tends to become a norm over time, forming an idealized role for these leaders. Industry leaders in France and Italy, for example, are highly regarded for their social prominence and political power. In Latin American countries, leaders are respected as total persons and leaders in society, and appreciation for the arts is important. In Germany, polish, decisiveness, and a wide general knowledge are respected, with their leaders granted a lot of formality by everyone. Foreigners are often surprised at the informal off-the-job lifestyles of executives in the United States and would be surprised to see them pushing a lawn mower, for example.

Most research on U.S. leadership styles describes managerial behaviors on, essentially, the same dimensions, variously termed *autocratic* versus *democratic, participative* versus *directive,*

relations-oriented versus *task-oriented,* or *initiating structure* versus *consideration continuum.*[69] These studies were developed in the West, and conclusions regarding employee responses largely reflect the opinions of U.S. workers. The democratic, or participative, leadership style has been recommended as the one more likely to have positive results with most U.S. employees.



MANAGEMENT IN ACTION

Leadership in a Digital World

What does leadership mean in a digital world in which organizations are flexible and fluid and the pace of change is extremely rapid? What's it like to lead in an e-business organization? Jomei Chang of Vitria Technology describes it as follows: "There's no place to hide. [The Internet] forces you to be on your toes every minute, every second." Is leadership in e-businesses really all that different from traditional organizations? Managers cite differences in speed of decisions, importance of flexibility, and having a vision.[70] Others cite additional factors, described below.

SYNCHRONIZE YOUR TEAMS TO EFFECTIVELY WORK TOGETHER

At Zoom Video Communications Inc., founder and CEO Eric Yuan uses the company's own video communications platform to ensure that his teams are synchronized. Regardless of team members' locations, Zoom enables them to have face-to-face meetings, even if they are traveling. According to Eric Yuan, using Zoom technology optimizes and facilitates team interactions, collaboration and brainstorming. He noted, "multiple people on a team can share screens simultaneously and can also use Zoom's white boarding capability to write on their screens and co-annotate each other's notes—in fact, our engineers use the feature all the time to brainstorm and write code."[71]

MAKE SURE YOUR EMPLOYEES ARE HAPPY

Eric Yuan observed that if the employees are unhappy, nothing else at your company will function well. To demonstrate the importance of happiness at Zoom, Yuan established a Chief Happiness Officer, who oversees a team known as the "Happy Crew." The crew consists of roughly 25 reps who are in different job functions and locations within Zoom; however, they have volunteered to help instill a happy culture. The Chief Happiness Officer works with the crew to plan company events, volunteer days, and Fun Fridays (e.g., themed dress up days). Zoom recognizes one employee each quarter for delivering happiness. According to Yuan, "If your employees are just working toward some goal in the distant future, every day between now and then will be a slog, and they may not care about the seemingly little things that have a big impact on the customer experience. Without their happiness you can't achieve success."[72]

DEVELOP A CARING CULTURE

Eric Yuan has built a culture of care at Zoom. The Zoom leadership team expects their co-workers to care about the community, the company, their teammates, our customers, and themselves. The caring philosophy is posted on the wall of Zoom's lobby in every location as a constant reminder to everyone entering and leaving their work environments, "caring" is embraced in all Zoom all-hands meetings.

HIRE PASSIONATE PEOPLE

Rackspace co-founder and chairman Graham Weston (cloud technology) stated, "The only way we can be successful is to continue focusing on our purpose-driven culture. Since its early days, "Fanatical Support" has been the hallmark of the Rackspace culture and the customer service experience. He asserted that Fanatical Support begins and ends with people, so Rackspace works diligently to hire people who are passionate about customer service and embrace the "Racker" mindset. Weston further noted, "Then it's our job to take care of those people, to create an environment in which they can thrive and do their best work." The passion for customer service has spilled over as Rackspace employees volunteer thousands of hours by providing Fanatical support in the local community.

What we all want from work is to be valued members of a winning team on an inspiring mission.[73]

GRAHAM WESTON, CO-FOUNDER AND CHAIRMAN, RACKSPACE

Sources: S.P. Robbins and M. Coulter, Management, 7th ed. (Upper Saddle River, NJ: Prentice Hall, 2001), used with permission; B. Patel, "'5 CEO Tips on Leading Large Teams' with Zoom's CEO Eric Yuan"; C. Skarda. "People, Culture Propel Rackspace onto Forbes' Top Employer List," *Rackspace* (blog), April 4, 2016.

11-4. To understand the variables that necessitate contingency leadership: culture, context, people, and situations

CONTINGENCY LEADERSHIP: THE CULTURE VARIABLE

Modern leadership theory recognizes that no single leadership style works well in all situations.[74] A considerable amount of research, directly or indirectly, supports the notion of cultural contingency in leadership. This means that, as a result of culture-based norms and beliefs about how people in various roles should behave, what is expected of leaders, what influence they have, and what kind of status they are given vary from nation to nation. Clearly, this has implications for what kind of leadership style a manager should expect to adopt when going abroad.

The GLOBE Project

Research by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program comprised a network of 170 social scientists and management scholars from 62 countries for the purpose of understanding the impact of cultural variables on leadership and organizational processes. Using both quantitative and qualitative methodologies to collect data from 18,000 managers in those countries, representing the majority of the world's population, the researchers wanted to find out which leadership behaviors are universally accepted and which are culturally contingent. Not unexpectedly, they found that the positive leadership behaviors generally accepted anywhere are behaviors such as being trustworthy, encouraging, an effective bargainer, a skilled administrator and communicator, and a team builder; the negatively regarded traits included being uncooperative, egocentric, ruthless, and dictatorial.[75] Leadership styles and behaviors found to be culturally contingent are charismatic, team-oriented, self-protective, participative, humane, and autonomous.

The results for some of the countries researched are shown in Exhibit 11-5. The first column (*N*) is the sample size within that country. The scores for each country on those leadership

EXHIBIT 11-5 Culturally Contingent Beliefs Regarding Effective Leadership Styles

Country	N	Charisma	Team	Self-Protective	Participative	Humane	Autonomous
Australia	345	6.09	5.81	3.05	5.71	5.09	3.95
Brazil	264	6.01	6.17	3.50	6.06	4.84	2.27
Canada (English-speaking)	257	6.16	5.84	2.96	6.09	5.20	3.65
China	160	5.57	5.57	3.80	5.05	5.18	4.07
Denmark	327	6.01	5.70	2.82	5.80	4.23	3.79
Egypt	201	5.57	5.55	4.21	4.69	5.14	4.49
England	168	6.01	5.71	3.04	5.57	4.90	3.92
Greece	234	6.02	6.12	3.49	5.81	5.16	3.98
India	231	5.85	5.72	3.78	4.99	5.26	3.85
Ireland	157	6.08	5.82	3.01	5.64	5.06	3.95
Israel	543	6.23	5.91	3.64	4.96	4.68	4.26
Japan	197	5.49	5.56	3.61	5.08	4.68	3.67
Mexico	327	5.66	5.75	3.86	4.64	4.71	3.86
Nigeria	419	5.77	5.65	3.90	5.19	5.48	3.62
Philippines	287	6.33	6.06	3.33	5.40	5.53	3.75
Poland	283	5.67	5.98	3.53	5.05	4.56	4.34
Russia	301	5.66	5.63	3.69	4.67	4.08	4.63
Singapore	224	5.95	5.77	3.32	5.30	5.24	3.87
South Korea	233	5.53	5.53	3.68	4.93	4.87	4.21
Spain	370	5.90	5.93	3.39	5.11	4.66	3.54
Sweden	1,790	5.84	5.75	2.82	5.54	4.73	3.97
Thailand	449	5.78	5.76	3.91	5.30	5.09	4.28
Turkey	301	5.96	6.01	3.58	5.09	4.90	3.83
USA	399	6.12	5.80	3.16	5.93	5.21	3.75

Note: Scale 1 to 7 in order of how important those behaviors are considered for effective leadership (7 = highest).
Source: Based on selected data from Den Hartog, R. House et al. (GLOBE Project) *Leadership Quarterly* 10, No. 2 (1999).

dimensions are based on a scale from 1 (the opinion that those leadership behaviors would not be regarded favorably) to 7 (that those behaviors would substantially facilitate effective leadership). Note that reading from top to bottom on a single dimension allows comparison among those countries on that dimension. For example, being a participative leader is regarded as more important in Canada, Brazil, and Austria than it is in Egypt, Hong Kong, Indonesia, and Mexico. In addition, reading from left to right for a particular country on all dimensions allows development of an effective leadership style profile for that country. In Brazil, for example, one can conclude that an effective leader is expected to be very charismatic, team-oriented and participative, and relatively humane but not autonomous.

The charismatic leader shown in this research is someone who is, for example, a visionary, an inspiration to subordinates, and performance-oriented. A team-oriented leader is someone who exhibits diplomatic, integrative, and collaborative behaviors toward the team. The self-protective dimension describes a leader who is self-centered, conflictual, and status conscious. The participative leader is one who delegates decision making and encourages subordinates to take responsibility. Humane leaders are those who are compassionate to their employees. An autonomous leader is, as expected, an individualist, so countries that ranked participation as important tended to rank autonomy in leadership as relatively unimportant. In Egypt, participation and autonomy were ranked about equally.[76]

This broad, path-breaking research by the GLOBE researchers can be very helpful to managers going abroad, enabling them to exercise culturally appropriate leadership styles. In another stage of this ongoing research project, interviews with managers from various countries led the researchers, headed by Robert House, to conclude that the status and influence of leaders vary a great deal across countries or regions according to the prevailing cultural forces. Whereas Americans, Arabs, Asians, the English, Eastern Europeans, the French, Germans, Latin Americans, and Russians tend to glorify leaders in both the political and organizational arenas, those in the Netherlands, Scandinavia, and Germanic Switzerland have very different views of leadership.[77] Following are some sample comments made by managers from various countries.

- Americans appreciate two kinds of leaders. They seek empowerment from leaders who grant autonomy and delegate authority to subordinates. They also respect the bold, forceful, confident, and risk-taking leader, as personified by John Wayne in his movies.
- The Dutch place emphasis on egalitarianism and are skeptical about the value of leadership. Terms like *leader* and *manager* carry a stigma. If a father is employed as a manager, Dutch children will not admit it to their schoolmates.
- Arabs worship their leaders—as long as they are in power!
- Iranians seek power and strength in their leaders.
- Malaysians expect their leaders to behave in a manner that is humble, modest, and dignified.
- The French expect leaders to be cultivated—highly educated in the arts and in mathematics.[78]

Subsequently, further conclusions were drawn from the GLOBE results by Javidan et al. about which leadership variables are found to be universally effective, about universal impediments to effectiveness, and culturally contingent attributes. Their findings are listed in Exhibit 11-6, with the corresponding GLOBE dimension in parentheses.

In phase three of their follow-up research, the GLOBE team surveyed and interviewed 1,060 CEOs and surveyed their more than 5,000 direct reports in 24 countries. Among their many groundbreaking results, we highlight the one that the team concluded, that:

If an executive's leadership style meets the expectations of those reporting to him or her, then there is acceptance and an effective balance for success in meeting goals. The most effective leaders are those who do not violate cultural norms.[79] We can interpret this finding as confirming other research described here that cross-cultural, cross-border leadership style needs to blend with the norms, values, and expectations of the host people and institution to be successful.

EXHIBIT 11-6 Cultural Views of Leadership Effectiveness

Behaviors and Traits Universally Considered Facilitators of Leadership Effectiveness

- Trustworthiness (integrity)
- Visionary (charismatic-visionary)
- Inspirational and motivating (charismatic-inspirational)
- Communicative (team builder)

Behaviors and Traits Universally Considered Impediments to Leadership Effectiveness

- Being a loner and asocial (self-protective)
- Non-cooperative (malevolent)
- Dictatorial (autocratic)

Culturally Contingent Endorsement of Leader Attributes

- Individualistic (autonomous)
- Status-conscious (status-conscious)
- Risk-taking (charismatic: self-sacrificial)

Source: Based on Mansour Javidan, Peter W. Dorfman, Mary Sully de Luque, and Robert J. House, "In the Eye of the Beholder: Cross Cultural Lessons in Leadership from Project GLOBE," *Academy of Management Perspectives* 20, No. 1 (2006), p. 75.

Earlier Leadership Research

Other research also provides insight on the relative level of preference for autocratic versus participative leadership styles. For example, Hofstede's four cultural dimensions (discussed in Chapter 3) provide a good starting point to study leader–subordinate expectations and relationships. We can assume, for example, that employees in countries that rank high on power distance (i.e., India, Mexico, the Philippines) are more likely to prefer an autocratic leadership style and some paternalism because they are more comfortable with a clear distinction between managers and subordinates than with a blurring of decision-making responsibility.

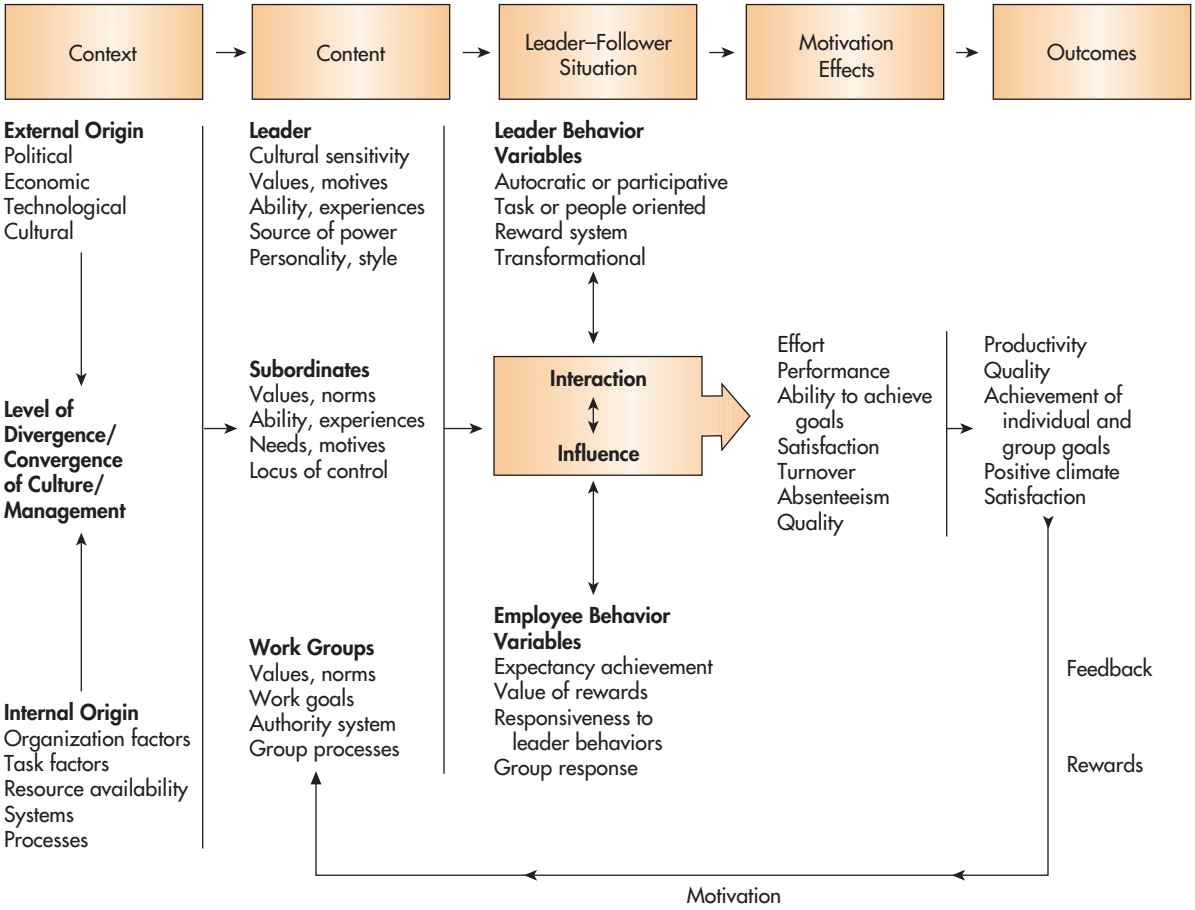
Employees in countries that rank low on power distance (Sweden and Israel) are more likely to prefer a consultative, participative leadership style, and they expect superiors to adhere to that style. Hofstede, in fact, concludes that participative management approaches recommended by many American researchers can be counterproductive in certain cultures.[80] The crucial fact to grasp about leadership in any culture, he points out, is that it is a complement to subordinateship (employee attitudes toward leaders). In other words, perhaps we concentrate too much on leaders and their unlikely ability to change styles at will. Much depends on subordinates and their cultural conditioning, and it is that subordinateship to which the leader must respond.[81] Hofstede points out that his research reflects the values of subordinates, not the values of superiors.

In another part of his research, Hofstede ranked the relative presence of autocratic norms in the following countries, from lowest to highest: Germany, France, Belgium, Japan, Italy, the United States, the Netherlands, Britain, and India. India ranked much higher than the others on autocracy.[82]

In the Middle East, in particular, little delegation occurs. A successful company there must have strong managers who make all the decisions and who go unquestioned. Much emphasis is placed on the use of power through social contacts and family influence, and the chain of command must be rigidly followed.[83]

Exhibit 11-7 depicts an integrative model of the leadership process that pulls together the variables described in this book and in the research on culture, leadership, and motivation—and shows the powerful contingency of culture as it affects the leadership role. Reading from left to right, Exhibit 11-7 presents contingencies from the broad environmental factors to the outcomes affected by the entire leadership situation. As shown, the broad context in which the manager operates necessitates adjustments in leadership style to all those variables relating to the work and task environment and the people involved. Cultural variables (values, work norms, the locus of control, and so forth), as they affect everyone involved—leader, subordinates, and work groups—then shape the content of the immediate leadership situation.

EXHIBIT 11-7 The Culture Contingency in the Leadership Process: An Integrative Model



The leader–follower interaction is then further shaped by the leader's choice of behaviors (autocratic, participative, and so on) and by the employees' attitudes toward the leader and the incentives. Motivation effects—various levels of effort, performance, and satisfaction—result from these interactions, on an individual and a group level. These effects determine the outcomes for the company (productivity, quality) and for the employees (satisfaction, positive climate). The results and rewards from those outcomes then act as feedback (positive or negative) into the cycle of the motivation and leadership process.

Clearly, then, international managers should take seriously the culture contingency in their application of the contingency theory of leadership. They must adjust their leadership behaviors according to the context, norms, attitudes, and other variables in that society. As noted, leadership refers not just to the manager–subordinate relationship but also to the important task of running the whole company, division, or unit for which a manager is responsible. When that is a global responsibility, it is vital to be able to adapt one's leadership style to the local context on many levels. Nancy McKinstry, an American leader in Europe, is very sensitive to that imperative. Since she moved to Europe, charged with the task of turning around the troubled Wolters Kluwer, the Dutch publishing group, she "has had plenty of experience of the way national and cultural differences can both bedevil and enliven business."[84] One immediate difference she noticed is that she is one of few women in senior management in Holland. (Since then, as of 2015, the number of women in leadership positions has increased from 20 percent to 50 percent.) That fact, added to the focus of the Dutch media on the executive as a person and the views of the employees rather than the focus on the company, as in the United States, was surprising to her. As she continues her restructuring plan, Ms. McKinstry (whose physician husband commutes every two weeks between his hospital job in New York and his

family in Amsterdam) has found that there is a misconception that she will apply an American, bottom-line leadership style. However, she says:

> *There isn't that one-size-fits-all approach, not even within Europe. . . . If you have a product or a customer problem in France, there might be an approach that works extremely well. But if you took that same approach and tried to solve the exact same problem in Holland, you might fail.*[85]
>
> NANCY MCKINSTRY, CHAIRMAN AND CEO,
> WOLTERS KLUWER PUBLISHING GROUP, HOLLAND

Ms. McKinstry explains that in southern Europe, there is far more nuance to what people are saying than in northern Europe and, in particular, compared to the direct, optimistic style of the United States. She finds that they often don't want to say "No" to her, even though they may not be able to achieve what she is asking them to do. Her leadership approach is to listen hard and ask, "How are you going to go about meeting this goal?"[86]

CONCLUSION

Because leadership and motivation entail constant interactions with others (employees, peers, superiors, outside contacts), cultural influences on these critical management functions are very strong. Certainly, other powerful variables are intricately involved in the international management context, particularly those of economics and politics. Effective leaders carefully examine the entire context and develop sensitivity to others' values and expectations regarding personal and group interactions, performance, and outcomes—and then act accordingly.

Summary of Key Points

- Motivation and leadership are factors in the successful implementation of desired strategy. However, although many of the basic principles are universal, much of the actual content and process are culture-contingent—a function of an individual's needs, value systems, and environmental context.
- One problem in using content theories for cross-cultural research, such as Maslow created, is the assumption of their universal application. Because they were developed in the United States, even the concepts, such as achievement or esteem, may have different meanings in other societies, resulting in a noncomparable basis of research.
- Implicit in motivating an employee is understanding which of the employee's needs are satisfied by work. Studies on the meaning of work indicate considerable cross-cultural differences.
- A reexamination of motivation relative to Hofstede's dimensions of power distance, uncertainty avoidance, individualism, and masculinity provides another perspective on the cultural contexts that can influence motivational structures.
- Incentives and reward systems must be designed to reflect the motivational structure and relative cultural emphasis on five categories of rewards: financial, social status, job content, career, and professional.
- Effective leadership is crucial to the ability of a company to achieve its goals. The challenge is to decide what is effective leadership in different international or mixed-culture situations.
- The perception of what makes a good leader—both traits and behaviors—varies a great deal from one society to another. The GLOBE leadership study across 62 countries provides considerable insight into culturally appropriate leadership behaviors.
- Contingency theory is applicable to cross-cultural leadership situations because of the vast number of cultural and national variables that can affect the dynamics of the leadership context. These include both leader–subordinate and group relations, which are affected by cultural expectations, values, needs, attitudes, perceptions of risk, and loci of control.
- Joint ventures with other countries present a common but complex situation in which leaders must work together to anticipate and address cross-cultural problems.
- Even in the digital economy, effective leaders provide exemplary vision, cultivate a caring culture, and inspire people in a way that they thrive. And when employees thrive, so does the organization.

Discussion Questions

11-1. What have you learned from the research on work centrality and the relative importance of work dimensions to people around the world?

11-2. What are the implications for motivation of Hofstede's research findings on the dimensions of power distance, uncertainty avoidance, individualism, and masculinity?

11-3. Explain what is meant by the need to design culturally appropriate reward systems. Give some examples.

11-4. Develop a cultural profile which might be applicable to many workers in Mexico and discuss the management style you would use.

11-5. Describe the variables of content and context in the leadership situation. What additional variables are involved in cross-cultural leadership? What are the major elements of a "global mind-set?"

11-6. Explain the theory of contingency leadership and discuss the role of culture in that theory.

11-7. How can we use Hofstede's four dimensions—power distance, uncertainty avoidance, individualism, and masculinity—to gain insight into leader–subordinate relationships around the world? Give some specific examples.

11-8. Describe the autocratic versus democratic leadership dimension. Discuss the cultural contingency in this dimension and give some examples of research findings indicating differences among countries.

11-9. Discuss how you would develop a profile of an effective leader from the research results of the GLOBE project. Give an example.

11-10. Can there be an effective EU leader? Is this a realistic prospect? Discuss the factors involved with this concept. What role has the financial crisis in the Eurozone played in this concept?

Application Exercises

11-11. Using the material on motivation in this chapter, design a suitable organizational reward system for the workers in your company's plant in Mexico.

11-12. Choose a country and do some research (and conduct interviews if possible) to create a cultural profile. Focus on factors affecting behavior in the workplace. Integrate any findings regarding motivation or work attitudes and behaviors. Decide on the type of approach to motivation you would take and the kinds of incentive and reward systems you would set up as manager of a subsidiary in that country. Use the theories on motivation discussed in this chapter to infer motivational structures relative to that society. Then decide what type of leadership style and process you would use. What major contingencies did you take into account?

11-13. Try to interview several people from a specific ethnic subculture in a company or in your college regarding values, needs, expectations in the workplace, and so on. Sketch a motivational profile of this subculture and present it to your class for discussion.

Experiential Exercise

Meet with another student, preferably one whom you know well. Talk with that person and draw up a list of leadership skills you perceive him or her to possess. Then consider your research and readings regarding cross-cultural leadership. Name two countries where you think the student would be an effective leader and two where you think there would be conflict. Discuss those areas of conflict. Then reverse the procedure to find out more about yourself. Share with the class if you wish.

CASE STUDY

How to Bring Cross-Cultural Teams Together

Alicia Clegg
March 30, 2017

As the appetite for cross-border deals increases, business schools are mining insights from corporate couplings that prospered against the odds, in the hope that they hold valuable lessons for managers struggling to overcome cultural divisions.

Case studies plunder the past for lessons in how to turn adversity into success. For example, few would have bet on a good outcome when Haier, China's leading home appliances maker, formed a joint venture with Sanyo Electric to develop refrigerators in Japan — a 2007 episode in corporate history studied by researchers at Iese Business School in Spain.

Speculation was rife among the Japanese workforce that Haier, the majority partner, merely wanted to rip off Sanyo's know-how. "There was a lot of uncertainty," says Du Jingguo, Haier's Asia chief executive, of the deal. "Would we co-operate long term or did we just want to take the technology?"

Culturally, the two companies were poles apart. While Haier promoted staff on merit and paid by results, Sanyo was wedded to the Japanese tradition of promoting by age and length of service. Undeterred, Mr Du split the Japanese workforce into small groups and night after night, over rounds of drinks, he listened to their concerns.

In the end, his softly-softly approach paid off. Guided by what he learnt, Mr Du began to promote younger employees, but in a way that spared the pride of their seniors, who were given honorific titles and opportunities to work beyond retirement to compensate for their loss of expected income.

His bridge-building helped pave the way for Haier's acquisition in 2012 of Sanyo's white-goods business in Japan and other south-east Asian markets — though he paid a price. "After two years of drinking, I developed a gastric ulcer," he says.

Acquisitions are an important way for businesses to grow and gain knowledge. With global M&A activity at highs last seen in 2007, deals today often cut across borders, with emerging market companies among the biggest spenders. In 2016, according to Deloitte, Chinese acquirers spent 10 times more on European businesses than vice versa.

However, studies typically find that between 40 and 70 per cent of all deals fail to pay back. A third of companies blamed differences in corporate culture for their lack of success in one of only a few quantitative studies of post-deal integration, conducted by Aon Hewitt, the consultancy, in 2011.

For deals that mix businesses from advanced and emerging markets, the statistics may be worse. On top of differences in corporate ethos and all the other hazards that cause mergers to unravel, such as incompatible IT systems and personality clashes, there is the risk of cultural misunderstanding. What can organisations do to improve the success rate? And after a merger, what is the best way for companies from cultures that are worlds apart to work together?

Encouraging employees with cross-cultural backgrounds, who have lived and worked in both countries and speak the local language to act as link points between headquarters and local management is a good first step, says Sebastian Reiche, an associate professor at Iese Business School, and the co-author of the case study of Haier's acquisition of Sanyo Electric.

When a foreign acquirer buys a business, employees often fear for their future. Will our jobs be moved abroad? Do the new owners understand what our customers like? Rather than parachute in expatriates and risk a brain drain, a wiser course may be to retain the local leadership and build on what made the business successful. As Prof Reiche puts it: "You don't want to destroy the asset that you are buying."

Infosys, the Indian IT business, is grappling with the dual dilemma of how to integrate foreign acquisitions without stifling their entrepreneurial spirit or falling foul of cultural differences.

Rajesh Krishnamurthy, who heads Infosys Consulting, cites Noah Consulting, a Houston-based information management business, still led by its founders under Infosys's umbrella, as an acquisition that the business got right.

To help the founders integrate their company into their new parent's systems, Mr Krishnamurthy recruited two managers of Indian origin from Infosys's US operations. Having lived in India and the US, the managers were also able to provide the cultural translation sometimes needed between Houston and Bangalore.

Mr Krishnamurthy observes that while some nationalities, notably Americans, spell things out, Indians make their points in a more roundabout way. They often hate to say no.

His comments are supported by the analysis of communication styles conducted by Erin Meyer, a professor of organisational behaviour at Insead. When cultures with different styles of disagreeing meet, she notes in *The Culture Map*, misunderstandings are the result. As Mr Krishnamurthy puts it: "It can seem to others that we beat about the bush."

Even businesses that appreciate the importance of culture can be wrongfooted by differences that they fail to anticipate. Nathan McDonald, co-founder of We Are Social, a London-based marketing services agency acquired by Blue Focus, China's largest marketing services group in 2013, highlights the breakneck speed by which business is conducted in some emerging markets as a potential pinch-point in cross-cultural deals.

"In China, everyone is in a big hurry because the growth is so fast," he says.

Mr McDonald recalls a sticky moment when the HR director at Blue Focus proposed visiting his team — but at such short notice that he and his partner would have had to cancel client meetings to host her. So they emailed back, emphasising that while they were eager to spend time with her, their commitments to their clients took priority.

Now the companies schedule a monthly catch-up call at which future visits are planned. "We've learned how to calibrate our expectations, we've adjusted to their pace and they've adjusted a bit to us," Mr McDonald says.

While acquirers need to respect cultural differences, an entirely hands-off management style may not be the answer. Even subsidiaries that relish autonomy want to feel connected to the wider whole, says Mr Krishnamurthy.

There are commercial drawbacks to managing businesses as standalone entities. If each company exists in a silo, there is no knowledge-sharing, and no learning from each other's successes and mistakes.

Organising exchange visits and opportunities to collaborate on shared projects may be one way to foster a sense of collective identity. At Infosys, workers from across the group are encouraged to dial into monthly forums and present their top innovations so that good ideas can be shared.

Local differences in the protections that workers enjoy on matters such as disability, health and safety, gender and LGBT rights are another hazard that companies must negotiate. Though respecting local law may be all that is required to operate legally, applying different policies internationally can expose companies to accusations of hypocrisy.

To avoid such problems employers' forums, such as Business Disability International, recommend adopting company-wide policies on equality rights and applying them globally.

Mr Du, for his part, remains committed to fostering entrepreneurialism in a culturally sensitive way. Though progress can be slow — persuading Japanese workers to accept just the basic principle of performance-related incentives took six months of discussion — he insists that there is no alternative.

"As the manager, I can issue an order, but if people don't agree in their hearts, the order will be meaningless," he says.

Source: © The Financial Times Limited 2017.

Case Questions

11-14. Discuss the importance of top leadership in bringing together effective cross-cultural teams. How can leaders affect the relative success of cross-border mergers?

11-15. What kinds of potential cross-cultural conflicts are evident in this case?

11-16. What steps did Mr. Du take to pave the way to a successful relationship between Haier and Sanyo Electric?

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Case 8 Daimler China: Facing a Media Firestorm[1]

Wolfgang Messner and Hyo Jin Yoon wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On November 20, 2016, Rainer Gärtner, chief executive officer (CEO) of Daimler Trucks and Buses China Ltd. (DTBC), the Chinese heavy-duty segment of multinational automobile manufacturer Daimler AG (Daimler), found himself sitting in a police station in Beijing, China. The police officers had taken him in for questioning after a heated quarrel in a parking lot where he allegedly lost his temper over a parking space.[2] Gärtner and a Chinese driver were both trying to park their cars at the same time in the same space. This resulted in Gärtner screaming racially loaded insults. Onlookers tried to intervene, and Gärtner used pepper spray. One bystander got injured and had to be treated in the hospital for eye injuries.[3]

How did it all happen? How did a seemingly small frustration get out of control and turn into such an ugly story? What on earth had happened to Gärtner? Chinese social media soon connected this incident with Daimler's corporate culture and asked people to boycott Mercedes cars. The story went viral and was picked up by mainstream news outlets around the world. Against general upward market trends, Daimler's share price weakened. What options did Daimler have to remedy the situation?

Gärtner's Background

Until that Sunday morning in November 2016, everything was going perfectly fine for Gärtner. His career was on a smooth and rather steep trajectory; his life was full of achievements. He received his Master of Business Administration degree with a focus on exports, sales, and marketing from the Ludwig Maximilian University in Munich (Germany), followed by a Doctor of Philosophy degree in economics from the same university in 1997. Besides his native German, he spoke English, Spanish, and Turkish.[4]

Gärtner's employer, Daimler's business unit Mercedes-Benz Cars in Germany, entrusted him with increasing responsibilities. From 2004 to 2010, he was a senior manager with the Mercedes-Benz Guard division. In this role, he was responsible for product management and worldwide sales, marketing, and service operations for armoured cars at headquarters in Stuttgart, Germany.

In 2010, Gärtner was sent on an expatriate assignment to South Korea. Daimler was paying great attention to the fast-growing Korean market, which reached a whopping growth in new imported car registrations of 25.5 per cent over the previous year. Moreover, 71 per cent of foreign cars sold in South Korea that year came from Germany. Gärtner's initial position in South Korea was head of sales and marketing, Daimler Trucks Korea Ltd., from which he soon made it to vice-president of commercial vehicle sales.

In 2013, he was invited into a high-potential program, with sessions on leadership and self-development at the International Institute for Management Development (IMD). The next promotion came in December 2013 all the way up to the position of CEO of Daimler Trucks Korea Ltd. In this role, he had full profit and loss responsibility for new vehicle sales (trucks, buses, and vans) and after-sales (parts and accessories). He was further responsible for managing the supply chain production network of local and regional suppliers.

Move to China

In July 2015, another move was waiting for Gärtner, then age 49, both geographically from South Korea to China, as well as once more up the corporate ladder. Gärtner was to succeed Robert Veit as CEO of DTBC. Veit, at age 47, was returning to Stuttgart headquarters in Germany to take the position of director of Mercedes-Benz Truck Overseas.[5]

This latest promotion clearly underscored Daimler's confidence in Gärtner. China was the largest vehicle market in the world. And for Daimler's Mercedes-Benz trucks, China was already the fifth-largest market in 2012, with a market share of more than 50 per cent in the premium segment.[6] In the heavy-duty segment, Daimler solidified its position as the leader in the market. As of 2013, the trucks and buses division of DTBC pursued a two-pronged strategy. For the division's premium segment, the legally independent company DTBC imported and sold Mercedes-Benz trucks. For the volume segment, Daimler and Beiqi-Foton Motor Co., Ltd. (Foton), a Chinese truck manufacturer, entered in a 50/50 joint venture as part of the Beijing Foton Daimler Automotive Co., Ltd. Since July 2012, they had been collaborating to manufacture and distribute the medium- and heavy-duty trucks of the Auman brand, primarily for the domestic Chinese market.[7] The joint venture was intended to bring a stronger presence for the company by combining Daimler's leading truck manufacturing expertise with Foton's understanding of the domestic market.

Gärtner had full profit and loss responsibility for DTBC, including new vehicle sales (trucks, special trucks, and buses), powertrain components, after-sales (genuine parts, lubricants, and accessories), and telematics solutions for bus-specific fleet management.[8]

The Dispute

Life in China was not bad for Gärtner. He stayed in a gated community in the up-and-coming district of Shunyi, a popular residential suburb in Northeast Beijing, among other overseas executives. Gärtner had a nice house with a little garden and fence around it, and a showy black Mercedes car in his driveway.

However, something inexplicable happened on Sunday morning, November 20, 2016. Gärtner was trying to park his car in a parking lot inside his residential compound, and a Chinese driver was trying to do the same thing, at the same time and in the same space. Apparently, one of the two "stole" the parking space from the other, starting a frustrated dispute that quickly heated up. Gärtner allegedly yelled "I've been in China for a year and the first thing that I learned was that all Chinese are bastards,"[9] and defended his parking space with pepper spray. One onlooker was injured and had to be treated in the hospital for eye injuries. This incident landed Gärtner in a Chinese police station.[10]

In the end, Gärtner was able to settle the dispute with the Chinese driver in a private manner, and the official police investigation was quickly closed.[11] However, one of the driver's friends, who was around when it all happened, posted on social media his recollection of how Gärtner had screamed racial slurs to the Chinese passersby and how he unleashed pepper spray on them.[12] The story soon went viral on Chinese media. The *South China Morning Post* quoted a social media post: "This kind of foreigner is making money from Chinese people on one hand while insulting them at the same time. They hate China from the bottom of their hearts."[13]

Bloggers on Weibo (pronounced 'way-bore'), a popular social media microblogging website in China with a market penetration similar to Twitter in the United States,[14] flooded the Daimler Group profile page, calling for boycotts and demanding action. One blogger stated: "I was originally thinking about buying a Mercedes-Benz S-Class and was also planning to buy my wife a Mercedes-Benz GLC, but this incident about the senior executive has made me deeply disappointed towards the brand. Mercedes-Benz, get out of China!"[15]

In yet another post, a friend of the passerby who was treated in the hospital mournfully commented on the incident as an example of obnoxious foreigners: "These kinds of foreigners take money from the Chinese people with one hand while also abusing them. They must hate China from the depths of their hearts."[16]

Further comments flooded into the original Weibo post that reported on the parking space dispute: "Get out of China! China doesn't welcome you." "Gärtner should be deported and never allowed to enter China again." "I'll never buy Benz even if I can afford it. The corporate culture is ugly."[17]

Global Times, a popular Chinese newspaper, regretfully commented on the incident: "But no matter how filthy the words, hearts should not be filthy . . . . There's no explaining away an argument that escalates to using 'You Chinese . . . .'"[18]

The *Southern Daily*, an official Chinese newspaper for the southern province of Guangdong, was one of the few that featured a moderate editorial, saying that "some people think this was making a mountain out of a molehill." However, it also added that foreign expatriates in China easily become arrogant about China and "often use racially prejudiced words and actions about Chinese consumers, even Chinese employees."[19]

The news about the Gärtner incident did not stay in China for long. It quickly spread across the world. International media, such as Reuters, took notice of the mounting tension regarding the incident, carefully observing Daimler's next move: "The media reports prompted a spike in online chatter, with the outburst in the top 10 discussed topics on popular microblog Sina Weibo on Monday morning. Many users posted comments saying they would avoid buying Daimler cars."[20]

Others, such as the *New York Times,* took a more reprimanding tone toward the German expatriate by commenting: "the Chinese news media and many internet users seized on Mr. Gärtner as an example of arrogant Western bigotry and demanded that he and Daimler apologize. He became the latest example of the power of the Chinese internet to humble governments, companies and people accused of wounding national pride."[21]

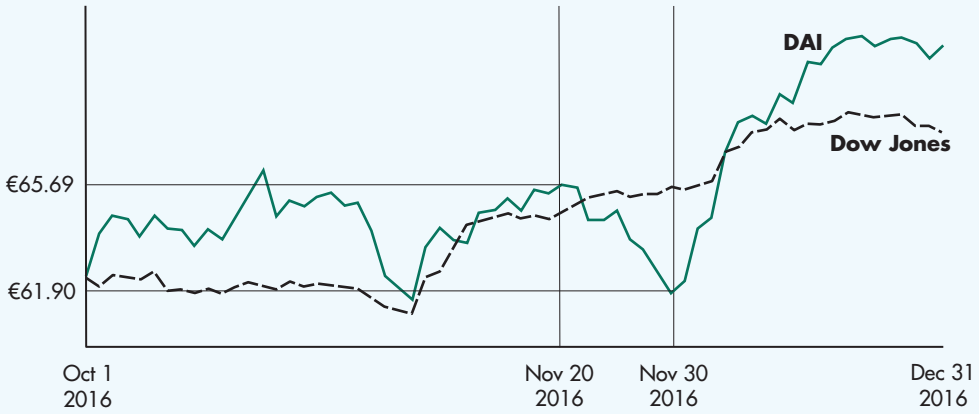
This was all very bad timing. The controversy over Gärtner came hard on the heels of another volatile episode involving 63-year-old Günther H. Oettinger, the European Commissioner for Digital Economy and Society from Germany. Oettinger had to apologize after referring to Chinese people as "slit-eyes" and "sly dogs" in a speech to business leaders in Hamburg. An amateur video was uploaded to YouTube, capturing Oettinger's controversial speech, in which he caricatured a delegation of Chinese officials he had met. During the first few days of criticism, Oettinger refused to apologize, causing China's Foreign Ministry to condemn Oettinger for showing a "baffling feeling of superiority" that is common among many Western politicians. A spokeswoman for China's Foreign Ministry stated: "We hope that they will learn to observe themselves and others objectively, and to respect others and treat them as equals."[22]

As the storm of criticism mounted, Oettinger finally decided to apologize in a statement released by the European Commission. Oettinger acknowledged that he now realized his remarks to a German business forum last week had "hurt" people.[23] Relations between China and Germany were further affected when Germany withdrew approval for a Chinese investor group's proposed takeover of German semiconductor equipment maker Aixtron, citing concerns over national security. The withdrawal resulted in diplomatic tension between the two countries.[24]

Moving Forward

Gärtner's parking space quarrel in the suburb of Beijing not only resulted in outrage on Chinese social media. On the day of the incident, Daimler's share price started a downhill dive from €65.69 that 10 days later reached a low of €61.90.[25] During the same time period, the DAX remained steady, and the Dow Jones Industrial Average even showed an upward movement (see Exhibit 1).[26] What actions options did Daimler have to restore its brand image?

EXHIBIT 1 Daimler Share Price Compared to the Dow Jones Industrial Average



Note: € = EUR = euro; €1 = US$1.05 as of November 20, 2016. The black line shows the Daimler share price (DAI) from October 1 to December 31, 2016, while the dotted line shows the Dow Jones Industrial Average price.

Source: Created by the case authors with share price data from "Daimler/WKN: 710000/ISIN: DE0007100000," *ING DiBa Wertpapiere,* December 31, 2016, accessed October 16, 2017, https://wertpapiere.ing-diba.de/DE/Showpage.aspx?pageID=28&ISIN=DE0007100000&.

Case Questions

1. Rainer Gartner's racial tirade not only led to a firestorm on social and mainstream media around the world, but also sent Daimler's share price on a downhill journey. What should Daimler do now?
2. Can Daimler fire Gartner? What is the legal situation? Is it ethical to fire him?
3. A seemingly small quarrel about a parking space started Gartner on an aggressive tirade. Why was this the last straw? What could have caused Gartner's frustration?
4. How can companies prepare their expatriates and international sojourners to prevent such dire situations?

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in the case are not necessarily those of Daimler AG or any of its employees.
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26. The DAX is Germany's blue chip stock market index; it consists of 30 German companies trading in Frankfurt, including Daimler (DAI). The Dow Jones Industrial Average is an index of 30 publicly traded companies in the United States.

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CASE 9 Cirque du Soleil's Global Human Resource Management Practices

This case was written by ***Syeda Maseeha Qumer*** *and* ***Debapratim Purkayastha,*** *IBS Hyderabad.*[1]

"The artists who come to us often have no idea what it is like to be part of an organization like ours, because there is no other organization like Cirque!. Even though we have a lot of really smart and creative people, your success here lives and dies on relationship building. People who have a natural ability to communicate well, who are authentic and transparent, do well here."[2]

—Pat Norris, director of human resources at Cirque's Resident Shows Division, in 2014

Montreal-based entertainment company Cirque du Soleil (Cirque), which started in 1984 as a small group of young street performers, went on to become a worldwide entertainment giant with more than 4,000 employees. These included 1,300 performers from 50 different countries. Cirque's big-budget, animal-free circuses included a narrative framework, opera, and theater, with lavish costumes, huge sets, original music, and high-tech special effects. No spoken language was used in its shows, and so they were able to reach diverse audiences. Close to 150 million spectators in nearly 300 cities worldwide were reported to have seen a Cirque show since 1984 and about 15 million people watched its show in 2014.

Through its strong culture of risk taking and creativity, Cirque became a leader in artistic entertainment. It offered a creative work environment where artists were free to express their thoughts and grow both professionally and personally. The culture was open and family oriented. Artists were offered a competitive salary, a safe work environment, and support for their health and well-being. Other benefits included group insurance, a pension plan, travel and health benefits, and paid holidays. Cirque also encouraged artistic creativity among its employees in the workplace. According to a former employee, "I had the great honour of working for this world respected company. It was hard work of training and pushing yourself to your physical and mental abilities. My management and co-workers were encouraging and inspiring to work with. The greatest reward every night was seeing the audience leaving with a smile."[3]

Cirque ensured that it functioned as a unified whole, bonded by a common set of workforce principles and practices, despite the cultural diversity of its employees. It remained accessible and adaptable as an employer. However, analysts felt that one of the challenges that Cirque could face going forward, would be to preserve its creative culture and family atmosphere. Another challenge for the company was to retain its artists who were talented, rare to find, and difficult to replace. A major concern for Cirque was addressing its global HR practices. Cirque had a decentralized HR management system wherein artists of touring shows were governed by the rules and policies of the countries in which they were performing at a particular point of time. Moreover, Cirque adopted a global recruitment policy that was driven by a geocentric approach of hiring talent from all over the world. According to industry observers, the challenge for Cirque would be to effectively manage its global employee base and the effect of its actions on the company's culture. Talking about Cirque's strategy, Marie-Josée Guilbault (Guilbault), vice president of organization and culture at Cirque, said, "We can't be hierarchical or corporate; it won't work for the type of business that we are. We're very careful to be natural. We're very big, so we can't be fully organic, but we know we need to be flexible."[4]

Since 2008, Cirque had been struggling with problems such as declining profits, a spate of poorly received shows, and growing competition. Its net worth reportedly dropped from US$2.7 billion in 2008 to about US$2.2 billion in 2013.[5] In 2013, Cirque laid off 400 employees at its Montreal headquarters, citing the high production costs of its shows and a weak economy. Some analysts also reported that Cirque planned to refocus its business away from circus shows and on to other ventures. Commenting on whether the sun had set for Cirque, Howard Sherman, an arts management consultant, said, "Unless they are overwhelmed by hubris, mismanagement or both, Cirque should to be around for a long time, and reports of their doom are not merely exaggerated but unfounded [. . . .] Cirque du Soleil is not too big to fail, but the company is too inventive and successful to quickly start counting out, like so many clowns in a car."[6]

Background Note

Cirque's journey began in the early 1980s in Baie-Saint-Paul, Canada. Les Échassiers de Baie-Saint-Paul, a theater troupe founded by Gilles Ste-Croix, entertained the people of the city by walking on stilts, juggling, dancing, breathing fire, and playing music. Guy Laliberté (Laliberté) who started out as a street performer in Quebec, was a part of the troupe. The troupe went on to found Le Club des Talons Hauts (the High Heels Club), and then, in 1982, organized La Fête Foraine de Baie-Saint-Paul, a cultural event in which street performers from all over performed and exchanged ideas. In 1984, Quebec City was celebrating the 450th anniversary of Canada's discovery by Jacques Cartier, and the Quebec government needed a show that would carry the festivities out across the province. Laliberté presented a proposal for a show called Cirque du Soleil (Circus of the Sun), and succeeded in convincing the government to provide them with a grant of C$1.5 million.[7] The show was a visual treat with incredible

artistic skills. Thus Cirque was born with the assistance of the Quebec government. Laliberté chose the name Cirque du Soleil for his company as he saw the sun as a symbol of youth, energy, power, and light. The company's mission was "to invoke the imagination, provoke the senses, and evoke the emotions of people around the world."[8] Cirque was not a traditional circus as no animals were used for the acts. Its shows were spectacular with live performances, opera, and theater, with lavish costumes, huge sets, original music, and special effects. In 1984, Cirque reported sales of US$1.7 million and it employed about 73 people.[9]

Cirque's first production, Le Grand Tour, debuted in the small Quebec town of Gaspé, and was then performed in 10 other cities across Quebec. The positive response from the audience encouraged Laliberté to expand Cirque's operations outside Quebec. In 1985, the troupe performed outside Quebec for the first time when it held a show in Ontario. This was followed by shows in Ottawa, Toronto, and Niagara Falls. The following year, Cirque organized shows across Canada and put up several performances at the Children's Film Festival in British Columbia and at a world fair in Vancouver. By this time, Cirque had a seating capacity of 1500.

However, in late 1985, as a result of a series of flop shows, Cirque went deep into debt, to the tune of US$750,000. But the company did not go bankrupt as Cirque's financial institution, the Desjardins Group, postponed the company's debt payment of US$200,000. The Quebec government also granted sufficient funds to the company so that it could sustain itself for another year. And in 1987, the status of Cirque was changed from non-profit to a for-profit entity. That year, the troupe was invited to the Los Angeles Arts Festival. Although the company was facing financial problems, Laliberté decided to take a chance and his troupe staged the show 'We Reinvent the Circus' at the festival. The show was a huge success and marked Cirque's entry into the US. In 1990, Cirque debuted in Europe, staging shows in London and Paris. By 1990, Cirque's seating capacity was 2,500 and the tickets were selling for as high as US $33.5.[10]

In 1992, Cirque entered into a year-long agreement with Mirage, a Las Vegas hotel, to perform a show 'Nouvelle Experience'. Following its huge success, it launched another production called 'Mystere', which was also staged at Mirage. The following year, Cirque entered into a ten-year contract with Mirage for the production. Steve Wynn (Wynn), owner of Mirage, also built a permanent facility for Cirque at a cost of US$20 million at his new resort, Treasure Island, which opened in 1994. Cirque's sales increased from US$30 million in 1994 to US$110 million in 1996. This growth was attributed to the success of the show 'Mystere'. In 1997, Wynn constructed a US$60 million theater for Cirque at Bellagio, Las Vegas. Walt Disney also constructed a permanent theater to house Cirque at Walt Disney World in California. The same year, a US$22 million facility for rehearsals and costume designing activities called 'Creation Studio' was created by Cirque in Montreal. This also served as the company's headquarters. All of Cirque's shows were created and produced here.

In 2000, sales reached US$407 million. In January 2001, Laliberté appointed Daniel Lamarre (Lamarre), who till then had been the CEO of the TVA Group,[11] as president and chief operating officer of Cirque. In 2003, Cirque was rated Quebec's most admired company. A year later, Cirque computerized its recruitment processes by appointing staffing management provider Taleo Corporation to deploy Web-based tools to allow candidates to apply for positions online. Instead of manually processing the nearly 50,000 applications received annually, Cirque could manage the recruitment process electronically from the first contact to the final appointment. In April 2004, Cirque had to pay US$600,000 to settle an HIV discrimination case against it. A performer with Cirque, Matthew Cusick, filed a discrimination complaint against the company in the federal court after he was asked to leave as he had tested HIV-positive. The settlement mandated that the anti-discrimination policies of the company be revised and all the employees be provided anti-discrimination training. Following this incident, the HR department was given training on the prevailing discrimination laws and the responsibilities of the employers. All the employees spread across the world were educated about HIV and other diseases by experts in the field. The case proved to be an eye opener for Cirque, which had always had the reputation of being an undiscriminating, gay-friendly organization. As a result of the case, Cirque came up with new HR policies and practices.

To manage a diverse workforce, Cirque formed a dynamic HR team to manage recruitment, training, and even planning out HR policies for its employees. In line with its global presence, Cirque decided to decentralize its HR department. This was mainly because the performers of the touring shows were governed by the laws and policies of the countries in which they were performing at that particular point of time on issues such as taxing monetary benefits and allowances, maternity benefits, etc. In the absence of any company policy, Cirque's touring employees were covered by the laws of whichever country they happened to be working in at the time. For instance, a pregnant employee touring in China would only be eligible for the maternity leave and benefits related to China. A full-time HR professional always accompanied each of Cirque's touring shows to help with specific issues like insurance coverage, immigration, and work/life balance. The touring shows also hired temporary employees for specific roles like ushers, cashiers, and sales people at the merchandise tents. Many of these employees followed the touring shows to various cities. If the temporary employees' performance was really good, they were absorbed into the company as permanent employees.

To manage all its personnel, Cirque had four separate headquarters. Apart from the International Headquarters in Montreal, there was the Headquarters-Europe in Amsterdam, Headquarters-Las Vegas in Las Vegas, and Headquarters-Asia-Pacific in Singapore. Despite this decentralized approach to workforce management, Cirque ensured that the company functioned as a combined family. In 2006, Lamarre replaced Laliberté as Chief Executive Officer as the latter wanted to devote more time and energy to guiding the creative processes at Cirque.

In 2007, Cirque initiated a major change in its criteria for evaluating employees with a view to promoting commitment and sustainability. Employees were assessed based on their

contribution to Cirque as a creative business and responsible citizen, in addition to job performance. Employees were expected to act as Cirque's ambassadors, showing respect for people, cultural diversity, and the environment and integrating more responsible practices in their daily work.

In 2008, Laliberté sold 20% of his stake in the company to two Dubai firms for US$600 million, but later reclaimed half the stake. In 2008, Cirque reported sales of US$733 million. The major portion of Cirque's revenues was generated from ticket sales. In addition, it earned a significant amount of revenue from the merchandise it sold at the performances. Cirque had also expanded into media outlets such as music, books, television, film, merchandising, and websites. In December 2012, Cirque entered into a joint venture with Bell Media[12] to form Cirque du Soleil Média that developed media content for television, film, digital, and gaming platforms. Cirque's subsidiaries included 45 DEGREES,[13] Cirque du Soleil Hospitality, Cirque du Soleil Theatrical, 4U2C,[14] and Outbox,[15] As of 2014, Cirque had 20 shows around the world across five continents and employed about 4,000 employees globally, including 1,300 artists. People from more than 50 nationalities were represented in the company and 25 different languages were spoken among the employees and artists. The average age of a Cirque employee was 35 years.

Selection and Training

As Cirque required people with a wide range of skills, it appointed talent scouts and recruiters who travelled globally hunting for artists, creators, coaches, and musicians. Cirque recruited talent from all over the world. To recruit artists, it depended on a casting team supported by a global network of partners who discovered and recommended artists the world over. To achieve both athletic and artistic perfection, these scouts often looked for athletes who had competed in the Olympics or other championships. They were regulars at Olympic and World Championship competitions and worked closely with Olympic coaches and teams to help athletes consider a career with Cirque after their competitive years were over. For resident shows, Cirque hired people from the local community. Talking about Cirque's recruiting strategy, Pat Norris (Norris), director of human resources at Cirque's Resident Shows Division, said, "Talent acquisition is critical in an organization like ours. We rely on recruiting the best and most outrageous performers. They have to be able to bring the show to life night after night. They do it with skill and spirit repeatedly, systematically, and always keep it fresh. Every moment in a live show is a discovery of what can be done. That is our magic. When I provide great service in HR – and that's an innovation unto itself here – it impacts the performers on stage."[16]

While hiring people, Cirque relied on two platforms, one an art talent acquisition group, and the other a casting agency. Cirque's casting director, Krista Monson (Monson), was responsible for casting artists. She worked with a team of 60, including 21 talent scouts, who worked in several countries and across social media platforms to find the best gymnasts, trapeze artists, contortionists, jugglers, ballet dancers, clowns, mime artists, musicians, synchronized swimmers, and cliff divers. The company also hired from circus schools. Sometimes it was difficult to approach certain artists. For instance, dancers and actors had agency representation while some sportspersons could not be approached until they were done with their careers. Cirque also maintained a certain protocol while approaching artists from other circus families. "There's a certain ethic and a respect on our part – maybe we will not approach the artist, maybe we will approach the grandfather or the father or the mother and tell them –ask them – 'Where is this artist in his or her career?' Because some of these circus families, they depend on each other. (A) flyer needs a catcher; catcher needs a flyer,"[17] said Monson.

The company had a website available in seven languages to manage recruiting. On an average, Cirque received 30 to 40 applications per day not just from artists, but from business school graduates seeking opportunities in IT, finance, accounting, and legal and human resources.Where the artists were concerned, they had to first submit a video to Cirque showcasing their talent. The company then invited exceptional candidates for auditions that were held globally throughout the year. Auditions could last a full day and artists were asked to perform outside of their comfort zone. For instance, swimmers were asked to sing and acrobats to dance. This was done to assess the versatility of the artists. Discussing the company's recruitment strategy, Line Giasson (Giasson), director of international casting at Cirque, said, "We often choose for personality. One candidate may be lower on the technical side, but we know that person will bring something special to the stage. Soft skills are just as important as technical skills."[18]

Prospective candidates were evaluated based on five attributes – creativity, commitment, responsibility, team-play, and passion. Generally, the company preferred young people in their early twenties as it felt that such people would bring with them different viewpoints and energies. The most important criterion that Cirque looked for in an artist was passion. According to Guilbault, "If you want to be excellent, if you want to go further, hire people who have some kind of passion, and just put a bit of magic in it. It works. A bit of craziness doesn't hurt."[19]

After joining the company, all new hires were required to go through a formal training period that generally lasted from a few weeks to four months at the Creation Studio before being inducted in a show. Cirque adopted a competency-based training approach that was designed to allow learners to demonstrate their abilities and enhance their competencies. The training facility at Cirque's headquarters included three acrobatic training rooms, a dance studio, a studio-theater, and weight-training facilities. At Cirque, artists were trained on two levels. One was the acrobatic component that taught them all of the movements the act required, while the other was the artistic element that focused on developing their facial emotions in order to play a character. While training, artists were taught about the safety aspect as well. They were trained on how to handle the equipment, safety moves, and proper positioning on the acrobatic equipment. To supervise training programs, the Creation Studio employed close to 100 trainers from around the world who were experts in sports, acrobatics, dance, music, and

theater. Based on their area of expertise, each trainer supervised the artists individually. Physiotherapists and fitness specialists were also available on site to look into the health and physical fitness of the artists. Cirque's stage director, Franco Dragone, described the whole training regime as being "like peeling an onion to get to the sweet, intense core." During the training session, artists stayed at the artists' residence, located close to the training facilities. The residence housed 113 rooms, each of which was equipped with air conditioning, a TV, Internet access, a small refrigerator, a microwave, and a private bathroom. The residence also had other facilities such as a communal area, a gym, a kitchen, a lounge area, and even a games room.

However, assimilating seasoned artists and athletes into Cirque's atmosphere and persuading them to take artistic risks was a daunting task, according to the company. Cirque was all about creativity, imagination, and risk taking – qualities not always associated with athletes. Moreover, a majority of the gymnasts, athletes, and dancers came from competitive backgrounds where individual excellence rather than team work was instilled. Integrating these artists with the company's culture could therefore be a difficult task, Cirque felt. Talking about the challenge, Monson said, "They're seasoned pros in what they do, and we want that high level. But we also want them to do dances in the background dressed in weird costumes. Even if you're talking about an Olympic diver, artistic excellence is usually not something in their vocabulary."[20]

In order to help new recruits become absorbed into the Cirque workforce and overcome cultural shock and resistance, Guilbault and her team developed certain strategies. For instance, hiring managers were instructed to inform new employees that it might take six months to understand and acknowledge how the company functioned. All new hires were encouraged to try out different roles in as many operations as possible and gain a comprehensive view of how Cirque worked. They were given the opportunity to be creative and develop their own routine. The whole system supported them in their endeavors. As part of a program for young mentees, new recruits could work alongside senior managers and contribute in creating new shows. Sometimes trainees were taken backstage to understand the way things worked. According to Lyn Heward (Heward), former Vice President, Creation and President and COO of the Creative Content Division at Cirque, "For us training is creative transformation and recruiting is treasure-hunting. Even at Cirque, we have to work hard at it. We too could lose our soul, if we didn't have the commitment. We have a Creative Synergy department, whose preoccupation is in doing this. Creative Transformation is the most important doorway for us. We're trying to find the 'pearl,' the hidden talent in that individual. What is the unique thing that person brings? I think you need to dig deeper as we call it treasure-hunting. What makes that person tick and how does it contribute to the work that you're doing?"[21]

Culture at Cirque

Cirque flourished on a culture of risk-taking and creativity that nurtured talent and gave people an opportunity to showcase their skills. The work culture at Cirque was based on involvement, communication, creativity, and diversity and the employees were the backbone of such a culture.The company fostered an environment that encouraged productivity, creativity, and individual growth. At Cirque, artists from over 50 countries worked together to put up one of the biggest theatrical extravaganzas in the world. Diversity being at the core of its business, it was imperative for Cirque to build a work environment where the focus was on the employees' quality of life and health and well-being. Hence, Cirque created an open, safe, creative, and friendly work environment and provided opportunities for artists to grow both professionally and personally. "Cirque does not cut corners. They put care first, and that had never been done by a circus before,"[22] said Mark Borkowski, founder and head of Borkowski.do.[23]

The atmosphere at Cirque was open and inviting and artists were given the space to freely share their ideas. Comparing the workplace at Cirque to a playground, Heward said, "At Cirque du Soleil, the ideal working environment is "a fantastical playground" that has rules but that still allows artists, designers, and employees to see the world through the eyes of a child. Viewing the world with eagerness, curiosity, excitement, and playfulness establishes an open, inviting atmosphere that encourages thought and action and takes into consideration that it is difficult to be creative in isolation."[24]

Cirque was aware that happy and satisfied employees were more productive and would positively contribute to the business. Hence, it treated its employees with professionalism and respect. It tried to create a family atmosphere among its diverse workforce as it promoted teamwork and growth. Employees enjoyed working in a comfortable environment that included flexible hours and modern and open workspaces. Unconventional clothing and appearance, such as tattoos, piercings, and casual dress were acceptable at Cirque, even at its corporate headquarters. "It's not the way you dress that's important, it's what you do. If somebody has blue hair, that's fine; we won't put any judgments past them. Some companies could gain to be a bit looser, because at the end of the day it's the results that matter. It's not what someone looks like,"[25] said Guilbault.

Complimenting the hard work put in by the artists, Cirque offered them a host of facilities, particularly for its traveling staff. Services included physical therapy, chefs to prepare meals, cocktail hours, and barbeques and fun parties where employees could socialize and spend time with their families. The management too was very approachable. "I hope that they always like working at Cirque, that they have fun. Fun is an important part of the job here, because if we don't have any fun, how can we provide a fun show?" said Marc Gagnon, former vice president of corporate services, Cirque. At its international headquarters in Montreal, employees had access to a gourmet kitchen, an outdoor patio, free trade coffee offered free of charge, a gym, and a variety of fitness classes offered at a minimum fee. There were also acrobatic and artistic training rooms for the artists to train (refer to Exhibit I for general conditions at Cirque). The chefs served balanced and tasty meals offering a wide range of tastes. Food was offered at reasonable prices and employees could even take it home. Birthdays, personal achievements, and

EXHIBIT I General Conditions at Cirque du Soleil

On Big Top touring shows:
- Artists are offered one- or two-year contracts at a very competitive salary.
- Artists can usually expect to train an average of 12 hours a week.
- Lodging is provided in the form of a private room at a hotel.
- Market allowance is provided.
- Big Top touring shows perform 300 to 350 times a year.

Overview of general conditions on arena touring shows:
- Artists are offered one- or two-year contracts at a very competitive salary.
- Artists can usually expect to train an average of 12 hours a week.
- Lodging is provided in the form of a private room at a hotel.
- Market allowance is provided.
- Arena touring shows perform 270 to 310 times a year.

On resident shows:
- Artists are offered one- or two-year contracts at a very competitive salary.
- Artists can usually expect to train an average of 12 hours a week.
- Lodging is provided until two weeks after the artist's integration into the show.
- During the creation period of a new show, lodging is provided throughout the process in Montreal and for four weeks when the production moves to its resident city.
- Resident shows perform 380 to 470 times a year.

Source: Adapted from www.cirquedusoleil.com/en/jobs/casting/work/general-condition.aspx.

local and national holidays were celebrated whenever possible both on touring and resident shows. Relishing his experience of working for Cirque, an employee said, "Fun place to work, Hors du commun! Motivating work environment, a lot of activities all the year long. During the summer, terrace, BBQ, drinks, beach volley-ball, tons of activities, and entertainment. Danse, Yoga, Zumba, Choir, Sports, etc. Two nice cafeterias, very good variety of meals. Good benefits and fair pay, very good balance between life and work."[26]

Cirque went to great lengths to provide an enjoyable work environment for its touring employees as touring shows were often beset with problems such as homesickness and lack of personal space. On such shows, employee welfare was a 24/7 responsibility for Cirque as it had to look into issues like housing, food, and language barriers.Sometimes artists were even allowed to bring their families along on tours. Social activities and exchanges were conducted to enable artists to meet up, get to know each other, and share their experiences. For instance, during the run of the show Totem at the Royal Albert Hall in London, which had 52 cast members, Cirque took good care of its performers. The show travelled with four chefs who prepared tasty meals using local ingredients. Food was presented with color-coded labels to indicate its nutritional value. On Sundays, all the cast members brought their families along for lunch. Each artist had his/her own cubbyhole, filled with family photographs. According to observers, the work place was like a home-away-from-home and employees bonded like family members more than co-workers. "Working here has been the best opportunity I've been given. Although no job is totally perfect, this one is close! The ambiance in the office is friendly and outgoing, they amuse the employees with entertaining activities for all tastes and ages almost every week. Working in this creative environment has been a great experience so far and I hope to enjoy it for years to come!"[27] said an employee.

At Cirque, artists could establish careers, create families, and gain stability – all based on their talent, a rarity in the circus industry. Cirque offered its employees several developmental opportunities that allowed them to learn and grow and prevented them from getting stagnant by working in one position for too long. For instance, Cirque started a program called 'TapisVert', as part of which young employees could work alongside senior managers for a specified period and also get involved in the creation of new shows. At Cirque, artists were free to express their ideas and creativity. In order to boost employee engagement, Cirque started an initiative across the company called Eureka in 2001. The program allowed employees from any department to harness ideas that they were passionate about. The idea was to do away with the 'silo' mentality and establish a 'no-kill zone' for ideas so that every employee contributed in the creative process. Benoit Mathieu, vice president of costumes and creative spaces, Cirque, remarked, "It's to give space to an idea so it can't be killed by the immune system of a big company, which tends to be very strong. We want to give people a tool to be heard, even if they are not part of executive management. We can process those ideas so they can either live or die. And if they die, they should die for a good reason, with people getting feedback instead of them just disappearing into the ether."[28]

Benefits Galore

Besides offering employees a dynamic work environment, Cirque also provided them with a wide range of benefits and services. Generally, artists were hired on contract for a period

EXHIBIT II Global Remuneration

On all shows:
- Seniority lump sum
- Four complimentary tickets per year to any resident or touring Cirque du Soleil show
- Ten reduced-price tickets to Cirque du Soleil touring shows
- Discounts on Cirque du Soleil merchandise
- Access to last-minute complimentary tickets for some shows, in some territories

On Big Top touring shows:
- Market allowance is provided
- An average of two weeks of vacation per year during down periods
- Return transportation home at least once a year during down periods
- Ten statutory holidays
- Lodging and transportation between cities
- Lodging is provided in the form of a private room at a hotel.
- Medical, dental, disability, and life insurance coverage
- Bank of sick days
- Kitchen with choice of meals five to six days a week depending on the show schedule

On our arena touring shows:
- Market allowance is provided
- An average of two weeks of vacation per year during down periods
- Return transportation home at least once a year during down periods
- Ten statutory holidays
- Lodging and transportation between cities
- Lodging is provided in the form of a private room at a hotel.
- Medical, dental, disability, and life insurance coverage
- Bank of sick days
- Catering services five to six days a week

On resident shows:
- Typically, three extended dark periods of nine days or more
- Medical, dental, disability, and life insurance coverage
- Bank of sick days
- Access to the hotel cafeteria if available

Source: Adapted from www.cirquedusoleil.com/en/jobs/casting/work/global-renumeration.aspx.

of 1–2 years at a very competitive salary. Sometimes depending on the job, they were paid per show or hourly. On an average, a Cirque employee earned anywhere between US$30,000 and US$100,000 annually[29] (refer to Exhibit II for global remuneration).

Irrespective of whether they worked at its International Headquarters or at touring or resident shows, the artists and technicians working in different divisions were entitled to many benefit packages (refer to Exhibit III for health benefits, Exhibit IV for travel benefits). However, these packages differed according to location and employment status. They generally included competitive salaries, paid vacations, insurance plans performance bonuses, lodging and transportation, medical, dental, disability, and life insurance coverage, retirement plans, gourmet buffet-style meals, and discount tickets to Cirque shows. The employees also had access to gymnasiums and training facilities to keep themselves fit for their performances. It was reported that under the new parental insurance plan passed by the Quebec government on January 1, 2006, the benefits derived by Cirque employees during maternity leave coupled with government benefits amounted to about 90% of their regular salary.[30]

Annually, Cirque organized trips at a discounted rate to allow employees to travel to Cirque shows in other countries. A certain number of complimentary tickets were also given to regular employees and they were allowed to enter company draws as well to win show tickets and trips. Employees also received discounts on Cirque merchandise. They were gifted corporate attire on Cirque anniversaries. Cirque also offered the services of a tutor to the children of touring employees and child performers. In 2006, Cirque formed a partnership with a childcare center in Montreal. Under this partnership, 60 day care centers were set up, of which 30 were reserved for the children of Cirque employees.

EXHIBIT III Health Benefits

In addition to a medical plan (including dental coverage), a Health Services team is present on each show to assist artists in the following areas:

- Individual and group strength and conditioning programs
- Rehabilitative and injury prevention therapy
- Wellness education
- Exercise therapies (Pilates, yoga, etc.)
- Medical evaluations
- Physical capacity evaluation and consultation
- Nutritional support
- Emergency medical planning and care
- On-site emergency care
- Access to professional medical support
- Workers' compensation coverage
- Non-occupational insurance coverage
- Medical, dental, disability, and life insurance coverage

Source: Adapted from www.cirquedusoleil.com/en/jobs/casting/work/health-benefits.aspx.

EXHIBIT IV Travel Benefits

Big Top and arena touring shows

- Travel at the beginning and end of your employment contract
- Travel between the cities on the tour
- A return trip home once every 12 months
- Local transportation between the site and your accommodations, if the distance is greater than 1.5 kilometres
- Lodging is provided in the form of a private room at a hotel
- Artist visa and work permit initiated and paid for by Cirque du Soleil

Resident shows

- Local transportation allowance during the first two weeks of integration if you don't own a car
- Lodging provided until two weeks after artist's integration into the show
- During the creation period of a new show: lodging provided throughout the process in Montreal and for four weeks when the production moves to its resident city
- Artist visa and work permit initiated and paid for by Cirque du Soleil

Source: Adapted from www.cirquedusoleil.com/en/jobs/casting/work/travel-benefits.aspx.

Communication

At Cirque, communication was transparent and hierarchies were non-existent. Good communication was important to ensure that all employees had access to the same information and to maintain cohesion among the divisions. Internal communication tools including both electronic and print media were created, and each division was invited to contribute to these tools. These communication tools ensured that every employee had a voice and was kept updated about the happenings at the company. For instance, in 2006, a hotline was set up to Lamarre whereby employees could ask him questions through e-mail and get replies via an electronic bulletin available to all employees.

Employees holding similar positions in different divisions were encouraged to form practice communities in which they could share their work methods and approaches. Whenever employees had a problem or an issue they could easily write or talk to their supervisors about it and expect the issue to be addressed. Regular meetings were held to help employees express their views and concerns. These meetings were called 'Tapis Rouge' for the artists and blue or green carpets for the other employee groups. The company also had an interactive intranet, which made communication simple among the employees spread out across the world. Employee feedback was considered seriously whenever an important policy was introduced or revamped. The HR managers visited different Cirque venues and discussed the issue with a few employees. According to

Suzanne Gagnon (Gagnon), former vice president of human resources at Cirque, "We get better from this type of concerned employee than the ones who say, 'Everything's fine, thank you very much,' because then we're just getting what we want to hear. We want to hear what's wrong so we can fix it."[31]

Cirque ran three publications through which employees could communicate globally. 'Hand to Hand' was a fortnightly magazine which contained information about openings in the company, new tours, and the schedules of various Cirque shows around the world. It was more of a formal corporate periodical. 'The Ball', a monthly published at Montreal, mainly carried stories of Cirque employees around the world. It was like a graffiti wall where any employee could contribute his/her stories. For instance, there was a column called 'Culture Shock' where employees would give their frank opinions about their experiences in foreign countries. It also contained the feature 'Be Your Own Bitch'. In another section, employees could write their complaints and suggestions and other insider jokes, uncensored by the managers and supervisors. The third one was 'Under the Bleachers', a publication from the company's Amsterdam office. The magazine featured funny photos, interviews, and gossip.

To ensure that employees in all the divisions become familiar with its core business, Cirque provided them access to creative content. For instance, employees at its International Headquarters, whose work was less closely related to the presentation of shows, were the first to watch acts by artists who had just completed their training. To keep employees updated about the new shows, lunchtime discussions with the creative teams were organized.

Social Involvement

To promote the artistic pursuits of employees, Cirque started an innovation bursary called 'Talons Hauts Bursary' in 2005. The purpose of the bursary was to promote creativity among the employees and help them contribute to the organization's creative pool. Employees were encouraged to submit innovative ideas and projects related with the activities of Cirque such as shows, merchandising, hospitality, etc. In 2006, bursaries totalling US$25,500 were distributed to six employees whose creation, marketing, and management projects were selected. Nearly US$30,000 in Talons Hauts bursary prizes were awarded to 14 employees in 2007.

As part of its Cultural Action programs, Cirque offered artists the opportunity to exhibit their work at its International Headquarters and at its Resident Show Division offices in Las Vegas. The artwork was then displayed in employees' work settings to create a vibrant, stimulating environment. Cirque purchased tickets for performing and visual arts events, exhibitions, and shows and distributed them among its employees. Cirque's ticket purchase program allowed employees to attend artistic events free of charge. For instance, in 2006, over 2,000 tickets, for a total of 90 productions, were distributed to Cirque employees in Montreal. In 2001, through the 'Cirquesters Do Their Part' program, Cirque recognized the commitment of employees who became involved as volunteers in the community and offered them grants after assessing their role in a particular project. In 2006, eight bursaries worth US$2,500 each were awarded to organizations where Cirque employees volunteered.

To encourage employees to participate in cultural life outside their work, Cirque started the Support Program for Employees' Artistic Projects (PARADE) in 2006. The program helped employees in their artistic endeavours by providing them with advice and financial aid. The art work was then exhibited at Cirque offices in Las Vegas, Orlando, Los Angeles, and the International Headquarters at Montreal. According to industry observers, the PARADE program fostered cultural development among employees as well as encouraged participation in cultural activities. In 2007, as part of the PARADE program, more than US$10,000 was awarded to support employees' creative projects in literature, cinema, circus, music, and the visual arts. Each year in 2012 and 2013, about 75 employees received support for their artistic creations.

In 2011, to facilitate communication on sustainable development issues among its employees on touring shows, Cirque set up Global Citizenship Committees, which allowed employees interested in environmental, community, and social justice issues to set up projects in their workplace. These projects included sustainable development awareness and education activities for employees, implementation of a waste-sorting system at tour sites, and activities with local community groups.

Health and Safety

Since its inception, the safety and well-being of the artists on all its shows and training sites had been a prime concern for Cirque. For a venture as risky as a circus, providing a safe workplace for its employees who put in a lot of effort to produce spectacular shows was important, felt Cirque. Moreover, a number of risk factors were involved such as the difficulty level of certain artists' performances, high stress, and tasks involving heights, chemicals, and heavy equipment. Whether in the form of injury prevention, on-site emergency care, or nutritional support, Cirque maintained that ensuring the well-being of its employees was always a priority. At the company's International Headquarters and Touring Shows Division, employees received training connected with the risks associated with their work. From the moment a professional artist was hired and up to his/her induction in a show, he/she had to undergo a comprehensive training program provided by expert trainers. Cirque also ensured that its equipment and work environments complied with the highest safety standards. The company also came out with manuals on health and safety rules in the workplace.

As a precautionary measure, Cirque appointed a health and safety team to inspect event sites and watch performers. This team suggested changes in case something was wrong. Cirque also followed the government-mandated workplace safety regulations in countries where its shows were held. "In some countries there's no legislation that says you need to provide workers' comp, or sometimes there's legislation but we're not there long enough to benefit from it. But we still want to offer coverage. So if there's a hole, we have Cigna[32] cover it,"[33]said Hélène Thibault, a senior benefits manager at Cirque.

Though Cirque had an excellent reputation for safety, it had witnessed some accidents over the years. In 2013, it was accused of six safety violations in connection with the death of a 31-year-old artist Sarah Guillot-Guyard[34] (Sarah) during a performance of the show "Ka" at MGM Resorts International in Las Vegas. Cirque was cited for not providing adequate training for the employee and for not properly assessing the workplace for hazards that required protective equipment in the theater. OSHA also said that Cirque had removed equipment from the fatality site before it ordered the company to do so. Cirque was fined more than US$25,000 in penalties. Talking about the accident, Cirque spokeswoman Renee-Claude Menard (Menard) said, "Cirque du Soleil completed an exhaustive review of its safety policies and procedures in the wake of the tragic accident involving Sarah. We have redoubled our efforts to ensure the overall diligence and safety of our performers and crew. We have received and reviewed the OSHA citations. Safety always has been the top priority for Cirque du Soleil, its performers, and crew members."[35] Earlier in 2009 a Ukrainian acrobat, Oleksandr Zhurov, died during training at its Headquarters in Montreal. Cirque took the initiative to support the family of Sarah and pay for her children's education. According to Kelia Scott, marketing manager, Acrometis, LLC,[36] "It seems like Cirque du Soleil takes the safety of their performers seriously, especially since they have gone almost 30 years without a death during performances. Considering some of the stunts the artists pull off night after night, I do not think this case was the result of "cutting corners" or trying to skimp on safety measures. I think it was truly a tragedy and I appreciate that the company is doing their best to make sure the victim's family is taken care of and extending their efforts on safety procedures."[37]

To prevent further accidents, Cirque set up Management Reviews and Health and Safety Committees to assess the risks involved in the performances in terms of health and safety. For instance, in 2014, a Risk Management Governance Committee was set up specifically to evaluate the risks associated with acrobatic performance and equipment. To nurture a healthy work environment Cirque implemented a health and well-being program at its Headquarters that focused on the lifestyle and the physical and mental health of its employees. As part of the first phase of the program, a walk-in clinic was set up at its Headquarters. Half a day per week, employees could consult a doctor available at the clinic for any problem. In order to maintain a safe environment, Cirque planned to get seasoned professionals to impart the necessary knowledge and training to its employees.

Bridging Cultures

As of 2014, Cirque's employees and artists represented more than 50 nationalities and spoke 25 different languages. Cirque valued the diversity of its employees and respected their individuality and viewpoints. Solo acts were never distinguished by introduction, technique, physique, or language. Cirque was an equal opportunity employer[38] with the goal of maintaining a workplace free from any form of discrimination. Though its shows were diffusions of various cultures, artists were not singled out as being different or exploited based on their nationality or ethnic identity, said observers.

Analysts, however, felt that the vast cultural gaps made communication difficult between artists and technicians and sometimes affected the quality of the show. In an effort to overcome this problem, Cirque's HR team conducted a basic language training program for the performers to facilitate open and unhindered communication. Whenever employees had a problem or an issue they could easily write or talk to their supervisors about it and expect the issue to be addressed. There were also many conflicts that arose due to cultural diversity. For example, the laws regarding sexual harassment were more stringent in the US than in other countries.[39] Kissing to greet friends and co-workers was quite regular in Canada but could be considered a form of sexual harassment in the US and some Asian cultures. In such cases, any complaint from an employee would lead to the company facing legal issues. Thus, it was important that the people at Cirque were made tolerant toward various cultures and traditions that were followed by different employees at the company. The employees were therefore educated about the fundamentals of dealing with cultural diversity so that they could understand each other better.

The touring troupes also faced the challenge of 'cultural adaptation'. For example, in Japan, the performers had a tough time getting used to the stoic and formal behaviour of the audience. The spectators provided little feedback to the artists, who were used to a more enthusiastic response. As a result, the HR department at Cirque received many complaints and resignations from the artists. As a solution to this problem, Cirque partnered with FGIWorld (FGI), a Toronto-based work force counselling company. FGI imparted cross-cultural training for the next group which was to tour Japan. They developed "An Introduction to Life in Japan," a highly interactive training program designed to make the performers aware of the local customs, differences in communication style, Japanese greetings, and even navigation on the public train system. The program was quite successful and many artists expressed an interest in returning to Japan for more tours. Similar training programs were planned for troupes touring across Europe too. Cirque also offered an Employee Assistance Program (EAP) for its touring professionals. This program was designed to provide professional help and counselling for international artists who suffered from high levels of mental stress and frustration. It also included helping the performers overcome the challenges of cultural differences.

Despite the cultural diversity, Cirque ensured that it functioned as a unified whole, bonded by a common set of workforce principles and practices. It tried to maintain cohesion among its employees by organizing social activities and conducting exchanges whenever possible between the shows. Through such events, employees were able to meet and get to know each other and to share their experiences. Exchanges were sometimes paid for entirely by the tour. But in most cases, each employee contributed a small part of the costs. Commenting about the cultural mix at Cirque, an employee said, "The most difficult aspect of the job other than the physical intensity was making sure every team mate was satisfied, which was difficult.

My team consisted of 3 Russians, a Brazilian, 3 Ukrainians, 2 American, 1 Frenchman, and 1 Chinese guy. Obviously the language and cultural differences proved challenging. However it always worked out. Coworkers were some of the most interesting people in the world and the entire company was managed very well."[40]

Career Transition

Cirque knew that the career of an artist was short-lived and at one point of time they would have to step out of the spotlight. To help these artists pursue their dreams and look for an alternative career after their performing years were over, Cirque launched a career transition program, 'Crossroads', in 2003. The program offered a variety of choices to the artists to continue being a part of the Cirque family. For example, an artist who was looking for an alternative career and had interest in stage management could meet one of the employees from the stage management division of the company through the transition program. The artist was provided guidance and assistance regarding the steps he/she would have to take to achieve a career shift from being a performance artist to an employee providing stage management support. "Some performers struggle to adjust to life after Cirque. It's not just laundry, meals, medical care, education (there is a school on site) that are provided, the experience is holistic. If you get injured, the company will make sure you can get another job, train in other areas, or study for an MBA. Another precaution for life on the outside: every Cirque artist must learn to do their own make-up to the highest standard; not to save money, but to ensure they have another skill to take away with them,"[41] noted Lucy Jones, former Strategic Events Editor at the Telegraph.[42]

Some of the other alternative employment opportunities provided were those of fitness coach and naturopaths. And the company also videotaped veteran artists as they shared their thoughts on what career moves had or had not proved successful for them over the years. These videos were then shared with artists who were in a career transition mode. This went a long way in helping them to choose their future career paths. These artists were also provided with a guide, 'My Career Reflection Guide', that had six modules filled with advice and suggestions for the artists to transit smoothly into the next phase in their career. "Because our artists are so passionate and so intense, you have to work things a little differently.You can't just hope to put together a traditional career planning program and have them go with the flow,"[43] said Gagnon.

In addition, at Cirque a career development advisor was always available to the artists. The advisor provided the artists with the required support to come up with a career plan considering various aspects like aspirations, needs, skills, etc. If the artists wanted to study further or complete the education that they had left midway, the advisor helped them in finding the right programs and the details of institutions offering those programs. He/she also guided them on career options that they could consider both within and outside Cirque. More often than not, these artists were absorbed by Cirque into its coaching, stage management, casting, scouting, and administrative teams in Montreal. Through this program, Cirque helped many of its performers successfully discover and pursue new interests in a variety of fields. According to the company, "We not only value our artists for what they can bring to the stage but also for what they can eventually contribute when their performing days are over. We have had several artists make the transition from performance to coaching or stage management, while others have successfully moved on to join our Casting, Scouting, and administrative teams in Montreal. For those artists who are more attracted to the technical aspects of the theater, our shows provide a very cutting-edge place to work and learn. Having knowledge of the most modern theatrical technologies, and access to people who can show you how to master them, opens doors to invaluable skills you can take with you anywhere."[44]

Challenges

According to industry experts, one of the biggest challenges for Cirque was to recruit and retain artists who were talented and rare to find. As Cirque shows had a lifespan of about fifteen years, it was important for the company to not only find the best performers but also retain them for a long run. Moreover, as Cirque's success depended on the creativity and excellence of its employees, managing and retaining them was vital, they felt. In 2011, the company's annual attrition rate was 20%.[45] Though the artists were paid competitive salaries, it was difficult to hold them back. According to analysts, one of the main reasons for the high attrition rate at Cirque was the difficult working conditions, particularly for the touring artists, who had to go through many relocations and a large number of shows each week. "Admittedly, the circus is a booming cultural industry. But the working conditions are far from ideal, at least according to murmurs in the industry,"[46] remarked Michel Beauchemin, head of the APASQ.[47] According to observers, artists at Cirque worked in the most gruelling situations and their spectacular performances on stage resulted from hours of planning, practice, and attention to details. It was observed that artists had to perform up to 3 times a day and 5–6 days a week. They were expected to rehearse for an average of 12 hours a week. According to Guilbault, "Cirque is a great company, but it's also a very demanding company. There's a perception that we're always having fun, fun, fun, but the reality is we also work very hard."[48]

Another problem for Cirque, according to analysts, was scouting potential talent, investing loads of money and time in training them, and then having to replace them owing to some problem that might arise. It became all the more difficult if an artist was unique and either difficult or impossible to replace, they said. "As soon as we find somebody really unique, we are proud and very excited for a possible new creation. But we are playing against ourselves, because there's only one,"[49] said Giasson. A case in point was a 25-year-old acrobat Alan J. Silva (Silva), from Brazil, who was just 3 feet 10 inches tall. A role was specially created for Silva in a show called "Zumanity" where he appeared throughout the show, dancing and flying through the air with a 6-foot-tall female gymnast. However, one day Silva hurt his shoulder and had to undergo surgery.

Though another person with the same appearance was brought in to play his part, it did not work and the act was made into a solo until Silva returned.

Cultural diversity was also an issue. Managing people of different nationalities who spoke different languages was a challenge as it complicated communications. People of the same nationality often stuck together and did not mix with others. Moreover, the company had to deal with stereotypes and preconceptions. Cirque was also criticized for becoming too structured and not allowing individual performers to excel and providing very few career advancement opportunities. "People are often promoted from being an artist up through ranks of management and have very little competencies as managers. Poor decisions, conflicting messages to employees, not much innovation regarding the workplace, few opportunities to advance your career,"[50] pointed out an employee who had worked at Cirque for more than five years.

Lost Its Way?

In 2012, for the first time in its history, despite generating more than C$1bn (£634m) in revenues from its shows globally,[51] Cirque did not turn a profit. By August 2012, Laliberté decided to lay off some of its employees and cut the number of new touring shows. In 2013, Cirque laid off 400 people, mostly from its Montreal headquarters, citing production costs and expenses. The layoffs represented 8% of the company's global workforce. The company decided to cut down the number of shows in 2013 to 400 shows compared to 600 shows in 2012 as each show cost as much as US$25 million to develop. Also Cirque started making other cuts including giving out fewer anniversary jackets for employees to cutting out child performers and tutors. Reportedly, the cuts amounted to US$100 million of savings. Dismissing rumours that Cirque was failing, Menard said, "The first thing to say is that the Circus is not in crisis. Let's get that straight. We had a record year in terms of tickets sold. We sold more than 14 million tickets this year. We had a record year for total revenue, with more than $1 billion. We're still pulling our rabbit out of the hat. This being said, there's also one of the factors that we let grow with our growth and that was our expenses."[52]

Meanwhile, Cirque's shows were also being criticized for being too similar and lacking originality. Analysts felt that there was some dilution in the quality of their shows. According to David Rosenwasser, a former circus executive, "I'm not as awed as I used to be. The shows are almost indistinguishable to me."[53] In 2013, revenues dropped to US$850 million from US$1 billion in 2012 though the company reported profits.[54] The fall was attributed to a drop in the number of shows, poor ticket sales, tough economic conditions, and growing competition. According to Lamarre, the troubles "certainly brought a lot of humility to the organization."[55] Going forward, Laliberté planned to sell about 20% to 30% of the company to outside investors and revise Cirque's structure and growth plan. He also planned to expand Cirque into new markets such as China and India and refocus its business from circus shows to other ventures. "Cirque is a hive. There is activity everywhere. It's all exciting, and it's all about the show. When I was first hired we were a very different organization. It has been a thrilling ride to get to where we are today, and we are by no means finished. The future is extraordinarily exciting. It is a privilege to serve such an exceptional company,"[56] said Norris.

Case Questions

1. Discuss the global human resource management practices of Cirque. Discuss the challenges faced by Cirque in managing its global employee base.
2. Critically analyze the culture at Cirque. How, according to you, has the culture fostered creativity and teamwork in the company?
3. People from five continents and more than 50 nationalities are represented within Cirque. How does the company manage such culturally diverse talent to gain competitive advantage?
4. What steps should Cirque take to retain its employees and preserve its culture?

Endnotes

1. This case was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. © 2015, IBS Center for Management Research. All rights reserved. To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: info@icmrindia.org Source: www.icmrindia.org
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PART 5: Integrative Section

1 Integrative Term Project

2 Integrative Case: IKEA's Challenges in Russia

Integrative Term Project

This project requires research, imagination, and logic in applying the content of this course and book.

In groups of three to five students, create an imaginary company that you have been operating in the domestic arena for some time. Your group represents top management, and you have decided it is time to go international.

- Describe your company and its operations, relative size, and so forth. Give reasons for your decision to go international.
- Decide on an appropriate country in which to operate, and give your rationale for this choice.
- State your planned entry strategy, and give your reasons for this strategy.
- Describe the environment in which you will operate and the critical operational factors that you must consider and how they will affect your company.
- Give a cultural profile of the local area in which you will be operating. What are the workers going to be like? What kind of reception do you anticipate from local governments, suppliers, distributors, and so on?
- Draw up an organization chart showing the company and its overseas operations, and describe why you have chosen this structure.
- Decide on the staffing policy you will use for top-level managers, and give your rationale for this policy.
- Describe the kinds of leadership and motivational systems you think would be most effective in this environment. Give your rationale.
- Discuss the kinds of communication problems your managers might face in the host-country working environment. How should they prepare for and deal with these problems?
- Explain any special control issues for this overseas operation that concern you. How do you plan to deal with them?
- Identify the concerns of the host country and the local community regarding your operations there. What plans do you have to deal with their concerns and to ensure a long-term cooperative relationship?

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PART 5: Integrative Case

ICMR
IBS Center for Management Research
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Case 10 IKEA's Challenges in Russia

This case was written by Hadiya Faheem, under the direction of Debapratim Purkayastha, IBS Hyderabad.[1]

"[. . .] not all companies succumb to corruption. The Swedish furniture retailer IKEA has steadfastly refused to bribe Russian officials."[2]

—Alexander Hill, president emeritus of Inter-Varsity Christian Fellowship[3] US, in 2017

"Ikea is clearly quite successful in Russia but in the early days when they entered the market they took the expression 'do as the Romans do' too literally . . . Ikea today is a much different company . . . The current management have the highest standards and follow the rules but that wasn't the case when they arrived, when they were too focused purely on trying to capture market share."[4]

—Alexei Slesar, head of capital markets, Cushman & Wakefield,[5] in 2016

In October 2018, Swedish furniture retailer and designer of home accessories and kitchen appliances the IKEA Group (IKEA) announced its plans to enter into partnerships with Russian companies in a bid to boost its local online business, according to Pontus Erntell, IKEA's Russia country manager. The retailer planned to open 100 pick-up points in a bid to boost its online business in Russia in the financial year September 2018–August 2019. The company announced ambitious plans to expand its stores in the Russian market after it witnessed an increase in sales by 2% in the fiscal year 2017–18, with a 12% increase in visits to its eCommerce site.[6]

IKEA entered the Russian market in the late 1990s. From its early days, the company took a firm stand against corruption, which led to its facing several setbacks when setting up stores and inaugurating them, and even while advertising for them. According to the company, *"IKEA consistently combats corruption. All of our divisions operate completely transparently. The company has adopted a strict code of conduct and its provisions are binding not only for rank-and-file employees and executives, but also for business partners. These regulations are uniform throughout the world and Russia is no exclusion."*[7]

Since the company refused to pay bribes, it had to deal with bureaucratic hurdles while getting permits for setting up its stores. The company stated that the local officials forced a delay in letting IKEA set up its stores citing alleged safety problems. In another instance, IKEA employees found that they were expected to bribe officials of the electricity department to gain access to electricity for a grand opening of its store in 2000. The company worked around the problem by renting several diesel generators large enough to power an entire shopping mall. As IKEA continued to expand throughout Russia, it earned the reputation of being one of the most outspoken critics of Russian corruption. However, several years later, the company realized that the Russian executive it had employed for managing the rental agreements had been taking kickbacks from the rental company for inflating the rental price of the service. Consequently, IKEA was rebuked in court for a breach of the rental contract. While the bureaucratic system added to its troubles in Russia, there were also times when local or federal authorities were supportive, which enabled the company to get things done faster than in any other country in the world.

Over the years, IKEA grew and experienced success with its stores in Russia. Some of its stores went on to become the top grossing stores in the world for the furniture retailer. Moreover, IKEA introduced its successful new business model in Russia, wherein its furniture stores were operated not as standalone stores but as part of large shopping and entertainment complexes. As of the financial year (FY) ended August 2017, IKEA had 14 hypermarkets in 11 cities in Russia with €[8] 34.1 billion sales and 67 million visitors.[9]

IKEA had to contend with many roadblocks caused by the corrupt bureaucratic system, which prompted it to finally decide to halt all expansion in Russia in 2009. This was after permission was denied for the setting up of two IKEA stores in Samara and Ufa, allegedly after the retailer refused to pay bribes to safety inspectors. Finally, in 2011, top Russian ministry officials were able to convince the retailer to go ahead with its expansion.

To add to its troubles, in 2010, IKEA landed up in another controversy when two of its executives, Per Kaufmann (Kaufmann), a director for IKEA in Eastern Europe, and Stefan Gross (Gross), a director for IKEA's shopping mall business in Russia, allegedly allowed a contractor to pay bribes. Though they did not gain personally, they did agree to a contractor's plan to pay a bribe to an electrical company official. While bribes were common in Russia, the lapse by IKEA executives showed the company in a bad light given the fact that it had been involved in a long public campaign against government corruption in the country.

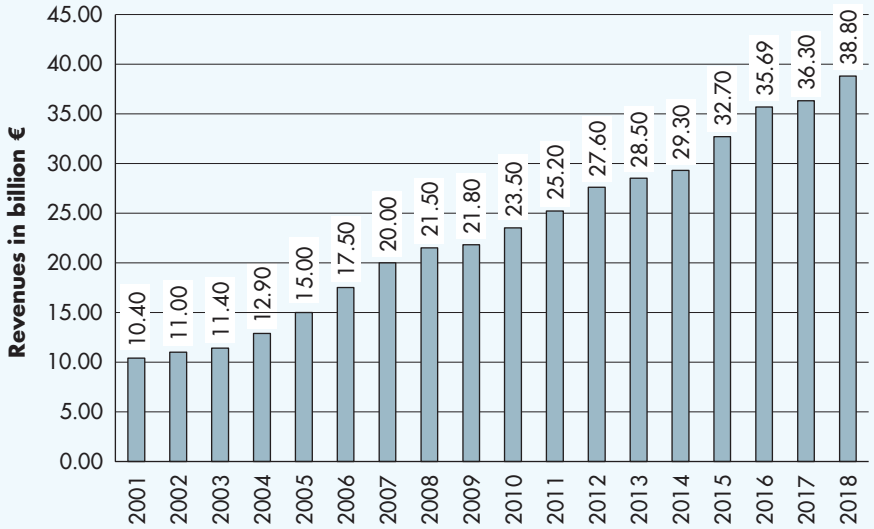
Even as IKEA was embroiled in several controversies, in 2012, it came to light that it was utilizing ill-defined Russian logging rules to cut down old growth forests.[10] The company's claims of being an ecologically sensitive company came under question.

Despite facing several challenges in Russia, in 2015, IKEA reported that China and Russia were its fastest growing markets with total sales reaching €29 billion for the year ended August 31, 2014.[11] Sensing the potential in the country, the company planned to invest US$2.1 billion in Russia.[12] However, an August 2016 ruling by a Russian court ordering IKEA to pay US$7.8 million to Russian businessman and former IKEA contractor, Konstantin Ponomaryov, in a decade-long legal dispute over the supply of power to stores in the city of St. Petersburg, prompted IKEA to halt its expansion plans in the country once again.

Analysts opined that Russia had huge potential and being one of the BRIC countries, it was a powerhouse of business opportunities. Hence, abandoning the market due to bureaucratic

EXHIBIT I IKEA's Revenue Growth (2001–2018)

Total Revenue in Billion €



Source: "IKEA's Revenue 2001–2008," www.statista.com, 2018.

challenges could prove costly for IKEA and competitors could fill the void left by the retailer. Going forward, IKEA planned to boost its local online business in Russia and expand into other international markets such as the Philippines by 2020.

About IKEA

IKEA was a privately held company. It designed and sold ready-to-assemble furniture, home appliances, and accessories. From humble beginnings in 1943, the company had gone on to become the world's largest furniture retailer by the 2000s.[13] In the financial year 2001, the company earned revenues of €10.4 billion *(see Exhibit I for IKEA's Growth in Revenue)*. By 2018, the company's revenues had increased to €38.8 billion *(see Exhibit II for IKEA's Income Statement)*. By August 31, 2018, the IKEA Group had a total of 422 stores in more than 50 markets with 957 million visitors.[14]

IKEA was founded in Sweden in 1943 by 17-year-old Ingvar Kamprad (Kamprad). IKEA was the acronym of Ingvar Kamprad, Elmtaryd (the farm where he grew up), and Agunnaryd (his hometown in Småland, South Sweden). The company's products were well known for their modern architecture and eco-friendly designs. In addition, the firm paid attention to cost control, operational details, and continuous product development, which allowed it to lower its prices. Instead of selling pre-assembled products, the company designed furniture that could be self-assembled. This helped it cut down on costs and the use of packaging. The company's website featured around 12,000 products – which represented its entire range.

Corporate Structure

IKEA was structured in such a way as to prevent any kind of takeover of the company and to protect the Kamprad family from taxes. Though Kamprad was the founder, he did not technically own IKEA. He wanted an ownership structure that stood for independence, a long-term approach, and continuity. Therefore in 1982, he created Stichting INGKA Foundation, a non-profit organization registered in Leiden in the Netherlands. In 1984, Kamprad transferred 100% of IKEA equity as an

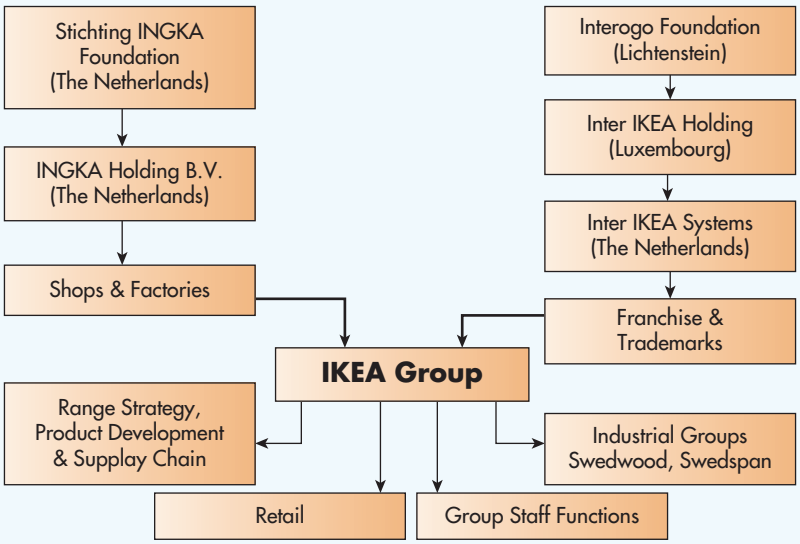
EXHIBIT II IKEA's Consolidated Income Statement (2013–2017)

In million € (for September 1–August 31 of)

	FY17	FY16	FY15	FY14	FY13
Revenue	36,925	35,691	32,658	29,293	28,506
Cost of sales	23,730	20,260	18,221	16,372	15,786
Gross profit	12,565	15,431	14,437	12,921	12,720
Operating cost	9,534	10,932	10,388	9,128	8,694
Operating income	3,031	4,499	4,049	3,793	4,026
Net income	2,473	4,200	3,512	3,329	3,317

Source: Adapted from www.ikea.com and IKEA Annual Reports.

EXHIBIT III IKEA's Corporate Structure



Source: Adapted from "Welcome Inside – Yearly Summary FY09" and other sources.

irrevocable gift to the Foundation. IKEA was privately held by this Foundation. Its purpose was to hold shares, reinvest in the IKEA Group, and to fund charity through it. It also protected IKEA from family squabbling and its inheritance in whole or in part by the Kamprad family. Kamprad said, *"My family will never have the chance to sell or destroy the company."*[15] The Foundation was controlled by a five-member executive committee that was chaired by Kamprad and included his wife and attorney. The Foundation was only controlled (not owned) by the Kamprad family. The Foundation, however, owned INGKA Holding BV, a private, for-profit, Dutch company that controlled IKEA's operations.

IKEA's structure was a complicated array of not-for-profit and for-profit organizations. It had two main components – operations and franchising. Operations included the management of its stores, the design and manufacture of its furniture, and purchasing and supply functions which were overseen by INGKA Holding. As of November 2018, INGKA Holding, IKEA's parent group, had 367 stores in 30 countries while the remaining stores were owned by IKEA's franchisees.[16]

The franchising part (trademark and concept) was owned by a separate Dutch company called Inter IKEA Systems. All IKEA stores (franchised and those run by INGKA Holding) shared 3% of their revenue with Inter IKEA Systems as a franchise fee. Inter IKEA Systems was owned by Inter IKEA Holding of Luxembourg, which in turn belonged to Interogo Foundation in Liechtenstein. This foundation was also ontrolled by the Kamprad family. Apart from these holdings, the food joints that operated in IKEA stores were directly owned by the Kamprad family and represented a major part of the family income. This corporate structure allowed Kamprad to maintain tight control over the operations of INGKA Holding and the IKEA stores *(see Exhibit III for IKEA's Corporate Structure)*.

International Expansion

The first IKEA store was opened in Älmhult, Sweden, in 1953. Since there was limited opportunity for growth in the Swedish market, IKEA decided to expand into international markets. IKEA's international expansion progressed in three phases: in 1963, in Scandinavia; in 1973, in Western Europe; and in 1976, in North America *(see Exhibit IV for IKEA's International Expansion)*.

In the 1970s, several stores were launched in different parts of Europe. IKEA gradually expanded its footprint across Europe and North America, opening stores in Norway (1963), Denmark (1969), Switzerland (1973), Germany (1974), Australia (1975), Canada (1976), Austria (1977), the Netherlands (1979), France (1981), Belgium (1984), the US (1985), the UK (1987), and Italy (1989).

In 1997, IKEA launched its website, www.ikea.com. The company continued its global expansion endeavor, opening stores in Hungary (1990), the Czech Republic, Poland (1991), Spain (1996), China (1998), Russia (2000), Portugal (2004), and Japan (first in 1977 and later again in 2006 when it reentered the country). The company also entered into several partnerships to execute numerous social and environmental projects. By 2004, IKEA had sales of US$15.5 billion. While 81% of its sales were from Europe, 16% came from North America, and the remaining 3% from Asia and Australia.[17]

IKEA's business concept was to offer furniture with simple designs at affordable prices. Though the company designed its own furniture and other items, it manufactured only a minimal portion; most of the supplies were made through a global network of contract manufacturers, many of them located in emerging markets.

With regard to human resources, IKEA claimed that it gave precedence to values and beliefs over skills, academics, or work experience in all of its standard job interviews. Prospective employees were expected to fit in with the corporate culture and had to take a culture quiz to determine their fit.

EXHIBIT IV IKEA's International Expansion

Country	First Store	Number of Stores	Country	First Store	Number of Stores
Sweden	1958	18	Taiwan	1994	4
Norway	1963	6	Malaysia	1996	1
Denmark	1969	5	Finland	1996	5
Switzerland	1973	9	Russia	2000	14
Germany	1974	46	Greece	2001	5
Australia	1975	7	Israel	2001	2
Canada	1976	12	Portugal	2004	3
Austria	1977	7	Turkey	2005	5
China	1977	16	Romania	2007	1
Japan	1977*	9	Cyprus	2007	1
The Netherlands	1978	12	Ireland	2009	1
Singapore	1978	2	Dominican Republic	2010	1
Spain	1980	19	Bulgaria	2011	1
France	1981	29	Thailand	2011	1
Iceland	1981	1	Lithuania	2013	1
Saudi Arabia	1983	3	Qatar	2013	1
Belgium	1984	6	Jordan	2014	1
Kuwait	1984	1	Croatia	2014	1
USA	1985	38	Indonesia	2014	1
UK	1987	18	South Korea	2014	2
Italy	1989	20	Morocco	2016	1
Hungary	1990	2	Serbia	2017	1
Czech Republic	1991	4	India	2018	1
Poland	1991	8	Latvia	2018	1
United Arab Emirates	1991	2	Bahrain	2018	1
Slovakia	1992	1			

* IKEA entered Japan in 1977 and withdrew from the market in 1987 after recording stagnant sales. The retailer reentered the market in 2006.
* Data as of 2018

Source: Compiled from various sources.

IKEA strove hard to project itself as an ethical and environmentally conscious company. It took measures to ensure that the materials it used were sustainably sourced and the labor it employed met international labor regulations. By 2012, it hoped to fully implement the "IKEA Way," a roster of rules and regulations for its suppliers. It was also against child labor being used at its suppliers' operations. The idea behind these rules was to provide the world with a clear picture on the origin, volume, and kind of wood used in IKEA's products.

Over the years, IKEA won several recognitions for its ethical practices. In 2010, it was recognized by the Ethisphere Institute[18] as one of the "World's Most Ethical Companies" in specialty retail for four consecutive years. In 2012, IKEA was judged the "2012 World Retail Congress International Retailer of the Year" because of its superiority as compared to its peers in global profitability, branding, and strategizing.

For the year ended August 31, 2014, IKEA reported a 3.6% increase in sales to €29 billion. The growth was attributable to an increase in spending by Chinese middle-class consumers. The company reported that its sales in Europe, which accounted for 70% of IKEA's total sales, also had improved during the same period.[19]

In 2014, IKEA embraced the Internet by launching its online stores. Commenting on its online business, Peter Agnefjall, IKEA's chief executive, said, *"We weren't one of the early adapters. But we've matured in our thinking about*

it. We realized this is not a trend, it's a megashift."[20] For the FY ended August 31, 2014, IKEA's online sales jumped 30% to €1.4 billion.[21]

For the FY ended August 31, 2018, IKEA recorded €38.8 billion in sales.[22]

Early Hiccups in Russia

Since the 1960s, Kamprad had been quite keen to do business in Russia, when it was still the Soviet Union.[23] It was only decades later, however, that he attempted to set up operations in Russia for the first time. But the attempt came to naught due to the collapse of the Soviet Union in 1991. Another attempt failed due to the 'Russian constitutional crisis of 1993'[24] which saw the beginning of an unfavorable economic scenario in the country.

In 1998, Lennart Dahlgren (Dahlgren), an IKEA veteran on the verge of retirement, was asked to set up IKEA's operations in Russia. Dahlgren soon realized that there was a huge retail opportunity in the country, quite unlike the view that was prevalent in the West that Russia was teeming with poor people. In the early 2000s, a market report from AT Kearney, a global market consulting firm, stated that in terms of retail expansion, Russia was the top country in the world. According to the report, *"With a growth rate of 30 percent for retail sales from 1999 to 2003 and a relatively sparse retail network to serve its growing market, Russia is full of promise."*[25]

At the same time, Dahlgren also realized that Russia had a highly corrupt bureaucracy, with corrupt officials demanding bribes for getting anything done. However, in concurrence with IKEA's policy of zero tolerance of corruption, Dahlgren decided that he would not give in to the corrupt system. According to Dahlgren, *"Companies interested in Russia should be absolutely up-front and honest in their dealings. When a foreign company pays bribes, there is no end to demands for bribes. In turn, foreign companies should feel an urgency to report corruption."*[26]

To set up IKEA's first store in Russia, Dahlgren entered into discussions with the Mayor of Moscow, Yuri Luzhkov (Luzhkov). IKEA wanted to launch its first store in Moscow's prosperous Kutuzovsky Prospekt,[27] but the plan fell through when it became a victim of vicious slander. Later, Luzhkov suggested that IKEA set up its store in a recently constructed building complex. However, IKEA found it impractical to set up its store in that building. When it found another suitable site for setting up the store and approached Luzhkov to get a lease on it, the city authorities asked for exorbitant land lease rates. Dahlgren said, *"Buying land on these terms would make it impossible to keep low prices on products."*[28]

In the end, IKEA decided to move the project to Khimki, a suburb 12 miles north of Moscow. The Mayor of Khimki was more in favor of the idea of the store being set up. As soon as the construction of the Khimki store began, the 'Russian Financial Crisis', or the 'Ruble Crisis', broke out. The crisis was the result of the Russian Government's default on domestic debt and devaluation of the ruble. The crisis period caused a jump in food prices and a break-out of mass protests. Millions lost their life savings. Despite the setback, IKEA continued with the construction of the store.

Russian Consumers Love IKEA, But. . .

In March 2000, IKEA's first store in Russia was opened at Khimki *(see* Exhibit V *for IKEA Russia's Stores)*. The inaugural day drew a large crowd of 40,000 shoppers, and a constant stream of customers emptied the store of its stock within two weeks.[29] People waited for an hour to get into the store, and all the roads leading to the store were blocked by traffic for miles around. Analysts believed that the rising middle class in Russia was looking to abandon the old world Soviet-era furniture in favor of the modern Scandinavian furniture offered by IKEA.

Russian furniture stores at that time offered only two choices–pricey furniture for the affluent and cheap ones for the rest. So, IKEA's simple, sturdy furniture at affordable rates attracted a lot of attention. IKEA's low prices in Russia encouraged consumers to buy furniture. Ordinarily, buying furniture in the country required consumers to save several months of their salary. Many shoppers were taken by surprise by the low prices, with some of them even wondering whether they were priced in US dollars rather than Russian rubles. *"We spent the first weekend writing the word 'ruble' on all the price tags,"*[30] Dahlgren quipped. The internal layout at IKEA also worked in favor of the retailer as customers could 'walk around' unimpeded by shop assistants, in addition to handling the merchandise. They were even encouraged to try out the mattresses and sofas for themselves–something the consumers had never seen before in Russia. Other factors that contributed to IKEA's success in Russia, according to analysts, were its logistics expertise, its business model, its vertical integration, and its ability to leverage economies of scale.[31]

EXHIBIT V IKEA Russia's Stores

Store Location	Opened
Moscow Khimki	2000
Moscow Teply Stan	2001
St Petersburg Dybenko	2003
Kazan	2004
Moscow Belaya Dacha	2005
Nizhniy Novgorod	2006
St Petersburg Parnas	2006
Yekaterinburg	2006
Novosibirsk	2007
Rostov-on-Don	2007
Adygea Adygea-Kuban	2008
Omsk	2009
Samara	2009
Ufa	2010

Source: www.ikea.com.

Unlike many other furniture stores in Russia, IKEA laid emphasis on customer service. It had a highly selective process of recruitment, with its initial 440 employees picked from a total of 16,000 applicants. Moreover, the Store Supervisors, whom it termed the "Core Employees," were provided training at IKEA stores in other countries. IKEA also offered several other amenities such as free shuttle services from select places, a playroom for children, and coffee to customers who came in early.

The store continued to be popular, with 100,000 visiting it even after a month. IKEA opened another store in the Moscow region within a year of the launch of its first store. The Russian IKEA stores were similar in size, structure, and style to their counterparts in other parts of the world. In the first year of operations, IKEA reported sales of more than US$100 million in Russia, three times more than what the company had expected.[32] IKEA's Khimki store became one of its top 10 grossing stores in the whole world. The rousing response to the store's opening encouraged IKEA to formulate ambitious plans for expansion.

IKEA also tested a new business model for the first time in Russia. The company had observed that the value of land surrounding its new stores greatly appreciated over a period of time. It decided to take advantage of this by developing the areas around its stores into commercial complexes.

IKEA had a 98-year land lease for its store sites with the option of purchasing them if Russia ever allowed it. This gave it sufficient leeway to make use of the excess land to increase its business prospects. IKEA invited other stores selling electronics, hardware, and clothes, most of whom were leading international brands, to set up operations at its store sites. It also set up areas for leisure such as movie theaters, ice rinks, and play areas in these complexes. Apart from that, the company created comfort zones which housed cafés, restaurants, childcare facilities, and baby care rooms.

This initiative enabled certain IKEA stores in Russia to be operated as enormous shopping and entertainment complexes, unlike in other countries where they were standalone furniture stores. Over time, IKEA's new division called the 'Mega Mall', set up to manage these complexes, made more money than the standalone retail business.

Despite its success, IKEA struggled to make profits in Russia until the mid-2000s. The main reasons for this were the high startup costs and the steep 25% tariff imposed on imported furniture. Only 13% of the furniture IKEA sold at its stores was made locally. Dahlgren was of the opinion that the company needed to produce 30% of its furniture locally if its operations were to turn profitable. So, in April 2002, IKEA started production at its first Russian factory, in the vicinity of St. Petersburg. The production facility was built at a cost of US$15 million and initially employed 250 people. In addition, the company provided its local suppliers with credit of US$400 million to purchase equipment. Russia had about 25% of the world's hardwood supply and IKEA's efforts to develop its production facilities in the country were expected to make Russia a major supplier for the company for its global operations.

Though IKEA faced several problems in setting up its stores, Russian officials granted the company a customs exemption that made the retailer's imports economically feasible. However, Dahlgren felt that tariffs of about 28% (compared to about 3% in North America and Europe) should come down for IKEA to prosper in Russia.[33]

. . .IKEA Faces Many Roadblocks

IKEA also had to face a number of obstacles in its expansion plans. The business environment in Russia was such that the company constantly encountered problems with regard to its stores from government officials in the fire, health and safety, electricity, tax, customs, and other related departments. These officials reportedly discovered 'problems' with IKEA stores, especially during critical times such as store openings. They would then suggest ways by which IKEA could overcome the issues–usually through some monetary payment or by engaging a party recommended by them to rectify the problem. For instance, a few weeks before the Khimki store was opened IKEA was asked by the local utility department officials to pay a bribe to get an electricity connection for its Khimki store. Instead of complying with the demand, IKEA decided to hire large diesel generators to power its store. This became a standard practice for the company for most of its stores in Russia.

City authorities in Moscow reportedly held a grudge against IKEA for its earlier decision to move out of the city. When the company finally opened its first store in the city, these authorities refused to give it permission to advertise the store on the Moscow metro. Dahlgren stated that the municipal authorities refused permission, citing certain scientific studies which showed that people had unstable psyches underground, hence IKEA's ads could be dangerous. IKEA had to secure 300 permits before it could construct a mall in Russia, leaving plenty of room for the demanding of bribes.[34]

Again, when IKEA wanted to build an off-ramp over Leningrad Highway to ease traffic and enable customers to reach the Khimki store without hardship, the authorities put obstacles in its way. It was only then that IKEA officials realized that the Leningrad Highway was controlled by Moscow City, rather than Khimki. Though IKEA had completed all the formalities necessary to gain the necessary construction permits, the proceedings were allegedly halted by Luzhkov and his team after the construction began. They refused to grant permission for construction of the off-ramp, stating that it would impede the view of a historic place called the Tank Trap monument, which marked the place where the Red Army[35] had obstructed the march of the German Nazi forces during World War II.[36] As a result, the off-ramp stood half-constructed for about a year, causing hardship to customers and traffic snarls on the Leningrad Highway. It was only after Kamprad appealed to Vladimir Putin[37] and the 200 other store owners in the complex protested against authorities on the issue, that IKEA got the permission to build the bridge, with the caveat that the off-ramp built by the company was endorsed by the municipal authorities of Moscow. This cost the company in terms of cost and time, as it had to pay US$5 million more than it had estimated. Also, the off-ramp's construction took three times longer than it should have.

In 2003, IKEA planned to build a US$40 million warehouse in the Solnechnogorsky district of the Moscow region. Things worked out smoothly for the company as long as Deputy Governor Mikhail Men, who was well-disposed toward the company, was in office. Once he was dismissed, the company began facing problems with the authorities. Dahlgren accused Vladimir Popov, who was District Head at that time, of using the police to halt work at the warehouse. IKEA was given the go-ahead to continue work only after it donated US$30 million as aid to elderly people and hired a contractor endorsed by the regional government.

In December 2004, IKEA was all set to inaugurate the 'Mega Mall' at Khimki, with an investment of US$250 million. During the construction of the store, one of the biggest in Europe, the then Mayor of Khimki was replaced by Vladimir Strelchenko (Strelchenko), an ex-military officer who showed marked indifference toward Western investors. As a result, the store's inauguration faced a major setback as officials stalled the store's opening, saying that the road to the store ran over a gas pipe, making it dangerous. Therefore, the company was ordered to build a new roadway. This was despite the fact that the pipeline in question also passed underneath a heavily used six-lane highway and a crucial railroad. Dahlgren contended that the company had agreed to construct a number of pressure reducers over the gas pipes, but the real reason the opening was stopped was because IKEA had refused to pay bribes.

Dahlgren equated the prevention of its store opening to "sabotage against Russia."[38] This was the first time that a key official of a multinational company doing business in Russia had raised his voice against the corruption in the country. *"Like all Western companies in Russia we're subject to blackmail, sabotage, and pressure for bribes. In many cases we're totally in the hands of local chieftains. IKEA is big in Russia and doesn't pay bribes,"*[39] he reiterated.

Dahlgren also decided to stand up to the corrupt bureaucrats by announcing that the inauguration of the store would be on December 10, 2004, as per schedule. So, while police forces blocked the store, Dahlgren and his team, along with the Swedish Ambassador to Russia held a grand opening ceremony. This incident attracted the attention of the world media and also earned IKEA a lot of sympathy, while drawing harsh criticism against the Khimki municipal authorities. Strelchenko's superiors were worried that the bad press associated with the incident would spoil Russia's reputation. They saw to it that IKEA was provided the go-ahead for the mall's opening.

Kamprad made several attempts to meet the political leadership of Russia, but he was not able to meet either Putin or Dmitry Medvedev.[40] In one such attempt in 2005 in which Dahlgren strove to arrange a meeting between Kamprad and Putin, he was allegedly told by a senior government official that it would cost US$5–10 million. *"I sensed that it would be better not to get into that discussion any deeper,"*[41] quipped Dahlgren.

Freeze on Expansion

There were also instances when IKEA received support from the Russian authorities that made things smoother for the company. The company opened another store called the 'Mega Kazan' in the Kazan region, 500 miles east of Moscow, in 2005. The store, built in partnership with Ramstore hypermarket,[42] went on to become the largest regional mall in Russia. Dahlgren said that the authorities in Kazan had been very cooperative, which enabled the store to be opened in record time. He said, *"It took less than a year between the first meeting with Kazan's mayor and the store's opening—a record impossible to break anywhere in the world."*[43]

While IKEA had a smooth ride in the Kazan region, in 2006, the retailer was forced to halt the construction of its new Mega store in Rostov-on-Don, a city in southern Russia, with authorities maintaining that the retailer had not obtained the correct permit. In the same year, i.e. in 2006, IKEA had to temporarily shut down its Mega store in Nizhny Novgorod, a city in western Russia, after fire safety inspectors allegedly found around 1,000 fire safety violations by the retailer. The company also faced a probe by the prosecutor in Sverdlovsk Oblast, a region in west-central Russia, into its Mega store in Yekaterinburg, a city in Russia and administrative center of Sverdlovsk Oblast, over compliance with sanitary and fire safety standards. In addition to this, it encountered problems with launching Mega stores in other Russian cities such as Ufa, St. Petersburg, Samara, and Novosibirsk, and in the construction of a warehouse in Solnechnogorsk, a town in Moscow.

All these obstacles notwithstanding, IKEA became the largest foreign retailer in Russia over a period of time. IKEA's Managing Director, Per Wendschlag said, *"We are one of the top-selling IKEA countries in the world. The potential with 141 million people who are interested in consuming and furnishing their homes is big."*[44] Moreover, with an investment of US$4 billion in Russia over a period of 10 years, IKEA became the country's largest foreign investor. It opened 14 stores and three manufacturing facilities, along with one distribution center. IKEA's success was attracting other world retailers to set up their operations in Russia, according to company officials. The popularity of IKEA and its impact on the younger generation resulted in Russia's yuppies[45] being called the 'IKEA Generation'.

Despite its success, IKEA put a freeze on its expansion in June 2009, after officials refused to give it permission to open two of its stores in the central cities of Samara and Ufa. Officials refused to give approval in Samara, stating that the walls of the store were not in a condition to withstand hurricane-force winds. This despite the fact that such weather conditions were never been experienced in that region. According to Kirill Kabanov, Head of the NGO National Anti-Corruption Committee in Moscow, the reason for the non-opening of the stores was IKEA's refusal to give bribes to safety inspectors.

A company official stated that the municipal authorities had recommended that IKEA use the services of a local construction company to "quickly help" fix the construction deficiencies.[46] Gigibulla Khasaev, Economic Development Minister for the Samara region, however, stated that the company's allegations were untrue and that IKEA was publicizing its complaints to divert attention from its substandard construction.[47]

IKEA contended that it was tired of being conned by corrupt officials and was halting expansion. Kamprad claimed that

the company had been swindled to the tune of US$190 million because of the failure of Russian authorities to provide electricity to its stores as promised.[48]

Accusations Against IKEA

However, some incidents seemed to indicate that certain IKEA officials were bowing down to the all-encompassing corruption in Russia. Some industry observers believed that, at least in the initial years, its officials had been involved in corruption. *"They were trying to exploit first-mover advantage and may have let their due diligence and corporate governance standards slip by cutting corners,"*[49] said Cushman & Wakefield's, Alexei Slesar.

In 2009, IKEA discovered that the key executives responsible for renting the diesel generators had hyped up the rental charges in collaboration with the generator rental company, causing the company a loss of several million dollars.

Though the executives had not committed any personal indiscretion, their decision to overlook a corrupt transaction between a subcontractor of IKEA and an electricity company official in order to resolve a power-supply issue at IKEA's St. Petersburg mall did somewhat dent IKEA's reputation for non-tolerance of corruption. Speaking on this issue, Kamprad said, *"The documented mess in our Russian shopping center company is completely unacceptable. I have been too optimistic. It is shocking and deplorable that we have wandered off course."*[50]

In February 2010, IKEA fired Per Kaufmann (Kaufmann), IKEA director for Central and Eastern Europe, and Stefan Gross (Gross), IKEA director for real estate in Russia, for turning a blind eye to corruption. The retailer found out that a bribe had been offered by a Russian contractor and Kaufmann and Gross had known about it but had done nothing to prevent the crime. The bribe was offered in exchange for the signing of a fake acceptance certificate for electricity equipment in IKEA. Commenting on the issue, Mikael Ohlsson, the chief executive and president for the IKEA Group, IKEA'S largest franchisee which included the Russian operation, said, "*We are deeply upset and disappointed. Corruption is totally unacceptable for Ikea, and therefore we take this matter very seriously and will act fast and determined."*[51] Commenting on the corruption scandal at IKEA, Maxim Gladkikh-Rodionov, managing director of an auditing firm, Confidence, said, *"One gets the impression that the company is simply being strongly encouraged to 'be like everybody else'."*[52]

In 2010, Dahlgren released a book called 'Despite Absurdity: How I Conquered Russia While It Conquered Me,' in which he narrated the difficulties the company had had to go through to stay true to its principles while being surrounded by rampant corruption. The book named several people obstructing IKEA's business in Russia, from the mayor of Khimki to the governor of the Moscow Region.

IKEA's troubles continued in 2011, when it became involved in a bribery scandal. The retailer reported that a Turkish national, Okan Yunalan (Yunalan), who acted as an intermediary for Carl Ola Ingvaldsson (Ingvaldsson), former Head of the Leasing Department in IKEA's Russian subsidiary (IKEA MOS), was accused of demanding 6.5 million ruble (US$225,000) from a company that sought to lease two premises at IKEA's Mega shopping complex in Tyoply Stan, a suburb in Moscow. Yunalan was accused of stalling the signing of a lease of the two premises. Consequently, in July 2012, Yunalan was sentenced to five years in a high-security prison after being found guilty of large-scale extortion. Ingvaldsson and another accomplice managed to leave the country and Russia was seeking their extradition. IKEA stated that it welcomed the investigation by Russian authorities into the incident and would co-operate fully with them.

In addition to the rising cases of corruption being detected among its ranks, IKEA's image took a further beating when reports on its alleged unethical logging practices surfaced. In early 2012, a Swedish public service television channel came out with an investigative report that proclaimed that IKEA's subsidiary, Swedwood, was cutting down several hundred acres of old growth forests every year. While civil rights groups criticized IKEA's logging practices based on the report, the company refuted the allegations and claimed that it was logging wood according to local guidelines. However, its critics contended that IKEA should show greater responsibility in sourcing wood without taking advantage of defunct environmental guidelines in countries such as Russia and China, in which it mostly logged wood. Viktor Säfve, Chairman of Swedish NGO 'Protect the Forest', said, *"This all comes down to a question of credibility and we believe that they are cheating their customers by claiming that the wood they use is sustainably sourced. The wood they are cutting down in Russia is from a high conservation area and we have the evidence to prove it. They are hiding behind flawed and criticized FSC accreditation."*[53,54]

Even as IKEA was grappling with different issues in Russia, it faced a boycott threat in the country in 2013 after it removed an article on a British lesbian couple from its monthly magazine in Russia, in which they spoke about their family life and how their house was filled with IKEA products. This was a bid by IKEA to comply with Russia's controversial law that banned 'homosexual propaganda'. Commenting on the article being removed from the magazine, an IKEA spokeswoman said that the decision had been taken to "remain neutral." She added, *"We think our operations in Russia can, in the long run have a positive effect on society."*[55] IKEA suffered a huge backlash in the country. According to Ulrika Westerlund, chair of the Swedish Federation for Lesbian, Gay, Bisexual and Transgender Rights, *"I find it disappointing that Ikea has simply laid down flat. No one is really sure what 'propaganda' is and if Ikea had left the article in, that could have served as a test case."*[56]

IKEA's troubles rose to another level in September 2014 when Russia's Investigative Committee conducted a search on its premises in Khimki in connection with a land deal. The land dispute dated back to 2007 when IKEA had constructed its store in Khimki and a group of farmers had challenged its right to use the land for setting up its store. However, after a series of arbitrations, a Moscow court decided in IKEA's favor.

Despite facing several challenges in Russia, in 2015, IKEA reported that its global sales for the year ended August 2014 stood at €29 billion. According to IKEA, the growth was fueled

by China and Russia as they were the company's fastest growing markets. Eight of IKEA's 10 largest stores in the world were in China whereas in Russia it had a chain of 14 complexes, which accounted for 7% of the company's turnover for the year ended August 2014.[57] IKEA's sales in Russia were attributed to the economic slowdown in the country as consumers swarmed IKEA stores and other Western retailers in anticipation that the prices would rise sharply. According to Marija Milasevic, senior analyst at Euromonitor International, *"Consumers were afraid to lose their savings and of possible future high price increases. They were massively purchasing durable products."*[58]

Sensing the tremendous potential offered by the Russian market, in June 2016, IKEA announced its plans to invest US$2.1 billion on upgrading its 14 stores across Russia.[59] The announcement came at a time when the Supreme Court of Russia had given a ruling in favor of IKEA rejecting a plea by an agricultural enterprise, the Khimki Collective Agricultural Enterprise, that two 15-storey buildings belonging to IKEA be demolished. The agricultural enterprise accused IKEA of faking documents required for obtaining the land on Leningrad Highway, which led from the center of the city to the main airport at Moscow. According to IKEA's press service in Moscow, *"There have been no claims since 1993. Nobody has tried to contest the ownership title for 18 years, but as soon as Ikea bought it out, a number of claims arose that tried to question Ikea's right."*[60]

However, the retailer halted its expansion plans after a Russian court in 2016 ordered it to pay US$7.8 million to Russian businessman and former contractor of IKEA, Konstantin Ponomaryov, in a decade-long legal dispute over the supply of power to stores in the city of St. Petersburg. Commenting on the ruling, IKEA warned that it would delay the investment, stating that it wanted to work in a "fair and transparent business climate," and accused the authorities of attempting "to use illegal methods to extract further money from the company."[61]

Looking Ahead

By 2020, IKEA aimed to achieve a revenue growth of 1.5 times to €50 billion from €34.2 billion in the fiscal year ended 2015–2016. Commenting on its future goals, Walter Kadnar (Kadnar), the general director of the network in Russia, said, *"Our goal is long-term investment. The disposable incomes of consumers [in Russia] have declined, and we are trying to attract as many buyers as we can, keeping prices down. Such a policy should also enable us to achieve the goals set by 2020."*[62]

Kadnar believed that the economic slowdown in the Russian market would continue for another 1–3 years i.e. till 2020. He added, *"We do not think that investment in the price will immediately be followed by recovery in purchase volumes, but we believe that now is the right time to start such investments in order to gain an advantage in the market."*[63]

Analysts believed that IKEA's plans for Russia were too ambitious since the major stumbling block for business was the host country's corrupt systems at both the regional and national levels. In Transparency International's[64] 2017 Corruption Perceptions Index, Russia was placed in the 135th position *(see Exhibit VI for Corruption Perceptions Index for 2017).*

EXHIBIT VI Corruption Perceptions Index (2017)

2017 Rank	Country	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
1	New Zealand	89	90	91	91	91	90	Asia Pacific
2	Denmark	88	90	91	92	91	90	Europe and Central Asia
3	Finland	85	89	90	89	89	90	Europe and Central Asia
3	Norway	85	85	88	86	86	85	Europe and Central Asia
3	Switzerland	85	86	86	86	85	86	Europe and Central Asia
6	Singapore	84	84	85	84	86	87	Asia Pacific
6	Sweden	84	88	89	87	89	88	Europe and Central Asia
8	Canada	82	82	83	81	81	84	Americas
8	Luxembourg	82	81	85	82	80	80	Europe and Central Asia
8	Netherlands	82	83	84	83	83	84	Europe and Central Asia
8	United Kingdom	82	81	81	78	76	74	Europe and Central Asia
12	Germany	81	81	81	79	78	79	Europe and Central Asia
135	Russia	29	29	29	27	28	28	Europe and Central Asia

Source: Adapted from *"Corruption Perceptions Index 2017,"* www.transparency.org, February 21, 2018.

Analysts opined that bribery was like another taxation system in the country, which benefited the political elite including the police and the Federal Security Service[65] (FSB). Analysts pointed out that while IKEA would have problems in the future, Russia being part of the BRIC (Brazil, Russia, India, and China) could not be ignored, considering the tremendous potential offered by the rising incomes of middle-class consumers in the emerging markets.

Going forward, IKEA planned to boost its local online business. By the end of FY August 2019, the retailer planned to open 100 pick-up points to boost its online business in Russia.[66]

The company also planned to enter other international markets. In August 2018, IKEA entered the Indian market by launching its first store in Hyderabad, capital city of the southern Indian state of Telangana. The company planned to rent out its furniture offerings in Japan for customers who were not ready to purchase those items. In November 2018, IKEA announced its plans to open its first and largest store in the Philippines by 2020 with an investment of US$133 million.[67] The retailer aimed to set up its first store in Greater Manila with 5 million households and cash in on the economic boom and rising incomes.

Case Questions

1. Critically analyze IKEA's foray into Russia. In what ways was it successful?
2. Discuss the challenges faced by IKEA and how the company tackled these challenges and made a mark in the Russian market.
3. Since IKEA continued to face several bureaucratic challenges in Russia, the retailer planned to halt its expansion in the country. What should IKEA's business strategy be in the future?

Endnotes

1. This case was prepared from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. © 2019, IBS Center for Management Research. All rights reserved. To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: casehelpdesk@ibsindia.org Source: www.icmrindia.org
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62. Natalia Ischenko, "IKEA Reduces Prices in Russia," www.vedomosti.ru, January 25, 2017.
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Glossary

achievement versus ascription The source of power and status in society—one's achievement versus personal factors such as class, age, gender.

administrative distance Differences in bureaucratic patterns due to colonial ties, language, religion, and the legal system.

affective appeals Negotiation appeals based on emotions and subjective feelings.

appropriability of technology The ability of an innovating firm to protect its technology from competitors and to obtain economic benefits from that technology.

appropriateness of monitoring (or control) systems Systems that will not run counter to local practices, culture, and expectations.

appropriateness of technology The use of technology in production or processes that is in line with local skills and level of development.

arenas An element of a firm's strategy that focuses on "Where will a company will be active . . . and with how much emphasis?" This element addresses product markets, geographic areas, and customer markets as well as its core technologies and value creation stages.

attribution The process in which a person looks for an explanation of another person's behavior.

axiomatic appeals Negotiation appeals based on the ideals generally accepted in a society.

B2B Business-to-business electronic transactions.

B2C Business-to-consumer electronic transactions.

balance-sheet approach An approach to the compensation of expatriates that equalizes the standard of living between the host and home countries, plus compensation for inconvenience.

born global Companies that start out with a global reach, typically by using their Internet capabilities.

Brexit Refers to the United Kingdom leaving the EU. The term reflects the combination of Britain and exit to get Brexit.

business group An organizational model in which legally independent organizations that bind themselves together with formal and informal ties (e.g., cross-holding of each other's equity and/or debt securities) and use collaborative arrangements to enhance their collective welfare.

CAFTA The U.S.–Central America Free Trade Agreement.

chaebol South Korea's large industrial conglomerates of financially linked, and often family-linked, companies that do business among themselves whenever possible—for example, Daewoo.

civil law The comprehensive set of laws organized into a code; laws are interpreted based on codes and statutes; used in Europe and Japan.

clustering Geographic concentrations of related, interdependent companies within an industry that use the same suppliers, labor, and distribution channels.

codetermination (mitbestimmung) The participation of labor in the management of a firm.

collective bargaining In the United States, for example, negotiations between a labor union local and management; in Sweden and Germany, for example, negotiations between the employer's organization and a trade union at the industry level.

collectivism The tendency of a society toward tight social frameworks, emotional dependence on belonging to an organization, and a strong belief in group decisions.

common law Law based on past court decisions and common custom (precedents); used in the United States and other countries of English origin.

common market A group of countries committed to (1) removing all barriers to the free flow of goods, services and *factors of production* between each other and the (2) pursuit of a *common* external trade policy.

communication The process of sharing meaning by transmitting messages through media such as words, behavior, or material artifacts.

comparative advantage A mutual benefit in the exchange of goods between countries in which each country exports products in which it is relatively more efficient in production than other countries.

context in cultures (low to high) Low-context cultures, such as Germany, tend to use explicit means of communication in words and readily available information; high-context cultures, such as those in the Middle East, use more implicit means of communication in which information is embedded in the nonverbal context and understanding of the people.

contract An agreement by the parties concerned to establish a set of rules to govern a business transaction.

control system appropriateness The use of control systems that are individually tailored to the practices and expectations of the host-country personnel.

convergence (of management styles, techniques, and so forth) The phenomenon of increasing similarity of leadership styles resulting from a blending of cultures and business practices through international institutions, as opposed to the **divergence** of leadership styles necessary for different cultures and practices.

core competencies Important corporate resources or skills that bring competitive advantages.

corporate social responsibility (CSR) The belief that corporate activities should take into consideration the welfare of the various stakeholders affected by those activities.

CSV Creating Shared Value (*see* shared value).

cross-cultural teams task-oriented groups that consist of people of at least two different cultures.

cultural distance Differences in values, languages, religion, trust.

cultural diffusion When immigrants adopt some aspects of the local culture while keeping aspects of their culture of origin.

cultural noise Cultural variables that undermine the communications of intended meaning.

cultural savvy A working knowledge of the cultural variables affecting management decisions.

cultural sensitivity (cultural empathy) A sense of awareness and caring about the culture of other people.

culture The shared values, understandings, assumptions, and goals that over time are passed on and imposed by members of a group or society.

culture shock A state of disorientation and anxiety that results from not knowing how to behave in an unfamiliar culture.

culture-specific reward systems Motivational and compensation approaches that reflect different motivational patterns across cultures.

customs union A group of countries committed to (1) removing all barriers to the free flow of goods and services between each other and (2) the pursuit of a *common* external trade policy.

cyber security The technologies, processes, and practices designed to safeguard networks, devices, programs, and data from attack, damage, theft or unauthorized access. Also called information technology security.

cybertheft Digital industrial espionage or interference (hacking); theft of financial or personal information through computers.

degree of enforcement The relative degree of enforcement, in a particular country, of the law regarding business behavior, which therefore determines the lower limit of permissible behavior.

dependency (in managing political risk) Keeping the subsidiary and the host nation dependent on the parent corporation.

differentiation Focusing on and specializing in specific markets.

differentiators An element of a firm's strategy that focuses on "How will we win in the marketplace? (e.g., image, customization, price, styling, product reliability)

digital economy A term that reflects all of the digital technology-based economic processes, transactions, interactions and activities that disrupt and transform markets.

direct control The control of foreign subsidiaries and operations through the use of appropriate international staffing and structure policies and meetings with home-country executives (as compared with **indirect control**).

distinctive competencies Strengths that allow companies to outperform rivals.

divergence *See* **convergence**.

domestic multiculturalism The diverse makeup of the workforce comprising people from several cultures in the home (domestic) company.

e-business The integration of systems, processes, organizations, value chains, and entire markets using Internet-based and related technologies and concepts.

e-commerce The sale of goods or services over the Internet.

e-commerce enablers Fulfillment specialists who provide other companies with services such as website translation.

economic distance Differences in level of development, natural or human resources, infrastructure, information, or knowledge.

economic logic An element of a firm's strategy that focuses on "How will we obtain our returns? (e.g., lowest cost through scale advantages, lowest cost through scope/replication advantages, premium prices due to unmatched service and premium prices due to proprietary product features).

economic risk The level of uncertainty about the ability of a country to meet its financial obligations.

economic union A group of countries committed to (1) removing all barriers to the free flow of goods, services and *factors of production* between each other; (2) the adoption of a common currency; (3) the harmonization of tax rates; and the (4) pursuit of a *common* external trade policy.

environmental assessment The continuous process of gathering and evaluating information about variables and events around the world that may pose threats or opportunities to the firm.

environmental scanning The process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest.

ethical relativism An approach to social responsibility in which a country adopts the moral code of its host country.

ethnocentric approach An approach in which a company applies the morality used in its home country—regardless of the host country's system of ethics.

ethnocentric staffing approach An approach that fills key managerial positions abroad with persons from headquarters—that is, with parent-country nationals (PCNs).

ethnocentrism The belief that the management techniques used in one's own country are best no matter where or with whom they are applied.

expatriate One who works and lives in a foreign country but remains a citizen of the country where the employing organization is headquartered.

expressive-oriented conflict Conflict that is handled indirectly and implicitly, without clear delineation of the situation by the person handling it.

expropriation The seizure, with inadequate or no compensation, by a local government of the foreign-owned assets of an MNC.

Foreign Corrupt Practices Act A 1977 law that prohibits most questionable payments by U.S. companies to officials of foreign governments to gain business advantages.

foreign direct investment (FDI) A multinational firm's ownership, in part or in whole, of an operation in another country.

free trade area (FTA) A group of countries committed to (1) removing all barriers to the free flow of goods and services between each other but pursuing *independent* external trade policies.

franchising An international entry strategy by which a firm (the franchiser) licenses its trademark, products, or services and operating principles to the franchisee in a host country for an initial fee and ongoing royalties.

fully owned subsidiary An overseas operation started or bought by a firm that has total ownership and control; starting or buying such an operation is often used as an entry strategy. Also called wholly owned subsidiary.

generalizability of leadership styles The ability (or lack of ability) to generalize leadership theory, research results, and effective leadership practices from one country to another.

geocentric staffing approach A staffing approach in which the best managers are recruited throughout the company or outside the company, regardless of nationality—often, third-country nationals (TCNs) are recruited.

geographical distance Remoteness, different time zones, weak transportation, or weak communication links.

giri In Japan, it is a short-term obligation to friends, work colleagues, and other persons of equal or lower status to oneself.

global corporate culture An integration of the business environments in which firms currently operate, resulting from a dissolution of traditional boundaries and from increasing links among MNCs.

global functional structure Operations are integrated into the activities and responsibilities of each department to gain functional specialization and economies of scale.

globalism/globalization Global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy and a one-world market.

global geographic (area) structure Divisions are created to cover geographic regions; each regional manager is responsible for operations and performance of the countries within a given region.

globalization The global strategy of the integration of worldwide operations and the development of standardized products and marketing approaches.

global management The process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage.

global management team Collection of managers in or from several countries who must rely on group collaboration if each member is to experience optimum success and goal achievement.

global product (divisional) structure A single product (or product line) represented by a separate division; each division is headed by its own general manager and is responsible for its own production and sales functions.

global staffing approach Staff recruited from within or outside of the company, regardless of nationality.

global strategic alliances Working partnerships that are formed around MNCs across national boundaries and often across industries.

governmentalism The tendency of a government to use its policy-setting role to favor national interests rather than relying on market forces.

guanxi The intricate, pervasive network of personal relations that every Chinese person carefully cultivates.

guanxihu A bond between specially connected firms, which generates preferential treatment to members of the network.

haptic Characterized by a predilection for the sense of touch.

hedging Companies' practice of taking out insurance or using local debt financing, for example, to reduce asset loss due to political risk.

high-contact culture A culture in which people prefer to stand close, touch a great deal, and experience a close sensory involvement.

high-context communication A type of communication in which people convey messages indirectly and implicitly.

high-context cultures Cultures where feelings and thoughts are not explicitly expressed; communication is implicit and as a function of the context and understanding of the person.

horizontal organization (dynamic network) A structural approach that enables the flexibility to be global and act local through horizontal coordination, shared power, and shared decision-making across international units and teams.

host-country national (HCN) A worker who is indigenous to the local country where the plant is located.

human capital Direct or subcontracted employees whose labor becomes part of the value-added assets of the firm's product or service. MNCs are increasingly offshoring (outsourcing) that asset around the world to lower the cost of human capital.

IJV control How a parent company ensures that the way a joint venture is managed conforms to its own interest.

indirect control The control of foreign operations through the use of reports, budgets, financial controls, and so forth. *See also* **direct control**.

individualism The tendency of people to look after themselves and their immediate families only and to value democracy, individual initiative, and personal achievement.

information privacy The right to control information about oneself.

information technology (IT) Electronic systems to convey information.

inpatriates Managers with global experience who are transferred to the organization's headquarters country.

instrumental-oriented conflict An approach to conflict in which parties tend to negotiate on the basis of factual information and logical analysis.

integration Coordination of markets.

intercultural communication Type of communication that occurs when a member of one culture sends a message to a receiver who is a member of another culture.

internal analysis A way to determine which areas of a firm's operations represent strengths or weaknesses (currently or potentially) compared to competitors.

internal versus external locus of control Beliefs regarding whether a person controls his own fate and events or are controlled by external forces.

international business The profit-related activities conducted across national boundaries.

international business ethics The business conduct or morals of MNCs in their relationships to all individuals and entities with whom they come in contact when conducting business overseas.

international codes of conduct The codes of conduct of four major international institutions that provide some consistent guidelines for multinational enterprises relative to their moral approach to business behavior around the world.

internationalization The process by which a firm gradually changes in response to the imperatives of international competition, domestic market saturation, desire for expansion, new markets, and diversification.

international joint venture (IJV) An overseas business owned and controlled by two or more partners; starting such a venture is often used as an entry strategy.

international management The process of planning, organizing, leading, and controlling in a multicultural or cross-cultural environment.

international management teams Collections of managers from several countries who must rely on group collaboration if each member is to achieve success.

international social responsibility The expectation that MNCs should be concerned about the social and economic effects of their decisions regarding activities in other countries.

Islamic law The dominant legal system in Islamic countries; based on religious beliefs and followed in approximately 27 countries.

joint venture (JV) A new independent entity jointly created and owned by two or more parent companies.

keiretsu Large Japanese conglomerates of financially linked, and often family-linked, groups of companies, such as Mitsubishi, that do business among themselves whenever possible.

kibun Feelings and attitudes (Korean word).

kinesic behavior Communication through posture, gestures, facial expressions, and eye contact.

knowledge management The process by which the firm integrates and benefits from the experiences and skills its employees learn, for example, when repatriating managers from the host country.

labor relations The process through which managers and workers determine their workplace relationships.

liability of foreignness All additional costs a firm operating in a market overseas incurs that a local firm would not incur—in particular spatial costs, unfamiliarity costs, host-country costs, and home-country costs.

licensing An international entry strategy by which a firm grants the rights to a firm in the host country to produce or sell a product.

localization approach When firms focus on the local market needs for product or service characteristics, distribution, customer support, and so on.

low-context cultures Societies where people convey their thoughts and plans in a direct, straightforward communication style; communication and information is vexplicit.

locus of decision making The relative level of decentralization in an organization—that is, the level at which decisions of varying importance can be made—ranging from all decisions made at headquarters to all made at the local subsidiary.

low-contact culture Cultures that prefer much less sensory involvement, standing farther apart and touching far less; a distant style of body language.

low-context communication One in which people convey messages directly and explicitly.

macropolitical risk event An event that affects all foreign firms doing business in a country or region.

managing environmental interdependence The process by which international managers accept and enact their role in the preservation of ecological balance on the earth.

managing interdependence The effective management of a long-term MNC subsidiary–host-country relationship through cooperation and consideration for host concerns.

maquiladoras U.S. manufacturing or assembly facilities operating just south of the U.S.–Mexico border under special tax considerations.

masculinity The degree to which traditionally masculine values—assertiveness, materialism, and the like—prevail in a society.

material culture *See* object language.

matrix structure A hybrid organization of overlapping responsibilities.

micropolitical risk event An event that affects one industry or company or only a few companies.

MIS adequacy The ability to gather timely and accurate information necessary for international management, especially in less-developed countries.

multiational enterprises (MNEs) *See* multinational corporations (MNCs).

monochronic cultures Cultures in which time is experienced and used in a linear way; there is a past, present, and future, and time is treated as something to be spent, saved, wasted, and so on. *See also* **polychronic cultures**.

moral idealism The relative emphasis on long-term, ethical, and moral criteria for decisions versus short-term, cost–benefit criteria. *See also* **utilitarianism**.

moral universalism A moral standard toward social responsibility accepted by all cultures.

multicultural leader A person who is effective in inspiring and influencing the thinking, attitudes, and behavior of people from various cultural backgrounds.

multidomestic (or multi-local) strategy Emphasizing local markets, allowing more local responsiveness and specialization.

multinational corporation (MNC) A corporation that engages in production or service activities through its own affiliates in several countries, maintains control over the policies of those affiliates, and manages from a global perspective.

multinational enterprises (MNEs) *See* multinational corporations (MNCs).

nationalism The practice by a country of rallying public opinion in favor of national goals and against foreign influences.

nationalization The forced sale of an MNC's assets to local buyers with some compensation to the firm, perhaps leaving a minority ownership with the MNC; often involves the takeover of an entire industry, such as the oil industry.

nearshoring Outsourcing jobs close to the domestic country of the firm or close to the firm's markets.

negotiation The process by which two or more parties meet to try to reach agreement regarding conflicting interests.

neutral versus affective Level of emotional orientation in relationships.

nintai In Japan, it refers to patience.

noise Anything that serves to undermine the communication of the intended meaning.

noncomparability of performance data across countries The control problem caused by the difficulty of comparing performance data across various countries because of the variables that make that information appear different.

nontask sounding (*nemawashi*) General, polite conversation and informal communication before meetings.

nonverbal communication (body language) The transfer of meaning through the use of body language, time, and space.

object language (material culture) How we communicate through material artifacts, whether architecture, office design and furniture, clothing, cars, or cosmetics.

objective–subjective decision-making approach The relative level of rationality and objectivity used in making decisions versus the level of subjective factors, such as emotions and ideals.

on In Japan, it is a lifelong indebtedness, typically to the emperor, a parent, or sensai.

open systems model The view that all factors inside and outside a firm—environment, organization, and management—work together as a dynamic, interdependent system.

openness Traits such as open-mindedness, tolerance for ambiguity, and extrovertedness.

organizational culture (as different from societal culture) The norms and generally accepted ways of doing things within an organization.

outsourcing or offshoring The use of professional, skilled, or low-skilled workers located in countries other than that in which the firm is domiciled.

paralanguage How something is said rather than the content—the rate of speech, the tone and inflection of voice, other noises, laughing, or yawning.

parent-country national (PCN) An employee from the firm's home country sent to work in the firm's operations in another country (*see also* **expatriate**).

parochialism The expectation that foreigners should automatically fall into host-country patterns of behavior.

political risk The potential for governmental actions or politically motivated events to occur in a country that will adversely affect the long-run profitability or value of a firm.

political union A central political apparatus coordinates economic, social, and foreign policy.

polycentric staffing approach An MNC policy of using host-country nationals (HCNs) to fill key positions in the host country.

polychronic cultures Cultures that welcome the simultaneous occurrence of many things and emphasize involvement with people over specific time commitments or compartmentalized activities. *See also* **monochronic cultures**.

posturing General discussion that sets the tone for negotiation meetings.

power distance The extent to which subordinates accept unequal power and a hierarchical system in a company.

privatization The sale of government-owned operations to private investors.

projective cognitive similarity The assumption that others perceive, judge, think, and reason in the same way.

proxemics The distance between people (personal space) with which a person feels comfortable.

protectionism A country's use of tariff and nontariff barriers to close its borders partially or completely to various imported products that would compete with domestic products.

quantitative approach A means to develop a composite index used to monitor a country's creditworthiness and compare with other countries.

questionable payments Business payments that raise significant ethical issues about appropriate moral behavior in either a host nation or other nations.

regiocentric staffing approach An approach in which recruiting for international managers is done on a regional basis and may comprise a specific mix of PCNs, HCNs, and TCNs.

regional economic groups Agreements among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services, and factors of production between each other.

regionalization strategy The global corporate strategy that links markets within regions and allows managers in each region to formulate their own regional strategy and cooperate as quasi-independent subsidiaries.

regulatory environment The many laws and courts of the nation in which an international manager works.

relationship building The process of getting to know one's contacts in a host country and building mutual trust before embarking on business discussions and transactions.

repatriation The process of reintegration of expatriates into the headquarters organization and career ladder as well as into the social environment.

reshoring Bringing outsourced jobs back to the firm's domestic country.

resilience Traits such as having an internal locus of control, persistence, a tolerance of ambiguity, and resourcefulness.

reverse culture shock A state of disorientation and anxiety that results from returning to one's own culture.

ringi system Bottom-up decision-making process used in Japanese organizations.

self-reference criterion An unconscious reference to one's own cultural values; understanding and relating to others only from one's own cultural frame of reference.

separation The retention of distinct identities by minority groups unwilling or unable to adapt to the dominant culture.

shared value (CSV: Creating Shared Value) When the firm initiates internal and community plans to integrate with the community for mutual long-term benefits.

specific or diffuse Relative level of privacy in relationships.

stages model *See* **structural evolution**.

stereotyping The assumption that every member of a society or subculture has the same characteristics or traits, without regard to individual differences.

staging An element of a firm's strategy that focuses on, "What will be our speed and sequence of moves?" (e.g., speed of expansion and sequence of initiatives).

strategic alliances Partnerships between two or more firms that decide they can pursue their mutual goals better by combining their resources and competitive advantages.

strategic alliances (global) Working partnerships between MNCs across national boundaries and often across industries.

strategic business unit (SBU) A self-contained business within a company with its own functional departments and accounting systems.

strategic freedom of an IJV The relative amount of control that an international joint venture will have, compared with the parents, in choosing suppliers, product lines, customers, and so on.

strategic implementation The process by which strategic plans are realized through the establishment of a *system of fits* throughout an organization with the desired strategy—for example, in organizational structure, staffing, and operations.

strategic planning The process by which a firm's managers consider the future prospects for their company and evaluate and decide on strategy to achieve long-term objectives.

strategy The basic means by which a company competes: the choice of business or businesses in which it operates and how it differentiates itself from its competitors in those businesses.

structural evolution (stages model) The stages of change in an organizational structure that follow the evolution of the internationalization process.

subcultures Groups within a societal culture that differ in some degree from one another.

subculture shock A state of disorientation and anxiety that results from the unfamiliar circumstances and behaviors encountered when exposed to a different cultural group in a country than one the person is familiar with.

SWOT analysis An assessment of a firm's capabilities (strengths and weaknesses) relative to those of its competitors as pertinent to the opportunities and threats in the environment for those firms.

subsidiary A business incorporated in a foreign country in which the parent corporation holds an ownership position.

sustainability The ability for firms to operate on the principles of sustainable development.

sustainable development Business activities that meet the needs of the stakeholders in the present while also protecting and sustaining future needs for human and natural resources.

synergy The greater level of effectiveness that can result from combined group effort than from the total of each individual's efforts alone.

technoglobalism A phenomenon in which the rapid developments in information and communication technologies (ICTs) are propelling globalization and vice versa.

terrorism The use of, or threat to use, violence for ideological or political purposes.

third-country nationals (TCNs) Employees hired from a country other than the headquarters or the host country of a firm's activities.

transnational corporations (TNCs) Multinational corporations that are truly globalizing by viewing the world as one market and crossing boundaries for whatever functions or resources are most efficiently available; structural coordination reflects the ability to integrate globally while retaining local flexibility; typically owned and managed by nationals from different countries.

transpatriate A term similar to *expatriate* but referring to managers who may be from any country other than that in which the firm is domiciled and who tend to work in several countries over time—that is, a manager who has no true corporate home.

turnkey operation When a company designs and constructs a facility abroad, trains local personnel, and turns the key over to local management, for a fee.

uncertainty avoidance The extent to which people feel threatened by ambiguous situations; in a company, this results in formal rules and processes to provide more security.

universalism versus particularism The relative obligation toward an objective application of rules, versus a more personal and individual application.

United States-Mexico-Canada Agreement (USMCA) The new free trade agreement between the United States, Mexico, and Canada signed on November 30, 2018. It replaces NAFTA.

utilitarianism The relative emphasis on short-term cost–benefit (utilitarian) criteria for decisions versus those of long-term, ethical, and moral concerns. *See also* **moral idealism**.

values A person or group's ideas and convictions about what is important, good or bad, right or wrong.

vehicles An element of a firm's strategy that focuses on, "How will we get there?" In particular, how will the firm serve the product, customer and geographic markets? (e.g., internal development, greenfield operations, joint ventures, licensing/franchising, acquisitions and exporting).

virtual global teams Employees in various locations around the world who coordinate their work and decisions through teleconferencing, email, and so on.

wholly owned subsidiary *See* fully owned subsidiary.

work centrality The degree of general importance that working has in the life of an individual at any given time.

workforce diversity The phenomenon of increasing ethnic diversity in the workforce in the United States and many other countries because of diverse populations and joint ventures; this results in intercultural working environments in domestic companies.

works council In Germany, an employee group that shares plant-level responsibility with managers.

World Trade Organization (WTO) A formal structure for continued negotiations to reduce trade barriers and settle trade disputes.

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