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International Management

Culture, Strategy, and Behavior







Twelfth Edition

Jonathan P. Doh • Fred Luthans • Ajai S. Gaur

International Management

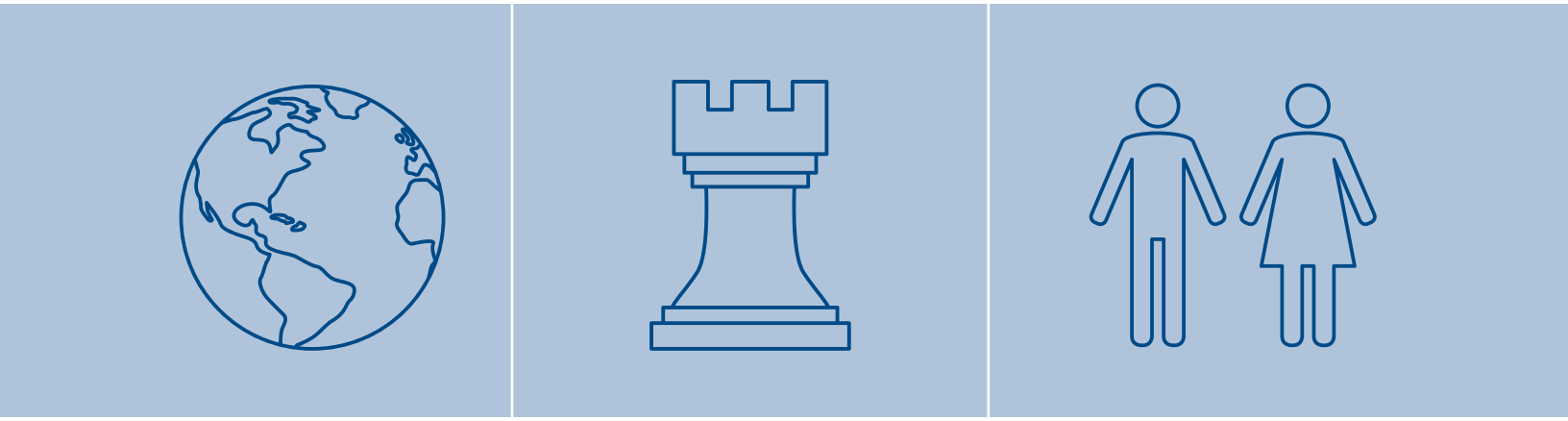
Culture, Strategy, and Behavior

Twelfth Edition

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INTERNATIONAL MANAGEMENT

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Dedicated in Memory of

Jean Boddewyn, Stephen Kobrin, and Jose R. de la Torre

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Preface

The global business environment has recently been characterized by instability and rapid change. The COVID-19 pandemic and the geo-political events of the past few years have created a very high level of uncertainty and volatility in global, political, and economic affairs. Several longer-term trends, such as an increasing level of integration across nations and people, seem to have come to a halt or, in some cases, reversed. Political conflicts, economic disruptions, and realignment of security arrangements have all created challenges for global business. Around the world, support for global economic integration and engagement appears to be on the decline. The United Kingdom's withdrawal from the European Union (EU), and extensive economic sanctions imposed on Russia by the U.S. and it's allies, along with the COVID-19 pandemic-driven disruptions of global value chains and are examples of this broad trend. Some see the U.S. as retreating from its long-held position as the leading advocate of trade and economic interdependence. Further, trade tensions have risen not just between the U.S. and China, two world powers jockeying for global leadership, but also between the U.S. and its key allies, such as the European Union and Canada. Concurrently, nationalist sentiments in the U. S., Europe, Asia, and elsewhere have resulted in raised barriers to both legal and illegal immigration. Exacerbating these pressures, longstanding concerns about the uneven impacts of globalization on jobs, wages, and incomes have resurfaced, as have broader questions about the costs of economic globalization to both developed and developing countries and their citizens. Recent spikes in inflation and dramatic weather events add to this uncertainty.

At the same time, however, trade and investment agreements continue to operate, and new economic arrangements are implemented. Businesses, professionals, and citizens continue to engage in global commerce, investment, and people-to-people exchanges. Rapid advances in social media have not only accelerated globalization but also called into question issues of privacy, security, and access to private information (see opening articles in Chapters 1 and 2). In addition, concerns about climate change and other environmental issues have prompted companies, in conjunction with governments and nongovernmental organizations, to consider alternate approaches to business and governance (see Chapter 3 opening article).

Some of these developments have challenged longstanding beliefs about the power and benefits of globalization and economic integration, but they also underscore the interconnected nature of global economies. Although many countries and regions around the world are closely linked, important differences in institutional and cultural environments persist. Many of these differences have become even more pronounced in recent years, as seen in variations in how citizens, companies and governments around the world responded to the COVID-19 pandemic. The challenges for international management reflect this dynamism and the increasing unpredictability of global economic and political events. Continued growth of emerging markets is reshaping the global balance of economic power, even though differences exist between and among regions and countries. Although some emerging markets continued to experience growth during a period when developed countries' economies stagnated or declined, many others, such as Russia, Sri Lanka, Ghana, Egypt and Pakistan, have faced major setbacks. Further, some developed economies, such as Greece, Italy, Spain, and Portugal, continue to face formidable challenges in recovering from the European debt crisis that began over a decade ago.

The global political and security environment remains unpredictable and volatile, with ongoing conflicts in the Middle East, Africa, and Eastern Europe. The rising energy prices because of the Russia–Ukraine conflict have threatened the unity of the European Union and put the global economy at the risk of another major recession. The Syrian civil war has resulted in mass migration—and broad dislocations—across North Africa and

Europe (see Chapters 1 and 2 for further discussion). On the economic front, the global trade and integration agenda seems stalled, largely due to domestic political pressures and increased protectionism in Europe and North America. Examples include the U.S.' threat to withdraw from—and subsequent renegotiation—of the NAFTA (now called the United States–Mexico–Canada Agreement), the rising tensions between the U.S. and China because of China's aggressive stance towards Hong Kong and Taiwan, and the inability of the U.S. to forge new trade partnerships.

As mentioned, the advent of social networking has transformed the way citizens interact; how businesses market, promote, and distribute their products globally; and how civil society expresses its concerns that governments provide greater freedoms and accountability. Concurrently, companies, individuals, and even students can now engage in broad "mass" collaboration through digital, online technology for the development of new and innovative systems, products, and ideas. Both social networking and mass collaboration bring new power and influence to individuals across borders and transform the nature of their relationships with global organizations. Although globalization and technology continue to link nations, businesses, and individuals, these linkages also highlight the importance of understanding different cultures, national systems, and corporate management practices around the world. The world is now interconnected geographically, but also electronically and psychologically; as such, nearly all businesses have been touched in some way by globalization. Yet, as cultural, political, and economic differences persist, astute international managers must be in a position to adapt and adjust to the vagaries of different contexts and environments.

In this new, twelfth edition of *International Management*, we have retained the strong and effective foundations gained from research and practice over the past decades while incorporating the important latest research and contemporary insights that have changed the context and environment for international management. Several trends have emerged that pose both challenges and opportunities for international managers.

First, the COVID-19 pandemic has challenged the fundamental assumptions about how international business is conducted. As nations closed borders and controlled the movement of goods as simple as masks and fever-reducing medicines, there has been a shift in the thinking of citizens, business leaders, and policy-makers on the benefits and risks of a more integrated global economy. Nationalistic governments in many countries around the world are challenging previous assumptions about the benefits and inevitability of globalization and integration. Second, while emerging markets remain vitally important to global growth, many of these economies are facing a high level of stress and run the risk of default on their sovereign debt. China's economic growth has significantly decelerated as it has matured. The Russian economy has come to a grinding halt due to it's aggressive stance on Ukraine and the economic sanctions that followed. In Asia, Sri Lanka has defaulted and Pakistan and Bangladesh have sought bailouts from the IMF. In South America, Brazil continues to recover from a deep recession, and Argentina has battled accelerating inflation. Third, the development of new technology, such as artificial intelligence and robotics, will result in fundamental changes to the global job market. Fourth, increasing electronic connectivity in developing countries will continue to help accelerate those economies and facilitate international business of all sorts. However, barriers and limitations imposed by governments could threaten this progress.

Although we have extensive new, evidence-based material in this edition, we continue to strive to make the book even more user-friendly and applicable to practice. We continue to take a balanced approach in the twelfth edition of *International Management: Culture, Strategy, and Behavior*. While other texts stress culture, strategy, or behavior, our emphasis on all three critical dimensions—and the interactions among them—has been a primary reason the previous editions have been the market-leading international management text. Specifically, this edition has the following chapter distribution: environment (three chapters), culture (four chapters), strategy (four chapters), and organizational behavior/human resource management (three chapters). Because the context of international management changes rapidly, all the chapters have been updated and improved. New real-world examples and research results are integrated throughout the book, accentuating the experiential relevance of the straightforward content. As always, we emphasize a balance of research and application.

For the new, twelfth edition, we have incorporated important new content in the areas of the impact of COVID-19 on the global workforce and multinational companies, emergence of protectionism and its impact on international trade, the use of social media and other communication connectivity in global affairs, the role that advanced technologies are beginning to fill in international business, and other important global themes. We have incorporated the latest research and practical insights on pressure for both MNCs and governments to adopt more sustainable practices, and the strategies many companies are using to differentiate their products through such "green" management practices. We have updated the discussion of a range of contemporary topics, including ongoing global conflicts.

A continuing and relevant end-of-chapter feature in this edition is the "Internet Exercise." The purpose of each exercise is to encourage students to use the Internet to find information from the websites of prominent MNCs to answer relevant questions about the chapter topic. An end-of-book feature is a series of Skill-Building and Experiential Exercises for aspiring international managers. These in-class exercises represent the various parts of the text (culture, strategy, and behavior) and provide hands-on experience.

We have incorporated new content and thoroughly revised the chapter opening discussions called "The World of International Management" (WIM), based on very recent, relevant news stories to grab readers' interest and attention. These timely opening discussions transition the reader into the chapter topic. At the end of each chapter, there is a pedagogical feature that revisits the chapter's subject matter: "The World of International Management—Revisited." Here we pose several discussion questions based on the topic of the opening feature in light of the student's entire reading of the chapter. Answering these questions requires readers to reconsider and to draw from the chapter material. Suggested answers to these "WIM—Revisited" discussion questions appear in the completely updated Instructor's Manual, where we also provide some multiple-choice and true-false questions that draw directly from the chapters' World of International Management topic matter for instructors who want to include this material in their tests.

The use and application of cases are further enhanced in this edition. All cases have been updated, and several new ones have been added. The short, within-chapter country case illustrations—"In the International Spotlight"—can be read and discussed in class. These have all been revised, and five have been added—Australia, Malaysia, Qatar, Saudi Arabia, and Singapore. In addition, we have updated or replaced all of the additional "You Be the International Management Consultant" exercises, which present a current challenge or dilemma facing a company in the subject country of the "International Spotlight." Students are invited to respond to a question related to this challenge. The revised or newly added "Integrative Cases" positioned at the end of each main part of the text were created exclusively for this edition and provide opportunities for reading and analysis outside class. Review questions provided for each case are intended to facilitate lively and productive written analysis or in-class discussion. Our "Brief Integrative Cases" typically explore a specific situation or challenge facing an individual or team. Our longer and more detailed "In-Depth Integrative Cases" provide a broader discussion of the challenges facing a company. These two formats allow maximum flexibility, so that instructors can use the cases in a tailored and customized fashion. Accompanying many of the in-depth cases are short exercises that can be used in class to reinforce both the substantive topic and students' skills in negotiation, presentation, and analysis. The cases have been extensively updated, and several are new to this edition. Cases concerning the controversies over drug pricing, TOMS shoes, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, Starbucks, Walmart, Danone, Chiquita, Coca-Cola, and others are unique to this book and thoroughly revised in this edition. In addition, two brand-new cases written specifically for this edition explore Tesla's open innovation model in emerging economies and the challenges in managing global virtual teams in the X-Culture Project. Of course, instructors also have access to Create (http://create.mheducation.com), McGraw Hill's extensive content database, which includes thousands of cases from major sources such as Harvard Business School, Ivey, Darden, and NACRA case databases.

Along with the new or updated "International Management in Action" boxed application examples within each chapter and other pedagogical features at the end of each

chapter (i.e., "Key Terms," "Review and Discussion Questions," "The World of International Management—Revisited," and "Internet Exercise"), the end-of-part brief and in-depth cases and the end-of-book skill-building exercises and simulations in the Connect resources complete the package.

Finally, this edition marks the addition of a new author, Ajai Gaur, a Professor of Strategy and International Business at Rutgers University. Ajai brings subject expertise in global business strategy, emerging markets, institutions, and a range of other topics. He also has deep ties and links to East and South Asia, and helps to further "globalize" the book.

International Management is generally recognized to be the first "mainstream" text of its kind. Strategy casebooks and specialized books in organizational behavior, human resources, and, of course, international business, finance, marketing, and economics preceded it, but there were no international management texts before this one, and it remains the market leader. We have had sustainability because of the effort and care put into the revisions. We hope you agree that this twelfth edition continues the tradition and remains the "world-class" text for the study of international management.

Instructor Library

The Connect Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

To help instructors teach international management, this text is accompanied by a revised and expanded Instructor's Resource Manual, Test Bank, and PowerPoint slides, all of which are in the Connect Library.

Acknowledgments

We would like to acknowledge those who have helped to make this book a reality. We will never forget the legacy of international management education in general and for this text in particular provided by our departed colleague Richard M. Hodgetts. Special thanks also go to our growing number of colleagues throughout the world who have given us many ideas and inspired us to think internationally. Closer to home, Jonathan Doh would like to thank Villanova University and its leadership, especially Provost Pat Maggitti, Villanova School of Business Dean Joyce Russell, Associate Dean Wen Mao, and Herb Rammrath, who generously endowed the Chair in International Business Jonathan now holds, and Bob Moran, who endowed Villanova's Moran Center for Global Leadership. Ajai Gaur would like to thank Rutgers Business School Dean Lei Lei and Vice Dean Petra Christmann for generous research support. Additionally, for this new, twelfth edition, we would like to thank Aishwarya Vashishtha, Niharika Pandey, Raj Dhamal, Sannah Asif, Shubham Singh, Shyamala Sethuram, and Tianhao Liu, who provided assistance in preparing new figures and tables, and other background work for the revisions. Fred Luthans would like to give special recognition to two international management scholars: Henry H. Albers, former Chair of the Management Department at the University of Nebraska and former Dean at the University of Petroleum and Minerals, Saudi Arabia, to whom previous editions of this book were dedicated; and Sang M. Lee, former Chair of the Management Department at Nebraska, founding and current President of the Pan Pacific Business Association, and close colleague on many ventures around the world over the past 30 years.

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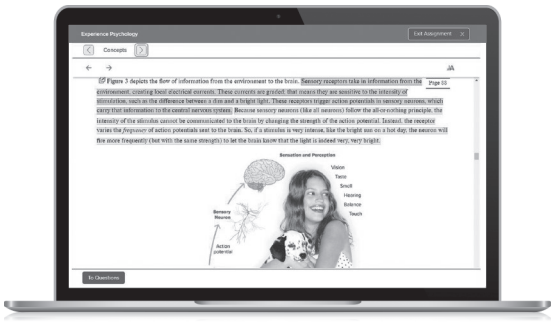
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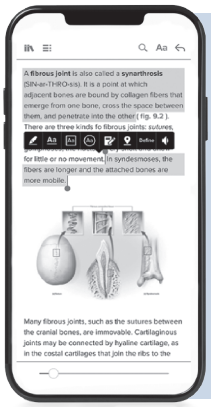
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- Jordan Cunningham, Eastern Washington University

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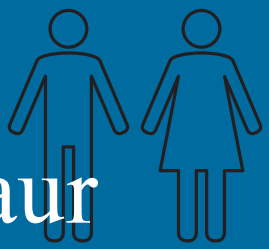


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Doh Luthans Gaur

The twelfth edition of *International Management: Culture, Strategy, and Behavior* is still setting the standard. Authors Jonathan Doh, Fred Luthans, and Ajai Gaur have taken care to retain the effective foundation gained from research and practice over the past decades. At the same time, they have fully incorporated important new and emerging developments that have changed what international managers are currently facing and likely to face in the coming years.

New and Enhanced Themes

- Thoroughly revised and updated chapters to reflect the most critical issues for international managers.
- New or revised opening World of International Management (WIM) features written by the authors on current international management challenges; mini-cases were prepared expressly for this edition and are not available elsewhere.
- Discussions of international conflicts and the rise of protectionism, and their impact on international business.
- New focus on the COVID-19 pandemic as a "black swan" event with important implications for MNCs and their managers.
- New and updated discussions of major issues in global ethics, technology, sustainability, and other cutting-edge research.
- Greater attention to shifting demographic trends and global talent management, emphasizing the impact new advanced technology will have on the global economy.
- Renewed emphasis on major emerging regions, economic challenges in major countries such as Brazil and Argentina, and specific case illustrations on how companies are managing these challenges.

Thoroughly Revised and Updated Chapter Content

- New or revised opening WIM discussions on topics including the global influences of social media using the case of Facebook; the impact of internal and external risks when doing business in Turkey; the role of social networking in international conflicts; sustainability as a global competitive advantage using examples of Patagonia, L'Oreal, and AB InBev; cultural challenges in global mergers and acquisitions; the competitive dynamics between Apple and Xiaomi, and Amazon and Alibaba; Airbnb's entry into China, Cuba, India and Thailand; Netflix's and Starbucks' strategies for global expansion; and many others. These features were written expressly for this edition and are not available elsewhere.
- Updated and strengthened emphasis on ethics, technology, and sustainability.
- Extensive coverage of current geopolitical issues impacting international business, including including the COVID-19 pandemic, the Russia–Ukraine conflict, Brexit, increased nationalism and protectionism across Europe and the U.S., trade disputes between China and the United States, and the economic slowdown in China, to name a few.
- Revised or new "In the International Spotlight" inserts that profile the key economic and political issues relevant to managers in specific countries.

CONTINUES TO SET THE STANDARD. . .



Thoroughly Updated and/or New Cases, Inserts, and Exercises

- Completely new and revised "In the International Spotlight" country profiles at the end of every chapter, including the addition of profiles on Australia, Malaysia, Qatar, Saudi Arabia, and Singapore.
- "You Be the International Management Consultant" exercises, many new to this edition, present an actual company's challenge in that country and invite students to recommend a course of action.
- Thoroughly updated "International Management in Action" features, including discussions on timely topics such as trade disputes, base of the pyramid markets, the growing influence and importance of emerging economies, Uber's global expansion, Huawei's strategies for managing political risk, and the shifting cultural dynamics associated with increasing percentages of Millennials and Gen Z in the workforce, to name a few.
- Thoroughly updated cases (not available elsewhere): TOMS shoes, Russell Athletics, Disney Asia, Google in China, IKEA, Starbucks, Walmart, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition.
- Brand new end-of-part cases developed exclusively for this edition (not available elsewhere): *Tesla's Open Innovation Strategy in Emerging Markets* and *The X-Culture Project: Challenges of Managing Global-Virtual Teams*.
- Thoroughly revised "World of International Management" chapter opening discussions, including topics such as Netflix's international expansion, the impact of Syria war and Russia–Ukraine conflict on doing business in Turkey, and the expansion challenges for Airbnb in emerging markets, to name a few.
- New and revised graphics throughout.
- Timely updates throughout, based on the latest research, including a discussion of the influence of the COVID-19 pandemic, the future of work in MNCs, the role of technology such as bitcoins and blockchain for international business, the impact of protectionism on the international business community, and the continued push toward a sustainable future, to name a few.

Totally Revised Instructor and Student Support

The following instructor and student support materials can be found in Connect® at connect.mheducation.com for the twelfth edition.

- The Instructor's Manual offers a summary of Learning Objectives and a teaching outline with lecture notes and teaching tips, as well as suggested answers to questions found throughout and at the

conclusion of each chapter. Suggested answers are also provided for all the cases found in the book.

- The test bank offers over 1,000 test items consisting of true/false, multiple choice, and essay. Answers are provided for all test bank questions.
- PowerPoint Presentations consisting of approximately 30 slides per chapter give instructors talking points, feature exhibits from the text, and are summarized with a review and discussion slide.
- Create: Instructors can now tailor their teaching resources to match the way they teach! With McGraw Hill Create, create.mheducation.com, instructors can easily rearrange chapters, combine material from other content sources, and quickly upload and integrate their own content, like course syllabi or teaching notes. Find the right content in Create by searching through thousands of leading McGraw Hill textbooks. Arrange the material to fit your teaching style. Order a Create book and receive a complimentary print review copy in 3–5 business days or a complimentary electronic review copy (echo) via e-mail within one hour. Go to create.mheducation.com today and register.

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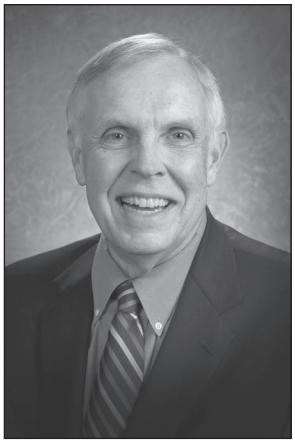
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About the Authors



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PART ONE

ENVIRONMENTAL FOUNDATION



Chapter 1

GLOBALIZATION AND INTERNATIONAL LINKAGES

OBJECTIVES OF THE CHAPTER

Globalization is one of the most profound forces in our contemporary economic environment, although support for free trade and open borders is not universal. The practical impact of globalization can be felt on all aspects of society, and effective management of organizations in an increasingly complex global environment is crucial for success. In nearly every country, increasing numbers of large, medium, and even small corporations are engaging in international activities, and a growing percentage of company revenue is derived from overseas markets. Yet, continued economic and political uncertainties in many world regions, the rise of more nationalistic political movements, and continued concerns about the impact of immigration have caused some to question the current system for regulating and overseeing international trade, investments, migration, and financial flows. Nonetheless, international management—the process of applying management concepts and techniques in a multinational environment—continues to retain importance.

Although globalization and international linkages have been part of history for centuries (see the International Management in Action box "Tracing the Roots of Modern Globalization" later in the chapter), the principal focus of this opening chapter is to examine the process of globalization in the contemporary world. The rapid integration of countries, advances in information technology, and the explosion in electronic communication have created a new, more integrated world and true global competition. Yet, the complexities of doing business in distinct markets persist. Since the environment of international management is all-encompassing, this chapter is mostly concerned with the economic dimensions, while the following two chapters are focused on the political, legal, and technological dimensions and ethical and social dimensions, respectively. The specific objectives of this chapter are

1. **ASSESS** the implications of globalization for countries, industries, firms, and communities.
2. **REVIEW** the major trends in global and regional integration.
3. **EXAMINE** the changing balance of global economic power and trade and investment flows among countries.
4. **ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

The World of International Management

An Interconnected World

Armed with lawyers and tens of thousands of documents she copied from Facebook's internal system, Frances Haugen decided to reveal what she termed the "true nature" of Facebook to the users of the product and the general public. Facebook's whistleblower, a former manager on the social media giant's "civic integrity team," leaked the documents to the *Wall Street Journal* and came forward in October 2021 to do just that: to tell the truth about Facebook and all of the negative effects of its products.

Using her work with algorithms and internal research, Haugen revealed many concerning facts about the company. She provided evidence that a core algorithm, designed to boost engagement and clicks, *intentionally* shows users content that makes them angry, including content that is divisive and polarizing. The leaked documents also exposed Facebook's research on the spread of hate and misinformation. According to Haugen, Facebook's own research shows that only around 3–5 percent of hate, and less than 1 percent of violence and incitement, is identified on its platform, despite the company considering itself best in class on this front. The very hate speech supported domestically and internationally by Facebook's algorithms to increase engagement is not being caught by Facebook's systems. This unrestrained hate has built up ethnic and genocidal violence against global minority groups, including allegedly stirring up ethnic violence, most recently displayed by the unrest and genocide in Ethiopia and Myanmar. For example, in 2017, the purge of over 750,000 Rohingya Muslims in Myanmar was allegedly fueled by hate speech on Facebook.

Facebook's internal research shows yet another disturbing statistic: 13.5 percent of teenage girls say that Instagram makes their suicidal thoughts worse, and 17 percent of them say it makes their eating disorders worse. Perhaps one of the most damning claims against Facebook in the documents is its role in the Capitol insurrection on January 6th, 2021. After the U.S. presidential election of 2020, Facebook decided to disband the civic integrity team that Haugen was a part of and remove additional safeguards in place. That allowed for even more inaccurate and divisive content to be shared, which may have led to the attack. In sum, Haugen asserted that the company lied to the public on very serious matters in order to increase engagement, and ultimately, profit.

A whistleblower faces many risks, including counterclaims from the company, which is extremely well-funded, and threats

of legal action. In response to the release of the documents, Facebook issued a lengthy statement, asserting that the *Wall Street Journal* deliberately mischaracterized the company and cherry-picked negative information from the leak. It is clear that Facebook will not take the bombshell accusations lightly.

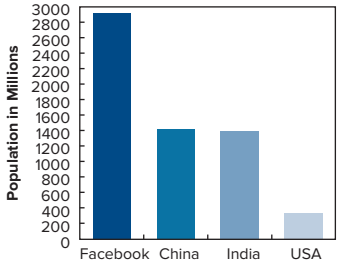
Even before this recent development, Facebook was facing integrity issues and doubt in the eye of the public. The trouble for Facebook began back in March 2018, when it was revealed that a university research associate and Cambridge Analytica had released a third-party Facebook application called "This Is Your Digital Life." Although the application itself was simply a personality quiz, users of the application unknowingly enabled Cambridge Analytica to collect detailed information from their Facebook profiles. Personal information, such as home location, current city, interests, and birthdates was gathered from users of the application, as well as from their Facebook friends. Only a few hundred thousand people actually downloaded the application, yet 87 million people had their personal data compromised. Using the information gathered through the application, Cambridge Analytica was able to profile Facebook users based on personality, age, location, and interests. These users could then be targeted with political advertisements that would be more likely to influence their political opinion. Additionally, the Russian government's utilization of social media to interfere in the 2016 U.S. presidential election, including the spread of misinformation, went unchecked and unrestricted by Facebook. More than 3,000 advertisements and 80,000 posts, originating from Russian-based operatives and designed to incite political divisions, were posted on the site in the two years prior to the election. Facebook first estimated in October 2017 that up to 10 million users had been targeted by Russian-purchased election advertisements but later confirmed that as many as 125 million U.S. users could have seen posts or advertisements from Russian-based operatives.

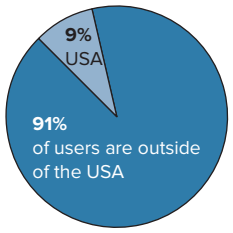
The Cambridge Analytica revelations resulted in a fine for Facebook, but its growing share prices barely faltered in the long term. The company also overcame allegations of Russian interference. The company has persevered through a tumultuous initial public offering and a questionable company-culture. CEO Mark Zuckerberg and the company have clearly bounced back before, but in light of the leaked documents, many wondered: can Facebook's reputation survive? Or, worse for the company, can Facebook survive any future regulations that lawmakers throw at it to prevent more unethical behavior? Only time will tell.[1,2,3] Unfortunately, while the U.S. has the ability to challenge Facebook's seemingly unethical practices, many other countries do not have a strong enough government or the rule of law to do so. Therefore, all eyes are on this whistleblower and the changes that she can bring about.[4]

Social Media Has Changed How We Connect

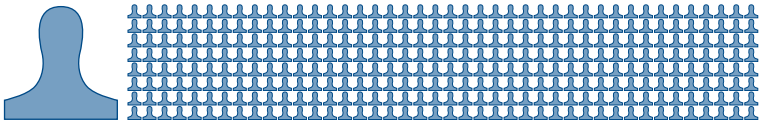
Although Facebook and other social media applications have faced considerable scrutiny in regard to data privacy, one thing is certain: We currently live in a world interconnected and transformed by social media. Through online networking, the way we connect with others has drastically changed. The volume of content being created and shared is staggering, with virtually anyone on the globe only a few clicks away. In fact, the average number of links separating any two random people on Facebook is now only 3.57.[5] Statistics from some of the most used social networking applications underscore how social media has connected people across the globe:

Facebook





98.5% of the daily users, access Facebook through their mobile devices.



Source: 39 Facebook Stats That Matter to Marketers in 2022." Hootsuite, May 13, 2022. https://blog.hootsuite.com/facebook-statistics/

Instagram

- Over 1 billion people create content on Instagram every month.[6]
- Over 85 percent of Instagram users are from outside the U.S.[7]

- Ninety-five million new photos are uploaded and shared every day.[8]
- Over 80 percent of users utilize Instagram in deciding whether or not to make a purchase.[9]

Snapchat

- Snapchat reached 100 million active members in less than four years—outpacing the growth of Facebook or Instagram.[10]
- By the second quarter of 2021, Snapchat had over 293 million daily users.[11]
- Sixty-two percent of active daily users are located outside of North America.
- More than 5 billion "snaps" are sent every day,
- equating to more than 18 billion video views.[12]
- Over seventy five percent of 13- to 34-year-olds in the U.S. are on Snapchat.[13]

Certainly, social networks are a part of many people's lives. Yet, has the virtual world of social media networks made a permanent impact in the world of international business?

Social Media has Changed Global Business Strategy

Marriott International, an American-based hotel company, has strategically leveraged social media to improve the customer experience across its many global locations. A key component of this strategy is Marriott's "M Live" studios, which serve as centralized social media "command centers" for the company. M Live employees, equipped with conference rooms and large shared screens, monitor customers' posts, comments, and pictures across a variety of social networking platforms in real time.[14,15]

The M Live strategy has improved the way that Marriott engages its global customer base. With more than 7,000 properties in over 130 countries around the globe, creating personalized interactions with guests was nearly impossible before social media.[16] Marriott was dependent on call centers and e-mails to answer questions and complaints. Communication was slow and generic, often eroding customer patience and resulting in negative feedback. By using social media, however, Marriott representatives at M Live centers are able to engage in instant and meaningful interactions, whether the customer is located in the U.S., the United Arab Emirates, or Uganda. The M Live employees, who are equipped to respond in a variety of languages, can engage with social media posts, interact one-on-one with customers, and monitor conversations from around the globe.[17]

By utilizing social media, Marriott can offer a more personalized service to its customers. An example of this is M Live's use of "geo-tags." Geo-tags, which are often included on public social networking posts, are digital markers that give the physical location of the person uploading a photo or post to a website. These tags give M Live employees the ability to search for posts that were uploaded by customers who are physically located at one of their properties—even if the customer does not tag Marriott in his or her post—and to interact with that guest in a positive way. For example, if a pair of customers post a photo of themselves celebrating a first wedding anniversary at a Marriott hotel in Orlando, the M Live command center can find that post through the geo-tag in real time, call the local hotel's concierge, and have a bottle of champagne sent to the couple's room.[18]

By 2018, Marriott had opened its fourth M Live location and now has command centers in London, Hong Kong, and the U.S., covering the European, North and South American, and Asian markets. London, the newest location, can engage in conversation in French, Spanish, German, Italian, English, and other languages.[19] Social media will continue to be a valuable tool for Marriott as the company expands to new locations in the developing regions of the world, creating positive customer experiences that help build the brand's reputation.[20,21,22]

Social Media has Impacted International Diplomacy and Global Policy

World leaders have turned to social media as a way to express options and gauge public support. According to a 2018 study, 98 percent of all governments have an official Twitter presence, 93 percent maintain a Facebook account, and 81 percent utilize Instagram. Laos, North Korea, Sao Tome and Principe, and Turkmenistan are the only countries that do not have a Twitter presence.[23] Additionally, over 900 government ministers and 1,400 ambassadors maintain individual Twitter accounts. As of 2020, world leaders have posted more than 8.7 million tweets and have a following of more than 620 million users.[24] Citizens in most countries can now directly access their governments through these social networks. For example, the Dutch government responds to policy comments and questions for 12 hours a day, every weekday, through Twitter. The Nepalese government's "Hello Government" Twitter account focuses on replying to questions from citizens, and more than 85 percent of Rwandan President Paul Kagame's tweets are replies to other users.[25]

This direct access to governments through social media played an important role during the COVID-19 pandemic. The President of Panama showed his support of health care workers by tweeting 140 clapping emojis. Many other government leaders and organizations followed suit. Pope Francis used Twitter to pray for health care workers and those suffering from COVID-19, and Twitter was the first platform through which Boris Johnson, the Prime Minister of the U.K., announced that he tested positive for COVID. Twitter played many roles during the health crisis, including acting as a source of information, reassurance, and guidance.[26]

Open dialogue between world leaders is also becoming commonplace on social media platforms. The international reaction to the U.S.' withdrawal from the Paris Climate Agreement in 2017 provides a good example. Various global leaders used Twitter to openly urge U.S. President Trump to reconsider his decision. Fiji Prime Minister Frank Bainimarama

tagged President Trump's personal Twitter account to ask him "not to abandon the Paris Agreement," and the prime ministers of the Nordic counties used Twitter to appeal to President Trump "to show global leadership." French President Emmanuel Macron called on President Trump to "Make Our Planet Great Again," and the French Foreign Ministry tagged Ivanka Trump (President Trump's daughter and adviser) in a tweet asking her to change her father's mind.[27]

The United Nations (U.N.) has increasingly embraced social media as a tool to enhance diplomacy and understanding worldwide. The U.N. maintains official accounts on Twitter, YouTube, Flickr, Pinterest, Tumblr, Instagram, Snapchat, and LinkedIn, and, as of 2021, boasts over 7 million followers on its primary Facebook page.[28] As part of its 2018 United Nations Climate Change Conference, the U.N. utilized various social media platforms to spread information regarding gender inequity and the U.N.'s sustainable development goals worldwide. The hashtag "#COP24" was used to link activities across various networks, while YouTube and Facebook served as primary platforms for disseminating information and videos to its global audience (refer to Chapter 3, Table 3–4, for a further discussion of the U.N.'s sustainable development goals).[29]

The relationship between world leaders and social media has taken a recent twist following the permanent suspension of former President Donald Trump from Twitter. This suspension is a result of a violation of Twitter's Glorification of Violence policy. Trump, who tweeted about the insurrection at the Capitol on January 6, 2021 and questioned the legitimacy of the 2020 Presidential election, has the ability to mobilize his audience and incite violence, according to Twitter. This suspension sets a precedent for the use of social media by all world leaders and the possible restrictions they can face.[30]

Social media networks have accelerated technological integration among the nations of the world. People across the globe are now linked more closely than ever before. This social phenomenon has implications for businesses, as corporations can now leverage networks such as Facebook to achieve greater success. Understanding the global impact of social media is key to understanding our global society.

Despite the challenges and privacy concerns that social networking platforms face, such as Facebook's Cambridge Analytica scandal, discussed in the beginning of this section, social media has transformed the world in which we live. The pace of interconnectivity across the globe continues to increase with the new communication tools that social networking provides. Social media has altered the way that we interact with each other, and businesses, like Marriott, have gained advantages by leveraging online networks. In this chapter, we examine the globalization phenomenon, the growing integration among countries and regions, the changing balance of global economic power, and examples of different economic systems. As you read this chapter, keep in mind that although there are periodic setbacks, globalization continues to move at a rapid pace and that all nations, including the U.S., as well as individual companies and their managers will have to keep a close watch on the current environment if they hope to be competitive in the years ahead.

Introduction

Management is the process of completing activities with and through other people. **International management** is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts. Many managers practice some level of international management in today's increasingly diverse organizations. International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success. Today more firms than ever are earning some of their revenue from international operations, even nascent organizations, as illustrated in the chapter opening World of International Management.

Many of these companies are multinational corporations (MNCs). An **MNC** is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners. In recent years such well-known American MNCs as Apple, Oracle, Coca-Cola, Ford Motor Company, ExxonMobil, Caterpillar, Walmart, Microsoft, and Google have all earned more annual revenue in the international arena than they have in the U.S. In addition, MNCs from developing economies, such as India, Brazil, and China, are providing formidable competition to their North American, European, and Japanese counterparts. Names like Cemex, Embraer, Haier, Lenovo, LG Electronics, Huawei, Telefonica, Santander, Reliance, Samsung, Li & Fung, Airtel, Tata, and Infosys are becoming well-known global brands. Table 1–1 lists the world's top nonfinancial companies ranked by foreign assets through 2020.

management
The process of completing activities efficiently and effectively with and through other people.

international management
The process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural environments.

MNC
A firm having operations in more than one country, international sales, and a nationality mix of managers and owners.

Table 1–1
The World's Top Nonfinancial MNCs, Ranked by Foreign Assets, 2020
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Toyota Motor Corp	Japan	$336,609	$561,991	$175,673	$256,658
2	Royal Dutch Shell Plc	United Kingdom	323,240	378,630	122,337	169,374
3	Deutsche Telekom AG	Germany	259,626	325,091	98,634	115,190
4	Volkswagen Group	Germany	258,098	610,031	205,334	254,202
5	Total SA	France	239,970	267,406	85,765	111,786
6	BP Plc	United Kingdom	234,760	267,205	129,122	169,208
7	Anheuser-Busch InBev NV	Belgium	187,003	227,494	37,398	43,780
8	British American Tobacco PLC	United Kingdom	175,170	187,947	32,822	33,063
9	Daimler AG	Germany	174,541	350,641	147,180	175,991
10	Exxon Mobil Corp	United States	171,361	332,750	93,471	181,502

Source: "World Investment Report 2021." United Nations Conference on Trade and Development, 2021.

Globalization, coupled with the rise of emerging market MNCs, has brought prosperity to many previously underdeveloped parts of the world. This is especially true in China, where luxury items, like automobiles, have become increasingly attainable. In 2005, automobile sales in China totaled only 5.8 million units, representing less than 9 percent of global sales, while automobile sales in the U.S. exceeded 17.4 million units. Just 16 years later, in 2021, over 26 million automobile units were sold in China, accounting for over a quarter of global sales and far surpassing the 15 million units sold in the U.S.[31] The global auto industry suffered a blow due to the COVID-19 pandemic and the associated disruptions to the supply chains. While the U.S. has still not reached the pre-pandemic sales levels of about 17 million units a year, China has surpassed the pre-pandemic levels. The supply chain disruptions and the global chip shortage have particularly impacted American carmakers. General Motors (GM), who was the top seller for the U.S. market, experienced a 13 percent drop between 2020 and 2021 in the U.S. market, selling just over 2.2 million vehicles. It was overtaken by the Japanese carmaker, Toyota, which sold 2.3 million vehicles in 2021, an increase of 10.4 percent over 2020.[32] Moreover, a number of emerging market auto companies have also emerged as global players through their exporting, foreign investment, and international acquisitions, including the purchase of Volvo by Chinese automaker Geely and Tata's acquisition of Jaguar Land Rover.

Procter & Gamble (P&G), an American consumer products MNC headquartered in Cincinnati, Ohio, has invested heavily in its Singapore operations over the last 10 years. P&G's Singapore Innovation Center (SgIC) functions as the primary research and development center for the company's hair, skin, and home care products. Initially costing US$185 million, the SgIC employs more than 500 engineers and scientists, focuses on more than 18 different fields of study, and has successfully introduced several major products into the global marketplace. Inspired by the success of the SgIC, P&G invested a further US$100 million in 2017 to establish the P&G Singapore E-Center, a digital innovation hub that focuses on improving the supply chain and end-to-end logistics of the company. The Asian market, with nearly 2 billion customers and 25 different brands, is particularly important for P&G's future growth plans.[33,34,35]

In the last few years, Africa's emerging markets have benefited from significant investments made by technology-focused MNCs. Google A.I., a division of Google that specializes in developing artificial intelligence technology, announced the opening of a major research center in Accra, Ghana, in 2018. The new center, which focuses on developing Artificial Intelligence (A.I.) tools for the health care, education, and agriculture sectors,

aims to employ highly educated engineers and researchers from local universities.[36] In late 2017, Facebook, which has close to 200 million users in Africa, announced plans to open a technology-based incubator space for start-ups in Lagos, Nigeria, called Ng Hub. The project's primary goal is to provide education and tools to underfunded entrepreneurs, which will enable the start-ups to grow and attract investment from around the globe. In addition to the incubator space, Facebook committed to providing technology-based training to over 50,000 Nigerians.[37]

MNCs continue to turn to India when expanding their consulting, IT, and other service-based offerings. Accenture, an American professional services firm, employs 150,000 people in India, constituting more than a third of its global workforce. In fact, 85 percent of the 469,000 Accenture employees worldwide are now located outside the U.S.[38] Accenture's Indian operations, with highly specialized knowledge in artificial intelligence, blockchain technology, and machine learning, are increasingly driving innovation for the company.[39] Since entering India in 2013, Amazon has committed $6.5 billion to get a foothold in India's $900 billion retail market.[40,41] In 2019, Amazon opened its largest campus in the world with a capacity to accommodate 15,000 workers in 1.8 million square feet space.[42] These investments continued even during the COVID-19 pandemic with an announcement of $1 billion in digitizing small and medium businesses in India.[43]

These trends reflect the reality that firms are finding that they must develop international management expertise, especially expertise relevant to the increasingly important developing and emerging markets of the world. Managers from today's MNCs must learn to work effectively with those from many different countries. Moreover, more and more small and medium-sized businesses will find that they are being affected by internationalization. Many of these companies will be doing business abroad, and those that do not will find themselves doing business with MNCs operating locally. And increasingly, the MNCs are coming from the developing world as previously domestic-oriented companies from countries like China and India expand abroad through acquisitions or other means. Table 1–2 lists the world's top nonfinancial companies from developing countries ranked by foreign assets in 2019.

Table 1–2
The World's Top Nonfinancial TNCs from Developing and Transitioning Economies, Ranked by Foreign Assets, 2019
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	CK Hutchison Holdings Ltd	Hong Kong/China	$143,367	$ 155,523	$ 32,556	$ 38,163
2	China National Petroleum Corp	China	133,548	610,320	180,875	383,281
3	Hon Hai Precision Industries	Taiwan	96,897	110,865	169,254	172,842
4	Tencent Holdings Ltd	China	95,453	137,037	2,420	54,589
5	Samsung Electronics Co, Ltd	South Korea	87,435	305,544	168,245	197,552
6	Sinopec - China Petrochemical Corp	China	82,889	318,682	137,800	429,174
7	China COSCO Shipping Corp Ltd	China	81,361	126,369	8,167	45,144
8	China National Offshore Oil Corp	China	74,952	185,602	66,273	109,877
9	Huawei Investment & Holding Co Ltd	China	67,839	123,344	50,945	124,263
10	Sinochem Group	China	57,396	79,089	11,126	81,256

Source: "World Investment Report 2021." United Nations Conference on Trade and Development, 2021.

Globalization and Internationalization

International business is not a new phenomenon; however, the volume of international trade has increased dramatically over the last two decades. Today, every nation and an increasing number of companies buy and sell goods in the international marketplace. A number of developments around the world have helped fuel this activity.

Globalization, Antiglobalization, and Global Pressures for Change

globalization
The process of social, political, economic, cultural, and technological integration among countries around the world.

offshoring
The process by which companies undertake some activities at offshore locations instead of in their countries of origin.

outsourcing
The subcontracting, or contracting out, of activities to endogenous organizations that had previously been performed by the firm.

Globalization can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world. Globalization is distinct from internationalization in that internationalization is the process of a business crossing national and cultural borders, while globalization is the vision of creating one world unit, a single market entity. Evidence of globalization can be seen in increased levels of trade, capital flows, and migration. Globalization has been facilitated by technological advances in transnational communications, transport, and travel. Thomas Friedman, in his book *The World Is Flat*, identified 10 "flatteners" that have hastened the globalization trend, including the fall of the Berlin Wall, **offshoring**, and **outsourcing**, which have combined to dramatically intensify the effects of increasing global linkages.[44] Hence, in recent years, globalization has accelerated, creating both opportunities and challenges to global business and international management.

On the positive side, global trade and investment continue to grow, bringing wealth, jobs, and technology to many regions around the world. While some emerging countries have not benefited from globalization and integration, the emergence of MNCs from developing countries reflects the increasing inclusion of all regions of the world in the benefits of globalization. Yet, as the pace of global integration quickens, so have the antiglobalization sentiments and the emergence of new concerns over mounting global pressures.[45] These pressures can be seen in protests at the meetings of the World Trade Organization (WTO), International Monetary Fund (IMF), and other global bodies and in the growing calls by different interest groups in both developed and developing countries to make the global trading system more responsive to their economic and social needs. These groups are especially concerned about rising inequities between incomes, and nongovernmental organizations (NGOs) have become more active in expressing concerns about the potential shortcomings of economic globalization.[46] In addition, an increasing number of candidates in various election campaigns around the world have criticized globalization, including the migration of people, as a contributing factor leading to lost jobs at home and general economic insecurity. The perceived negative effects from globalization on the U.S. manufacturing industry were a major issue in the 2016 U.S. presidential election. According to some analysts, the antiglobalization sentiment may have ultimately swayed the vote in several key states to then-candidate Donald Trump. It is important to remember that even though globalization does contribute to changes in industry and manufacturing, as well as the loss of some jobs, these problems are typically the result of a range of factors, of which globalization is just one. In many instances, globalization is just a scapegoat for other sources of harm, such as technological advances that change the employment structure of an economy.[47]

Who benefits from globalization? Proponents believe that everyone benefits from globalization, as evidenced in lower prices, greater availability of goods, better jobs, and access to technology. Theoretically, individuals in established markets will strive for better education and training to be prepared for future positions, while citizens in emerging markets and underdeveloped countries will reap the benefits of large amounts of capital flowing into those countries, which will stimulate growth and development. Critics disagree, noting that the high number of jobs moving abroad as a result of the offshoring of business services jobs to lower-wage countries does not inherently create greater opportunities at home and that the main winners of globalization are the company executives. Proponents claim that job losses are a natural consequence of economic and technological

Tracing the Roots of Modern Globalization

Globalization is often presented as a new phenomenon associated with the post–World War II period. In fact, globalization is not new. Rather, its roots extend back to ancient times. Globalization emerged from long-standing patterns of transcontinental trade that developed over many centuries. The act of barter is the forerunner of modern international trade. During different periods of time, nearly every civilization contributed to the expansion of trade.

Middle Eastern Intercontinental Trade

In ancient Egypt, the King's Highway, or Royal Road, stretched across the Sinai into Jordan and Syria and into the Euphrates Valley. These early merchants practiced their trade following one of the earliest codes of commercial integrity: *Do not move the scales, do not change the weights, and do not diminish parts of the bushel.* Land bridges later extended to the Phoenicians, the first middlemen of global trade. Over 2,000 years ago, traders in silk and other rare valued goods moved east out of the Nile basin to Baghdad and Kashmir and linked the ancient empires of China, India, Persia, and Rome. At its height, the Silk Road extended over 4,000 miles, providing a transcontinental conduit for the dissemination of art, religion, technology, ideas, and culture. Commercial caravans crossing land routes in Arabian areas were forced to pay tribute—a forerunner of custom duties—to those who controlled such territories. In his youth, the Prophet Muhammad traveled with traders, and prior to his religious enlightenment the founder of Islam himself was a trader. Accordingly, the Qur'an instructs followers to respect private property, business agreements, and trade.

Trans-Saharan Cross-Continental Trade

Early tribes inhabiting the triad cities of Mauritania, in ancient West Africa below the Sahara, embraced caravan trade with the Berbers of North Africa. Gold from the sub-Saharan area was exchanged for something even more prized—salt, a precious substance needed for retaining body moisture, preserving meat, and flavoring food. Single caravans, stretching 5 miles and including nearly 2,500 camels, earned their reputation as ships of the desert as they ferried gold powder, slaves, ivory, animal hides, and ostrich feathers to the northeast and returned with salt, wool, gunpowder, porcelain pottery, silk, dates, millet, wheat, and barley from the east.

China as an Ancient Global Trading Initiator

In 1421, a fleet of over 3,750 vessels set sail from China to cultivate trade around the world for the emperor. The voyage reflected the emperor's desire to collect tribute in exchange for trading privileges with China and China's protection. The Chinese, like modern-day multinationals, sought to extend their economic reach while recognizing principles of economic equity and fair trade. In the course of their global trading, the Chinese introduced uniform container measurements to enable merchants to transact business using common weight and dimension measurement systems. Like the early Egyptians and later the Romans, they used coinage as an intermediary form of value exchange or specie, thus eliminating complicated barter transactions.

European Trade Imperative

The concept of the alphabet came to the Greeks via trade with the Phoenicians. During the time of Alexander the Great, transcontinental trade was extended into Afghanistan and India. With the rise of the Roman Empire, global trade routes stretched from the Middle East through central Europe, through Gaul, and across the English Channel. In 1215, King John of England signed the Magna Carta, which stressed the importance of cross-border trade. By the time of Marco Polo's writing of *The Description of the World* at the end of the 13th century, the Silk Road from China to the city-states of Italy was a well-traveled commercial highway. His tales, chronicled journeys with his merchant uncles, gave Europeans a taste for the exotic, further stimulating the consumer appetite that propelled trade and globalization. Around 1340, Francisco Balducci Pegolotti, a Florentine mercantile agent, authored *Practica Della Mercatura (Practice of Marketing)*, the first widely distributed reference on international business and a precursor to today's textbooks. The search for trading routes contributed to the Age of Discovery and encouraged Christopher Columbus to sail west in 1492.

Globalization in U.S. History

The Declaration of Independence, which set out grievances against the English crown, upon which a new nation was founded, cites the desire to "establish Commerce" as a chief rationale for establishing an independent state. The king of England was admonished "for cutting off our trade with all parts of the world" in one of the earliest antiprotectionist free trade statements from the New World.

Globalization, begun as trade between and across territorial borders in ancient times, was historically and is even today the key driver of world economic development. The first paths in the creation of civilization were made in the footsteps of trade. In fact, the word meaning "footsteps" in the old Anglo-Saxon language is *trada*, from which the modern English word *trade* is derived. Contemporary globalization is a new branch of a very old tree whose roots were planted in antiquity.

Sources: Thomas Cahill, *Sailing the Wine Dark Sea: Why Greeks Matter* (New York: Doubleday, 2003), 10, 56–57; Charles W. L. Hill, *International Business,* 4th ed. (New York: McGraw-Hill Irwin, 2003), 100; Gavin Menzies, *1421: The Year China Discovered America* (New York: William Morrow/HarperCollins, 2003), 26–27; Milton Viorst, *The Great Documents of Western Civilization* (New York: Barnes & Noble Books, 1994), 115 (Magna Carta), 168 (Declaration of Independence).

change and that offshoring actually improves the competitiveness of American companies and increases the size of the overall economic pie.[48] Critics point out that growing trade deficits and slow wage growth are damaging economies and that globalization may be moving too fast for some emerging markets, which could result in economic collapse. Moreover, critics argue that when production moves to countries to take advantage of lower labor costs or less regulated environments, it creates a "race to the bottom" in which companies and countries place downward pressure on wages and working conditions.[49]

The increase in antiglobalization sentiments has led to demands for more regulations that can limit and even reverse globalization. While this skepticism against globalization is not a new phenomenon, there has been a rise in antiglobalization sentiments with both the political left and the right engaging in opposing supranational institutions that facilitate globalization. The benefits and costs of globalization are not evenly distributed within and across societies. While the benefits of globalization tend to be diffuse, the costs are more concentrated within specific sectors of the economy, impacting some population segments more than others. Those suffering due to globalization become its vocal critics and are prone to lobbying by interest groups and political actors again globalization.

India is one country at the center of the globalization debate. As noted previously, India has been the beneficiary of significant foreign investment, especially in services such as software and information technology (IT). India's public debt has been hovering in the range of 65–70 percent of GDP over the past 15 years, increasing macroeconomic stability and lowering its vulnerability to external risks. Additionally, India experienced a healthy growth rate of about 7 percent in the decade before the pandemic hit the economy and is estimated to grow at 8.9 percent in the fiscal year 2021–22, outpacing China as the fastest growing large economy.[50,51] Despite this growth, infrastructure challenges still remain. Limited clean water, power, paved roadways, and modern bridges have made it increasingly difficult for companies to expand. It is possible that India will follow in China's footsteps and continue rapid growth in incomes and wealth; however, it is also possible that the challenges India faces are greater than the country's capacity to respond to them. See In the International Spotlight at the end of this chapter for additional insights into India.

According to antiglobalization activists, if corporations are free to locate anywhere in the world, the world's poorest countries will relax or eliminate environmental standards and social services in order to attract first-world investment and the jobs and wealth that come with it. Proponents of globalization contend that even within the developing world, it is protectionist policies, not trade and investment liberalization, that result in environmental and social damage. They believe globalization will force higher-polluting countries such as China and India into an integrated global community that takes responsible measures to protect the environment. However, given the significant changes required in many developing nations to support globalization, such as better infrastructure, greater educational opportunities, and other improvements, most supporters concede that there may be some short-term disruptions. Over the long term, globalization supporters believe industrialization will create wealth that will enable new industries to employ more modern, environmentally-friendly technology. We discuss the social and environmental aspects of globalization in more detail in Chapter 3.

These contending perspectives are unlikely to be resolved anytime soon. Instead, a vigorous debate among countries, MNCs, and civil society will likely continue and affect the context in which firms do business internationally. Business firms operating around the world must be sensitive to different perspectives on the costs and benefits of globalization and adapt and adjust their strategies and approaches to these differences.

Global and Regional Integration

One important dimension of globalization is the increasing economic integration among countries brought about by the negotiation and implementation of trade and investment agreements. Here we provide a brief overview of some of the major developments in global and regional integration.

A Closer Look

Outsourcing and Offshoring

The concepts of outsourcing and offshoring are not new, but these practices are growing at an extreme rate. *Offshoring* refers to the process by which companies undertake some activities at offshore locations instead of in their countries of origin. *Outsourcing* is the subcontracting or contracting out of activities to external organizations that had previously been performed within the firm and is a wholly different phenomenon. Often the two combine to create "offshore outsourcing." Offshoring began with manufacturing operations. Globalization jumpstarted the extension of offshore outsourcing of services, including call centers, R&D, information services, and even legal work. American Express, GE, Sony, and Netflix have all used attorneys from Pangea3, a Mumbai-based legal firm, to review documents and draft contracts. These companies benefit from the lower costs and higher efficiency that companies like Pangea3 can provide compared to domestic legal firms. This is a risky venture, as legal practices are not the same across countries, and the documents may be too sensitive to rely on assembly-line lawyers. It also raises the question as to whether or not there are limitations to offshore outsourcing. Many companies, including Deutsche Bank, spread offshore outsourcing opportunities across multiple countries such as India and Russia for economic or political reasons. The advantages, concerns, and issues with offshoring span a variety of subjects. Throughout the text we will revisit the idea of offshore outsourcing as it is relevant. Here in Chapter 1 we see how skeptics of globalization wonder if there are benefits to offshore outsourcing, while in Chapter 2 we see how these are related to technology, and finally in Chapter 14 we see how offshore practices affect human resource management and the global distribution of work.

Sources: Pete Engardio and Assif Shameen, "Let's Offshore the Lawyers," *BusinessWeek*, September 18, 2006, 42; Tony Hallett and Andy McCue, "Why Deutsche Bank Spreads Its Outsourcing," *BusinessWeek*, March 15, 2007; "Offshoring Your Lawyer," *The Economist*, December 16, 2010, http://www.economist.com/node/17733545.

Over the past six decades, succeeding rounds of global trade negotiations have resulted in dramatically reduced tariff and nontariff barriers among countries. Table 1–3 shows the history of these negotiation rounds, their primary focus, and the number of countries involved. These efforts reached their crest in 1994 with the conclusion of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and the creation of the **World Trade Organization (WTO)** to oversee the conduct of trade around the world. The WTO is the global organization of countries that oversees rules and regulations for international trade and investment, including agriculture, intellectual property, services, competition, and subsidies. However, in the 29 years since the Uruguay Round, the momentum of global trade agreements has slowed. Trade talks at WTO Ministerial Conference in Seattle in 1999 were postponed after

World Trade Organization (WTO)
The global organization of countries that oversees rules and regulations for international trade and investment.

Table 1–3
Completed Rounds of the Negotiations under the GATT and WTO

Year	Place (name)	Subjects Covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–1961	Geneva (Dillon Round)	Tariffs	26
1964–1967	Geneva (Kennedy Round)	Tariffs and antidumping measures	62
1973–1979	Geneva (Tokyo Round)	Tariffs, nontariff measures, "framework" agreements	102
1986–1994	Geneva (Uruguay Round)	Tariffs, nontariff measures, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO	123

Source: Understanding the WTO.

protesters disrupted meetings and trade representatives from developed and developing countries were unable to agree on an agenda. In November 2001, the members of the WTO successfully launched a new round of negotiations at Doha, Qatar, known as the "Development Round," reflecting the recognition by members that trade agreements needed to explicitly consider the needs of and impact on developing countries.[52] However, after a lack of consensus among WTO members regarding agricultural subsidies and the issues of competition and government procurement, progress again slowed. At the most recent meeting, held in Geneva in July 2008, disagreements among the U.S., China, and India over access to agricultural imports from developing countries resulted in an impasse after nine days of discussions.[53] Although there have been attempts to restart the negotiations, they have remained stalled, especially in light of rising protectionism.[54]

North American Free Trade Agreement (NAFTA) A free trade agreement among the U.S., Canada, and Mexico that removed most barriers to trade and investment. It was renegotiated and replaced by the United States–**Mexico–Canada Agreement (USMCA),** signed in 2018.

Partly as a result of the slow progress in multilateral trade negotiations, the U.S. and many other countries have pursued bilateral and regional trade agreements. In 1994, the United States, Canada, and Mexico enacted the **North American Free Trade Agreement (NAFTA)**, which, removed most barriers to trade among these countries and created the world's largest free trade zone. A number of economic developments occurred because of this agreement, which was designed to promote commerce in the region. Some of the more important developments include (1) the elimination of tariffs as well as import and export quotas; (2) the opening of government procurement markets to companies in the other two nations; (3) an increase in the opportunity to make investments in each other's country; (4) an increase in the ease of travel between countries; and (5) the removal of restrictions on agricultural products, auto parts, and energy goods. In the more than 25 years since NAFTA was first implemented, trade between its member countries has quadrupled. Despite the successes, NAFTA, like other free trade agreements, was not immune from some criticism. In recent years, disruptions caused to specific industries, including the shifting of manufacturing jobs from the United States to Mexico, the continued tariffs on dairy exports to Canada, and the inability of Mexican farmers to compete with subsidized U.S. farmers, resulted in discussions to revise the deal. In 2018, the original NAFTA countries agreed to a renegotiated trade agreement, called the **United States–Mexico–Canada Agreement (USMCA)**. In 2020, the USMCA was ratified by all three member countries, thus replacing NAFTA. USMCA maintains the key provisions of the original trade agreement while enacting minor changes aimed at protecting intellectual property rights, altering car manufacturing regulations to encourage more North American manufacturing, and opening the Canadian market to tariff-free dairy imports from the United States.

Other regional and bilateral trade agreements, including the 2003 U.S.–Singapore Free Trade Agreement and the 2004 U.S.–Dominican Republic–Central American Free Trade Agreement (CAFTA-DR), were negotiated in the same spirit as NAFTA/USMCA. The CAFTA-DR export zone, which was implemented on a rolling basis between 2006 and 2009, is the United States' second largest free trade zone in Latin America after Mexico. In 2021, two-way trade totaled more than US$68.4 billion.[55,56]

Agreements like NAFTA/USMCA and CAFTA-DR not only reduce barriers to trade but also require additional domestic legal and business reforms in developing nations to protect property rights. Most of these agreements now include supplemental commitments on labor and the environment to encourage countries to upgrade their working conditions and environmental protections, although some critics believe the agreements do not go far enough in ensuring worker rights and environmental standards. Partly due to the stalled progress with the WTO and FTAA, the United States has pursued bilateral trade agreements with a range of countries, including Australia, Bahrain, Chile, Colombia, Israel, Jordan, Malaysia, Morocco, Oman, Panama, Peru, and South Korea.[57]

Economic activity in Latin America continues to be volatile. Despite the continuing political and economic setbacks these countries periodically experience, economic and export growth continues in Brazil, Chile, and Mexico. In addition, while outside MNCs continually target this geographic area, there also is a great deal of cross-border investment among Latin American countries. Regional trade agreements are helping in this

cross-border process, including the NAFTA/USMCA and CAFTA-DR agreements, presenting new opportunities for bolstering trade, investment, services, and working conditions in the region. Within South America, free trade is further promoted through three major regional trading blocs. Mercosur, a customs union, links the economies of Argentina, Brazil, Paraguay and Uruguay, (it previously included Venezula which has been suspended since 2016 due to human rights concerns); the Andean Community, a subregional free trade compact, designed to promote economic and social integration and cooperation among Bolivia, Colombia, Ecuador, and Peru; the Pacific Alliance, a trade bloc formed by Chile, Colombia, Mexico and Peru, aimed at fostering free movement of goods, services and capital across the member countries.

A political and economic community consisting of 27 member states, the **European Union (EU)** has made significant progress over the past two decades in becoming a unified market despite some challenges. In the early 2000s, the EU consisted of 15 nations: Austria, Belgium, Denmark, Finland, France, Germany (see In the International Spotlight at the end of Chapter 13), the United Kingdom, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden. In May 2004, 10 additional countries, primarily located in Central and Eastern Europe, joined the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. In January 2007, Romania and Bulgaria acceded to the EU, and in July 2013, Croatia became the newest and 28th member of the EU. In 2020, the United Kingdom withdrew from the EU, bringing the member countries back down to 27. More recently, and following the attack from Russia, Ukraine, Georgia and Moldova have made formal applications to join the EU.

European Union (EU)
A political and economic community consisting of 27 member states.

Not only have most trade barriers between the member nations been removed, but a subset of 19 European countries have adopted a unified currency called the euro. As a result, it is now possible for customers to compare prices between most countries and for business firms to lower their costs by conducting business in one uniform currency. With access to the entire pan-European market, large MNCs can now achieve the operational scale and scope necessary to reduce costs and increase efficiencies. Even though long-standing cultural differences remain, the EU remains more integrated as a single market than NAFTA/USMCA, CAFTA-DR, or the allied Asian countries. With many additional countries interested in joining the EU, including Albania, Serbia, Montenegro, Macedonia, Bosnia and Herzegovina, and Turkey (although relationship between the EU and Turkey have been on a downward trajectory - see below), the resulting pan-European market is one that no major MNC can afford to ignore (see Figure 1–1).

Although Japan has experienced economic problems since the early 1990s, it continues to be one of the primary economic forces in the Pacific Rim (see In the International Spotlight at the end of Chapter 11). Japanese MNCs want to take advantage of the huge, underdeveloped Asian markets. At the same time, China (see In the International Spotlight at the end of Chapter 7), already the largest economic force in the region, continues to experience steady growth. China is on pace to surpass the United States as the largest economy in the world, in terms of nominal GDP, as early as 2030.[58] As a region, Asia continues to expand more rapidly than the rest of the world. The Philippines, Cambodia, Laos, and Myanmar are expected to average GDP growth rates in excess of 6 percent over the next several years, and Vietnam, with high amounts of foreign investment, low inflation, and a developed manufacturing sector, has emerged as a global exporter.[59,60] The Association of Southeast Asian Nations (ASEAN), made up of Indonesia, Malaysia, the Philippines, Singapore, Brunei, Thailand, Cambodia, Laos, Myanmar, and Vietnam, is advancing trade and economic integration and now poses challenges to China as a region of relatively low-cost production and export. In addition, under the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, Asian-facing countries have negotiated an ambitious, next-generation, Asia-Pacific trade agreement. The CPTPP group represents roughly 13 percent of the global economy, consisting of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Interestingly, the CPTPP is actually the second attempt at a major Pacific Rim

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
A trade agreement among 11 Pacific Rim countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Figure 1–1
European Member States and Candidates, 2021



Source: Original graphic by Professor Ajai Gaur.

trade deal; a nearly identical agreement, called the Trans-Pacific Partnership (TPP), was originally signed by these 11 countries plus the United States in 2016. However, the TPP was never fully ratified due to the withdrawal of the United States from the deal following Donald Trump's election. On March 8, 2018, representatives of the remaining 11 Pacific Rim countries, minus the United States, signed the reworked CPTPP deal. Following official ratification by six countries, the CPTPP went into effect on December 30, 2018. The United Kingdom, after her exit from the European Union, applied to join the CPTPP, and was moved to the final phase of negotiations with the CPTPP in early 2022. The eleven original countries, known as TPP-11 represent about 13 percent of global GDP, making the CPTPP one of the world's largest free-trade areas by GDP.[61]

Central and Eastern Europe, Russia (see In the International Spotlight at the end of Chapter 14), and the other republics of the former Soviet Union are still trying to make stable transitions to market economies. Although the Czech Republic, Slovenia, Poland, and Hungary have accelerated this process through their accession to the EU, others (the Balkan countries, Russia, and the other republics of the former Soviet Union) still have a long way to go. However, all remain a target for MNCs looking for expansion opportunities. For example, after the fall of the Berlin Wall in 1989, Coca-Cola quickly began to sever its relationship with most of the state-run bottling companies in the former communist-bloc countries. The soft drink giant began investing heavily to import its own manufacturing, distribution, and marketing techniques. More than 30 years later, Coca-Cola has pumped billions into Central and Eastern Europe—and this investment has paid off. Its business in Central and Eastern Europe has expanded at twice the rate of its other foreign operations.

These are specific, geographic examples of emerging internationalism. Equally important to this new climate of globalization, however, are broader trends that reflect the emergence of developing countries as major players in global economic power and influence.

Changing Global Demographics

The collective world population is aging. In 2016, for the first time since the end of the second World War, the global working-age population declined. By 2050, the *Wall Street Journal* projects, the working-age population will have contracted by nearly 5 percent worldwide. These demographic changes will have significant effects on the global economy.[62]

Multiple factors are contributing to an aging global population. Due to improvements in the technology and health care sectors, people are now living longer in both developed and developing countries. The percentage of people over the age of 65, which grew from 6 percent in 1960 to 9 percent in 2019, is expected to nearly double to 16 percent by 2050.[63] Global life expectancy, which increased from 48 years in 1950 to 73 years in 2019, will continue to increase steadily over the next several decades.[64,65] As more people are living longer, they are spending more time in retirement. People are also having fewer children. In the last 70 years, the global fertility rate was cut in half—from 5 children per woman in 1950 to 2.4 children per woman in 2019.[66,67]

Though these demographic changes are projected to occur globally, the most dramatic impact will be seen in the developed nations. Western Europe, which has seen stagnant economic and population growth for the last decade, will face some of the sharpest constrictions of the workforce population. In Germany and Italy, the working-age population will shrink by over 20 percent by 2050. Developed Asian nations, with some of the longest life expectancies, will not be able to repopulate quickly enough to replace the retiring, aging population. In Japan, the number of nonworkers will be nearly equal to that of workers by 2050. Both Japan and South Korea will face a loss of over 25 percent of their working-class population.[68]

Even some developing countries will face large challenges. Due to years of a one-child policy, and rapidly rising incomes, which are almost always accompanied by lower birth rates, China faces an unbalanced population pyramid. It is estimated that China will see a 20 percent decline in its working-class population by 2050, as middle-aged workers begin to retire and are replaced by fewer workers. With a lower GDP per capita than Germany, Japan, and other developed nations, Chinese workers will face additional pressure to support the nonworking population.[69]

The increase in the size of the elderly population affects more than just the proportion of workers to nonworkers. The amount of spending on health care–related services will continue to increase rapidly, while the demand for goods such as cars and computers will decline. While younger populations spend income on housing and other capitally financed purchases, elderly populations spend money on health care services.[70]

Although the full impact of these demographic changes will not be known for several years, strategies such as easing the immigration process for workers from developing to developed nations, incentivizing citizens in developed nations to have more children, and encouraging workers to delay retirement could help offset the problems associated with an aging global population.[71]

The Shifting Balance of Economic Power in the Global Economy

Economic integration and the rapid growth of emerging markets are creating a shifting international economic landscape. Specifically, the developing and emerging countries of the world are now predicted to occupy increasingly dominant roles in the global economic system. Various economists have studied the potential growth of these rapidly expanding economies.

For nearly 20 years, the emerging markets of Brazil, Russia, India, and China—which collectively were coined as the "BRIC" nations in 2001 by Jim O'Neill of Goldman Sachs—have received a great deal of attention by economists and investors alike. Initial reports from Goldman Sachs, issued in the early 2000s, predicted that BRIC economies' share of world growth could double from 20 percent in 2003 to more than 40 percent by 2025.

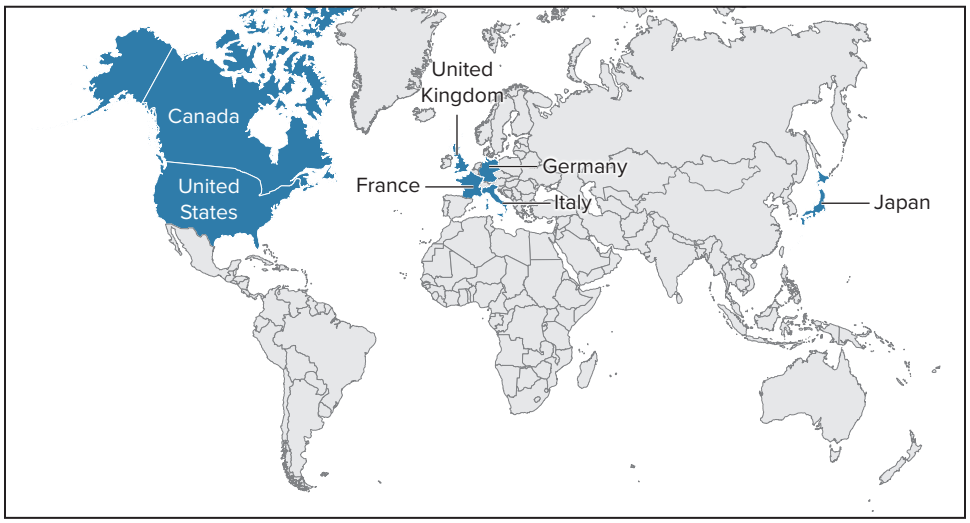
Additionally, Goldman Sachs predicted that the BRIC's total weight in the world economy would rise from approximately 10 percent in 2004 to more than 20 percent by 2025.[72,73] The leaders of the BRIC nations, understanding their increasing role in the global economy, have met for an annual summit since 2009, and in 2010 the leaders of the founding members agreed to admit South Africa to the group, making it "BRICS."

In recent years, however, global political and economic conditions have led to some setbacks for the economies of Brazil, Russia, and China, leading some to reconsider the rate at which the BRIC economies will continue to grow. The Russian annexation of Crimea in 2014 led the Western governments, lead by the United States to impose economic sanctions on Russian firms and selected individuals. These sanctions, coupled with the low prices for oil and other commodities contributed to the deep 2015 and 2016 recessions in Russia. However, sanctions did not deter Russia from taking a more aggressive stance against its neighbors and launching a full-blown attack on Ukraine in Feb, 2022. The United States, the EU and many other countries responded with severe sanctions on Russian economy. These sanctions are expected to further weaken the Russian state and its economy. Brazil, and China have also slowed down, partly because of global factors, and partly as a deliberate strategy, in the case of China, to shift the engine of economic growth to domestic entrepreneurship and consumption, and aim for more modest growth rates.[74] In 2015, after a few years of losses and weak forecasts for Brazil, Russia, and China, Goldman Sachs dissolved its BRIC mutual fund and folded the remaining assets into its larger emerging markets fund.[75] Unlike its fellow BRIC partners, however, India continues to post strong figures, and the country has actually surpassed China in annual GDP growth rate in recent years.

Despite these setbacks, the economic expansion of these four countries has had a tremendous impact on global trade and commerce over the last 20 years. By 2018, the four BRIC economies accounted for 23 percent of global nominal GDP, compared to just 8 percent in 2001. Over the same period, nominal GDP for Brazil, Russia, India, and China grew by an annualized 7.5 percent, 9.7 percent, 10.5 percent, and 14.5 percent, respectively. This far outpaced the developed economies of the United States, Germany, and United Kingdom, which only grew by an annualized 4.0 percent, 4.4 percent, and 3.3 percent, respectively. Whether or not Russia will be able to withstand the sanctions and change its policies to emerge as a more responsible political and economic player is yet to be seen, but Brazil, China, and India will continue to assume a broader role in the global economy.[76,77]

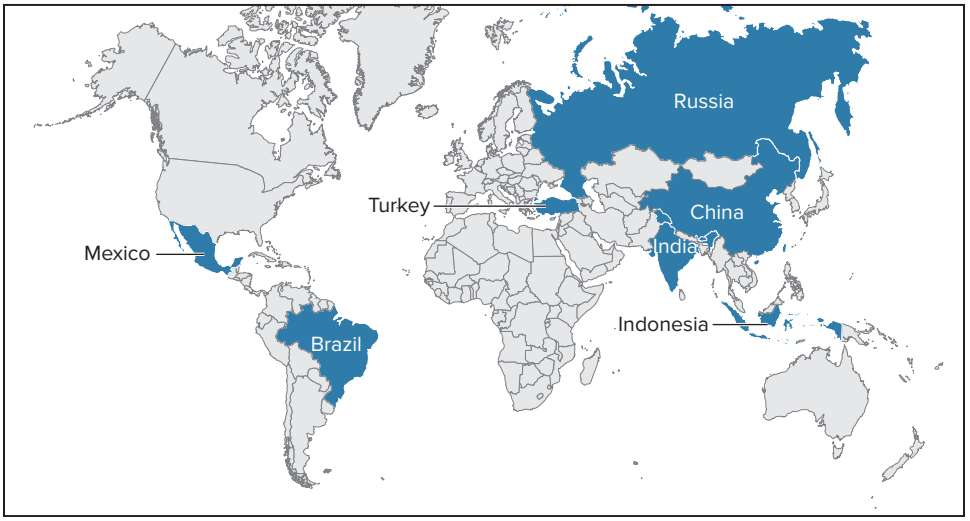
As the BRICS' economies mature and growth slows, some analysts, including Goldman Sachs, are beginning to turn their attention to a new group of emerging markets. In March 2006, PricewaterhouseCoopers (PwC) coined the term *E7* to describe seven major emerging economies (Brazil, China, India, Indonesia, Mexico, Russia, and Turkey) that are expected to expand significantly in the coming decades.[78] Unlike the G7 economies, which are primarily located in North America and Europe, the E7 economies are located throughout Latin America and Asia (see Figures 1–2 and 1–3). In 2017, PwC predicted that the GDP of the E7, when measured in terms of market exchange rates (MER), would surpass that of the G7 by around 2030. Furthermore, the GDP of the E7 would expand at an annual rate of 3.5 percent through 2050, while the G7 would only expand by 1.6 percent annually. Per PwC's predictions, by 2050, the GDP of the E7 is predicted to be 50 percent higher than that of the G7.[79]

The N-11 (*N* stands for "next") is another grouping of economies that may constitute the next wave of emerging markets growth. These countries—Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam—represent a diverse global set, with relative strengths (and weaknesses) in terms of their future potential. The MIST countries (Mexico, Indonesia, South Korea, and Turkey), a subset of the N-11, are sometimes grouped as a particularly attractive subset of the N-11. Goldman views the MIST countries as the most promising and advanced of the N-11, all of which have young, growing populations and other positive conditions for economic growth. Other groupings of fast-growing developing countries include the CEVITS (Colombia,



Source: Original graphic by Professor Jonathan Doh.

Figure 1–2
G7 (Group of Seven) Economies



Source: Original graphic by Professor Jonathan Doh.

Figure 1–3
E7 (Emerging Seven) Economies

Egypt, Vietnam, Indonesia, Turkey, and South Africa) and EAGLES (which stands for emerging and growth-leading economies), which includes the original BRIC and MIST countries plus Egypt and Taiwan.[80] Table 1–4 compares the G-7 (advanced countries), BRIC, and N-11 by population, GDP, and GDP per capita in 2000, 2010, 2020, and 2026.

Using data from the World Bank, PricewaterhouseCoopers has made estimates about the future growth of emerging versus developed economies, the results of which appear in summary form in Tables 1–5 and 1–6. Table 1–5 shows the world's largest economies in 2020 and 2050 (projected) using (current) market exchange rates. By this calculation, China would surge past the United States and Japan by 2050, and India would move from fifth to third. Viewing the data on a purchasing power parity (PPP) basis, a method that adjusts GDP to account for different prices in countries, a more dramatic picture is presented. Using this method, both China and India would surpass the United States as the largest world economic power by 2050. In both the Goldman Sachs and PricewaterhouseCoopers scenarios, global growth over the next decade, and the next 30 years, is heavily supported by Asia, as seen in Table 1–7. In addition, China and India will remain the most populous countries in the world in 2050, although India will surpass China as the most populous (Table 1–8).

Table 1–4
Population, GDP, and GDP per Capita of G-7, BRIC, and N-11 Countries, 2000, 2010, 2020, and 2026 (projected)

	2000			2010			2020			2026		
Country	**Population (millions)**	**GDP (billions)**	**GDP (per cap.)**	**Population (millions)**	**GDP (billions)**	**GDP (per cap.)**	**Population (millions)**	**GDP (billions)**	**GDP (per cap.)**	**Population (millions)**	**GDP (billions)**	**GDP (per cap.)**
G7												
Canada	30.647	744.631	24,296.72	33.958	1,617.35	47,627.35	37.973	1,644.04	43,294.80	40.22	2,630.94	65,414.36
France	58.858	1,362.53	23,149.27	62.765	2,642.44	42,100.29	65.124	2,624.42	40,298.85	66.221	3,668.24	55,393.83
Germany	81.457	1,948.84	23,924.88	80.285	3,402.44	42,379.71	83.161	3,843.34	46,215.60	83.427	5,406.14	64,800.87
Italy	56.924	1,147.18	20,153.07	59.69	2,137.85	35,815.62	59.641	1,884.94	31,604.43	59.425	2,618.24	44,059.79
Japan	126.831	4,968.36	39,172.96	127.594	5,759.07	45,135.80	125.849	5,045.10	40,088.60	122.486	6,344.45	51,797.33
United Kingdom	58.886	1,661.34	28,212.73	62.76	2,484.02	39,579.62	67.081	2,709.68	40,394.13	68.659	4,161.70	60,613.93
United States	282.296	10,250.95	36,312.78	309.737	15,048.98	48,586.29	329.77	20,893.75	63,358.49	336.723	29,102.50	86,428.68
Total	**695.899**	**22083.831**		**736.789**	**33,092.15**		**768.599**	**38,645.27**		**777.161**	**53,932.21**	
BRICs												
Brazil	173.766	655.454	3,772.05	194.891	2,208.70	11,333.02	211.756	1,444.72	6,822.56	218.618	2,387.81	10,922.30
China	1,267.43	1,205.53	951.163	1,340.91	6,033.83	4,499.80	1,414.35	14,866.74	10,511.34	1,428.92	24,996.04	17,492.96
India	1,056.58	476.636	451.114	1,234.28	1,708.46	1,384.17	1,378.60	2,660.24	1,929.68	1,455.82	4,393.81	3,018.10
Russia	146.304	278.264	1,901.96	142.865	1,633.11	11,431.15	146.171	1,478.57	10,115.35	145.069	1,943.78	13,398.98
Total	**2644.08**	**2615.884**		**2912.946**	**11,584.10**		**3150.877**	**20,450.27**		**3248.427**	**33,721.44**	
Next 11												
Bangladesh	127.658	54.348	425.728	147.575	115.279	781.154	164.689	323.057	1,961.61	173.814	565.502	3,253.50
Egypt	64	104.752	1,636.75	78.7	230.024	2,922.80	100.878	363.245	3,600.84	113.605	605.478	5,329.68
Indonesia	206.265	179.482	870.154	237.641	755.256	3,178.13	270.204	1,059.64	3,921.62	284.896	1,672.52	5,870.63
	64.219	362.717	5,648.12	74.157	486.774	6,564.06	84.139	835.351	9,928.19	89.316	1,364.21	15,274.04
Mexico	98.785	707.909	7,166.14	113.749	1,057.80	9,299.46	127.792	1,073.92	8,403.60	134.363	1,665.56	12,395.96
Nigeria	122.284	67.824	554.64	158.503	369.062	2,328.43	206.14	429.423	2,083.16	239.073	921.584	3,854.82
Pakistan	137.53	79.653	579.17	171.73	176.738	1,029.17	208.57	261.726	1,254.86	233.171	n/a	n/a
Philippines	76.95	83.667	1,087.29	93.14	208.369	2,237.16	108.8	361.489	3,322.51	119.152	544.175	4,567.06
South Korea	47.008	576.483	12,263.47	49.554	1,143.57	23,077.16	51.781	1,638.26	31,638.46	51.921	2,316.21	44,610.65
Turkey	64.73	274.321	4,237.96	73.723	776.558	10,533.45	83.614	719.919	8,610.03	89.477	1,333.77	14,906.40
Vietnam	79.395	39.585	498.579	87.968	143.212	1,628.01	97.406	343.114	3,522.51	102.539	630.465	6,148.54
Total	**1088.824**	**2530.741**		**1286.44**	**5462.642**		**1504.013**	**7409.144**		**1631.327**	**11619.474**	

Source: "World Economic Outlook Database." International Monetary Fund, March 2022.

Table 1–5
The World's Largest Economies 2020 and 2050 (Projected) Measured by GDP at Market Exchange Rates
(in trillions of dollars)

	2020		2050	
	GDP	Rank	GDP	Rank
United States	20.9	1	34.1	2
China	14.7	2	49.9	1
Japan	5	3	6.8	5
Germany	3.8	4	6.1	7
United Kingdom	2.7	5	28	3
India	2.6	6	5.4	9
France	2.6	7	4.7	11
Italy	1.8	8	3.1	16
South Korea	1.6	9	6.5	6
Canada	1.6	10	3.5	13
Brazil	1.4	11	3.1	17
Russia	1.4	12	5.1	10
Australia	1.3	13	2.7	20
Spain	1.2	14	2.6	22

Source: "The Long View: How Will the Economic Global Order Change by 2050?" PricewaterhouseCoopers LLP, 2017. 2020 data based on information from the World Bank, https://data.worldbank.org

Table 1–6
The World's Largest Economies 2020 and 2050 (Projected) Measured by GDP at Purchasing Power Parity
(in trillions of dollars)

	2020		2050	
	GDP	Rank	GDP	Rank
China	24.2	1	58.5	1
United States	20.9	2	34.1	3
India	8.9	3	44.1	2
Japan	5.3	4	6.8	8
Germany	4.5	5	6.1	9
Russia	4.3	6	7.1	6
Indonesia	3.3	7	10.5	4
Brazil	3.1	8	7.5	5
United Kingdom	3.1	9	5.4	10
France	3.1	10	4.7	12
Italy	2.4	11	6.9	7
Mexico	2.3	12	3.1	21
South Korea	2.3	13	3.5	18
Turkey	2.2	14	5.2	11

Source: "The Long View: How Will the Economic Global Order Change by 2050?" PricewaterhouseCoopers LLP, 2017. 2020 data based on information from the World Bank, https://data.worldbank.org

Table 1–7
Cities Expected to Experience the Highest Rate of GDP Growth 2022–2040
(GDP contribution in billions)

City	Country	GDP Growth (% year over year)
Chengdu	China	4.2
Wuhan	China	4.5
Guangzhou	China	4.0
Hangzhou	China	4.2
Jakarta	Indonesia	5.0
Dhaka	Bangladesh	6.8
Bengaluru	India	8.2
Mumbai	India	6.7
Manila	Philippines	5.0

Source: "Global Cities Outlook, Highlights The rise of urban economic powerhouses", Oxford Economics, December 2021.

Table 1–8
Changing Global Demographics: Developing Countries on the Rise (ranked by size)

	1990	2020	2050	2100
1	China	China	India	India
2	India	India	China	China
3	United States of America	United States of America	Nigeria	Nigeria
4	Indonesia	Indonesia	United States of America	United States of America
5	Brazil	Pakistan	Pakistan	Pakistan
6	Russian Federation	Brazil	Indonesia	Dem. Republic of the Congo
7	Japan	Nigeria	Brazil	Indonesia
8	Pakistan	Bangladesh	Ethiopia	Ethiopia
9	Bangladesh	Russian Federation	Dem. Republic of the Congo	United Republic of Tanzania
10	Nigeria	Mexico	Bangladesh	Egypt

Source: "World Population Prospects: The 2017 Revision." U.S. Department of Economic and Social Affairs, 2017.

Increasing amounts of foreign direct investment (FDI) and a rapidly growing population suggest that African countries could constitute the next wave of dynamic emerging markets. However, most of the region has not, to date, fully benefited from globalization. Although global exports of oil and metal products have boosted incomes and wealth on the African continent over the last 20 years, the region remains highly dependent on, and therefore vulnerable to commodity prices. As a result, external factors, such as the slowing of growth in China, can have a significant impact on economic growth in Africa. Transitioning the economy to more non-oil industries and diversifying the export basket will be vital to strengthening Africa for the long term.[81]

Emerging nations, as a whole, have experienced unprecedented GDP growth in the decade since the global recession. It is important to note, however, that as developing economies mature, their growth rates will likely begin to slow. China provides a good example of this. Following years of double-digit economic expansion from the early 1990s through the mid-2010s, China's GDP growth has stabilized to less than 7 percent annually

Table 1–9
Foreign Direct Investment Inflows, by Region
(in US$ billions)

Region/Economy	2016	2017	2018	2019	2020
Developed economies	$1,344.5	$894.3	$707.6	$749.0	$312.2
Developing economies	653.9	702.5	692.5	723.4	662.6
Africa	46.2	40.2	45.4	47.1	39.8
East and South-East Asia	438.8	477.3	464.7	482.1	498.8
South Asia	54.3	51.6	52.3	59.1	71.0
West Asia	32.0	27.9	31.8	33.4	36.5
Latin America and the Caribbean	135.9	156.3	150.1	160.5	87.6
Transition economies	66.8	50.5	36.6	57.8	24.2

Source: "World Investment Report 2021." United Nations Conference on Trade and Development, 2021.

in the past few years. While emerging markets still hold the most potential for growth in the coming years, the rapid rate of expansion that was experienced over the last decade may prove difficult to match.[82]

Global trade and investment prior to the COVID-19 pandemic grew at a healthy rate, outpacing domestic growth in most countries. According to the World Trade Organization, in 2019 merchandise exports reached $19 trillion and commercial services exports reached $6.2 trillion.[83] The trend reversed in 2020 due to COVID-19, as merchandise exports dropped by 7.3% while commercial services exports fell by 20% over the previous year.[84]

Foreign direct investment (FDI)—the term used to indicate the amount invested in property, plant, and equipment in another country—has slowed somewhat in recent years. However, it is important to note that most of the decrease in FDI investment is occurring among developed economies.[85] Tables 1–9 and 1–10 show FDI inflows and outflows by leading developed and emerging economies.

foreign direct investment (FDI)
Investment in property, plant, or equipment in another country.

As nations become more affluent, they begin looking for countries with economic growth potential where they can invest. Over the last two decades, for example, Japanese MNCs have invested not only in their Asian neighbors but also in the United States and the EU. European MNCs, meanwhile, have made large financial commitments in Japan and, more recently, in China and India because they see Asia as having continued growth potential. American multinationals have followed a similar approach in regard to both Europe and Asia.

The following quiz illustrates how transnational today's MNCs have become. This trend is not restricted to firms in North America, Europe, or Asia. An emerging global community is becoming increasingly interdependent economically. Take the quiz and see

Table 1–10
Foreign Direct Investment Outflows, by Region
(in US$ billions)

Region/Economy	2016	2017	2018	2019	2020
Developed economies	$1,173.4	$1,087.4	$430.6	$780.5	$347.2
Developing economies	417.6	478.8	402.5	416.6	387.1
Africa	8.1	11.8	8.0	4.9	1.6
East and South-East Asia	356.7	391.7	345.3	323.6	355.3
South Asia	5.5	11.5	11.6	13.3	11.7
West Asia	40.9	38.7	46.8	40.7	33.5
Latin America and the Caribbean	11.8	36.5	1.9	47.0	3.5
Transition economies	25.2	38.5	37.6	23.3	5.6

Source: "World Investment Report 2021." United Nations Conference on Trade and Development, 2021.

International Management in Action

Apple Inc. Diversifying Its Global Supply Chain

After decades of more open trade and investment, globalization has been threatened by the COVID-19 pandemic, climate change, and geopolitics. Amidst the lockdowns and factory shutdowns during the pandemic, economic sanctions following Russia's invasion of Ukraine, and a global shortage of semiconductors made worse by climatic events such as droughts and winter storms in key manufacturing locations, multinational firms have felt their vulnerability to global supply bottlenecks. Even before the start of the COVID-19, events such as the United Kingdom's exit from the European Union ("Brexit") and the protectionist trade agenda of former U.S. President Donald Trump, including the imposition of tariffs on aluminum and steel imports on the grounds of national security, led economists to question whether the world was entering a time of "slowbalization" or the slowing of globalization.

Apple Inc. Takes Action

With a market value of over US$2.5 trillion, briefly surpassing a record US$3 trillion in 2022, Apple is the world's most valuable company. By its share of sales outside of the home market, it is also more global than comparable tech giants including Alphabet, Amazon, Meta, Microsoft, Alibaba, and Tencent. The company has harnessed globalization and the rise of China as part of its growth strategy over the past decade, making products in over 50 countries in a supply chain spanning millions of people around the world. Although a source of strength, the company's global exposure leaves it vulnerable to trade disputes and supply disruptions arising from protectionism, the COVID-19 pandemic, and geopolitical developments.

The company faces risks from supply bottlenecks, especially due to its reliance on China as its largest manufacturing hub. In 2020, despite former President Trump's trade and tech disputes with China, Apple had 51 suppliers in China and Hong Kong. Another 42 suppliers were in Taiwan, including semiconductor producer TSMC. TSMC is a foundry supplying over half the world's semiconductors, and Apple is its largest customer. TSMC's production was hit by the largest drought in Taiwan in over half a cen-tury in 2021, as water is required in abundance for chip manufacturing. China's claims over Taiwan under the "One China" principle is a major concern for global firms, including Apple that rely on Taiwan for chips.

China overall is also among the top two markets for Apple by sales, accounting for over 20 percent of sales in 2021. The country's zero-covid strategy and factory production halts have been major disruptions. Although Apple does not intend to dramatically overhaul its supply network in China, where it has long enjoyed the benefits of lower wages and preferential treatment, the com-pany began diversifying some iPhone manufacturing operations out of China and announced in April 2022 that it is starting to manufacture the iPhone 13 in India. Meanwhile, the firm has also stopped selling in Russia amidst sanctions and the Rus-sia-Ukraine war.

Despite supply chain woes, sales disruptions, and rising inflation globally, Apple posted record quarterly results in early 2022. The pandemic, with all its disruptions, has also increased demand for electronic products such as Mac computers and iPhones. As Apple's situation highlights, although globalization has been largely beneficial for companies and consumers, including improved profit margins and higher-quality products, it has also opened up MNCs to more risks.

Source: The Guardian, June 3, 2021, https://www.theguardian.com/technology/2021/jun/03/apple-uses-more-suppliers-from-china-than-taiwan-for-first-time-data-shows; Megha Mandavia, "Apple's Big Bet on India Gets Bigger Still," *The Wall Street Journal,* April 11, 2022, https://www.wsj.com/articles/apples-big-bet-on-india-gets-bigger-still-11649682365; *Bloomberg,* March 29, 2021, https://www.bloomberg.com/graphics/2021-semiconductors-chips-shortage/?sref=kzv0M3Zv; Eric Cheung, "The Chipmaking Factory of the World Is Battling Covid and the Climate Crisis", CNN Business, June 10, 2021, https://www.cnn.com/2021/06/10/tech/taiwan-chip-shortage-covid-climate-crisis-intl-hnk/index.html; "T-Day The Battle for Taiwan"

how well you do by checking the answers given at the end of the chapter. However, although there may be a totally integrated global market in the near future, at present, regionalization, as represented by North America, Europe, Asia, and the less developed countries, is most descriptive of the world economy.

1. Where is the parent company of Braun household appliances (electric shavers, coffee makers, etc.) located?
   a. Italy *b.* Germany *c.* the U.S. *d.* Japan
2. Computer company Lenovo, best known for producing the Thinkpad laptop, was founded in which country?
   a. Japanese *b.* Mexico *c.* the U.S. *d.* China
3. The company that owns Jaguar is based in
   a. Germany. *b.* the U.S. *c.* the U.K. *d.* India.

4. Frozen food distributor Schwan's Co. is now majority owned by a parent company located in
   a. South Korea. *b.* the U.S. *c.* France. *d.* Switzerland.
5. The firm that owns Green Giant vegetables is
   a. U.S.-based. *b.* Canadian. *c.* British. *d.* Italian.
6. The owners of Godiva chocolate are
   a. U.S.-based. *b.* Swiss. *c.* Dutch. *d.* Turkish.
7. The company that produces Vaseline is
   a. French. *b.* Anglo-Dutch. *c.* German. *d.* U.S.-based.
8. The company that bought General Electric Appliances is headquartered in
   a. France. *b.* China. *c.* Japan. *d.* Germany.
9. The company that owns Holiday Inn is headquartered in
   a. Saudi Arabia. *b.* France. *c.* the U.S. *d.* the U.K.
10. Tropicana orange juice is owned by a company that is headquartered in
    a. Mexico. *b.* Canada. *c.* the U.S. *d.* Japan.

Global Economic Systems

The evolution of global economies has resulted in three main systems: market economies, command economies, and mixed economies. Recognizing opportunities in global expansion includes understanding the differences in these systems, as they affect issues such as consumer choice and managerial behavior.

Market Economy

A *market economy* exists when private enterprise reserves the right to own property and monitor the production and distribution of goods and services while the state simply supports competition and efficient practices. Management is particularly effective here, since private ownership provides local evaluation and understanding, opposed to a nationally standardized archetype. This model contains the least restriction, as the allocation of resources is roughly determined by the law of demand. Individuals within the community disclose wants, needs, and desires, to which businesses may appropriately respond. A general balance between supply and demand sustains prices, while an imbalance creates a price fluctuation. In other words, if demand for a good or service exceeds supply, the price will inevitably rise, while an excess supply over consumer demand will result in a price decrease.

Since the interaction of the community and firms guides the system, organizations must be as versatile as the individual consumer. Competition is fervently encouraged to promote innovation, economic growth, high quality, and efficiency. The focus on how to best serve the customer is necessary for optimal growth, as it ensures a greater penetration of niche markets.[86] The government may prohibit such things as monopolies or restrictive business practices in order to maintain the integrity of the economy. Monopolies are a danger to this system because they tend to stifle economic growth and consumer choice with their power to determine supply. Factors such as efficiency of production and quality and pricing of goods can be chosen arbitrarily by monopolies, leaving consumers without a choice and at the mercy of big business.

Command Economy

A *command economy* is comparable to a monopoly in the sense that the organization—in this case, the government—has explicit control over the price and supply of a good or service. The particular goods and services offered are not necessarily in response to consumers' stated needs but are determined by the theoretical advancement of society. Businesses in this model are owned by the state to ensure that investments and other business practices are done in the best interest of the nation despite the often contradictory

outcomes. Management within this model ignores demographic information. Government subsidies provide firms with enough security, so they cannot go out of business, which simply encourages a lack of efficiency or incentive to monitor costs. Devoid of private ownership, a command economy creates an environment where little motivation exists to improve customer service or introduce innovative ideas.[87]

History confirms the inefficiency and economic stagnation of this system with the dramatic decline of communism in the 1980s. Communist countries believe that the goals of the so-called people take precedence over individualism. While the communist model once dominated countries such as Ethiopia, Bulgaria, Hungary, Poland (see In the International Spotlight at the end of Chapter 5), and the former U.S.S.R., it survives only in North Korea, Cuba, Laos, Vietnam (see In the International Spotlight at the end of Chapter 10), and China (see In the International Spotlight at the end of Chapter 7) today, in various degrees or forms. A desire to compete effectively in the global economy has resulted in the attempt to move away from the communist model, especially in China, which will be considered in greater depth later in the chapter.

Mixed Economy

A *mixed economy* is a combination of a market and a command economy. While some sectors of this system reflect private ownership and the freedom and flexibility of the law of demand, other sectors are subject to government planning. The balance allows competition to thrive, while the government can extend assistance to individuals or companies. Regulations concerning minimum wage standards, social security, environmental protection, and the advancement of civil rights may raise the standard of living and ensure that those who are elderly, are sick, or have limited skills are taken care of. Ownership of organizations seen as critical to the nation may be transferred to the state to subsidize costs and allow the firms to flourish.[88]

The mixed economy model is common in many countries around the world as they try to balance the role of state and private sector for optimal and inclusive economic growth. The relative emphasis on state versus private sector has changed over the years depending on the dominant political ideology over different time periods. Even amongst the countries where market economy is the dominant model, there is large variation in the presence of pro-market institutions that are needed to support a market economy.[89]

In the next section we discuss general developments in key world regions reflective of these economic systems and the impact of these developments on international management.

Economic Performance and Issues of Major Regions

From a vantage point of development, performance, and growth, the world's economies can be evaluated as established economies, emerging economies, and developing economies (some of which may soon become emerging).

Established Economies

North America As noted earlier, North America constitutes one of the four largest trading blocs in the world. The combined purchasing power of the U.S., Canada, and Mexico is more than $28 trillion.[90] Even though there will be more and more integration both globally and regionally as time goes on, effective international management still requires a knowledge of individual countries.

The free-market-based economy of this region allows considerable freedom in the decision-making processes of private firms. This allows for greater flexibility and low barriers for other countries to establish business. Despite increased protectionist policies and rising anti-globalization sentiments during the four years of the Trump administration (2017–2021), the U.S. remains one of the most welcoming environments to foreign investors. U.S. MNCs also maintain holdings throughout the world. U.S. firms hold dominant global positions in technology-intensive industries, including computing (hardware and services),

telecommunications, media, and biotechnology. At the same time, foreign MNCs are finding the U.S. to be a lucrative market for expansion. Many foreign automobile producers, such as BMW, Honda, Subaru, Nissan, Mazda, and Toyota, have established a major manufacturing presence in the U.S.

Canada is the U.S. largest trading partner, a position it has held for many years. The U.S. also has considerable foreign direct investment in Canada. This helps explain why most of the largest foreign-owned companies in Canada are totally or heavily U.S.-owned. The legal and business environments in Canada are similar to those in the U.S., and the similarity helps promote trade between the two countries. Geography, language, and culture also help, as does NAFTA/USMCA, which has assisted Canadian firms in becoming more competitive worldwide. Canadian firms also do business in many other countries, including Mexico, the U.K., Germany, and Japan, where they find ready markets for Canada's vast natural resources, including lumber, natural gas, crude petroleum, and agricultural products.

By the early 1990s, Mexico had recovered from its economic problems of the previous decade and had become the strongest economy in Latin America. In 1994, Mexico became part of NAFTA, and it appeared to be on the verge of becoming the major economic power in Latin America. Yet, an assassination that year and a related economic crisis underscored that Mexico was still a developing country with considerable economic volatility. Mexico now has free trade agreements with 50 countries, more than any other nation, including agreements with Panama, the Unifying Free Trade Agreement with Central America, the EU, the European Free Trade Area, and the CPTPP. More than 90 percent of Mexico's trade occurs under free trade agreements.[91]

Because of NAFTA/USMCA, Mexican businesses are able to take advantage of the U.S. market by producing goods that the U.S. previously purchased from Asia. Mexican firms are now able to produce products at highly competitive prices, thanks to lower-cost labor and proximity to the American market. Location has helped hold down transportation costs and allows for fast delivery. This development has been facilitated by the **maquiladora** system, under which materials and equipment can be imported on a duty- and tariff-free basis for assembly or manufacturing and re-export mostly in Mexican border towns. Mexican firms, taking advantage of a new arrangement the government has negotiated with the EU, can also now export goods into the European community without having to pay a tariff. The country's trade with both the EU and Asia is on the rise, which is important to Mexico, as it wants to reduce its overreliance on the U.S. market.

maquiladora
A factory, the majority of which are located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.

The EU The ultimate objective of the EU is to eliminate all trade barriers among member countries (like between the states in the United States). This economic community eventually will have common custom duties as well as unified industrial and commercial policies regarding countries outside the union. Another goal that has finally largely become a reality is a single currency and a regional central bank. Following the United Kingdom's withdrawal in 2020, 27 countries constitute the EU, with 19 having adopted the euro. Another 8 countries, having joined the EU in 2004, 2007, or 2013, are legally bound to adopt the euro upon meeting the monetary convergence criteria.[92]

Such developments allow companies based in EU nations to manufacture high-quality, low-cost goods and ship them anywhere within the EU without paying duties or being subjected to quotas. This helps explain why many North American and Pacific Rim firms have established operations in Europe; however, all these outside firms are finding their success tempered by the necessity to address local cultural differences.

The challenge for the future of the EU is to absorb its eastern neighbors, the former communist-bloc countries. This could result in a giant, single European market. In fact, a unified Europe could become the largest economic market in terms of purchasing power in the world. Between 2004 and 2013, Poland (see In the International Spotlight at the end of Chapter 5), the Czech Republic, Hungary, Bulgaria, Romania, and Croatia all joined the EU, improving economic growth, inflation, and employment rates throughout. Such a development is not lost on Asian and U.S. firms, which are working to gain a stronger foothold in Eastern European countries as well as the existing EU.

For the last decade, the EU has faced major challenges. Several European governments, including Greece, Portugal, Spain, and Ireland, have found themselves with dangerously large deficits, which resulted from both structural conditions (stagnant population growth, overly generous pension systems, early retirements) and shorter-term economic pressures (the 2009 global recession). These conditions have placed pressure on the euro, the currency adopted by most EU countries, and have forced substantial rescue packages led by Germany and France. The situation in Greece was particularly challenging. Accepting multiple bailout packages from the IMF, the European Commission, and the European Central Bank, totaling over US$360 billion, Greece was required to implement severe austerity measures, including higher taxes, the freezing of government pensions and wages, and cuts to public spending. The European community believed that forcing these restrictions on Greece was necessary to assure financial stability and repayment of bailout funds, though many in Greece argued that the austerity measures only prolonged financial recovery. The situation reached a crisis level in 2015 when, via referendum, the Greek people voted overwhelmingly to reject the terms of a third bailout. Banks closed across the country and withdrawals were limited to 60 euros per day. Despite the referendum vote, the Greek government ultimately accepted the terms of the third (and final) bailout deal in exchange for financial assistance, preventing bankruptcy and a potential Greek exit from the EU. In August 2018, after eight years, Greece finally emerged from its dependence on bailout funds.[93,94,95,96,97]

Maintaining a unified EU in the coming decades may be challenging. There has been a growing skepticism about the advantages of integration with Continental Europe, which lead to the 2016 referendum in the United Kingdom to leave the EU. A Pew Research survey across 14 EU states in 2019 reported 31 percent of those surveyed holding an unfavorable view on the EU. The Russian attack on Ukraine in February 2022 has acted as a boost for EU unity with people recognizing the economic and security guarantees that come with the EU membership.

Japan During the 1970s and 1980s, Japan's economic success was without precedent. The country had a huge positive trade balance, the yen was strong, and the Japanese became recognized as the world leaders in manufacturing and consumer goods.

Analysts ascribe Japan's early success to a number of factors. Some areas that have received a lot of attention are the Japanese cultural values supporting a strong work ethic and group/team effort, consensus decision making, the motivational effects of guaranteed lifetime employment, and the overall commitment that Japanese workers have to their organizations. However, at least some of these assumptions about the Japanese workforce have turned out to be more myth than reality, and some of the former strengths have become weaknesses in the new economy. For example, consensus decision making turns out to be too time-consuming in the new, speed-based economy.

Ministry of International Trade and Industry (MITI)
A Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals.

keiretsu
In Japan, an organizational arrangement in which a large, often vertically integrated group of companies cooperate and work closely with each other to provide goods and services to end users. Members may be bound together by cross-ownership, long-term business dealings, interlocking directorates, and social ties.

Some of the early success of the Japanese economy can be attributed to the **Ministry of International Trade and Industry (MITI)**. This is a governmental agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals. In recent years, MITI has given primary attention to the so-called ABCD industries: automation, biotechnology, computers, and data processing.

Another major reason for Japanese success may be the use of **keiretsus**. This Japanese term stands for large, vertically integrated corporations whose holdings supply much of the assistance needed in providing goods and services to end users. Being able to draw from the resources of the other parts of the keiretsu, a Japanese MNC often can get things done more quickly and profitably than its international competitors.

Despite setbacks, Japan (see In the International Spotlight at the end of Chapter 11) remains a formidable international competitor and is well poised in all three major economic regions: the Pacific Rim, North America, and Europe.

Emerging and Developing Economies

In contrast to the fully developed countries of North America, Europe, and Asia are the developing and emerging countries. While there is no precise definition, developing

economies typically face relatively low GDP per capita and a workforce that is either unskilled or semiskilled. In many cases, there also is considerable government intervention in economic affairs. Emerging markets can be viewed as developing economies that exhibit sustained economic reform and growth.

Central and Eastern Europe In 1991, the Soviet Union ceased to exist. Each of the individual republics that made up the U.S.S.R. in turn declared its independence and, in the decades since, has been attempting to shift from a centrally planned to a market-based economy. The Russian Republic has the largest population, territory, and influence.

Russia's economy, based on the strength of oil and gas resources, has continued to to emerge as poverty declined and the middle class expanded in years since 1991. Direct investment in Russia, along with its membership in the International Monetary Fund (IMF), helped raise GDP and decrease inflation, offsetting the hyperinflation created from the initial attempt at transitioning to a market-based economy in the early 1990s. Abundant oil and high global energy prices greatly boosted Russia's economy in the early 2000s. Recognizing the increasing importance of Russia on the global economic stage, the Group of Seven (G7, including the United States, Germany, France, England, Canada, Japan, and Italy) formally expanded to include Russia between 1997 and 2014. However, Russia's annexation of Crimea ultimately resulted in its suspension from the group, as well as the implementation of multilateral sanctions. These actions, when combined with lower oil and gas prices in recent years, have resulted in a dramatic slowdown in Russia's economy and a fall in the value of the ruble. The events of early 2022 involving a large scale attack on Ukraine has led to further sanctions and isolation in the global economic space. Many foreign companies have withdrawn from the Russian markets, and those still operating feel pressures from their home markets to not make any additional investments and windup their operations in a planned manner. Thus, the Russian economy likely will have a number of years of economic instability and many recurrent political problems.

Poland had a head start on the other former communist-bloc countries. General political elections were held in June 1989, and the first noncommunist government was established well before the fall of the Berlin Wall. In 1990, the Communist Polish United Workers Party dissolved and Lech Walesa was elected president. Earlier than its neighbors, Poland instituted radical economic reforms (characterized as "shock therapy"). Although the relatively swift transition to a market economy was initially very difficult for the Polish people, with very high inflation, unemployment peaking near 20 percent, and the decline of public services, Poland's economy has done relatively well. In 2019, Poland's GDP grew by around 4.7 percent. However, some political instability, low wages, a deteriorating infrastructure, and only modest education levels compared to its European nations have led to some economic hurdles for Poland (see In the International Spotlight at the end of Chapter 5). In the first few weeks of the Russia–Ukraine war, Poland has taken 2.6 million Ukrainian refugees, which is going to put further stress on the Polish economy.[98,99]

Although Russia, the Czech Republic, Hungary, and Poland receive the most media coverage and are among the largest of the former communist countries, others also are struggling to right their economic ships. A small but particularly interesting example is Albania. Ruled ruthlessly by the Stalinist-style dictator Enver Hoxha for over four decades following World War II, Albania was the last, but most devastated, Eastern European country to abandon communism and institute radical economic reforms. At the beginning of the 1990s, Albania started from zero. Industrial output initially fell over 60 percent and inflation reached 40 percent monthly. Today, Albania still struggles but has experienced several years of growth, stable inflation, and increased FDI inflows. Additionally, the negotiation process for Albania's accession into the EU began in 2019.

The key for Albania and the other Eastern European countries is to maintain the social order, establish the rule of law, rebuild the collapsed infrastructure, and get factories and other value-added, job-producing firms up and running.

China After years of steady, strong growth, China's GDP has been slowing considerably. In 2019, GDP expanded at only 6 percent, its slowest in 28 years.[100] GDP growth continued to

COVID-19 and the Global Economy

COVID-19 was first recognized by the World Health Organization (WHO) as a global health emergency In January 2020, and later as a pandemic in March 2020. The pandemic has impacted all aspects of economic and social lives and continues to do so even after 2 years since its onset. In early 2022, as people in many countries were beginning to return to some level of normalcy, all of the 26 million people in Shanghai were ordered to stay home as the city was in complete lockdown due to the reemergence of new variants of the virus.

The Impact of COVID-19 on the global economy has been massive. As per an IMF report, the world has experienced the deepest global recession since the end of World War II. In 2020, there was a 3.5 percent contraction in the global economy as compared to the prediction of 3.4 percent growth for the same year. While many economies rebounded in 2021 with positive growth, the nega-tive effect is expected to be long-lasting, especially for poorer countries. As per IMF estimates, the World GDP in 2024 will be 3% lower than the no-COVID scenario. This reduction would be as low as 6 percent for low-income countries and GDP in the African continent may remain 1 to 4 percent lower than in the pre-COVID outlook on a permanent basis. Moreover, the pandemic forced governments around the world to engage in massive fiscal support, which may limit States' capacity for further intervention. In 2020, the fiscal support at the global level was around $16 trillion, which is around 15 percent of global GDP. We are already seeing some of the negative spill-overs of the pandemic in economies such as Sri Lanka. Due to the collapse of travel and tourism Industry and significant drop in international remittances, the Sri Lankan economy is facing a major financial crisis in 2022 and has defaulted on its external debt.

COVID-19 caused major disruption to global supply chains. At the peak of the pandemic, governments put restrictions on the flow of goods and raw materials (e.g., certain chemicals used in drug manufacturing) that they considered critical for the domestic markets. International and domestic mobility was also hugely restricted, which severely impacted businesses that were directly and indirectly involved in the travel and tourism Industry. The Impact was felt not only by large firms such as hotel chains and airlines, but also by small entrepreneurs such as restaurants, hair salons, spas, and cab operators. In response to the pandemic-related disruptions, many firms reconfigured their supply chains, closed down or relocated some of their foreign operations, and have been forced to operate at a reduced capacity due to a shortage of raw materials and components.

Two years after the onset of the pandemic, it continues to weigh heavily on people's minds as they assess the economic outlook. In a McKinsey Global Survey conducted in March 2022, respondents reported the COVID-19 pandemic and its associated problems (supply chain disruptions, inflation, rising Interest rates), along with the geo-political instability, as the key risk factors for economic growth in their home markets.

Source: Levy Yeyati and Federico Filippini, "Social and economic impact of COVID-19", Brookings Global Working Paper # 158 (2021); Congressional Research Service, "Global Economic Effects of COVID-19", Nov 10, 2021, https://crsreports.congress.gov, R46270. McKinsey Insights, "The coronovirus effect on global economic sentiment", March 30, 2022, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-coronavirus-effect-on-global-economic-sentiment

fall in 2020, due to COVID-19, to 2.3 percent.[101] China faces other formidable challenges, including a massive savings glut in the corporate sector, the globalization of manufacturing networks, vast developmental needs, and the requirement for 15 to 20 million new jobs annually to avoid joblessness and social unrest (see In the International Spotlight at the end of Chapter 7).

China also remains a major risk for investors. The one country, two systems (communism and capitalism) balance is a delicate one to maintain, and foreign businesses are often caught in the middle. Many MNCs find it very difficult to do business in and with China. Concerns about intellectual property and continued policies that favor domestic companies over foreign ones make China a complicated and high-risk venture.[102,103]

Trade relations between China and developed countries and regions, such as the U.S. and the EU, remain stressed. Tensions erupted in 2018, when the Trump administration in the U.S. implemented tariffs on Chinese imports of solar panels, steel, aluminum, and washing machines. China retaliated almost immediately by enacting tariffs on a variety of U.S. goods. Another contentious issue between China and many of its trading partners around the globe has been the value of its currency, the renminbi (also known as the yuan). For years, many argued that the value of the yuan was kept artificially low, giving China an unfair advantage in selling its exports.[104] In addition, China's policy toward foreign investors continues to be fluid and sometimes unpredictable.

Other Emerging Markets of Asia In addition to Japan and China, there are a number of other important economies in the region, including South Korea, Hong Kong, and Singapore.

Together, the countries of the ASEAN bloc are also fueling growth and development in the region.

In South Korea, the major conglomerates, called **chaebols**, include such internationally known firms as Samsung, Hyundai, and the LG Group. Many key managers in these huge firms have attended universities in the West, where in addition to their academic programs they learned Western culture, customs, and language. Now they are able to use this knowledge to help formulate competitive international strategies for their firms. Unlike most developed economies, South Korea was able to avoid falling into economic recession in 2009. In the years since, South Korea has maintained steady progress, with a solid economy with moderate growth, moderate inflation, low unemployment, an export surplus, and fairly equal distribution of income.

chaebols
Very large, family-held Korean conglomerates that have considerable political and economic power.

Singapore is a major success story. Its solid foundation leaves only the question of how to continue expanding in the face of increasing international competition. To date, however, Singapore has emerged as an urban planner's ideal model and the leader and financial center of Southeast Asia.

Besides South Korea and Singapore, other countries of Southeast Asia are also becoming dynamic platforms for growth and development. Thailand, Malaysia, Indonesia, and Vietnam have developed economically with relatively large population bases and inexpensive labor, despite the lack of considerable natural resources. These countries have been known to have social stability, despite some political turmoil. This is especially true in Thailand. In late 2013, Thailand's Prime Minister Yingluck Shinawatra's government proposed sweeping pardons for various past offenses committed by former and current politicians. Although the legislature overwhelmingly rejected those proposed pardons, protests and political unrest, led by the People's Democratic Reform Committee, still unraveled on the streets of Bangkok.[105] In May 2014, a military coup d'etat, led by General Prayut Chan-o-cha, removed Prime Minister Yingluck Shinawatra from power.[106] In 2019, general elections were held in Thailand, but no single party or coalition could gather enough seats to win a majority in the parliament, which voted to elect Prayut Chan-o-cha as the Prime Minister. Despite the political turmoil that has plagued Thailand and other countries in the region, these export-driven Southeast Asian countries remain attractive to outside investors.

India With a population of about 1.4 billion and growing, India has traditionally had more than its share of political and economic problems. The trend of locating software and other higher-value-added services in India has helped bolster a large middle- and upper-class market for goods and services. India's GDP growth rate is among the highest in the world. India may soon be viewed as a fully developed country if it can withstand the intense growth period.

For a number of reasons, India is attractive to multinationals, especially U.S. and British firms. Many Indian people speak English, are very well educated, and are known for advanced information technology expertise. Also, successive Indian governments have made concerted efforts to accelerate economic growth, which has resulted in the growth of the middle class with an appetite for technologically advanced foreign goods. For example, in 2018, India committed to invest over US$1 billion to expand its fiber-optic network and to add 500,000 new WiFi hot spots in rural areas.[107] Many frustrations remain in doing business in India (see In the International Spotlight at the end of this chapter), but there is little question that the country will receive increased attention in the years ahead.

Developing Economies on the Verge

Around the world there are many economies that can be considered developing (what might formally have been termed "less developed" or in some cases "least developed") that are worthy of attention and understanding. Some of these economies are on the verge of emerging as impressive contributors to global growth and development.

South America Over the years, countries in South America have had difficult economic problems. They have accumulated heavy foreign debt obligations and experienced severe inflation. Although most have tried to implement economic reforms reducing their debt, periodic economic instability and the emergence of populist leaders have had an impact on the attractiveness of countries in this region.

Over the past 30 years, Brazil has attracted considerable foreign investment, with foreign companies drawn to opportunities created by Brazil's privatization of power, telecommunications, and other infrastructure sectors. (See the International Management in Action box "Brazilian Economic Reform and Recent Challenges.") Power companies such as AES and General Electric have constructed more than $20 billion worth of electricity plants throughout the country. At the same time, many other well-known companies have set up operations in Brazil, including Yum! Brands, Apple, Gap, McDonald's, and Walmart.

More recently, Brazil has faced alternating periods of economic progress and setbacks. After a period of robust growth and declining poverty rates from 2008 to 2014, Brazil slipped into recession in 2015, 2016, and 2020 (the last of which was caused by the pandemic). Frustration over economic stagnation and a widespread public corruption scandal resulted in the impeachment of President Dilma Rousseff in May 2016, adding political instability to the growing financial crisis.[108] Although the economy has been growing since 2017, the recovery has been slow.

Given Brazil's large and relatively well-educated population, ample natural resources, existing industrial base, and strategic geographic position, longer-term prospects are still potentially positive. With an economic output comparable to that of France, the Brazilian economy outweighs that of any other South American country and has become a worldwide presence (see In the International Spotlight at the end of Chapter 14).

Chile's market-based economic growth has fluctuated between 2 and 6 percent since the early 2000s, one of the best and most stable performances in Latin America. Chile attracts a lot of foreign direct investment, mainly dealing with gas, water, electricity, and mining. It continues to participate in globalization by engaging in further trade agreements, including those with Mercosur, China, India, the EU, South Korea, and Mexico.

Argentina has one of the strongest economies overall, with abundant natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base; however, it has suffered the recurring economic problems of inflation, external debt, capital flight, and budget deficits. Most recently, in 2018, Argentina experienced yet another financial crisis when its currency, the peso, crashed. Over the course of just a few months, the peso depreciated by 50 percent in value when compared to the U.S. dollar. Inflation soared to over 40 percent, and the Central Bank raised interest rates to 60 percent. Investors feared that Argentina was on the brink of default. To meet its obligations, Argentina was forced to ask the IMF for a US$50 billion loan. The loan, which was the largest in IMF history, was granted in September 2018. The economy is showing some signs of recovery under the new administration reforms-oriented president Alberto Fernández post the COVID-19 pandemic, but it has a long way to go.[109,110,111,112]

Despite the ups and downs, a major development in South America is the growth of intercountry trade, spurred on by the progress toward free-market policies. For over 20 years, 90 percent of trade among Mercosur members (Brazil, Argentina, Paraguay, Uruguay, and until recently Venezuela) has been duty-free. At the same time, South American countries are increasingly looking to do business with the U.S. Some of these countries, however, also are looking outside the Americas for growth opportunities. For over two decades, Mercosur has been in discussion with the EU to create free trade between the two blocs, and Chile and Peru have joined the Asia-Pacific Economic Cooperation group and the CPTPP, described earlier. These developments help illustrate the economic dynamism of South America and, especially in light of Asia's recent economic problems, explain why so many multinationals are interested in doing business with this part of the world.

Middle East and Central Asia Israel, the Arab countries, Iran, Turkey, and the Central Asian countries of the former Soviet Union are a special group of emerging countries. Because of their oil, however, some of these countries are considered to be economically rich. Recently, this region has been in the world news because of the political instability and civil war in Syria, the economic blockade on Qatar by Saudi Arabia, Bahrain, Egypt, and the UAE, the rise of the Islamic State in Iraq and Syria, and the decade-long wars in Iraq and Afghanistan following the September 11, 2011, terrorist attacks in the United States.

Brazilian Economic Reform and Recent Challenges

Over the past two decades, Brazil's economic reform and progress have been nothing short of spectacular. Beginning with a com-prehensive privatization program in the early and mid-1990s under which dozens of state-owned enterprises were sold to com-mercial interests, Brazil has transformed itself from a relatively closed and frequently unstable economy to one of the global lead-ing BRIC countries and the anchor of South American economic development. Brazil's reforms, which have included macroeco-nomic stabilization, liberalization of import and export restrictions, and improved fiscal and monetary management, reflect a definitive break from past inward-looking policies that characterized much of Latin America in the 1960s and 1970s. A critical milestone was the introduction of the Plano Real ("Real Plan"), instituted in the spring of 1994, which sought to break inflationary expectations by pegging the réal to the U.S. dollar. Inflation was brought down to single-digit annual figures, but not fast enough to avoid substantial real exchange rate appreciation during the transition phase of the Plano Real. This appreciation meant that Brazilian goods were now more expensive relative to goods from other countries, which contributed to large current account deficits. However, no shortage of foreign currency ensued because of the financial community's renewed interest in Brazilian markets as inflation rates stabilized and memories of the debt crisis of the 1980s faded.

The Real Plan successfully eliminated inflation, after many failed attempts to control it. Almost 25 million people turned into consumers. The maintenance of large current account deficits via capital account surpluses became problematic as investors be-came more risk averse to emerging market exposure as a consequence of the Asian financial crisis in 1997 and the Russian bond default in August 1998. After crafting a fiscal adjustment program and pledging progress on structural reform, Brazil received a $41.5 billion IMF-led international support program in November 1998. In January 1999, the Brazilian Central Bank announced that the real would no longer be pegged to the U.S. dollar. This devaluation helped moderate the downturn in economic growth in 1999 that investors had expressed concerns about over the summer of 1998. Brazil's debt to GDP ratio of 48 percent for 1999 beat the IMF target and helped reassure investors.

The economy grew 4.4 percent in 2000, but problems in Argentina in 2001, and growing concerns that the presidential candidate considered most likely to win, leftist Luis Inácio Lula da Silva, would default on the debt, triggered a crisis that caused the economy to decelerate. Poverty was down to near 16 percent. In 2002, Luis Inácio Lula da Silva won the presidential elections, and he was reelected in 2006. During his government, the economy began to grow more rapidly. In 2004, Brazil saw promising growth of 5.7 percent in GDP, followed by 3.2 percent growth in 2005, 4.0 percent in 2006, 6.1 percent in 2007, and 5.1 percent in 2008. Although the financial crisis caused some slowdown in Brazil's economy, it weathered the period much better than nearly every other economy in the Western Hemisphere. From 2009 to 2011, Brazil was the world's fastest-growing car market. By 2011, the size of the Brazilian economy had surpassed that of the United Kingdom.

The years since the financial crisis have been challenging for the Brazilian economy. Oil producer OGX struggled through bank-ruptcy proceedings from late 2013 through 2017—resulting in the largest corporate bankruptcy in South American history. Political corruption, including the exchange of millions in bribery and money laundering between Brazilian politicians and state-owned oil producer Petrobras, lowered consumer confidence. In the wake of the scandal, Petrobras lost over 80 percent of its market value between the last quarter of 2014 and early 2016. Adding to the political uncertainty, the president was impeached in 2016 due in part to alleged connections to the Petrobras scandal.

The Bovespa, Brazil's stock index, slid sharply downward during the same time period, as the real depreciated nearly 50 percent in relation to the U.S. dollar. The economy slipped into a steep recession in 2015 and 2016, in which GDP dropped by nearly 4 percent in back-to-back years. In late 2016, unemployment peaked at 12 percent. Although the economy has shown positive movement since early 2017, the recovery remains slow. In 2018 Jair Bolsonaro won the presidential election on a platform of anti-corruption and restoration of economic growth. While his controver-sial positions on the environment and indigenous rights angered some constituencies, his election was generally welcomed by foreign and domestic business interests. After global outrage over uncontrolled fires in the Amazon, he backed away from his most extreme environmental positions and re-committed to protecting the forest as an important economic and environmental resource.

Just when the economy started to show a positive movement, Brazil faced social, and economic difficulties due to the COVID-19 pandemic. The pandemic resulted in a 4.1 percent drop in GDP in 2020, followed by a rebound of 4.6 percent in 2021. The econo-my is expected to grow at a tepid pace of 1.7 to 2.5 percent in the coming two years.[x1] The pandemic also negatively Impacted Investors' confidence and FDI. FDI inflows have declined by 62 percent, from USD 65 billion in 2019 to USD 25 billion in 2020, according to UNCTAD's World Investment Report 2021.

Despite the struggles, Brazil's future continues to be promising. Brazil remains the world's largest exporter of several agricultural products, including sugar ($10B), soybeans ($19B), Coffee ($4.84B), beef ($3.59B), orange juice ($2.1B), and the country's Interna-tional trade and investment relationships continue to diversify considerably to include manufacturing and services.

Source: The world bank https://www.worldbank.org/en/country/brazil/overview#1; Brazil's Economy: Foreign Trade Figures Reveal Why They're a Major Global Player https://commodity.com/data/brazil; Mary Simoes, Brazil's Bolsonaro on the Environment-In his own words," New York Times, August 27, 2019, https://www.nytimes.com/2019/08/27/world/americas/bolsonaro-brazil-environment.html

Despite the political challenges, these countries continue to try to balance geopolitical/religious forces with economic viability and activity in the international business arena.

The Arab and Central Asian countries rely almost exclusively on oil production. The price of oil greatly fluctuates, and the Organization of Petroleum Exporting Countries (OPEC) has trouble holding together its cartel. In times of low oil prices, such as from 2015 through 2021, financial pressure increased throughout the region. Often, OPEC will attempt to counter the deflation of prices through mandated production cuts, such as those that occurred from 2018 through mid-2019.[113] Saudi Arabia, the largest oil producer in the Arab world, was forced to reduce the fuel, water, and power subsidies it provides to its citizens after experiencing budget deficits totaling more than US$300 billion between 2014 and 2018 due to lower oil revenues.[114,115] Despite these fluctuations, the countries in the region have accumulated significant wealth over the last 50 years, propelling billions of dollars of investments in U.S. property and businesses. More recently, oil prices skyrocketed due to the Russia–Ukraine conflict and the OPEC came under pressure to increase production. Many people around the world, including those in the West, work for Arab employers. For example, the Kingdom Holding Company, a conglomerate with ties to the Saudi royal family, has made significant investments in companies like the ride-sharing company Lyft and Four Seasons Hotels and Resorts.

The "Arab Spring" and Syrian Civil War, described in the next chapter, have had a profound impact on the political and economic environment of many countries in this region.

Africa Even though they have considerable natural resources, many African nations remain very poor and undeveloped, and international trade is only beginning to serve as a major source of income. One major problem of doing business in the African continent is the overwhelming diversity of approximately 1 billion people, divided into 3,000 tribes, that speak 1,000 languages and dialects. Also, political instability is pervasive, and this instability generates substantial risks for foreign investors.

While globalization has opened up new markets for developed countries, developing nations in Africa lack the institutions, infrastructure, and economic capacity to take full advantage of globalization. Other big problems include poverty, malnutrition, illiteracy, corruption, social breakdown, vanishing resources, overcrowded cities, drought, and homeless refugees.

Despite these issues, the future potential of many African countries is promising. Not only are there considerable natural resources, but the diversity itself also can be used to advantage. For example, many African people are familiar with the European cultures and languages of the former colonial powers (e.g., English, French, Dutch, and Portuguese), and this can serve them well in international business as they strive for continued growth.

Africa's economic growth and dynamism have rapidly accelerated in the past two decades. Real GDP has risen at more than twice the pace it did in the 1980s and 1990s.[116] The telecommunications, banking, and retailing sectors have all flourished, while Nigeria and Angola saw their economies accelerate due in part to higher global fuel prices (see In the International Spotlight at the end of Chapter 12).[117]

It is important to emphasize that sub-Saharan Africa's recent growth, which has been dependent on foreign direct investment and the high level of global demand for commodities, is particularly sensitive to changes in the global economy. For example, in 2016, low oil prices and China's economic slowdown stalled sub-Saharan Africa's growth to a 20-year low. Several years later, the region is still recovering from this downturn (see Table 1–9).[118,119] The FDI inflows remain at $40 billion in 2020, representing a mere 4 percent of the world total. Fifty percent of total FDI inflow in 2020 was concentrated in just five African countries—Congo, Egypt, Ethiopia, Nigeria, and South Africa.[120] Although global factors such as the COVID-19 crisis and China's slowdown, have meant less foreign direct investment in the near-term, McKinsey, the global consultancy, has found that the rate of return on foreign investment in Africa is actually higher than for any other region, offering positive prospects for this historically struggling region.[121]

Table 1–11 shows economic growth rates and projections for major world regions and countries from 2016 to 2019. Of note is the fact that a number of emerging regions

Table 1–11
Overview of the World Economic Outlook: Projections
(percentage change, unless otherwise noted)

	Year over Year				Q4 over Q4		
			Projections		Projections		
	2019	2020	2021	2022	2020	2021	2022
World Output	2.8	−3.1	5.9	4.9	−0.4	4.5	4.0
Advanced Economies	1.7	−4.5	5.2	4.5	−2.8	5.0	3.3
United States	2.3	−3.4	6.0	5.2	−2.3	6.1	4.0
Euro Area	1.5	−6.3	5.0	4.3	−4.4	4.9	3.0
Germany	1.1	−4.6	3.1	4.6	−2.9	4.1	1.9
France	1.8	−8.0	6.3	3.9	−4.3	4.5	2.6
Italy	0.3	−8.9	5.8	4.2	−6.5	5.6	2.9
Spain	2.1	−10.8	5.7	6.4	−8.8	7.4	3.1
Japan	0.0	−4.6	2.4	3.2	−0.8	1.2	2.2
United Kingdom	1.4	−9.8	6.8	5.0	−7.3	7.2	2.2
Canada	1.9	−5.3	5.7	4.9	−3.1	4.9	4.0
Other Advanced Economies	1.9	−1.9	4.6	3.7	−0.6	4.0	3.1
Emerging Market and Developing Economies	3.7	−2.1	6.4	5.1	1.8	3.9	4.6
Emerging and Developing Asia	5.4	−0.8	7.2	6.3	3.8	3.9	5.3
China	6.0	2.3	8.0	5.6	6.6	3.3	6.3
India	4.0	−7.3	9.5	8.5	1.5	6.0	2.3
ASEAN-5	4.9	−3.4	2.9	5.8	−2.6	3.2	5.7
Emerging and Developing Europe	2.5	−2.0	6.0	3.6	−0.1	4.6	3.7
Russia	2.0	−3.0	4.7	2.9	−1.9	3.9	2.8
Latin America and the Caribbean	0.1	−7.0	6.3	3.0	−3.4	3.3	2.7
Brazil	1.4	−4.1	5.2	1.5	−1.2	2.1	1.4
Mexico	−0.2	−8.3	6.2	4.0	−4.6	4.4	3.7
Middle East and Central Asia	1.5	−2.8	4.1	4.1	—	—	—
Saudi Arabia	0.3	−4.1	2.8	4.8	−3.9	8.2	2.9
Sub-Saharan Africa	3.1	−1.7	3.7	3.8	—	—	—
Nigeria	2.2	−1.8	2.6	2.7	−0.5	2.4	1.9
South Africa	0.1	−6.4	5.0	2.2	−3.4	1.5	3.2
World Growth Based on Market Exchange Rates	2.5	−3.5	5.7	4.7	−1.0	4.6	3.9
European Union	1.9	−5.9	5.1	4.4	−4.2	5.3	2.9
Middle East and North Africa	1.0	−3.2	4.1	4.1	—	—	—
Emerging Market and Middle-Income Economies	3.5	−2.3	6.7	5.1	1.8	4.0	4.6
Low-Income Developing Countries	5.3	0.1	3.0	5.3	—	—	—
World Trade Volume (goods and services)	0.9	−8.2	9.7	6.7	—	—	—
Imports							
Advanced Economies	2.0	−9.0	9.0	7.3	—	—	—
Emerging Market and Developing Economies	−0.9	−8.0	12.1	7.1	—	—	—
Exports							
Advanced Economies	1.2	−9.4	8.0	6.6	—	—	—
Emerging Market and Developing Economies	0.4	−5.2	11.6	5.8	—	—	—

Source: IMF World Economic Outlook, July 2018.

and countries are growing faster than developed countries: notably, China, India, and other Asian economies. Table 1–12 ranks the top 10 countries globally on their "competitiveness" as reported by the World Economic Forum. For 2019, Singapore and Hong Kong were ranked first and third, respectively. Table 1–13 ranks markets according to several key indicators.

Table 1–12
World's Most Competitive Nations, 2019

Economy	Rank
Singapore	1
United States	2
Hong Kong SAR	3
Netherlands	4
Switzerland	5
Japan	6
Germany	7
Sweden	8
United Kingdom	9
Denmark	10

Source: "The Global Competitiveness Report 2019", World Economic Forum.

Table 1–13
Market Potential Indicators Ranking, 2021

Country	Rank	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Market Receptivity	EconomicFreedom	OverallScore
China	1	100	52	1	100	71	3	39	100
India	2	37	61	28	44	54	3	57	53
Singapore	3	2	40	69	21	93	100	89	51
Hong Kong	4	2	32	100	25	100	90	57	48
Canada	5	7	26	67	24	68	75	93	46
Japan	6	15	17	57	54	85	8	89	43
Ireland	7	1	70	39	18	61	58	97	43
South Korea	8	8	34	44	86	60	20	83	42
Germany	9	9	24	65	37	79	19	87	40
United Kingdom	10	7	22	77	35	74	16	94	38
Switzerland	11	2	19	81	22	80	38	98	38
Netherlands	12	3	25	53	15	84	50	92	38
Belgium	13	2	25	61	12	77	49	84	36
France	14	8	21	61	36	81	12	77	36
Vietnam	15	5	80	43	14	58	34	43	36
Russia	16	14	24	32	100	58	5	43	35
Australia	17	4	31	63	29	62	13	98	35
Spain	18	5	32	59	17	78	11	84	34
New Zealand	19	1	36	59	20	66	12	100	33
Philippines	20	4	67	54	29	44	9	63	33
Denmark	21	1	26	59	16	78	21	93	33
Indonesia	22	11	52	29	27	52	3	69	33
Cyprus	23	1	47	68	16	59	22	86	33
Malaysia	24	3	47	49	22	59	22	72	32

Source: IGlobalEdge. "Market Potential Index 2021." Accessed June 1, 2022. http://globaledge.msu.edu.

The World of International Management—Revisited

In the World of International Management at the start of the chapter, you read about how social media is changing how we connect, shaping business strategy and operations, and even affecting diplomacy. Social media and social networks are revolutionizing the nature of international management by allowing producers and consumers to interact directly and bringing populations of the world closer together. Having read this chapter, you should now be more cognizant of the impacts of globalization and many international linkages among countries, firms, and societies on international management. Although controversial, globalization appears unstoppable. The creation of free trade agreements worldwide has helped trigger economic gains in many developing nations. Despite "Brexit," the consolidation and expansion of the EU will continue to open up borders and make it easier and more cost-effective for exporters and investors from other countries to do business there. At the same time, the COVID-19 pandemic and geo-political events such as the Russia–Ukraine conflict pose challenges to global economic prosperity. In Asia, formerly closed economies such as India and China have opened up, and other emerging Asian countries such as Indonesia, Malaysia, the Philippines, and Thailand are becoming important emerging economies in their own right. Continued efforts to privatize, deregulate, and liberalize many industries will increase consumer choice and lower prices as competition increases. The rapid growth of social media networks around the world is but one reflection of the interconnected nature of global economies and individuals. In some ways, social media is transcending traditional barriers and impediments to global integration; however, differences in economic systems and approaches persist, making international management an ongoing challenge.

In light of these developments, answer the following questions: (1) What are some of the pros and cons of globalization and free trade? (2) How might the rise of social media result in closer connections (and fewer conflicts) among nations? (3) Which regions of the world are most likely to benefit from globalization and integration in the years to come, and which may experience dislocations or setbacks?

SUMMARY OF KEY POINTS

1. Globalization—the process of increased integration among countries—continues at an accelerated pace. More and more companies—including those from developing countries—are going global, creating opportunities and challenges for the global economy and international management. At the same time, there has been a rise in antiglobalization sentiments due to perceptions that the distributions of its benefits are uneven and due to questions raised by offshoring. There have emerged sharp critics of globalization among academics, NGOs, and the developing world, yet the pace of globalization and integration continues unabated.
2. Economic integration is most pronounced in the triad of North America, Europe, and the Pacific Rim. The North American Free Trade Agreement (NAFTA) and its successor, the United States–Mexico–Canada Agreement (USMCA), have turned the region into one giant market. In South America, there is an increasing amount of intercountry trade, sparked by Mercosur. Additionally, trade agreements such as the Central American Free Trade Agreement (CAFTA) are linking countries of the Western Hemisphere together. In Europe, the expansion of the original countries of the European Union (EU) is creating a larger and more diverse union, with dramatic transformation of Central and Eastern European countries such as the Czech Republic, Poland, and Hungary. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) links together 11 major Asian and Asian-facing economies, and the Transatlantic Trade and Investment Partnership (T-TIP), a proposed trade agreement between the European Union and the U.S., could further promote trade and multilateral economic growth in Europe and North America. Africa and the Middle East continue to face complex problems but still hold economic promise for the future. Emerging markets in all regions present both opportunities and challenges for international managers.
3. Different growth rates and shifting demographics are dramatically altering the distribution of economic power around the world. Notably, China's rapid growth will make it the largest economic power in the world by as early as 2030. India will be the most populous country in the world, and other emerging markets will also become important players. International trade and investment have been increasing dramatically over the years. Major multinational corporations (MNCs) have holdings throughout the world, from North America to Europe to the Pacific Rim to Africa. Some of these holdings are a result of direct investment; others are partnership arrangements with

local firms. Small firms also are finding that they must seek out international markets to survive in the future. MNCs from emerging markets are growing rapidly and expanding their global reach. The internationalization of nearly all business has arrived.

4. The COVID-19 crisis and the recent geo-political events such as the Russia–Ukraine conflict have threatened the stability of the current global economic order as countries face domestic challenges to maintain economic growth. The health crisis impacted every aspect of economic and social lives of millions around the world. Faced with severe disruptions to global supply chains, multinational firms were forced to consider reconfiguring their supply chains and bring back some of their international operations to home regions.
5. Different economic systems characterize different countries and regions. These systems, which include market, command, and mixed economies, are represented in different nations and have changed as economic conditions have evolved.

KEY TERMS

chaebols, *29*
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), *13*
European Union (EU), *13*
foreign direct investment (FDI), *21*
globalization, *8*
international management, *5*
keiretsu, *26*
management, *5*
maquiladora, *25*
Ministry of International Trade and Industry (MITI), *26*
MNC, *5*
North American Free Trade Agreement (NAFTA), *12*
offshoring, *8*
outsourcing, *8*
United States–Mexico–Canada Agreement (USMCA), *12*
World Trade Organization (WTO), *11*

REVIEW AND DISCUSSION QUESTIONS

1. How has globalization affected different world regions? What are some of the benefits and costs of globalization for different sectors of society (companies, workers, communities)?
2. How has NAFTA/USMCA affected the economies of North America and how has the EU affected Europe? What importance do these economic pacts have for international managers in North America, Europe, and Asia?
3. How has the COVID-19 pandemic impacted different aspects of business operations around the world? Has this impact been uniform for all countries? Describe why some nations could manage the pandemic better than others.
4. What is the importance of Eastern European countries to the global economy? Identify and describe some risks associated with doing business in these regions.
5. Many MNCs have secured a foothold in Asia, and many more are looking to develop business relations there. Why does this region of the world hold such interest for international management? Identify and describe some reasons for such interest.
6. Why would MNCs be interested in South America, India, the Middle East and Central Asia, and Africa, the less developed and emerging countries of the world? Would MNCs be better off focusing their efforts on more industrialized regions? Explain.
7. MNCs from emerging markets (India, China, Brazil) are beginning to challenge the dominance of developed country MNCs. What are some advantages that firms from emerging markets bring to their global business? How might MNCs from North America, Europe, and Japan respond to these challenges?

ANSWERS TO THE IN-CHAPTER QUIZ

1. **c.** U.S.-based Procter & Gamble acquired the Braun company in 2005.
2. **d.** Lenovo was founded in Beijing in 1984 and maintains operations in both China and the United States.
3. **d.** Tata Motors, a division of the Indian conglomerate the Tata Group, purchased Jaguar, Land Rover, and related brands from Ford in 2008.
4. **a.** CJ CheilJedang, a South Korean food conglomerate, acquired a majority stake in the company in 2018.
5. **a.** B&G, a holding company located in the United States, acquired the Green Giant product line 2015 from General Mills.
6. **d.** Godiva chocolate is owned by Yildiz Holding, a Turkish conglomerate.
7. **b.** Vaseline is manufactured by the Anglo-Dutch MNC Unilever PLC.
8. **d.** Haier Group, the largest appliance manufacturer in the world and headquartered in China, acquired GE Appliances in 2016.
9. **d.** Holiday Inn is owned by Britain's InterContinental Hotels Group PLC.
10. **c.** Tropicana orange juice was purchased by U.S.-based PepsiCo.

INTERNET EXERCISE: GLOBAL COMPETITION IN FAST FOOD

One of the best-known franchise operations in the world is McDonald's, and in recent years the company has been working to expand its international presence. But emerging market fast-food companies have succeeded in slowing McDonald's global expansion by catering to local and regional tastes. Philippines-based Jollibee is one such success story. Jollibee has 780 outlets in the Philippines and more than 90 around the world, including in the United States. Visit the McDonald's and Jollibee websites, https://www.mcdonalds.com and https://www.jollibee.com, and find out what each has planned in terms of its global expansion. Compare their presence in Asia to each other and to the Yum! Brands KFC and Pizza Hut presence in Asia.

Then, based on this assignment and the chapter material, answer these last three questions: (1) Which of these companies seems best positioned in Southeast Asia? (2) What advantages might a "local" brand like Jollibee have over the global companies? What advantages do the global MNCs have? (3) What is your prediction in terms of future growth potential?

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In the International Spotlight

India

India is located in southern Asia, with the Bay of Bengal to the country's east and the Arabian Sea to its west. Positioned alongside the important trade corridor of the Indian Ocean, India is approximately one-third the size of the United States in area. Its major natural resources consist of coal (fourth-largest reserves in the world), iron ore, antimony, lead, manganese, mica, bauxite, rare earth elements, titanium ore, chromite, natural gas, diamonds, petroleum, limestone, and arable land. The majority of the country's land use (60 percent) is allocated to agriculture. India is a largely rural country that suffers from a significant lack of infrastructure in both metropolitan and rural areas.[122]

India boasts a population of 1.38 billion, of which 36 percent is urban. The country is approximately 80 percent Hindu and 14 percent Muslim. The population is also relatively young, with about 85 percent of the population 54 years old or younger and 67 percent in the working age of 15 to 64 years. The population growth rate is a steady 1 percent. Hindi is the dominant language, but Indians, depending on their ethnicity and geographic location, speak a variety of other languages as well, including Bengali, Telugu, Marathi, Tamil, Urdu, Gujarati, Kannada, Malayalam, Oriya, Punjabi, Assamese, and Maithili. These various languages form the basis of how the states within the country are divided. While Hindi is the dominant language, English is the language primarily used among the educated class and in commercial and political communication.[123,124]

Because India was under British rule, India adopted the common law legal system. As the world's largest democratic republic, India's political system is also similar to that of the United Kingdom. The country has operated with this form of government since it gained independence from the United Kingdom in 1947. The executive branch consists of the president, vice president, prime minister, and cabinet of appointees; the legislative branch is fashioned as a bicameral parliamentary system; and the judicial branch is modeled off of the English court system.

India still faces numerous socioeconomic and security challenges, including a high rate of poverty and strained relations with neighboring Pakistan and border tensions with China. Per capita income remains below the global average, and the country ranks 163 out of 223 countries on life expectancy.[125] India's tense relations with Pakistan date back to the time each gained independence from the British empire. Split along religious lines, India was intended to remain a largely Hindu state, while Pakistan was intended to be a predominantly Muslim one. Fighting between the two neighbors started almost immediately. Kashmir, where the leader of the state was Hindu but the majority of the population was Muslim, has served as a focal point for disagreements between the nations. The multiple wars over this area are collectively known as the Kashmir Conflict.[126] The border dispute with China also dates back many decades, with a brief war in 1962 and an on-going military standoff that leads to economic tensions between the two nations.[127,128]

India has an incredibly diverse economy, with a modern industrial and service sector mixed with traditional village farming and handicraft creation. The country has leveraged its educated English-speaking workforce to become a global information technology hub. Services account for over 60 percent of GDP, despite employing less than a third of the 520 million people in the workforce. India's GDP in 2020 was US$2.7 trillion.[129]

The Indian economy was among the hardest-hit during the Covid-19 pandemic, with GDP shrinking 7.3 percent in 2020. Small and medium-sized companies, where three-fourths of the labor force is employed, have struggled to survive the pandemic. Consumer spending declined and consumer confidence fell to a five-year low in 2020. However, India's Covid-19 vaccination program has been among the largest and most successful globally with over one billion vaccines administered. GDP growth is projected to recover to 9.5 percent in the fiscal year 2021–2022, which is higher than that of many other larger emerging markets.[130,131,132,133]

India has taken a neutral stance on global geo-political issues, abstaining from voting in a United Nations resolution to condemn Russia's recent invasion of Ukraine. Inflation In India, which reached 6 percent in January 2022, above the 3.6 percent trend in the three years prior to the Covid-19 pandemic, is trending higher as global oil markets are impacted by sanctions on Russian crude oil.[134] India currently imports 85 percent of crude oil consumption, although only 2 percent is supplied by Russia, and has agreed to purchase additional crude oil at discounted prices from Russia even as the U.S. and other nations attempt to cut off Russia's oil exports. India has historically relied on Russia for other imports and strategic support. Half of India's arms imports and 70 percent of its current arsenal come from Russia, and Russia has also supported its claims over Kashmir.[135,136]

You Be the International Business Consultant

In recent years, foreign companies have largely dominated India's emerging Internet economy. In response, India

announced plans in January 2019 to introduce a national champion policy that would tighten restrictions on foreign firms, giving domestic start-ups an advantage in the marketplace. A similar plan has worked for domestic Internet retailers in neighboring China, where Alibaba Group Holding Ltd. and Tencent Holdings Ltd. compete without much interference from U.S. and European companies. Two large global retailers, Amazon, and Walmart, which purchased formerly Indian-owned Flikpart, now compete with the Indian conglomerate, Reliance Group. Reliance Group launched India's largest retailer, Reliance Retail, in 2020. While Amazon and Walmart are not permitted to sell their own products or own inventory and have restrictions on ownership of large sellers, Reliance Retail does not face such restrictions. Amazon attempted a legal battle but failed to block the recent acquisition of its former partner and second-largest Indian retailer, Future Group, by Reliance Industries. Amazon and Walmart are attempting to forge ahead with their own local partnerships while Reliance Retail's online grocery store Jio-Mart has gained popularity during the pandemic. The Indian government, meanwhile, is drafting new e-commerce rules to target digital monopolies and plug loopholes that Amazon and Walmart may have benefited from.[137,138]

Questions

1. Do you agree with India's position of promoting domestic firms at the risk of less foreign investment?
2. If you were consulting for Walmart or Amazon, how would you suggest that it deal with this new policy?
3. Should Indian consumers care about whether they shop from domestic or foreign companies?
4. What benefits could the Indian economy reap by supporting international firms instead of attempting to lessen their economic influence?

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Chapter 2

THE POLITICAL, LEGAL, AND TECHNOLOGICAL ENVIRONMENT

OBJECTIVES OF THE CHAPTER

The broader political, legal, and technological environment faced by international managers is changing rapidly. Changes in this environment are more common and rapid, presenting challenges for managers seeking to respond and adapt to this environment. Although there are many dimensions of the external environment relevant to international management, the economic considerations covered in the previous chapter are among the most important, along with the cultural issues covered in Part Two. However, the political, legal, regulatory, and technological dimensions also bear on the international manager in highly significant ways. The objectives of this chapter are to examine how the political, legal, regulatory, and technological environments have changed in recent years, and how these changes pose challenges and opportunities for international managers. In Chapter 10, we return to some of these themes, especially as they relate to political risk and managing the political environment. In this chapter, we outline some of the major trends in the political, legal, and technological environment that will shape the world in which international managers will compete. The specific objectives of this chapter are

1. **INTRODUCE** the basic political systems that characterize regions and countries around the world and offer brief examples of each and their implications for international management.
2. **PRESENT** an overview of the legal and regulatory environment in which MNCs operate worldwide and highlight differences in the approach to legal and regulatory issues in different jurisdictions.
3. **REVIEW** key technological developments, including the growth of ecommerce, and discuss their impact on MNCs now and in the future.

The World of International Management

Social Media and Political Change

The role of social media as an organizing tool, a chronicling, journalistic, and support-building tool, all in the context of political change, underscores the interesting interactions of technological progress and political conflict and change. Social media has enabled revolutionaries, governments, journalists, and even terrorists to organize quickly, communicate globally, and build support for their cause, resulting in serious ramifications for international management.

Social Media as a Chronicling and Support-Building Tool in the Russia–Ukraine War

Russia's invasion of Ukraine since late February 2022 is perhaps the most documented war in history, at a time when social media is more widely in use than ever before. With Ukraine being the most wired nation to have been invaded, many images and videos documenting the war and sharing messages of hope and angst have gone viral. A video of a Ukrainian woman offering sunflower seeds to Russian soldiers to put in their pockets so that something useful would grow from them when they die on Ukrainian land has garnered over 8.6 million views globally. Another video of a group of Ukrainians helping a teenage Russian soldier tearfully call his mother in Russia has also spread widely on the internet, as has a clip of a Ukrainian soldier who used his cellphone to dodge a bullet, and a man who tried to stop a tank with his bare hands. Many have risked their lives to film and post every bombing. Eyewitnesses have supplied photos and videos of war crimes to organizations such as Human Rights Watch.[1,2]

Social media has helped rally global support for Ukraine and is changing the way the world understands, views, and responds to the Russia–Ukraine war. Twitter, Facebook, and phone apps have helped separated Ukrainian families and friends check in with each other, share information on the location of Russian forces, share information on evacuation trains, organize, and gather supplies for use in hospitals. Social media has also helped Ukraine garner global support, with many governments and their citizens condemning Russia's war crimes as genocide. Media posts have been used as a wartime "instrument": the White house briefed young Tik-Tok influencers on the war, the Ukrainian minister for digital transformation has used Twitter to encourage global

technology firms' "digital blockade" of Russia, and the Ukrainian government has shared posts and memes shaming MNCs including Nestle that refused to stop operations in Russia.[3]

Despite social media's pivotal role in chronicling the war and rallying global support for Ukraine, a danger is that it is difficult to discern truth from fact in posts. In April 2022 a "deep fake" video depicted Ukrainian President Volodymyr Zelenskyy asking soldiers to lay down their weapons. The messaging app Telegram, which shared the video, is widely used in both Ukraine and Russia. Its Russian co-founder has wowed to protect Ukrainian users' information, but also does not moderate or attempt to remove Russian disinformation. The United Nations, crippled by Russia's veto powers, is also alarmed at Russia's ability to spread fake war-news. In the early days of war, the Kremlin's official message to Russians was that it was conducting a limited "special military operation" to "de-Nazify" Ukraine, and many Russian relatives refused to believe their Ukrainian families' accounts of the war. The Russian government has gone to great lengths to ban Twitter, Facebook, and Instagram, and has made it illegal to describe its activities in Ukraine as "war" or an "invasion". A law against fake war news allows the Russian government to imprison dissent spreaders for years, and even foreign media staff have retreated because of this, drawing fears of an information blackout in Russia.[4,5]

Meanwhile, volunteer hackers around the world have formed an "IT army" to help Ukraine's war mission. Hackers have replaced Russia's online restaurant reviews with clips of real accounts of the war in Ukraine. They have targeted the Russian Central Bank, government websites, commercial websites, and state news outlets in a quest to crash sites and disrupt everyday life in Russia.[6]

Social Media as an Organizing and Support-Building Tool in the Syrian War

Ukraine's war is not the only one in which social media has played a vital role. The ongoing conflict in Syria, which first arose in the early 2010s in the wake of the "Arab Spring" that spread across Egypt, Tunisia, and Libya, has also been particularly impacted by the use of social media. Journalism, communication, and transparency from within Syria have all been redefined by the use of social media by ordinary citizens. Unlike past conflicts, the Syrian civil war and resulting refugee crisis unraveled in real time to a global audience through photos and videos on YouTube, Facebook, Twitter and TikTok.

While previous uprisings lacked widespread communication tools, individuals engaged in the Syrian conflict were equipped with smartphones and social media. Syrian government loyalists, Syrian revolutionaries, and the terrorist organization Islamic State of Iraq and Syria (ISIS), all utilized social media to quickly and efficiently organize their supporters. In the early years of the conflict, the pro-revolution Facebook group "The Syrian Revolution 2011" swelled to nearly half a million members, while the group supporting Syrian President Bashar al-Assad had nearly 3 million. ISIS released propaganda videos on all forms of social media, and the terror group maintained multiple Twitter accounts in an attempt to recruit internationally.

Evidence suggests that at the start of the conflict, the revolutionaries were able to mobilize through social media. Inspired by videos uploaded to YouTube showing the Syrian government harshly cracking down on nonviolent protesters, nearly 100,000 Syrians organized via Facebook and staged a protest in Hama in June 2011. The strength in numbers afforded by social media made the Syrian protests incredibly difficult to dissolve; by using social networking sites, protesters were able to communicate and effectively assemble themselves, far outnumbering the military and government forces sent to suppress them. Tips on how to protect oneself from tear gas and police batons were shared through Facebook groups, and Twitter served as a communication lifeline when government authorities attempted to disperse the crowds.[7,8]

Social media provided such a powerful tool to revolutionaries that the Syrian government attempted to completely disrupt Internet service on several occasions throughout the civil war, most notably during the massive protests demanding the removal of President Bashar al-Assad. Widespread outages spread through nearly all of Syria, including Damascus, essentially shutting off all communication with the outside world.[9] Cyber attacks were also perpetrated by supporters of the Syrian government in an attempt to censor photos and videos coming from the protesters; malware programs that steal Facebook and YouTube logins were dispatched on a massive scale.[10] Smartphones morphed into a symbol of the revolutionary forces, with Syrian government soldiers and ISIS border guards often demanding to inspect the cell phones of anyone passing through their posts.[11]

Those fleeing the conflict also utilized social media to plan a safe escape from Syria. Refugees who successfully migrated to Europe assisted those still making the journey through online activity. A Facebook group dedicated to sharing knowledge and advice with fellow refugees swelled to over 100,000 members. Topics ranged from necessary supplies and route information to messages of encouragement. Smugglers, often necessary for safe passage, were recommended and discussed, and even weather conditions were relayed to those making the journey by sea.[12,13]

In the early stages of the war, the Syrian government banned international news media from covering the revolution. As a result, social media became the primary source of photos, videos, and news stories from inside the conflict. The Syrian civil war represented one of the first major conflicts in which citizens could instantly record video from the front lines and, using smartphones, transmit that footage to the Internet in real time. News organizations, unable to gather information from any other source, used the uploaded social media to build their reports. Syrians from all sides of the conflict created and shared this content on various social networking sites, attempting to build international support for their cause.[14] The sheer amount of content uploaded is staggering; over 4 million videos from within the revolution were uploaded to YouTube between 2011 and 2018, often taken by cell phone.[15] Another website, OnSyria, was used by protesters to upload nearly 200,000 videos.

Unlike written news releases, pictures and videos have the ability to convey information in emotional ways that transcend language. During the Syrian civil war, social media, used as a visual medium, led the global community to unite behind the plight of the Syrian refugees in an unprecedented way. During the height of the refugee crisis in early 2015, images and videos of overloaded rafts filled with desperately fleeing Syrians dominated the social media. Smartphones and social networks ensured that any human rights violations from either revolutionaries or the government would be broadcast online, likely eroding any international support that the inflicting party had.

As is the case with Ukraine's war with Russia, social media platforms' influence on free speech in the Syrian war was not without controversy and debate, highlighting problems that media platforms grapple with in both authoritarian and democratic regimes. Currently, regulations do not exist to identify and preserve posts serving as evidence of human rights violations. Syrian Archive, a non-profit, found that 21 percent of the almost 1.75 million videos and nearly 12 percent of the approximately 1 million tweets it had on record up to June 2020 showcasing atrocities in Syria were no longer available. Many had risked their lives to record what they witnessed, but either the users themselves or the platforms had taken down the posts. In 2017, a YouTube algorithm could not differentiate between posts by Islamic State and posts by human rights activists, and only after public protests restored videos posted by the activists that it had deleted. Some algorithms never let activists' content reach the public, and Facebook's content moderators have disabled many activists' accounts.[16,17,18]

It is important for international managers to think through these complex political, legal, and technological issues that arise in a world that embraces rapid change, so that they are prepared for potential challenges. MNCs must collaboratively work with new governments as laws, policies, and regulations are introduced and altered. Managing the political and legal environment will continue to be an important challenge for international managers, as will the rapid changes in the technological environment of global business.

Political Environment

Both domestic and international political environments have a major impact on MNCs. As government policies change, MNCs must adjust their strategies and practices to accommodate the new perspectives and actual requirements. Moreover, in a growing number of regions and countries, governments appear to be less stable; therefore, these areas carry more risk than they have in the past. The assessment of political risk and strategies to cope with it will be given specific attention in Chapter 10, but in this chapter we focus on general political systems with selected areas used as illustrations relevant to today's international managers.

The political system or system of government in a country greatly influences how its people manage and conduct business. We discussed in Chapter 1 how the government regulates business practices via economic systems. Here we review the general systems currently in place throughout the world. Political systems vary greatly among nation-states across the world. The issue with understanding how to conduct international management extends beyond general knowledge of the governmental practices to the specifics of the legal and regulatory frameworks in place. Underlying the actions of a government is the ideology informing the beliefs, values, behavior, and culture of the nation and its political system. We discussed ideologies and the philosophies underpinning them in the introduction to this section. Effective management occurs when these different ideologies and philosophies are recognized and understood.

A political system can be evaluated along two dimensions: the ideology of the system and the degree of individualism or collectivism within the system. The first, ideological dimension focuses on the rights of citizens under governments, ranging from fully democratic to totalitarian. The second dimension measures whether the focus of the political system is on individuals or the broader collective. No pure form of government exists in

any category, so we can assume that there are many gradations along the two extremes. The observed correlation suggests that democratic societies emphasize individualism, while totalitarian societies lean toward collectivism.[19]

Ideologies

Individualism Adopters of **individualism** adhere to the philosophy that people should be free to pursue economic and political endeavors without constraint. This means that government interest should not solely influence individual behavior. In a business context, this is synonymous with capitalism and is connected to a free-market society (as discussed in Chapter 1), which encourages diversity and competition, compounded with private ownership, to stimulate productivity. It has been argued that private property is more successful, progressive, and productive than communal property due to increased incentives for maintenance and the focus on care for individually owned property. The idea is that working in a group requires less energy per person to achieve the same goal, but an individual will work as hard as he or she has to in order to survive in a competitive environment. Simply following the status quo will stunt progress, while competing will increase creativity and progress. Modern managers may witness this when dealing with those who adopt an individualist philosophy and then must work in a team situation. Research has shown that team performance is negatively influenced by those who consider themselves individualistic; however, competition stimulates motivation and encourages increased efforts to achieve goals.[20]

individualism
The political philosophy that people should be free to pursue economic and political endeavors without constraint (Chapter 2); the tendency of people to look after themselves and their immediate family only (Chapter 4).

The groundwork for this ideology was founded long ago. Philosophers such as David Hume (1711–1776), Adam Smith (1723–1790), and even Aristotle (384–322 BC) contributed to these principles. While philosophers created the foundation for this belief system long ago, it can be witnessed playing out through modern practice. Eastern Europe, the former Soviet Union, areas of Latin America, Great Britain, and Sweden all have moved toward the idea that the betterment of society is related to the level of freedom individuals have in pursuing economic goals, along with general individual freedoms and self-expression without governmental constraint. The well-known movement in Britain toward privatization was led by Prime Minister Margaret Thatcher during her 11 years in office (1979–1990), when she successfully transferred ownership of many companies from the state to individuals and reduced the government-owned portion of the gross national product from 10 to 3.9 percent. She was truly a pioneer in the movement toward a capitalistic society, which has since spread across Europe.

International managers must remain alert to how political changes may impact their business, as a continuous struggle for a foothold in government power often affects leaders in office. As discussed in Chapter 1, the United Kingdom's decision to leave the EU, a process termed "Brexit," provides a strong example of this. Fueled by increased concerns about immigration and the role of the EU in managing affairs in member states, the Brexit referendum achieved a slim majority of yes voters. The Conservative party leaders and Theresa May, first elected prime minister in 2016 shortly after the vote, were originally opposed to the Brexit referendum, citing the economic consequences that could result from losing trading partners. However, once the referendum passed, Prime Minister May fully supported a complete withdrawal from the EU, and had to resign when she did not receive enough support for the Brexit deal in the UK parliament. In the 2019 general election that followed Theresa May's resignation, the conservative party campaigned in favor of Brexit and had a landslide victory. The new Prime Minister Boris Johnson led a successful withdrawal of the U.K. from the EU on January 31, 2020. As the U.K. economy copes with the early pains of Brexit, Prime Minister Johnson is exploring new alliance partners, including with the commonwealth countries, such as Canada and Australia, and erstwhile colonies such as India. Government policy, in its attempt to control the economic environment, waxes and wanes, something the international manager must be keenly sensitive to.

Although MNCs need to be responsive to the political environment of individual countries, due in part to the persistence of cultural differences—which will be discussed in Chapter 5—there are also significant interdependencies. For example, the Russia–Ukraine

conflict, even though involving only two nations, has prompted many countries around the world to come together and support Ukraine both politically and economically. This included Germany suspending the Nord Stream 2 Baltic Sea gas pipeline project, which was worth $11 billion and was designed to double the flow of Russian gas to Germany. Many multinationals responded to regulative and normative pressures to withdraw from Russia in support of Ukraine despite suffering huge losses.[21] The Russia–Ukraine conflict has brought the European countries closer than ever before, with the prospect of several others joining the EU. (see Chapter 1 for details on EU). International managers need to understand the short-term and long-term consequences of such geo-political events for their operations, not only in the immediate area of operations but also throughout the world.

collectivism
The political philosophy that views the needs and goals of society as a whole as more important than individual desires (Chapter 2); the tendency of people to belong to groups, or collectives, and to look after each other in exchange for loyalty (Chapter 4).

Collectivism

Collectivism views the needs and goals of society at large as more important than individual desires.[22] The reason there is no one rigid form of collectivism is that societal goals and the decision of how to keep people focused on them differ greatly among national cultures. The Greek philosopher Plato (427–347 BC) believed that individual rights should be sacrificed and property should be commonly owned. While on the surface one may assume that this would lead to a classless society, Plato believed that classes should still exist and that the best suited should rule over the people. Many forms of collectivism do not adhere to that idea.

Collectivism emerged in Germany and Italy as "national socialism," or fascism. Fascism is an authoritarian political ideology (generally tied to a mass movement) that considers individual and other societal interests inferior to the needs of the state and seeks to forge a type of national unity, usually based on ethnic, religious, cultural, or racial attributes. Various scholars attribute different characteristics to fascism, but the following elements are usually seen as its integral parts: nationalism, authoritarianism, militarism, corporatism, collectivism, totalitarianism, anticommunism, and opposition to economic and political liberalism.

We will explore individualism and collectivism again in Chapter 4 in the context of national cultural characteristics.

socialism
A moderate form of collectivism in which there is government ownership of institutions but profit is not the ultimate goal.

Socialism

Socialism directly refers to a society in which there is government ownership of institutions but profit is not the ultimate goal. In addition to historically communist states such as China, North Korea, and Cuba, socialism has been practiced to varying degrees in recent years in a more moderate form—"democratic socialism"—by Great Britain's Labour party and Germany's Left party, as well as in France, Spain, Bolivia, and Portugal.[23]

Modern socialism draws on the philosophies of Karl Marx (1818–1883), Friedrich Engels (1820–1895), and Vladimir Ilyich Lenin (1870–1924). Marx believed that governments should own businesses because in a capitalistic society only a few would benefit, and it would probably be at the expense of others in the form of not paying wages due to laborers. He advocated a classless society where everything was essentially communal. Socialism is a broad political movement, and forms of it are unstable. In modern times, it branched off into two extremes: communism and social democracy.

Communism is an extreme form of socialism that was realized through violent revolution and was committed to the idea of a worldwide communist state. During the 1970s, most of the world's population lived in communist states. The communist party encompassed the former Soviet Union, China, and nations in Eastern Europe, Southeast Asia, Africa, and Latin America. Cuba, Nicaragua, Cambodia, Laos, and Vietnam headed a notorious list. Today much of the communist collective has disintegrated. Though China still exhibits communism in the form of limiting individual political freedom, it has begun to move away from communism in the economic and business realms because it has discovered the failure of communism as an economic system due to the tendency of common goals to stunt economic progress and individual creativity.

Some transition countries, such as Russia, are postcommunist but retain aspects of an authoritarian government. Russia presents one of the most extreme examples of how

the political environment affects international management. Poorly managed approaches to the economic and political transition resulted in neglect, corruption, and confusing changes in economic policy.[24] Devoid of funds and experiencing regular gas pipeline leaks, toxic drinking water, pitted roads, and electricity shutoffs, Russia did not present attractive investment opportunities as it initially moved away from communism. More recently, actions by the Russian government in the international arena—including the annexation of Crimea in 2014, the attempted interference in the 2016 U.S. presidential election, and the large-scale invasion of Ukraine in 2022 have compounded the risks of operating in Russia. Major companies, including BP, ExxonMobil, and IKEA, have each encountered de facto expropriation, corruption, and state-directed industrialization. Furthermore, sanctions issued by the EU and U.S. have directly impacted the ability of foreign investors to conduct business. Despite these challenges, many companies have taken the risk of investing in Russia. A large population, abundant natural resources, increasing wealth, privatization of the Unified Energy System, and the movement by the Kremlin to begin government funding for the good of society—including education, housing, and health care—all make Russia a potentially lucrative place to do business.

One of the biggest problems in transition economies is corruption, which we will discuss in greater depth in Chapter 3. The 2021 Corruption Perception Index from Transparency International ranked the Brazil, Russia, China, India, and South Africa (the five BRICS countries) at 86, 136, 66, 85, and 75, respectively.[25] As MNCs look to emerging economies for more investments, they need to consider the unethical practices and corruption that add additional costs of doing business in emerging economies.[26]

Social democracy refers to a socialist movement that achieved its goals through nonviolent revolution. This system was pervasive in such Western nations as Australia, France, Germany, Great Britain, Norway, Spain, and Sweden, as well as in India and Brazil. While social democracy was a great influence on these nations at one time, in practice it was not as viable as anticipated. Businesses that were nationalized were quite inefficient due to the guarantee of funding and the monopolistic structure. Citizens suffered a hike in both taxes and prices, which was contrary to the public interest and the good of the people. The 1970s and 1980s witnessed a response to this unfair structure with the success of Britain's Conservative party and Germany's Christian Democratic party, both of which adopted free-market ideals. Margaret Thatcher, as mentioned previously, was a great leader in this movement toward privatization. In recent years, Britain has continued the trend away from social democracy, further altering its longstanding commitment to broad social support programs. Ongoing austerity measures, first implemented in 2010 due to severe budget shortfalls in the wake of the Great Recession, have resulted in a comprehensive restructuring of Britain's public services. Military spending, social program spending, and financial support for local governments have been reduced dramatically. Despite a budget surplus in 2018, ongoing uncertainty over the economic consequences from the Brexit process have led many to believe that the austerity measures will continue for years to come.[27]

It is important to note the difference between the nationalization of businesses and nationalism. The nationalization of businesses is the transference of ownership of a business from individuals or groups of individuals to the government. This may be done for several reasons: The ideologies of the country encourage the government to extract more money from the firm, the government believes the firm is hiding money, the government has a large investment in the company, or the government wants to secure wages and employment status because jobs would otherwise be lost. Nationalism, on the other hand, is an ideal in and of itself whereby an individual is completely loyal to his or her nation. People who are a part of this mindset gather under a common flag for such reasons as language or culture. The confusing thing for the international businessperson is that it can be associated with both individualism and collectivism. Nationalism exists in the U.S., where there is a national anthem and all citizens gather under a common flag, even though individualism is practiced in the midst of a myriad of cultures and extensive diversity. Nationalism also exists in China, exemplified in the

movement against Japan in the mid-1930s and the communist victory in 1949 when communist leader Mao Tse-tung gathered communists and peasants to fight for a common goal. This ultimately led to the People's Republic of China. In the case of modern China, nationalism presupposes collectivism.

Political Systems

There are two basic anchors to political systems, each of which represents an "ideal type" that may not exist in pure form.

democracy
A political system in which the government is controlled by the citizens either directly or through elections.

Democracy

Democracy, with its European roots and strong presence in Northern and Western Europe, refers to the system in which the government is controlled by the citizens either directly or through elections. Essentially, every citizen should be involved in decision-making processes. The representative government ensures individual freedom since anyone who is eligible may have a voice in the choices made.

A democratic society cannot exist without at least a two-party system. Once elected, the representative is held accountable to the electorate for his or her actions, and this ultimately limits governmental power. Individual freedoms, such as freedom of expression and assembly, are secured. Further protections of citizens include impartial public service, such as a police force and court systems that also serve the government and, in turn, the electorate, though they are not directly affiliated with any political party. Finally, while representatives may be re-elected, the number of terms is often limited, and an elected representative may be voted out during the next election if he or she does not sufficiently adhere to the goals of the majority ruling. As mentioned earlier, a social democracy combines a socialist ideology with a democratic political system, a situation that has characterized many modern European states as well as some in Latin America and other regions.

totalitarianism
A political system in which there is only one representative party, which exhibits control over every facet of political and human life.

Totalitarianism

Totalitarianism refers to a political system in which there is only one representative party, which exhibits control over every facet of political and human life. Power is often maintained by the suppression of opposition, which can be violent. Media censorship, political repression, and denial of rights and civil liberties are dominant ideals. If there is opposition to government, the response is imprisonment or even worse tactics, often torture. This may be used as a form of rehabilitation or simply a warning to others who may question the government.

The most common form of totalitarianism is communist totalitarianism. Most dictatorships under the communist party had disintegrated by 1989, aspects and degrees of this form of government are still found in Cuba, North Korea, Laos, Venezuela, Vietnam, and China. The evolution of modern global business has substantially altered the political systems in Vietnam, Laos, and China, each of which has moved toward a more market-based and pluralistic environment. However, each still exhibits some oppression of citizens through the denial of civil liberties. The political environment in China is very complex because of the government's desire to balance national, immediate needs with the challenge of a free-market economy and globalization.[28] Since joining the WTO in 2001, China has made trade liberalization a top priority. Additionally, in 2018, China took steps to open its automobile, financial, power grid, shipping, and railway industries to more private, foreign investment. However, MNCs still face a host of major obstacles when doing business with and in China. For example, government regulations are applied inconsistently, severely hamper multinational activity, and still favor domestic companies.[29] This makes it increasingly difficult for MNCs to gain the proper legal footing. The biggest problem may well be that the government does not know what it wants from multinational investors, and this is what accounts for the mixed signals and changes in direction that it continually sends. All this obviously increases the importance of knowledgeable international managers.

China may be moving further away from its communist tendencies as it begins supporting a more open, democratic society, at least in the economic sphere. China continues to monitor what it considers antigovernment actions and practices, but there is a discernible shift toward greater tolerance of individual freedoms.[30] For now, China continues to challenge the

capabilities of current international business theory as it transitions through a unique system favoring high governmental control yet striving to unleash a more dynamic market economy.[31]

Though the most common, the totalitarian form of government exhibited in China is not the only one. Other forms of totalitarianism exhibit other forms of oppression as well. Parties or governments that govern an entity based on religious principles will ultimately oppress the religious and political expression of its citizens. Examples are Iran and Saudi Arabia, where the laws and government are based on Islamic principles. Conducting business in the Middle East is, in many ways, similar to operating a business in the Western world. The Arab countries have been a generally positive place to do business, as many of these nations are seeking modern technology and most have the financial ability to pay for quality services. Worldwide fallout from the war on terrorism; the rise of ISIS; the Afghanistan, Iraq, and Syrian wars; and the ongoing Israel-Arab conflicts, however, have raised tensions in the Middle East considerably, making the business environment there risky and potentially dangerous.

The 2011 Arab Spring uprisings affected business dealings in the authoritarian and/or totalitarian countries across northern Africa and the Middle East. Reasons for the political unrest varied, but the most commonly included factors were oppressive government rule, economic decline, high unemployment, and human rights violations. Protesters successfully overthrew four government regimes and forced reforms in almost a dozen others. The political and economic fallout from the Arab Spring, including the Syrian civil war discussed in the opening section of this chapter, has left the business environment with much continued uncertainty. Production and GDP were negatively affected almost overnight, and fuel prices spiked globally. Supply chain routes were disrupted for months, increasing the shipping and logistical costs of goods passing through the region. In Egypt, a military coup overthrew democratically elected Egyptian President Morsi in 2013, and a military general was elected president in a suspect election in 2014. In Libya, the fall of Gaddafi resulted in a power vacuum, inviting increased acts of terrorism. Saudi Arabia, under the Crown Prince Salman, started social and economic reforms. On the social front, the Saudi government lifted some of the rigid restrictions, such as the ban on women driving in 2018, the ban on playing music in restaurants in 2019, and a more modest dress code for tourists that would not require that women wear all-covering robes. On the economic front, the Saudi government unveiled Vision 2030 in 2016, which led to an increase in the share of non-oil GDP rising from 55 percent in 2016 to 59 percent in 2020.[32,33] A map of the countries that were impacted by the Arab Spring can be seen in Figure 2–1. Though many countries in the region have somewhat stabilized, the fallout from the revolutions will continue to impact international business.

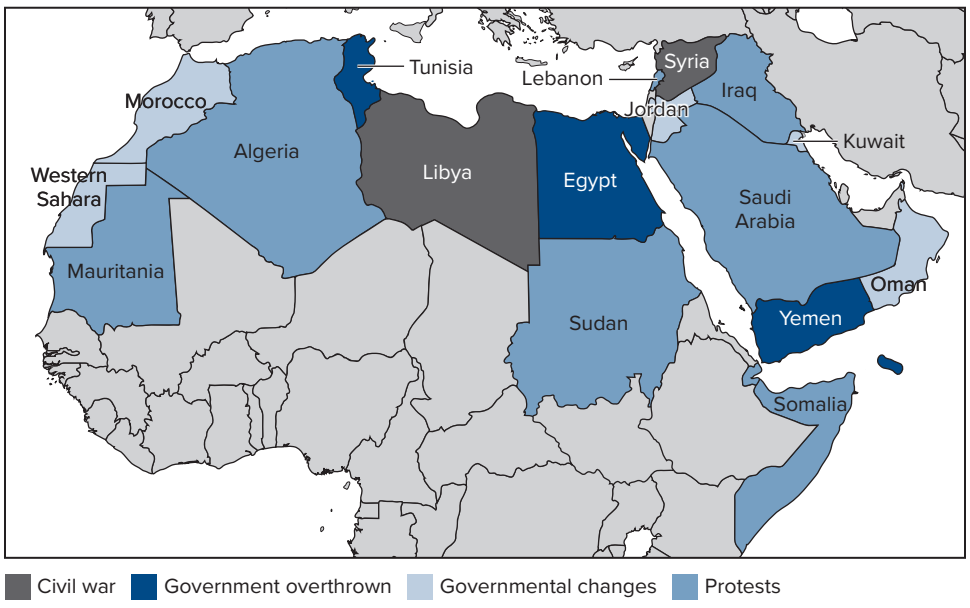


Figure 2–1
Summary of Arab Spring Uprisings

Source: Original graphic by Professor Jonathan Doh.

A Closer Look

The Economic Impacts of Global Terrorism

A New Challenge for the International Business Community

As discussed in the opening section of this chapter, the social media has made global communication easier, which, unfortunately, includes the orchestration of terrorist attacks. Global terrorism is a relatively new challenge; no longer are terrorist attacks small, one-person events isolated to a particular region or country. Over the last decade, attacks in Madrid, London, and Paris have involved a high degree of complexity and organization. Organizations like ISIS are recruiting worldwide through social networking sites, working to organize attacks far from their home base in Syria. Living in an interconnected world, it would be naïve to believe that the threat of terrorism does not affect the international business community.

Evidence shows that the tourism industry appears to be especially impacted by the threat of terrorism, at least in the short term. Following the suicide bombing attacks at churches and luxury hotels in Sri Lanka that killed over 250 and injured more than 500 people during Easter in 2019, the arrival of tourists during the next month was estimated to have declined 60 percent compared to the previous year.

Larger countries, too, have felt the short-term impact of terror attacks. According to the British Hospitality Association, a series of terrorist attacks in 2017 at Westminster Bridge, Manchester Arena, and London Bridge, which killed 35 civilians and injured an additional 600, resulted in a sudden, yet temporary, decline in tourism activity in the U.K. The number of visitors to London attractions dropped as much as 15 percent in the days following the London Bridge attack and approximately 6 percent following the Manchester Arena bombing. In places like the U.K., where 10 percent of economic activity and over 4 million jobs are dependent on tourism, even a slight decrease in visitors has a high economic impact. However, research tends to agree that decreased tourism due to terror attacks, though steep, is almost always temporary. According to a 2018 report by the RAND Corporation, tourism in EU countries typically returns to normal levels within three months following an attack.

There is some evidence that terrorism negatively impacts other sectors of the economy in more long-lasting ways. According to the RAND Corporation's 2018 report, the infrastructure sector is particularly vulnerable, as past terrorist attacks have often targeted transportation. The insurance industry also suffers, as damages are often on an unprecedented scale. Foreign investors often choose to divert capital to "safer" countries, resulting in decreased FDI inflows. Research published in 2020 estimated that the world economy suffered by $855 billion between 2000 and 2018 due to terrorism-related disruptions.

Despite these setbacks, the long-term economic impact of terrorist attacks does not appear to be substantial. Past terrorist attack locations, such as New York City and Barcelona, quickly rebounded from short-term economic setbacks. Stock market volatility following previous terror attacks has always stabilized fairly quickly, indicating continued confidence from investors despite living in a world with this new type of uncertainty. The global economy faces a variety of challenges in the 21st century—climate change, political tensions, and demographic shifts, to name a few. Global terrorism, like these other challenges, will likely continue to cause some disruption to the international business community, but it will not stop economic progress.

Sources: Alexander Hurst, "European Visitor Numbers Down after UK Terror Attacks," *The Telegraph*, July 31, 2017, https://www.telegraph.co.uk/business/2017/07/31/european-visitor-numbers-uk-terror-attacks; Wouter van Ballegooij and Piotr Bakowski, "The Fight against Terrorism," European Parliamentary Research Service, May 2018, https://www.europarl.europa.eu/RegData/etudes/STUD/2018/621817/EPRS_STU(2018)621817_EN.pdf; World Travel and Tourism Council, "Economic Impact 2017: United Kingdom," 2017, https://zh.wttc.org/-/media/files/reports/economic-impact-research/archived/countries-2017-old/unitedkingdom2017.pdf.

"Tourism Sector Faces Uncertain Outlook in 2019", The Economist Intelligence Unit, February 22, 2019, Accessed on May 20, 2022. https://country.eiu.com/article.aspx?articleid=1117685695&Country=Sri%20Lanka&topic=Economy

Harrison Bardwell and Mohib Iqbal, "The economic Impact of terrorism from 2000 to 2018". Accessed on May 20, 2022. https://www.degruyter.com/document/doi/10.1515/peps-2020-0031/html?lang=en

One final form of totalitarianism, sometimes referred to as "right-wing," allows for some economic (but not political) freedoms. While it directly opposes socialist and communist ideas, this form may gain power and support from the military, often in the form of a military leader imposing a government "for the good of the people." This results in military officers filling most government positions. Such military regimes ruled in Germany and Italy from the 1930s to the 1940s and persisted in Latin America and Asia until the 1980s, when the latter moved toward democratic forms. Recent examples include Myanmar, where the military ruled as a dictatorship from 1962 to 2011, and Thailand, where a military coup d'etat overthrew the constitutional monarchy in 2014.

Legal and Regulatory Environment

One reason today's international environment is so confusing and challenging for MNCs is that they face so many different laws and regulations in their global business operations. These factors affect the way businesses are developed and managed within host nations, so special consideration must be paid to the subtle differences in the legal codes from one country to another. Adhering to disparate legal frameworks sometimes prevents large MNCs from capitalizing on manufacturing economies of scale and scope within these regions. In addition, the sheer complexity and magnitude of bureaucracies require special attention. This, in turn, results in slower time to market and greater costs. MNCs must take time to carefully evaluate the legal framework in each market in which they do business before launching products or services in those markets.

There are four foundations on which laws are based around the world. Briefly summarized, these are

1. **Islamic law**. This is law derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad. It is found in most Islamic countries in the Middle East and Central Asia.
2. **Socialist law**. This law comes from the Marxist socialist system and continues to influence regulations in former communist countries, especially those from the former Soviet Union, as well as present-day China, Vietnam, North Korea, and Cuba. Since socialist law requires most property to be owned by the state or state-owned enterprises, MNCs have traditionally shied away from these countries.
3. **Common law**. This comes from English law, and it is the foundation of the legal system in the United States, Canada, England, Australia, New Zealand, and other nations.
4. **Civil or code law**. This law is derived from Roman law and is found in the non-Islamic and nonsocialist countries such as France, some countries in Latin America, and even Louisiana in the United States.

With these broad notions serving as points of departure, the following sections discuss basic principles and examples of the international legal environment facing MNCs today.

Islamic law
Law that is derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad and is found in most Islamic countries.

socialist law
Law that comes from the Marxist socialist system and continues to influence regulations in countries formerly associated with the Soviet Union as well as China.

common law
Law that derives from English law and is the foundation of legislation in the U.S., Canada, and England, among other nations.

civil or code law
Law that is derived from Roman law and is found in the non-Islamic and nonsocialist countries.

principle of sovereignty
An international principle of law that holds that governments have the right to rule themselves as they see fit.

nationality principle
A jurisdictional principle of international law that holds that every country has jurisdiction over its citizens no matter where they are located.

territoriality principle
A jurisdictional principle of international law that holds that every nation has the right of jurisdiction within its legal territory.

Basic Principles of International Law

When compared with domestic law, international law is less coherent because its sources embody not only the laws of individual countries concerned with any dispute but also treaties (universal, multilateral, or bilateral) and conventions (such as the Geneva Convention on Human Rights or the Vienna Convention of Diplomatic Security). In addition, international law contains unwritten understandings that arise from repeated interactions among nations. Conforming to all the different rules and regulations can create a major problem for MNCs. Fortunately, much of what they need to know can be subsumed under several broad and related principles that govern the conduct of international law.

Sovereignty and Sovereign Immunity The **principle of sovereignty** holds that governments have the right to rule themselves as they see fit. In turn, this implies that one country's court system cannot be used to rectify injustices or impose penalties in another country unless that country agrees. Thus, while U.S. laws require equality in the workplace for all employees, U.S. citizens who take a job in Japan cannot sue their Japanese employer under the provisions of U.S. law for failure to provide equal opportunity for them.

International Jurisdiction International law provides for three types of jurisdictional principles. The first is the **nationality principle**, which holds that every country has jurisdiction (authority or power) over its citizens no matter where they are located. Therefore, a U.S. manager who violates the American Foreign Corrupt Practices Act while traveling abroad can be found guilty in the U.S.. The second is the **territoriality principle**, which holds that

protective principle
A jurisdictional principle of international law that holds that every country has jurisdiction over behavior that adversely affects its national security, even if the conduct occurred outside that country.

doctrine of comity
A jurisdictional principle of international law that holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens.

act of state doctrine
A jurisdictional principle of international law that holds that all acts of other governments are considered to be valid by U.S. courts, even if such acts are illegal or inappropriate under U.S. law.

every nation has the right of jurisdiction within its legal territory. Therefore, a German firm that sells a defective product in England can be sued under English law, even though the company is headquartered outside England. The third is the **protective principle**, which holds that every country has jurisdiction over behavior that adversely affects its national security, even if that conduct occurred outside the country. Therefore, a French firm that sells secret U.S. government blueprints for a satellite system can be subjected to U.S. laws.

Doctrine of Comity The **doctrine of comity** holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens. Although this doctrine is not part of international law, it is part of international custom and tradition.

Act of State Doctrine Under the **act of state doctrine**, all acts of other governments are considered to be valid by U.S. courts, even if such acts are inappropriate in the U.S. As a result, for example, foreign governments have the right to set limits on the repatriation of MNC profits and to forbid companies from sending more than this amount out of the host country back to the U.S.

Treatment and Rights of Aliens Countries have the legal right to refuse the admission of foreign citizens and to impose special restrictions on their conduct, their right of travel, where they can stay, and what business they may conduct. Nations also can deport aliens. For example, the U.K. has the right to limit the travel of foreign scientists coming into the U.K. to attend a scientific convention and can insist they remain within 5 miles of their hotel. A recent example of this can be seen in the U.S., where the Trump administration implemented a controversial executive order limiting travel to the U.S. by most citizens from Iran, Libya, North Korea, Syria, Venezuela, Yemen, and Somalia from legally entering the U.S. for immigration purposes. This ban was lifted by President Biden in one his first executive orders after he took oath in January 2021. During the COVID-19 crisis, almost all global destinations imposed travel restrictions of some kind, including a complete closure of the borders.[34]

Forum for Hearing and Settling Disputes This is a principle of U.S. justice as it applies to international law. At their discretion, U.S. courts can dismiss cases brought before them by foreigners; however, the courts are bound to examine issues such as where the plaintiffs are located, where the evidence must be gathered, and where the property to be used in restitution is located. One of the best examples of this principle is the 1984 Union Carbide pesticide plant disaster in Bhopal, India. Over 2,000 people were killed and thousands left permanently injured when a toxic gas enveloped 40 square kilometers around the plant. The New York Court of Appeals sent the case back to India for resolution.

Examples of Legal and Regulatory Issues

The principles described in the previous section help form the international legal and regulatory framework within which MNCs must operate. In the following, we examine some examples of specific laws and situations that can have a direct impact on international business.

Financial Services Regulation The global financial crisis of 2008–2010 underscored the integrated nature of financial markets around the world and the reality that regulatory failure in one jurisdiction can have severe and immediate impacts on others.[35] The global contagion that enveloped the world was exacerbated, in part, by the availability of global derivatives trading and clearing and the relatively lightly regulated private equity and hedge fund industries. The crisis and its broad economic effects have prompted regulators around the world to consider tightening aspects of financial services regulation, especially those related to the risks associated with the derivatives activities of banks and their involvement in trading for their own accounts. In the U.S., financial reform legislation was approved in July 2010, although the degree to which that legislation will prevent another crisis remains hotly debated.[36] The nearby Closer Look box compares proposed and implemented financial reform approaches across the globe.

Foreign Corrupt Practices Act During the special prosecutor's investigation of the Watergate scandal in the early 1970s, a number of questionable payments made by U.S. corporations to public officials abroad were uncovered. These bribes became the focal point of investigations by the U.S. Internal Revenue Service, Securities and Exchange Commission (SEC), and Justice Department. This concern over bribes in the international arena eventually culminated in the 1977 passage of the **Foreign Corrupt Practices Act (FCPA)**, which makes it illegal to influence foreign officials through personal payment or political contributions. The objectives of the FCPA were to stop U.S. MNCs from initiating or perpetuating corruption in foreign governments and to upgrade the image of both the United States and its businesses abroad.

Foreign Corrupt Practices Act (FCPA)
An act that makes it illegal to influence foreign officials through personal payment or political contributions. It became U.S. law in 1977 because of concerns over bribes in the international business arena.

Critics of the FCPA feared the loss of sales to foreign competitors, especially in those countries where bribery is an accepted way of doing business. Nevertheless, the U.S. government pushed ahead and attempted to enforce the act. Some of the countries that were named in early bribery cases under the law included Algeria, Kuwait, Saudi Arabia, and Turkey. The U.S. State Department tried to convince the SEC and Justice Department not to reveal countries or foreign officials who were involved in its investigations for fear of creating internal political problems for U.S. allies. Although this political sensitivity was justified for the most part, several interesting developments occurred: (1) MNCs found that they could live within the guidelines set down by the FCPA and (2) many foreign governments actually applauded these investigations under the FCPA because it helped them crack down on corruption in their own country.

One analysis reported that since passage of the FCPA, U.S. exports to "bribe-prone" countries actually increased.[37] Investigations reveal that once bribes were removed as a key competitive tool, more MNCs were willing to do business in that country. This proved to be true even in the Middle East, where many U.S. MNCs always assumed that bribes were required to ensure contracts. Evidence shows that this is no longer true in most cases; and in cases where it is true, those companies that engage in bribery face a strengthened FCPA that now allows the courts to both fine and imprison guilty parties. In addition, stepped-up enforcement appears to be having an impact. A report from the law firm Jones Day found that FCPA actions are increasingly targeting individual executives, not just corporations; that penalties imposed under the FCPA have skyrocketed; and that violations have spurred a number of collateral civil actions.[38]

Bureaucratization Very restrictive foreign bureaucracies are one of the biggest problems facing MNCs. This is particularly true when bureaucratic government controls are inefficient and left uncorrected. A good example is Japan, whose political parties feel more beholden to their local interests than to those in the rest of the country. As a result, it is extremely difficult to reorganize the Japanese bureaucracy and streamline the ways things are done because so many politicians are more interested in the well-being of their own districts than in the long-term well-being of the nation as a whole. In turn, parochial actions create problems for MNCs trying to do business there. The administration of Prime Minister Shinzō Abe, the longest serving Prime Minister (8 years) in the history of Japan, tried to reduce some of this bureaucracy, although the success of these efforts is yet to be seen. Certainly, the long-running recessionary economy of the country is inspiring reforms in the nation's antiquated banking system, opening up the Japanese market to more competition.[39]

Japanese businesses are also becoming more aware of the fact that they are dependent on the world market for many goods and services and that when bureaucratic red tape drives up the costs of these purchases, local consumers pay the price. These businesses are also beginning to realize that government bureaucracy can create a false sense of security and leave them unprepared to face the harsh competitive realities of the international marketplace.

In many developing and emerging markets, bureaucratic red tape impedes business growth and innovation. The World Bank conducted an annual survey to determine the ease of doing business in a variety of countries around the world. Table 2–1 presents rankings for a few select countries based on the 2020 World Bank Doing Business Report.

Comparing Global Financial Reforms of the 2010s

Preventing More Tax-Funded Bailouts

The G20 aimed to end the belief among banks that they are "too big to fail" by requiring resolution mechanisms and "living wills" for speedy windups that don't destabilize markets. As a legislative body for a unified country, the U.S. Senate was able to set up an "orderly liquidation" process fairly quickly through Title II of the Dodd-Frank Act. Japan's Diet passed similar reforms by amending its existing Deposit Insurance Act in 2013.

The EU, as a collection of nearly 30 states with no common insolvency laws, faces a much harder task of thrashing out a pan-EU mechanism, even though cross-border banks dominate the sector. To ensure that resolution funds can quickly be collected and paid even when banks cross international borders, the European Commission established a centralized banking union in 2012. This banking union essentially transfers the legislating of banking policies from individual nations to the EU as a whole. Two major initiatives have resulted from this shift: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The SSM, which became operational in 2014, supervises the financial health of banking institutions across Europe. The SRM, which came into force on January 1, 2016, provides restructuring assistance to failing EU banks. The SRM is funded through contributions made by other banking institutions, thereby protecting taxpayers.

Winners/Losers: Banks face an extra levy on top of higher capital and liquidity requirements. Taxpayers should be better shielded from a messy patchwork of global banks, which will come under pressure to "subsidiarize" operations in different countries.

Global Minimum Corporate Tax

The global minimum corporate tax (GMCT) is a new tax regime established to counter shifting of profits and other tax avoidance practices of large multinationals. Under the GMCT regime, the signatory countries would impose an agreed upon minimum tax rate on the income of corporations. The original framework, developd by the OECD, proposed a GMCT of 15 percent starting in 2023. As of 2021, 136 countries and jurisdictions have agreed to this proposal. According to estimates by OECD, this Initiative will generate $150 billion in additional global tax revenue annually.

Winners/Losers: National governments that lose the tax review due to shifting of profits to low tax destinations will be the biggest beneficiaries. Corporations will have fewer incentives and opportunities to avoid taxes, but the overall profitability may be negatively impacted, at least in the short-run.

Over-the-Counter Derivatives

The G20 agreed that derivatives should be standardized where possible so that they can be centrally cleared and traded on an exchange by the end of 2012; three-quarters of the G20 members were able to meet this deadline. Some countries have taken reforms a step further. The U.S. Senate adopted legislation (Dodd-Frank Act) requiring banks to spin off their swaps desk to isolate risks from depositors, and in 2014 Canada expanded the ability of banking regulators to set restrictions over banks that trade standard derivatives.

However, some disagreement has risen between the EU and the U.S. within the international derivatives market. Between 2014 and 2016, regulators in Europe and the U.S. were unable to agree on whether each other's clearinghouse rules were equivalent. Without an agreement, European traders would have faced higher capital requirements, likely resulting in less transnational trading. In 2016, the EU and the U.S. finally reached a deal on the oversight of clearinghouses, paving the way for a more unified global market.

Winners/Losers: Cross-border trading within the U.S. and the EU will continue uninterrupted. Corporations face costlier hedging, as there will be heavier capital charges on uncleared trades, but differences in exemption scope could be exploited.

Bonuses

The G20 has introduced principles to curb excessive pay and bonuses, such as requiring a big chunk of a bonus to be deferred over several years with a clawback mechanism. The U.S. and the EU are applying these principles and taking their own actions, such as a one-off tax in Britain.

Winners/Losers: Harder to justify big bonuses in the future.

Credit Ratings Agencies

The G20 agreed that ratings agencies should be required to register, report to supervisors, and show how they manage internal conflicts of interest. In 2014, the EU adopted even stricter laws, increasing the disclosure requirements regarding fees charged by credit rating agencies. Also in 2014, the Securities and Exchange Commission in the U.S. adopted stricter requirements for credit rating agencies, aimed at preventing conflicts of interest and increasing standards and transparency.

Winners/Losers: Ratings agencies will have to justify what they do much more in the future. The "Big Three"—Fitch, S&P, and Moody's—may face more competition in the EU. The sector faces more efforts to dilute their role in determining bank capital requirements.

Hedge Funds/Private Equity

The U.S. and EU are working in parallel to introduce a G20 pledge to require hedge fund managers to register and report a range of data on their positions. U.S. law is in line with G20 but exempts private equity and venture capital. The EU wants to go much further by including private equity and requiring third-country funds and managers to abide by strict requirements if they want to solicit European investors, a step the U.S. says is discriminatory.

Managers of alternative funds in the EU would also have curbs on remuneration, an element absent from U.S. reform.

Winners/Losers: U.S. hedge fund managers may find it harder to do business in the EU. European investors may end up with less choice. Regulators will have better data on funds. EU managers may decamp to Switzerland, though also for tax reasons.

Banks Trading

The U.S. Senate has adopted the "Volcker Rule," which would ban risky trading unrelated to customers' needs at deposit-insured banks. The Volcker Rule's associated regulations were fully implemented in the U.S. in 2014; however, in 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act exempted smaller banks with less than US$10 billion in assets. Similar regulation in Europe is unlikely to take shape. In 2020, the Federal Reserve rolled back some provisions of the rule, such as those that limit bank investment in venture capital and securitized loans. Many key EU states are against the rule, as they want to preserve their universal banking model. A proposal drafted by the European Commission in 2015 was scrapped in 2017.

Winners/Losers: Some trading could switch to the EU from the U.S. inside global banks.

Systemic Risk

The G20 wants mechanisms in place to spot and tackle systemwide risks better, a core lesson from the crisis. The U.S. Senate bill sets up a council of regulators that includes the Federal Reserve, but the U.S. House wants a bigger role for the Fed. The EU has approved a reform that will make the European Central Bank (ECB) the hub of a pan-EU systemic risk board.

Winners/Losers: ECB is a big winner with an enhanced role that many see as a platform for a more pervasive role in the future. Banks will have yet another pair of eyes staring down at them.

Bank Capital Requirements

The push to beef up bank capital and liquidity requirements is being led by the global Basel Committee of central bankers and supervisors, which is toughening up its global accord as requested by the G20. It took effect at the end of 2012. The U.S. bill directs regulators to increase capital requirements on large financial firms as they grow in size or engage in riskier activities. In 2015, the Federal Reserve further increased the capital requirements for the eight largest banks; however, in 2018, the Federal Reserve also recommended easing liquidity requirements for medium- and smaller-sized banks.

The EU has approved new rules to beef up capital on trading books and allow supervisors to slap extra capital requirements if remuneration is encouraging excessively risky behavior. Additional rules were implemented to strengthen corporate governance and increase transparency.

Winners/Losers: Bank return on equity is set to be squeezed. Regulators will have many more tools to control the sector. Higher costs are likely to be passed on to consumer investors. There could be timing issues, as the EU has been more willing than the U.S. in the past to adopt Basel rules.

Fixing Securitization

The U.S. Senate bill forces securitizers to keep a baseline 5 percent of credit risk on securitized assets. The EU has already approved a law to this effect.

Winners/Losers: Banks say privately the 5 percent level is low enough not to make much difference and that the key problem is restoring investor confidence into the tarnished sector.

Sources: Silla Brush and Julia-Ambra Verlaine, "EU, U.S. Reach Deal on Clearing Rules for Derivatives Market," *Bloomberg Business*, February 10, 2016; "Factbox: Comparing EU and U.S. Financial Reform," Reuters, May 19, 2010 https://www.reuters.com/article/us-eu-regulation-factbox/factbox-comparing-eu-and-u-s-financial-reform-idUSTRE64K4XH20100521; Andrew Mayeda, "Canada to Increase Regulation of Over-the-Counter Derivatives," *Bloomberg Business*, February 11, 2014; "SEC Adopts Credit Rating Agency Reform Rules," U.S. Securities and Exchange Commission, August 27, 2014 https://www.sec.gov/news/pressrelease/2014-178.html; Ryan Tracy, Victoria McGrane, and Justin Baer, "Fed Lifts Capital Requirements for Banks," *Wall Street Journal*, July 20, 2015.; Leigh Thomas, "136 countries have agreed to a global minimum tax rate. Here's what it means", Reuters/World Economic Forum, Nov 1, 2021, https://www.weforum.org/agenda/2021/11/global-minimum-tax-rate-deal-signed-countries/

In 2021, World Bank discontinued the Doing Business Reports due to some data irregularities in the previous years. (See Table 2–1.)

Privatization

Another example of the changing international regulatory environment is the current move toward privatization by an increasing number of countries. Privatization opens a host of opportunities for MNCs looking to invest in domestic industries or create joint ventures with local firms. The communist government in Vietnam, where a third of the economy consists of state-owned enterprises, provides a good example. Due to operational inefficiencies, low profitability, and increased foreign competition, the Vietnamese

Table 2–1
Ease-of-Doing-Business Ranking among Select Countries (2020)

Economy	Ease of Doing Business (Overall Rank)	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
New Zealand	1	1	7	49	2	1	3	9	63	24	36
Singapore	2	4	5	19	21	37	3	7	47	1	27
South Korea	5	32	12	2	40	67	25	21	36	2	11
United States	6	55	24	65	39	4	36	25	39	18	2
Georgia	7	2	21	43	5	15	7	14	45	12	64
United Kingdom	8	18	23	8	41	37	7	27	33	34	14
Sweden	10	38	31	10	9	80	28	30	18	39	17
Malaysia	12	126	2	4	33	37	2	80	49	35	40
Australia	14	7	11	63	42	4	57	28	106	6	20
Taiwan, China	15	21	6	9	20	104	21	38	61	11	23
United Arab Emirates	16	17	3	1	10	48	13	43	92	9	80
Thailand	21	47	34	6	67	48	3	68	62	37	24
Germany	22	125	30	5	76	48	61	46	42	14	4
Canada	23	3	64	124	36	15	7	19	51	100	13
Ireland	24	23	36	48	60	48	13	4	52	91	19
Kazakhstan	25	22	37	68	24	25	7	64	105	4	42
Russian Federation	29	39	26	7	12	25	72	57	99	22	57
Japan	30	106	18	14	43	92	57	51	57	50	3
China	32	45	33	12	28	92	28	105	56	5	51
France	33	36	52	17	99	104	45	60	1	17	26
Turkey	34	77	53	42	27	37	21	26	44	25	120
Kenya	56	129	105	71	134	4	1	94	117	89	50
Italy	58	98	97	38	26	119	51	128	1	122	21
Chile	59	57	41	40	63	92	51	86	74	54	53
Mexico	60	107	93	106	105	11	61	120	69	43	33
India	62	136	27	22	154	25	13	115	68	163	52
Saudi Arabia	63	37	28	18	19	92	3	62	86	51	168
Vietnam	70	115	25	27	64	25	97	109	104	68	122
Indonesia	73	140	110	33	106	48	37	81	116	139	38
Greece	79	11	86	41	156	119	37	72	34	146	72
South Africa	84	139	98	114	108	80	13	54	145	102	68
Pakistan	108	72	112	123	151	119	28	161	111	156	58
Egypt	114	90	74	78	130	67	57	156	171	166	104
Brazil	124	138	170	98	133	104	61	184	108	58	77
Argentina	126	141	155	111	123	104	61	170	119	97	111
Iran	127	178	73	113	70	104	128	144	123	90	133
Nigeria	131	105	55	169	183	15	28	159	179	73	148
Cambodia	144	187	178	146	129	25	128	138	118	182	82
Ethiopia	159	168	142	137	142	176	189	132	156	67	149
Bangladesh	168	131	135	176	184	119	72	151	176	189	154
Syrian	176	143	186	160	162	176	97	91	178	160	158
Venezuela	188	190	175	174	145	132	170	189	188	150	165
Somalia	190	188	186	187	153	186	190	190	166	116	168

Source: The World Bank. "Business Enabling Environment: Doing Business Legacy, Doing Business 2020." Accessed June 2, 2022. https://www.worldbank.org/en/programs/business-enabling-environment/doing-business-legacy

Bitcoin and Other Decentralized Currencies in the Digital Age

Alternative, extra-governmental currencies have sparked the interest of many, due to the global nature of online transactions. In the past, these virtual currencies were centrally controlled and often quickly shut down by governmental regulations. Virtual currencies in the early 2000s, such as "E-gold" and "Liberty Reserve," were prone to criminal activity and illegal transactions. These virtual currencies acted more as businesses than as peer-to-peer transaction devices, and the currencies provided little flexibility in real, everyday use.

In 2008, a paper published online by "Satoshi Nakamoto," titled "Bitcoin: A Peer-to-Peer Electronic Cash System," outlined a new concept for digital currency, in which open peer-to-peer transactions replace the need for centralized currency oversight and regulation. Little is known about Satoshi Nakamoto, with many now believing that the name is a pseudonym for a group of individuals. In 2009, Nakamoto released the first peer-to-peer Bitcoin software and issued the first round of currency. In recent years, Bitcoin has quickly grown into the most widely used digital currency with its value reaching as high as $67,583 in late November 2021.

Like traditional paper currency, Bitcoin depends on the faith of the users for the system to work. Rather than relying on a central bank, Bitcoin relies on a decentralized ledger system, or "blockchain," to maintain the overall value within the market. On a basic level, every registered user maintains a copy of the ledger, which displays the individual balance of Bitcoin for every other user. Transactions in Bitcoin are, in essence, just the debiting and crediting of those balances. The open, public sharing of the value of the transactions occurring in Bitcoin is essential, as this allows for the role of the central banking institution to be completely replaced, thereby "decentralizing" the currency.

Bitcoin and other decentralized digital currencies could provide an alternative method of storing value in times of currency uncertainty. During Venezuela's presidential crisis in 2019, for example, financial insecurity resulted in a record-high number of Bitcoin transactions within the country. Bitcoin ATMs were set up in Caracas to ease access to the digital currency, allowing users to quickly transfer cash between the Venezuelan bolivar and their Bitcoin wallets. Similarly, the volatility and high inflation of the Argentine peso led to the installation of over 100 Bitcoin ATMs in Buenos Aires, Argentina, in early 2019. More recently, Cryptocurrencies played an important role in Ukraine, helping the government in raising millions by way of donations to resist the Russian invasion. Since Russia invaded Ukraine in late February, the country has received roughly $60 million in crypto assets donations.

Governments appear to be cautiously open to the use of Bitcoin within their borders. The U.S. and EU have issued only modest warnings regarding the use of digital currencies, and few legal regulations exist. The U.S. has officially recognized Bitcoin as a commodity since 2015. China and seven other countries (Egypt, Iraq, Qatar, Oman, Morocco, Algeria, Tunisia, and Bangladesh) have imposed a complete ban on the use of cryptocurrencies.

However, Bitcoin's rise has not been without bumps. Many experts, including former US Federal Reserve Chairman Alan Greenspan, have labeled Bitcoin a bubble due to its quick rise and fall in value, from $0.08 in 2010 to close to $68,000 in the late 2021 and back down to roughly $30,000 in the second quarter of 2022. Though the currency has shown signs of increased stabilization, rapid price swings are still commonplace. Illegal activity, including drug trafficking and money laundering, does occur through Bitcoin marketplaces, though the open ledger concept behind the currency makes these activities easier to trace. Malware and computer viruses have also led to some limited instances of theft. Bitcoin's encryption, however, is still regarded as strong.

Despite the turbulence that Bitcoin and other digital currencies have experienced, user acceptance continues to grow. By June 2022, the market capitalization of Bitcoin had swelled to about US$600 billion. More than 15,174 retailers, including Dish Network and Microsoft, now accept Bitcoin.

Bitcoin appears to be reaching its tipping point. While some economists insist that Bitcoin will ultimately sink to a value of zero, others predict that the currency's value will rise to over US$100,000. Perhaps the ultimate success or failure of Bitcoin as a digital currency lies not in its own design but in the uncertainties that led to its initial rise in popularity. If consumers continue to cast doubt over government-issued, centralized currencies, Bitcoin could continue to grow in popularity for years to come.

government has implemented an aggressive approach to selling off portions of its many nationalized companies. In 2018, dozens of businesses in a variety of industries, including energy giant PetroVietnam and rice exporter Vinafood II, were partially divested through public stock offerings. This strategy has allowed the Vietnamese government to maintain some ownership in these companies while giving MNCs and investors the ability to influence operations and improve profitability.[40,41]

The trend toward privatization of state-owned enterprises can be seen in developed and developing countries alike. Germany and France embraced the privatization of their telecom industries in the 1990s. In the 2000s, Poland, transitioning from a state-planned economy to

a free-market economy, underwent extensive privatization of its state-owned insurance and coal mining industries, boosting the Warsaw Stock Exchange into one of the top 10 European markets by value.[42] More recently, Nigeria privatized its power sector, and issued various privatization tenders in the energy and electricity sectors, and India gave up state control over its national airliner, Air India, and has plans to monetize state assets worth $81 billion by 2025.[43] As described in the International Management in Action box "Brazilian Economic Reform and Recent Challenges" in Chapter 1, Brazil privatized many of its state-owned companies to provide greater competition and access to service.

Even the communist Chinese government, despite maintaining strong control over 80,000 small-scale businesses operating within its borders, has embraced reforms allowing some private investment in state-owned enterprises. These reforms are likely aimed at increasing the profitability of the approximately 115 large state-owned conglomerates.[44,45]

Regulation of Trade and Investment

The regulation of international trade and investment is another area in which individual countries use their legal and regulatory policies to affect the international management environment. The rapid increase in trade and investment has raised concerns among countries that others are not engaging in fair trade, based on the fundamental principles of international trade as specified in the WTO and other trade and investment agreements. Specifically, international trade rules require countries to provide "national treatment," which means that they will not discriminate against others in their trade relations. Unfortunately, many countries engage in government support (subsidies) and other types of practices that distort trade. For example, many developing countries require that foreign MNCs take on local partners in order to do business. Others mandate that MNCs employ a certain percentage of local workers or produce a specific amount in their country. These practices are not limited to developing countries. Japan, the U.S., and many European countries use product standards, "buy local" regulations, tariffs on specific goods, and other policies to protect domestic industries and restrict trade. For example, during 2018–2019, the U.S. imposed a series of tariffs on steel and aluminum imports, targeted primarily at Chinese goods. This led to several rounds of tit-for-tat retaliation until U.S. tariffs covered nearly all Chinese imports. The new administration of President Biden has continued with many of these trade restrictions, imposing tariffs on about $370 billion worth of Chinese imports until the end of 2022.

Most trade agreements require that countries extend most-favored-nation status such that trade benefits accorded one country (such as tariff reductions under the WTO) are accorded all other countries that are parties to that agreement. The emergence of regional trade arrangements has called into question this commitment because, by definition, agreements among a few countries (NAFTA/USMCA, EU) give preference to those specific members over those who are not part of these trading "blocs." As discussed in Chapter 1, many countries engage in antidumping actions intended to offset the practice of trading partners "dumping" products at below cost or home market price, as well as countervailing duty actions intended to offset foreign government subsidization. In each case, there is evidence that many countries abuse these laws to protect domestic industries, something the WTO has been expected to monitor, but has failed to deliver in recent years.

Technological Environment and Global Shifts in Production

Technological advancements not only connect the world at incredible speed but also aid in the increased quality of products, information gathering, and R&D. Manufacturing, information processing, and transportation are just a few examples of where technology improves organizational and personal business. Instant communication and connectivity have become a necessity for MNCs when conducting business globally; this is becoming increasingly easier as technology contributes to "flattening the world." Thomas Friedman, in his book *The World Is Flat*, writes that such events as the introduction of the Internet, along with

mobile technologies, open sourcing, and work flow software distribution, not only enable businesses and individuals to access vast amounts of information at their fingertips in real time but also are resulting in the world flattening into a more level playing field.[46]

Trends in Technology, Communication, and Innovation

The innovation of the microprocessor could be considered the foundation of much of the technological and computing advancements seen today. The creation of a digital framework allowed high-power computer performance at low cost, leading to breakthroughs such as enhanced telecommunication systems, which will be explored in greater depth later in the chapter. Today, computers, telephones, televisions, and wireless forms of communication have merged to create multimedia products and allow users anywhere in the world to communicate with one another. The Internet, coupled with smartphone technology, allows one to obtain information instantaneously from billions of sources, all from the palm of one's hand.

Furthermore, concepts like the open-source model allow for free and legal sharing of software and code, which may be utilized by underdeveloped countries in an attempt to gain competitive advantage while minimizing costs. India exemplifies this practice, as several of its state and local governments have adopted the open-source Linux operating system (OS) in place of the global standard Microsoft Windows. For example, the Indian state of Kerala switched to the Linux OS in all 2,600 of its high schools, enabling each user to configure the system to his or her needs, with the goal of creating a new generation of adept programmers. More broadly, a number of for-profit and nonprofit firms have been aggressively working to put low-cost computers into the hands of the hundreds of millions of children in the developing world who have not benefited from the information and computing revolution.

There is also a great potential for disruptions, both accidental and intentional, as the world relies more and more on digital communication and imaging. The world is connected by a vast network of fiber-optic cables that we do not see because they are buried either underground or under water. Roughly the width of a garden hose, 200 sets of these cables carry 99 percent of all transoceanic communication, leading to a great deal of system vulnerability.[47,48] In 2018, 10 west African countries experienced Internet and communication outages when a fishing boat damaged one cable off the coast of Mauritania. In some places, outages lasted for more than two days. The fact that so many people were reliant on a mere 4-inch-thick cable shows the potential risks associated with greater global connectivity.[49]

We have reviewed general influences of technology here, but what are some of the specific dimensions of technology and in what other ways does technology affect international management? Here we explore some of the dimensions of the technological environment currently facing international management, with a closer look at biotechnology, e-business, telecommunications, and the connection among technology, outsourcing, and offshoring.

In addition to the trends mentioned previously, other specific ways in which technology will affect international management in the next decade include the following:

1. The "Internet of Things" refers to the equipping of physical objects, such as cars, televisions, and buildings, with sensors, software, and network connectivity, allowing them to share information and data with each other. With the rollout of 5th generation (5G) wireless connectivity, the Internet of Things will interconnect nearly every device that is sold, giving businesses the ability to gather real-time user data and transmit new information such as software upgrades back to the devices. This technology is already used heavily in the automobile industry, where self-driving cars transmit data between other cars and the manufacturer.
2. Blockchain technology, which is the idea of using an open ledger to record transactions and ownership, is perhaps best known today for its use in Bitcoin. However, blockchain technology is poised to transform the financial services industry, along with the entire concept of contracts and transactions of both financial assets and physical property.
3. Rapid advancements in artificial intelligence (AI) have led many to speculate that it will be the next major technological disruptor. Machine Learning, which

is a subset of AI, is the concept that computers and other devices will be able to learn, complete, and improve upon tasks they were never taught how to do. Every sector of the global economy, including health care, manufacturing, and retail, will see transformative changes due to AI.

4. The field of robotics, though not new, is being coupled with the latest technological developments to improve processes in the manufacturing, medical, and scientific communities. For example, the widespread availability of small motors, GPS technology, and flying drones is opening the door to increased robotic use in remote, hard-to-access areas.[50]

The development and subsequent use of these technologies have greatly benefited the most developed countries in which they were first deployed. However, the most positive effects should be seen in developing countries where inefficiencies in labor and production impede growth. Although all these technological innovations will affect international management, specific technologies will have especially pronounced effects in transforming economies and business practices. The following discussion highlights some specific dimensions of the technological environment currently facing international management.

Biotechnology

The digital age has given rise to such innovations as computers, smartphones, and wireless technology. Advancements within this realm allow for more efficient communication and productivity to the point where the digital world has extended its effect from information systems to biology. Biotechnology is the integration of science and technology, but more specifically it is the creation of agricultural and medical products through industrial use and manipulation of living organisms. At first glance, it appears that the fusion of these two disciplines could breed a modern bionic human immune to disease, especially with movements toward technologically advanced prosthetics, cell regeneration through stem cell research, or laboratory-engineered drugs to help prevent or cure diseases such as HIV or cancer. The utility of biotechnology was most visible during the COVID-19 pandemic when many pharmaceutical companies rushed to produce a vaccine in a record time. The U.S.-based Pfizer and Moderna used the new mRNA technology to produce highly effective and safe vaccines for the novel coronavirus.

Pharmaceutical competition is also prevalent on the global scale with China's raw material reserve and the emergence of biotech companies such as Genentech and Gilead. India is emerging as a major player, with Pune based Serum Institute of India emerging as the largest producer of vaccines at around 1.5 billion doses per year. During the COVID-19 pandemic, Serum Institute partnered with the British-Swedish pharmaceutical MNC, AstraZeneca, and was producing 250 million doses of vaccine every month by the third quarter of 2021. (for further discussion on drug affordability internationally and the ethics of drug pricing, see the In-Depth Integrative Case 1.2 at the end of Part One).[51,52] While pharmaceutical companies mainly manufacture drugs through a process similar to that of organic chemistry, biotech companies attempt to discover genetic abnormalities or medicinal solutions through exploring organisms at the molecular level or by formulating compounds from inorganic materials that mirror organic substances. DNA manipulation in the laboratory extends beyond human research. As mentioned earlier, another aspect of biotech research is geared toward agriculture. In the U.S. and Brazil, ethanol production has increased substantially, with corn and sugarcane serving as feedstock. Automobile gasoline in Brazil is mandated to consist of nearly 25 percent ethanol, and blended gasoline is encouraged in the U.S. through tax subsidies.[53,54] However, some have raised concerns regarding increased food prices caused by using sugarcane and corn as a fuel alternatives. For this and many other reasons, global companies like Bayer AG and BASF AG have invested in agricultural biotechnology to create genetically modified seeds such as drought-tolerant corn and herbicide-tolerant soybeans. (See the supplemental online simulation related to the U.S.–EU dispute over trade in genetically modified organisms.)

Advancements in this industry include nutritionally advanced crops that may help alleviate world hunger.[55]

Aside from crops, the meat industry has also benefited from biotechnology. The outbreak of mad cow disease, which affected close to 200,000 cows in the United Kingdom, sparked concern when evidence of the disease spread throughout Western Europe; however, researchers in the U.S. and Japan bio-engineered a solution to the problem by eliminating the gene that is the predecessor to making the animal susceptible to this ailment. Today, mad cow disease is nearly eradicated.[56,57] Another biotechnological advancement, "cultured meat," could radically change the way meat products are produced. *Cultured meat* refers to authentic meat products that are grown in a lab, using animal stem cells. Although the technology is still in its infancy, cultured meat could provide a more environmentally friendly, widely available, and safer alternative to farm-grown livestock.[58]

The world is certainly changing, and the trend toward technological integration is far from over. Whether one desires laser surgery to correct eyesight, a vaccine for emerging viruses, or more nutritious food, there is a biotechnology firm competing to be the first to achieve these goals. Hunger and poor health care are worldwide issues, and advancement in global biotechnology is working to raise the standards.

E-Business

The widespread use of the Internet around the globe has had a dramatic effect on international commerce. Table 2–2 shows Internet penetration rates for major world regions, illustrating the dramatic increase from 2000 to 2022 and the accompanying growth rates. Africa has exhibited the highest growth rate, at more than 13,000 percent.

Hundreds of millions of people around the world have purchased goods from Amazon.com, and the company now maintains operations in 16 countries around the world (see The World of International Management at the beginning of Chapter 11). A host of other electronic retailers (e-tailers), discovering that their home-grown retailing expertise can be easily transferred and adapted for the international market, have followed suit.[59] Dell Technologies has been offering B2C electronic business-to-consumer (B2C) goods and services in Europe for a number of years, and the Chinese conglomerate Alibaba offers a variety of products, including retail goods, cloud computing, and AI, to customers in nearly every country.[60] Even automakers have adapted new, digital strategies; Tesla sells most of its cars directly to customers through the Internet, and Toyota is testing a similar model.[61] Other firms are looking to use e-business to improve their current operations. For example, Deutsche Bank has overhauled its entire retail network with the

Table 2–2
World Internet Usage and Population Statistics

World Regions	Population (2022 Est.)	Internet Users 2000	Internet Users 2022	Penetration (% Population)	Growth 2000–2022	Users % of Total
Africa	1,394,588,547	4,514,400	601,327,461	43.1%	13,220%	11.5%
Asia	4,350,826,899	114,304,000	2,790,150,527	64.1	2,341	53.1
Europe	841,319,704	105,096,093	743,602,636	88.4	608	14.2
Middle East	663,520,324	3,284,800	533,171,730	80.4	2,851	10.1
North America	372,555,585	108,096,800	347,916,694	93.4	222	6.6
Latin America/ Caribbean	268,302,801	18,068,919	205,019,130	76.4	6,141	3.9
Oceania/Australia	43,602,955	7,620,480	30,549,185	70.1	301	0.6
WORLD TOTAL	7,934,716,815	360,985,492	5,251,737,363	66.2	1,355	100.0

Source: "Usage and Population Statistic." Internet World Stats, June 30, 2022. https://www.internetworldstats.com/stats.htm

goal of winning affluent customers across the continent.[62] Yet the most popular form of e-business is for business-to-business (B2B) dealings, such as placing orders and interacting with suppliers worldwide. B2C transactions will not be as large, but this is an area where many MNCs are trying to improve their operations.

The area of e-business that continues to have the biggest impact for customers is e-retailing and financial services. With just a mobile device and a credit card, customers can conduct business with retailers and entrepreneurs across the globe. However, with so much personal information being transferred and stored digitally, information security remains a problem. A number of high-profile data breaches in recent years have impacted hundreds of millions of consumers. For example, in 2021, professional networking company LinkedIn revealed that digitally stored information for as many as 700 million customers was compromised, including details of other social media accounts.[63]

Some companies, such as Ally Bank and Capital One 360, are completely "disintermediating" banking by eliminating the branches and other bricks-and-mortar facilities altogether. Through these direct banks, customers complete all transactions online, with higher interest rates often offered to those who agree to paperless statements and communication. In the decade-plus since the global financial crisis, not one of the 300-plus bank failures in the U.S. has been an online bank.[64]

Telecommunications

One of the most important dimensions of the technological environment facing international management is telecommunications and the impact of mobile devices. Because of the quick and relatively inexpensive installation of cellular infrastructure (compared to traditional landline telephones), a technological "leapfrogging" is occurring in many developing economies, in which regions of the world are moving from a situation where landline phones were completely unavailable to one where mobile phones are available everywhere, including rural areas. This is especially true in sub-Saharan Africa, where landline phones are virtually nonexistent but cell phone penetration is growing at nearly 5 percent annually. Through increased productivity and e-commerce, cell phone access is now generating over 7 percent of GDP in sub-Saharan Africa annually.[65]

In addition, smartphone technology has merged two previously discrete methods of communication: the telephone and the Internet. Internet access through cell phones has, in many ways, replaced access via computers. New social media tools such as Snapchat, Instagram, Twitter, and TikTok are almost entirely viewed on mobile phones.[66,67] In less developed countries, such as South America, Africa, and Eastern Europe, customers once waited years to get a telephone installed and Internet access was nonexistent; today, wireless technology is proving to be a financial boon for these regions.

One reason for this rapid increase in telecommunications services is that many countries believe that, without an efficient communications system, their economic growth may stall. Additionally, governments are accepting the belief that the only way to attract foreign investment and know-how in telecommunications is to cede control to private industry. Many governments are reluctant to allow so much private and foreign ownership of such a vital industry; however, they also are aware that foreign investors will go elsewhere if the deal is not satisfactory. As a result, while most telecommunications operations in the Asia-Pacific region were state-run a few decades ago, a growing number are now in private hands. Singapore Telecommunications, Thailand's Telecom Asia, Korea's KT Corporation, and Globe Telecom in the Philippines all have been privatized, and MNCs have helped in this process by providing investment funds. Today, the Hong Kong–based investment management company First Pacific holds a 25 percent stake in the Philippine Long Distance Telephone Company (PLDT), and the Japanese government has privatized nearly two-thirds of Nippon Telegraph & Telephone (NTT). At the same time, Thailand is loosening regulations on foreign investment in telecom, and KT Corporation has established operations in Brunei, Mongolia, Poland, and Uzbekistan.

Developing countries are eager to attract telecommunications firms and offer liberal terms. There are 8.3 billion mobile suibscription for a total world population of 7.9 billion, with the penetration rate ranging between 75 and 79 percent in developing countries.[68] Apple and Samsung, two of the largest mobile phone producers globally, have been aggressively penetrating emerging markets with smartphone technology (see The World of International Management at the beginning of Chapter 5). Growth was rapid in all regions but fastest in Africa; it is estimated that mobile phone penetration in Africa stands at over 78 percent.[69] African mobile users are increasingly relying on their devices for commerce and payment. Transactions are conducted via text message, and users are not even required to hold a bank account. As of 2022, M-Pesa, one of the more popular mobile money transferring services, had over 51 million subscribers in Kenya, Tanzania, Mozambique, the Democratic Republic of Congo, Lesotho, Ghana, and Egypt.[70] Asia remains the largest smartphone market globally, with almost 1.75 billion cellular service subscriptions in China and about 1.15 billion in India in 2021.[71]

Technological Advancements, Outsourcing, and Offshoring

As MNCs use advanced technology to help them communicate, produce, and deliver their goods and services internationally, they face a new challenge: how technology will affect the nature and number of their employees. Some informed observers note that technology already has eliminated much of the work being done by middle management and white-collar staff. Mounting cost pressures resulting from increased globalization of competition and profit expectations exerted by investors have placed pressure on MNCs to outsource or offshore production to take advantage of lower labor and other costs.[72] In the past century, machines replaced millions of manual laborers, but those who worked with their minds were able to thrive and survive. During the past three decades in particular, employees in blue-collar, smokestack industries such as steel and autos have been downsized by technology, and the result has been a permanent restructuring of the number of employees needed to run factories efficiently. In the 1990s, a similar trend unfolded in the white-collar service industries (insurance, banks, and even government). Most recently, this trend affected high-tech companies in the late 1990s and early 2000s, when, after the dot-com bubble burst, hundreds of thousands of jobs were lost, and again in 2008–2010, when many jobs were lost in finance and related industries as a result of the financial crisis and global recession. Furthermore, job recovery in the wake of the financial crisis has been largely dependent on lower-wage jobs.[73]

Some experts predict that, in the future, technology has the potential to displace employees in all industries, from those doing low-skilled jobs to those holding positions traditionally associated with knowledge work. For example, voice recognition is helping replace telephone operators; the demand for postal workers has been reduced substantially by the use of e-mail; and online banking is quickly creating a cashless economy where in-person bank tellers are not needed. Also, AI systems can eliminate human thinking completely. For example, American Express has an expert system that performs credit analyses formerly completed by college-graduate financial analysts. In the medical field, AI can diagnose some illnesses as well as doctors can, and robots capable of performing certain operations are starting to be used.

Emerging information technology also makes work more portable. During the COVID-19 pandemic, companies gained useful experience of organizing work remotely. New communication and collaboration tools such as Microsoft Teams, WebEx and Zoom are likely to change the way companies manage work and employees. This will especially impact the work that can be easily contracted with overseas locations. For example, low-paid workers in India and other Asian countries are now subcontracted to work on labor-intensive software development and code-writing jobs. A restructuring of the nature of work and of employment is a result of such information technology; Table 2–3 identifies some winners and losers in the workforce in recent years.

Table 2–3
Winners and Losers in Selected Occupations: Percentage Change Forecasts for 2020–2030

The 10 Occupations with the Largest Projected Employment Growth 2020–2030

Occupation	Employment in Millions 2020	2030	Difference	Percent change
Home health and personal care aides	3,470.70	4,600.60	1,129.90	32.6%
Cooks, restaurant	1,153.20	1,716.70	563.5	48.9
Fast food and counter workers	3,455.50	3,973.00	517.5	15
Software developers and software quality assurance analysts and testers	1,847.90	2,257.40	409.5	22.2
Waiters and waitresses	2,023.20	2,430.70	407.6	20.1
Registered nurses	3,080.10	3,356.80	276.8	9
Laborers and freight, stock, and material movers, hand	2,821.70	3,077.50	255.8	9.1
General and operations managers	2,411.90	2,638.20	226.3	9.4
First-line supervisors of food preparation and serving workers	915.4	1,106.10	190.8	20.8
Passenger vehicle drivers, except bus drivers, transit and intercity	707.4	887.9	180.6	25.5

The 10 Occupations with the Largest Projected Employment Growth 2020–2030

Occupation	Employment in Millions 2020	2030	Difference	Percent change
Cashiers	3,379.10	3,042.70	−336.4	−10%
Secretaries and administrative assistants, except legal, medical, and executive	2,053.50	1,896.70	−156.9	−7.6
Executive secretaries and executive administrative assistants	538.8	438.2	−100.6	−18.7
First-line supervisors of retail sales workers	1,390.60	1,300.40	−90.2	−6.5
Miscellaneous assemblers and fabricators	1,262.80	1,178.20	−84.6	−6.7
Tellers	432.5	359.4	−73.1	−16.9
Inspectors, testers, sorters, samplers, and weighers	557.9	489.8	−68.1	−12.2
Office clerks, general	2,933.90	2,873.60	−60.4	−2.1
Bookkeeping, accounting, and auditing clerks	1,620.00	1,571.90	−48.1	−3
Shipping, receiving, and inventory clerks	734.9	694.3	−40.6	−5.5

Source: US Bureau of Labor Statistics. "Tables 4 and 6, Employment Projections." Accessed March 24, 2022. http://www.bls.gov/emp/tables.htm.

The new technological environment has both positives and negatives for MNCs and societies as a whole. On the positive side, the cost of doing business worldwide should decline, thanks to the opportunities that technology offers in substituting lower-cost machines for higher-priced labor. Over time, productivity should go up, and prices should go down. On the negative side, many employees will find either their jobs eliminated or their wages and salaries reduced because they have been replaced by machines and their skills are no longer in high demand. By some estimates, nearly 800 million jobs could be replaced by AI by the year 2030.[74] This job loss from technology can be especially devastating in developing countries. However, it doesn't have to be this way. A case in point is South Africa's showcase for automotive productivity as represented by the Delta Motor Corporation's Opel Corsa plant in Port Elizabeth. To provide as many jobs as possible, this world-class operation automated only 23 percent, compared to more than 85 percent auto assembly in Europe and North America.[75] Toyota's Georgetown, Kentucky, plant has followed a similar model. While automation now plays major role in the manufacturing process at the facility, Toyota's workers have shifted their focus to quality control, resulting in a better finished product with the same number of employees.[76] Some industries

can also add jobs. For example, the positive has outweighed the negative in the computer and information technology industry, despite its ups and downs. Specifically, employment in the U.S. computer software industry has increased over the last decade. In less developed countries such as India, a high-tech boom in recent years has created jobs and opportunities for a growing number of people.[77] Even though developed countries such as Japan and the U.S. are most affected by technological displacement of workers, both nations still lead the world in creating new jobs and shifting their traditional industrial structure toward a high-tech, knowledge-based economy.

The precise impact that the advanced technological environment will have on international management over the next decade is difficult to forecast. One thing is certain, however; there is no turning back the technological clock. MNCs and nations alike must evaluate the impact of these changes carefully and realize that their economic performance is closely tied to keeping up with, or ahead of, rapidly advancing technology.

The World of International Management—Revisited

Political, legal, and technological environments can alter the landscape for global companies. The chapter opening World of International Management described how social media can be used a tool for political change—both positive and negative. It has allowed political groups to organize, journalists to communicate and report on political developments, and citizens to mobilize and build support for political movements. This situation underscores the increasing uncertainty in the global business environment and the rapidity and extent of political and legal change. It also highlights how technology is contributing to accelerating change and how traditional legal systems have difficulty keeping pace with these changes. International managers need to be aware of how differing political, legal, and technological environments are affecting their business and how globalization, security concerns, and other developments influence these environments. Changes in political, legal, and environmental conditions also open up new business opportunities but close some old ones.

In light of the information you have learned from reading this chapter, you should have a good understanding of these environments and some of the ways in which they will affect companies doing business abroad. Drawing on this knowledge, answer the following questions: (1) Following the Russia–Ukraine conflict, how will changes in the political and legal environment in the Central and Eastern European countries affect the European and U.S. MNCs conducting business there? (2) How might evolving political interests and legal systems affect future investment in the region? (3) How does technology result in greater integration and dependencies among economies, political systems, and financial markets, but also greater fragility?

SUMMARY OF KEY POINTS

1. The global political environment can be understood via an appreciation of ideologies and political systems. Ideologies, including individualism and collectivism, reflect underlying tendencies in society. Political systems, including democracy and totalitarianism, incorporate ideologies into political structures. There are fewer and fewer purely collectivist or socialist societies, although totalitarianism still exists in several countries and regions. Many countries are experiencing transitions from more socialist to democratic systems, reflecting related trends discussed in Chapter 1 toward more market-oriented economic systems.
2. The current legal and regulatory environment is both complex and confusing. There are many different laws and regulations to which MNCs doing business internationally must conform, and each nation is unique. Also, MNCs must abide by the laws of their own country. For example, U.S. MNCs must obey the rules set down by the Foreign Corrupt Practices Act. Privatization and regulation of trade also affect the legal and regulatory environment in specific countries.
3. The technological environment is changing quickly and is having a major impact on international business. This will continue in the future with, for

example, blockchain technology, advanced robotics, and developments in artificial intelligence as they offer developing countries new opportunities to leapfrog into the 21st century. New markets are being created for high-tech MNCs that are eager to provide telecommunications service. Technological developments also impact both the nature and the structure of employment, shifting the industrial structure toward a more high-tech, knowledge-based economy. MNCs that understand and take advantage of this high-tech environment should prosper, but they also must keep up, or go ahead, to survive.

KEY TERMS

act of state doctrine, *54*
civil or code law, *53*
collectivism, *48*
common law, *53*
democracy, *50*
doctrine of comity, *54*
Foreign Corrupt Practices Act (FCPA), *55*
individualism, *47*
Islamic law, *53*
nationality principle, *53*
principle of sovereignty, *53*
protective principle, *54*
socialism, *48*
socialist law, *53*
territoriality principle, *53*
totalitarianism, *50*

REVIEW AND DISCUSSION QUESTIONS

1. In what ways do different ideologies and political systems influence the environment in which MNCs operate? Would these challenges be fewer for those operating in the EU than for those in Russia or China? Why or why not?
2. How do the following legal principles impact MNC operations: the principle of sovereignty, the nationality principle, the territoriality principle, the protective principle, and the principle of comity?
3. How will advances in technology and telecommunications affect developing countries? Give some specific examples.
4. Why are developing countries interested in privatizing their state-owned industries? What opportunities does privatization have for MNCs?

INTERNET EXERCISE: HITACHI GOES WORLDWIDE

Hitachi products are well known in the U.S., as well as in Europe and Asia. However, in an effort to maintain its international momentum, the Japanese MNC is continuing to push forward into new markets, especially emerging markets, while developing new products. Visit the MNC at its website, **www.hitachi.com**, and examine some of the latest developments that are taking place. Begin by reviewing the firm's current activities in Asia, specifically Hong Kong and Singapore. Then look at how it is doing business in North America. Finally, read about its European operations. Then answer these three questions: (1) What kinds of products and systems does the firm offer? What are its primary areas of emphasis? (2) In what types of environments does it operate? Is Hitachi primarily interested in developed markets, or is it also pushing into newly emerging markets? (3) Based on what it has been doing over the last two to three years, what do you think Hitachi's future strategy will be in competing in the environment of international business?

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Malaysia

In the International Spotlight

Malaysia is an export-oriented nation in South-East Asia strategically located with the South China sea to the right and the Strait of Malacca to the west. The Johore Strait separates it from Singapore in the South. Besides Singapore, it also shares land and maritime borders with Brunei, Indonesia, Thailand, Philippines, and Vietnam. The country is rich in natural resources including tin, petroleum, timber, copper, iron ore, natural gas, and bauxite.[78]

It is an upper-middle income country with a GDP of 337 billion in 2020.[79] Services account for over half the GDP, and manufacturig accounts for an additional 38 percent. Singapore, China, the U.S. Hong Kong, Japan, Taiwan, and Thailand are major import-export trade partners. Exports include integrated circuits, refined petroleum, natural gas, semiconductors, and palm oil.[80] Forty percent of jobs are linked to exports.[81] The country has several bilateral and multilateral Free Trade Agreements. The most recent of these is the Regional Comprehensive Economic Partnership (RCEP) agreement, heralded as the world's largest trade deal, which came into force for Malaysia in March 2022.

Malaysia has a population of 32.37 million that is 78 percent urban.[82] The population is growing at the rate of approximately 1 percent. The country is young, with 84 percent aged 54 or younger. The Bumiputera (Malays and indigenous people) account for 62 percent of the population. Twenty one percent are ethnic Chinese, and 6 percent are Indian. By religion, the population is 61 percent Muslim and 20 percent Buddhist. The official language is Bahasa Malaysia. Other languages including English, Mandarin, Tamil, Telugu, Malayalam, Panjabi, and Thai are also used.[83]

The Malaysian government is a federal parliamentary constitutional monarchy. The king is the Chief of State, with hereditary sultans rotating on five-year terms. The prime minister heads the government. The king swears in the prime minister, decides on dissolutions of the parliament, and issues royal pardons. This power-sharing agreement has been in place since the country gained independence from Britain in 1957. The legal system is a mix of English common law, Islamic (sharia) law, and customary law.[84,85]

Native Chinese and Indian entrepreneurs and businesses continue to face discriminative race-based regulations. The government adopted policies supporting the preferential treatment of the majority Muslim Malay population over the ethnic Chinese and Indians, including preferential university quotas and employment quotas, as part of the New Economic Policy of 1971. Intended as a temporary affirmative action, such measures, also collectively referred to as the bumiputra policy, have continued to evolve over more than 50 years.[86,87]

The Covid-19 pandemic, corruption, and political instability continue to pose risks for the economy. Power grabs and upheavals resulted in the appointment of three different Prime Ministers during the three years from 2018 to 2021. Prior to 2018, the country dealt with a large-scale corruption scandal in which billions of dollars went missing from the 1 Malaysia Development Berhad (1MDB), a state development fund intended to promote economic growth by attracting foreign direct investment and global partnerships. The Prime Minister at the time was also accused of money laundering.

You Be the International Management Consultant

In 2020, a Malaysian subsidiary of Goldman Sachs Group Inc. pleaded guilty to its role in the 1MDB scandal after the Malaysian government filed criminal charges against the bank in 2018. 1MDB, which was launched by prime minister Najib Razak in 2009, raised billions of dollars in bonds between 2009 and 2013, much of which was illegally siphoned off and used to purchase luxury assets in an elaborate corruption scheme. Goldman played a role in the sale of the bonds.

The firm admitted to the United States Department of Justice (DOJ)'s finding that its executives in Asia and other global locations were either aware of or had participated in the bribery scandal and had helped spread illicit funds across Malaysia and the Middle East. This was in violation of the Foreign Corrupt Practices Act. Rogue executives' personal greed was blamed for non-compliance. The company has since paid over US$5 billion in penalties in multiple international settlements including to the U.S. DOJ, and the Malaysian government, and regulators in countries such as the United Kingdom, Hong Kong, and Singapore. Among others, two ex-Goldman bankers, Roger Ng and Tim Leissner, were indicted.[88,89,90]

Questions

1. What risks do multinational companies doing business in Malaysia such as Goldman Sachs face?
2. What was the 1MDB scandal?
3. How can a company like Goldman Sachs monitor its global operations for compliance with the Foreign Corrupt Practices Act?
4. What lessons can other companies learn from Goldman's experience in Malaysia?

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Chapter 3

ETHICS, SOCIAL RESPONSIBILITY, AND SUSTAINABILITY

OBJECTIVES OF THE CHAPTER

Recent concerns about ethics, social responsibility, and sustainability transcend national borders. In this era of globalization, MNCs must be concerned with how they carry out their business and their social role in foreign countries. This chapter examines business ethics and social responsibility in the international arena, and it looks at some of the critical social issues that will be confronting MNCs in the years ahead. The discussion includes ethical decision-making in various countries, the regulation of foreign investment, the growing trends toward environmental sustainability, and current responses to social responsibility by today's multinationals. The specific objectives of this chapter are

1. **EXAMINE** ethics in international management and some of the major ethical issues and problems confronting MNCs.
2. **DISCUSS** some of the pressures on and actions being taken by selected industrialized countries and companies to be more socially and environmentally responsive to world problems.
3. **EXPLAIN** some of the initiatives to bring greater accountability to corporate conduct and limit the impact of corruption around the world.

The World of International Management

Sustaining Sustainable Companies

With a more environmentally aware public, being a "sustainable" enterprise has become an important part of the business model for many multinational corporations. Three of these companies—Patagonia, L'Oréal, and Anheuser-Busch InBev (AB InBev)—have uniquely transformed their corporate strategy to emphasize "doing good" socially and environmentally while "doing well" economically.

Sustainability in the Supply Chain—Patagonia

Founded by Yvon Chouinard in 1972, Patagonia is a private outdoor-clothing company. Patagonia's transition to a sustainability-focused company started in 1988 after several employees in one of its Boston retail stores suddenly fell ill. After a thorough investigation, it was discovered that formaldehyde, emitted from Patagonia's cotton-based merchandise, was cycling into the air. In response, in 1994, Patagonia committed to using only formaldehyde-free, 100 percent organic cotton in the manufacture of its clothing; within just 18 months, it achieved that goal.[1] Since then, Patagonia has examined and modified its entire supply chain from both a corporate social responsibility and an environmental viewpoint. Its revised mission statement reflects that ideal: "Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis."[2]

Internally, recycled products constitute a large percentage of the material used in Patagonia's products. Recycled polyester and nylon, made of post-consumer soda bottles and waste fabric, are used in the production of fleece and linings.[3] This re-use cuts down on oil usage and CO2 emissions. All of Patagonia's wool products are now chlorine-free, preventing the contamination of wastewater in the developing countries where the products are manufactured. Furthermore, Patagonia's finished products are fully recyclable, and the company has encouraged its customers to properly dispose of their products. Any Patagonia product can be dropped off at a retail store for guaranteed recycling.[4]

Social sustainability, with an emphasis on employee welfare, has also become a key tenant of Patagonia's strategy. Since 2014, the company has produced fair trade–certified clothing lines.

The premium that Patagonia pays for these fair trade products is funneled directly into an employee welfare fund, which is used to pay higher compensation and cash bonuses, build day care centers, develop health programs, and provide water filters and other necessities. As of 2021, more than 64,000 employees have benefited from the fair trade program. Patagonia currently offers 480 fair trade–certified styles manufactured in 14 countries.[5]

Since 1985, Patagonia has donated 1 percent of its sales to environmental nonprofits.[6] In 2002, Chouinard expanded on his vision for corporate sustainability by cofounding "One Percent for the Planet," an international nonprofit dedicated to philanthropy for environmental organizations. The program encourages companies to follow Patagonia's lead and donate 1 percent of sales to worthwhile, environmentally focused causes. As of 2021, over 3,900 companies across 61 countries have joined the organization. Over 4,200 nonprofits have received funding from the over US$282 million donated by the member companies.[7]

The decision to invest in sustainable products has not been without repercussions, however. Chlorine-free wool has been more costly to manufacture, cutting down on profits. Following the shift to 10 percent organic cotton, Patagonia's profits dropped.[8] Furthermore, the high priority that Patagonia puts on only using factories that follow its strict standards means higher labor costs than the competition's. However, Patagonia has gained a competitive advantage by doing good. The company has developed a loyal customer base that is willing to pay a premium for the sustainability that Patagonia provides.

Sustainability in Innovation—L'Oréal

Founded by French chemist Eugène Schueller in 1909, L'Oreal is a personal cosmetics company with operations in more than 150 countries. The company employs nearly 90,000 people at its 40 production sites.[9] With gross revenues reaching €26.9 billion in 2018, L'Oréal is the largest and most profitable company in the cosmetics industry.[10]

In recent years, L'Oréal has invested significant resources in building a more environmentally conscious brand. Encouraging sustainability-focused innovation in the areas of product development and product improvement has been key to the company's strategy. One of the primary avenues L'Oréal has taken to improve its environmental profile is the enhancement of the biodegradability of its product formulas. Cosmetic products, which are often washed down the drain after use, enter the groundwater and public water supply when discharged. By improving the ability of its products to be broken down by natural microorganisms, L'Oréal has been able to reduce its products' water footprint significantly. In 2018, the company received the highest possible rating from the Carbon Disclosure Project for its sustainable water management.[11]

To develop and improve individual products, L'Oréal created a Sustainable Product Optimization Tool (SPOT). Using SPOT, the company can measure the environmental and social impact that its new products have. Existing products can also be evaluated with SPOT to identify potential ways to improve overall sustainability. Today, SPOT is used by all of the company's brands.[12] In addition to SPOT, L'Oréal developed a separate eco-design tool specifically for reducing the environmental impact of its product formulas. Since successfully integrating the tool within SPOT, L'Oréal has been able to develop new products with biodegradability levels exceeding 98 percent.[13]

L'Oréal's commitment to environmental sustainability extends to its sourcing of raw materials. As a large cosmetic company with a wide product line, L'Oréal utilizes close to 2,000 different natural resources from over 100 countries. Refocusing on using renewable materials, whenever possible, has therefore been a central objective for the product developers. By making changes to existing product formulas and improving the environmental profile of new products, L'Oréal has been able to increase the renewable raw material composition of its product line to close to 60 percent. This percentage will continue to increase as the company continues to innovate; new products introduced in 2018 were comprised of 98 percent renewable raw materials.[14]

For L'Oréal, embracing sustainability is also a financial opportunity. Chairman and CEO Jean-Paul Agon sees environmental sustainability and economic performance as mutually reinforcing concepts: More customers, now aware of their environmental footprint, make purchasing decisions with sustainability in mind.[15] Environmental sustainability can also lead to favorable publicity. For the seventh year in a row, L'Oreal has been recognized for its hard work as a United National Global Compact LEAD company. This recognizes their ongoing commitment to the Ten Principles for responsible business and placing the United Nation's SDGs at the core of their growth strategy. Through its sustainability program, its strong commitment to ethics, its policy of promoting diversity and inclusion, and its philanthropic activities, L'Oreal contributes to 16 of the 17 SDGs defined by the United Nations in 2015.[16]

Sustainability in Local Communities and Economies—AB InBev

Founded in 1977, Anheuser-Busch InBev (AB InBev) operates as a holding company engaging in the manufacturing and distribution of alcoholic and non-alcoholic beverages. Headquartered in Leuven, Belgium, AB InBev has 163,695 employees across the globe and produces some of the world's most popular beer brands such as Budweiser, Corona, and Stella Artois.

AB InBev's 2020 Environmental, Social and Corporate Governance Report highlights the importance of sustainability practices for the organization by stating, "…That is why we always say, sustainability is not just part of our business, it is our business." Not only does AB InBev work hard to develop and manufacture sustainable products, but it also works to empower the local communities and economies where its products are created and sold. This is being achieved by partnering with the United Nations on its Sustainable Development Goals (UN SDGs). In addition to using the UN SDGs as its roadmap, AB InBev has also shown its commitment by having current CFO, Fernando Tennenbaum become a founding member of the United Nations' Global Compact CFO Task Force. Formed in 2019 the group is tasked with raising awareness of the impact that corporate finance has on the global economy and society.[17]

Focusing on local communities and economies, AB InBev has started at the source with a goal to empower farmers across local supply chains to ensure that they are skilled, connected, and financially empowered. This goal would reach 20,000+ direct farmers in 13 different countries who produce six priority crops for AB InBev: barley, hops, rice, maize, sorghum, and cassava. Empowering farmers create improved crop productivity, profitability, and access to formal markets to help sell their crops. Thanks to BanQu, a blockchain-enabled start-up, the platform gives farmers better visibility in the AB InBev supply chain and creates better security for farmers in the delivery and payment process. This also enhances their own economic identity to allow access to greater formal financial services.[18]

For the 4.5 million international retailers that AB InBev partners with, it has worked to empower these business owners with training plans including financial management, people management, planning, and operations. The success of supporting these businesses comes from AB InBev's Z-Tech department. This global technology and innovation hub focuses on solutions to give small and medium retailers access to the digital economy through online marketplaces and financial tools. AB InBev's entrepreneurship training program has seen 6,870 retailers graduate and empowered over 38,000 women-owned businesses.[19]

While most would only consider the procurement, manufacturing, distribution, and sale in the supply chain, AB InBev has taken it one step further. Recycling collectors make up a big part of the supply chain for AB InBev. AB Inbev has implemented technology that can create transparency in transactions, enable verification that collectors receive fair prices for bottles and materials collected, and build a deeper understanding of this part of the value chain for the entire organization. Most recently, AB InBev has introduced the use of BanQu in the recycling collector programs in Zambia and Colombia.

Our opening discussion of Patagonia, L'Oréal, and AB-InBev demonstrates how corporations are shifting their focus from traditional market-responsive strategies to broader approaches that incorporate both business and social or environmental goals. Patagonia has radically transformed its business to focus on what it expects to be increasing demand for "green" products as well as those that contribute to improved working conditions in developing countries. The implementation of its SPOT has enabled L'Oréal to develop new products and modify existing products to minimize environmental impact. AB InBev is making sure that all parts of the value chain are successful and sustainable and that the local communities and economies where their products are created and sold are empowered. By combining their commitment to social and environmental sustainability, aligned with their business and commercial objectives, these three companies appear to be setting an example for a new approach to integrating social and business goals among global corporations, tapping into consumers' desire for products and services that are consistent with their values. This "triple bottom line" approach, which simultaneously considers social, environmental, and economic sustainability ("people, planet, profits"), could make a lasting impact on the world's human and environmental conditions by harnessing business and managerial skills and techniques.

More broadly, recent scandals have called attention to the perceived lack of ethical values and corporate governance standards in business. In addition, assisting impoverished countries by helping them gain a new level of independence is both responsible and potentially profitable. Indeed, corporate social responsibility is becoming more than just

good moral behavior. It can assist in avoiding future economic and environmental setbacks and may be the key to keeping companies afloat.

Ethics and Social Responsibility

The ethical behavior of business and the broader social responsibilities of corporations have become major issues in the U.S. and all other countries around the world. Ethical scandals and questionable business practices have received considerable media attention, aroused the public's concern about ethics in international business, and brought attention to the social impact of business operations.

Ethics and Social Responsibility in International Management

Unbiased ethical decision-making processes are imperative to modern international business practices. It is difficult to determine a universal ethical standard when the views and norms in one country can vary substantially from those in others. **Ethics**, the study of morality and standards of conduct, is often the victim of subjectivity as it yields to the will of cultural relativism, or the belief that the ethical standard of a country is based on the culture that created it and that moral concepts lack universal application.[20]

ethics
The study of morality and standards of conduct.

The adage "When in Rome, do as the Romans do" is derived from the idea of cultural relativism and suggests that businesses and their managers should behave in accordance with the ethical standards of the country they are active in, regardless of the MNC headquarters location. It is necessary, to some extent, to rely on local teams to execute under local rule; however, this can be taken to extremes. While a business whose only objective is to make a profit may opt to take advantage of these differences in norms and standards in order to legally gain leverage over the competition, it may find that negative consumer opinion about unethical business practices, not to mention potential legal action, could affect the bottom line. Dilemmas that arise from conflicts between ethical standards of a country and business ethics, or the moral code guiding business behavior, are most evident in employment and business practices; recognition of human rights, including women in the workplace, responsibilities toward the natural environment, and corruption. The newer area of **corporate social responsibility (CSR)** is closely related to ethics. However, we discuss CSR issues separately. Ethics is the study of or the learning process involved in understanding morality, while CSR involves taking action. Furthermore, the area of ethics has a lawful component and implies right and wrong in a legal sense, while CSR is based more on voluntary actions. Business ethics and CSR therefore may be viewed as two complementary dimensions of a company's overall social profile and position.

corporate social responsibility (CSR)
The actions of a firm to benefit society beyond the requirements of the law and the direct interests of the firm.

Ethics Theories and Philosophy

There is a range of ethical theories and approaches around the world, many emanating from religious and cultural traditions. We focus on the cultural factors in Part Two of the book. Here we review three tenets from Western philosophy and briefly describe Eastern philosophy, which can be used to evaluate and inform international management decisions. The International Management in Action feature explores how these perspectives might be used to inform the ethics of a specific international business decision.

Kantian philosophical traditions argue that individuals (and organizations) have responsibilities based on a core set of moral principles that go beyond those of narrow self-interest. In fact, a Kantian moral analysis rejects consequences (either conceivable or likely) as morally irrelevant when evaluating the choice of an agent: "The moral worth of an action does not lie in the effect expected from it, nor in any principle of action which requires to borrow its motive from this expected effect."[21] Rather, a Kantian approach

asks us to consider our choices as implying a general rule, or maxim, that must be evaluated for its consistency as a universal law. For Kant, what is distinctive about rational behavior is not that it is self-interested or even purpose-driven, though all actions do include some purpose as part of their explanation. Instead, rational beings, in addition to having purposes and being able to reason practically in their pursuit, are also capable of evaluating their choices through the lens of universal law, what Kant calls the moral law or the "categorical imperative."[22] From this perspective, we ought always to act under a maxim that we will consistently act in a manner that is desirable for all under similar situations, thus becoming de facto universal law.

Aristotelian virtue ethics focus on core, individual behaviors, and actions and how they express and form individual character. They also consider social and institutional arrangements and practices in terms of their contribution to the formation of good character in individuals. A good, or virtuous, individual does what is right for the right reasons and derives satisfaction from such actions because his or her character is rightly formed. For Aristotle, moral success and failure largely come down to a matter of right desire, or appetite: "In matters of action, the principles of initiating motives are the ends at which our actions are aimed. But as soon as people become corrupted by pleasure or pain, the goal no longer appears as a motivating principle: he no longer sees that he should choose and act in every case for the sake of and because of this end. For vice tends to destroy the principle or initiating motive of action."[23] It is important to have an understanding of what is truly good and practical wisdom to enable one to form an effective plan of action toward realizing what is good; however, absent a fixed and habitual desire for the good, there is little incentive for good actions. There is also an important social component to virtue theory insofar as one's formation is a social process. The exemplars and practices one finds in one's cultural context guide one's moral development. Virtue theory relies heavily on existing practices to provide an account of what is good and what character traits contribute to pursuing and realizing the good in concrete ways.

Utilitarianism—a form of consequentialism—favors the greatest good for the greatest number of people under a given set of constraints.[24] A given act is morally correct if it maximizes utility, that is if the ratio of benefit to harm (calculated by taking everyone affected by the act into consideration) is greater than the ratio resulting from an alternative act. This theory was given its most famous modern expression in the works of Jeremy Bentham (1988) and John Stuart Mill (1957), two English utilitarians writing in the 18th and 19th centuries, both of whom emphasized the greatest happiness principle as their moral standard.[25,26] Utilitarianism is an attractive perspective for business decision-making, especially in Western countries, because its logic is similar to an economic calculation of utility or cost-benefit, something many Western managers are accustomed to doing.

Eastern philosophy—which broadly can include various philosophies of Asia, including Indian philosophy, Chinese philosophy, Iranian philosophy, Japanese philosophy, and Korean philosophy—tends to view the individual as part of, rather than separate from, nature. Many Western philosophers generally assume as a given that the individual is something distinct from the entire universe, and many Western philosophers attempt to describe and categorize the universe from a detached, objective viewpoint. Eastern perspectives, on the other hand, typically hold that people are an intrinsic and inseparable part of the universe and that attempts to discuss the universe from an objective viewpoint, as though the individual speaking were something separate and detached from the whole, are inherently absurd.

In international management, executives may rely upon one or more of these perspectives when confronted with decisions that involve ethics or morality. While they may not invoke the specific philosophical tradition by name, they likely are drawing from these fundamental moral and ethical beliefs when advancing a specific agenda or decision. The International Management in Action box regarding an offshoring decision shows how a given action could be informed by each of these perspectives.

The Ethics of an Offshoring Decision

The financial services industry has been especially active in offshoring. Western investment banks, including Citigroup, Deutsche Bank, Goldman Sachs, Credit Suisse, and UBS, have established back-office functions in India. JP Morgan was the first to offshore staff to the country in 2001 and has more than 8,000 staff in Mumbai, nearly 5 percent of its 170,000 employees worldwide. In October 2007, Credit Suisse announced the expansion of its center of excellence in Pune, India, with 300 new jobs, bringing staff numbers to 1,000 by December. Deutsche Bank has 3,500 staff in Bangalore and Mumbai. UBS began outsourcing work to third-party information technology vendors in 2003 and has 1,220 employees in Hyderabad and Mumbai. Goldman Sachs started offshoring to India in the early 2000s and has more than 2,500 employees there. On October 17, 2007, JP Morgan announced plans to build a back-office workforce of 5,000 in the Philippines over the next two years. Its traditional offshoring center of Mumbai in India had become overcrowded by investment banks that have set up similar operations. The bank has since developed credit card and treasury services in the Philippines. A source close to the bank said the move was to diversify its back-office locations and because JP Morgan has strong links with a human resources network in the country. Mark Kobayashi-Hillary, an outsourcing specialist, said, "Because India's finance center is almost wholly based in Mumbai, the resources are finite and there is a supply and demand problem. It's no surprise people are looking elsewhere. But banks are not just after keeping costs down; these moves are also strategic." He said he was surprised that banks had not opened more offices in the Philippines, considering its strong links with the U.S., cheap rent, and wealth of resources. "In Manila, there is a high density of people who have worked in the financial sector with the skills that investment banks look for. We should see more banks setting up shop there soon." By 2018, JP Morgan Chase had more than 1,500 employees in the country.

Ethical philosophy and reasoning could be used to inform offshoring decisions such as these. A *Kantian* approach to offshoring would require us to consider a set of principles in accord with which offshoring choices were made such that decisions were measured against these core tenets, such as a corporate code of conduct. A *virtue theory* perspective would suggest that the decision should consider the impact on communities and the goal of humans flourishing more generally; such an analysis could include economic as well as social impacts. A *utilitarian* perspective would urge that benefits and costs be measured, such as who is losing jobs, who is gaining, and if the gains (measured in either jobs, income, utility, or quality of life) outweigh the losses. An *Eastern* philosophical approach would suggest a broader, more integrative, and longer-term view, considering impacts not just on humans but also on the broader natural environment in which they operate.

Taken together, an understanding of these ethical perspectives could help managers decide how to make their own ethical decisions in the international business environment.

Source: Jonathan Doh and Bret Wilmot, "The Ethics of Offshoring, Working Paper." Villanova University, 2010.

Human Rights

Human rights issues present challenges for MNCs, as there is currently no single, universally adopted standard of what constitutes acceptable behavior. It is difficult to list all rights inherent to humanity because there is considerable subjectivity involved, and cultural differences exist among societies. Some basic rights include life, freedom from slavery or torture, freedom of opinion and expression, and a general ambiance of nondiscriminatory practices.[27] One recent violation of human rights that resonated with MNCs was the 2018 assassination of journalist Jamal Khashoggi, a Saudi dissident, by high-level Saudi Arabian government officials. Following his murder, executives from numerous MNCs, including Uber, Viacom, JPMorgan Chase, the Virgin Group, and Google, canceled their participation in the Future Investment Initiative (FII) business conference, set to take place later that month in Riyadh, Saudi Arabia.[28]

China's human rights record continues to be a challenge for MNCs. Human rights lawyers are frequently detained by the government, and peaceful Tibetan activists have received lengthy prison sentences for expressing their freedom of speech.[29] In 2021, it was estimated that more than 1 million ethnic Uighur Muslims were being held in re-education internment camps in the Xinjiang region of China. Despite these violations, most MNCs continue their involvement in China, although friction still exists between countries with high and low human rights standards.[30]

Women's rights and gender equity can be considered a subset of human rights. While the number of women in the workforce has increased substantially worldwide, most are still experiencing the effects of a "glass ceiling," meaning that it is difficult, if not impossible, to reach upper management positions. Japan provides a good example. As per official statistics, in 2021, Japanese firms had only about 13 percent female managers, in comparison to 30-40 percent in European and North American companies. Many female college graduates are still offered only secretarial or low-level jobs, as many Japanese business leaders still believe that women will quit and get married within a few years of employment.[31] As per a report by UNICEF, in 2021, globally, about 1 in 4 girls between the ages of 15 and 19 are neither employed nor in education or training, compared to 1 in 10 boys.[32]

Equal employment opportunities may be more troubled in Japan than in other countries, but the glass ceiling remains pervasive throughout the world. Although progress has been made, women in the U.S. still earn less than men with the same job. France, Germany, and the United Kingdom have seen an increase in the number of women in management positions but, unfortunately, women in management still tend to represent only the lower level and do not seem to have the resources to move up in the company. This is partially due to social factors and perceived levels of opportunity or lack thereof. The U.S., France, Germany, and the United Kingdom all have equal opportunity initiatives, whether they are guaranteed by law or represented by growing social groups. It is a difficult journey as women attempt to break through the highest levels of the glass ceiling in the workplace, but the continued progress is promising.

Labor, Employment, and Business Practices

Labor policies vary widely among countries around the world. Issues of freedom to work, freedom to organize and engage in collective action, and policies regarding notification and compensation for layoffs are treated differently in different countries. Political, economic, and cultural differences make it difficult to agree on a universal foundation of employment practices. It does not make much sense to standardize compensation packages within an MNC that spans both developed and underdeveloped nations. Elements such as working conditions, expected consecutive work hours, and labor regulations also create challenges in deciding which employment practice is the most appropriate. For example, the low cost of labor entices manufacturers to look to Bangladesh; however, workers in Bangladesh are not well paid, and to meet the demand for output, they often are forced to work 60 hours a week. In some cases, children are used for this work. Child labor initially invokes negative associations and is considered an unethical employment practice. The reality is that of the 160 million children ages 5–17 working globally in 2021, most were engaged in work to help support their families.[33,34] In certain countries, it is necessary for children to work due to low wages. UNICEF and the World Bank recognize that in some instances, family survival depends on all members working, and that intervention is necessary only when the child's developmental welfare is compromised. While there was some progress in the reduction of child labor, in the first 15 years of this century, we have seen an increase of about 9 million children engaged in child labor since 2016, a trend that is likely to continue due to the economic hardships caused by the COVID-19 pandemic.[35] There has also been considerable progress in the ratification of ILO standards concerning child labor. Convention 182 (on the worst forms of child labor) has been ratified by 182 countries, with only a few small Pacific island nations yet to endorse it. Convention 138 (on minimum age), however, has found less acceptance and still remains to be ratified by over a dozen countries, including the U.S. and Australia. Roughly 20 percent of the children in the world live in countries that have not ratified Convention 138.[36]

In early 2010, the issue of relatively low wages paid by Chinese subcontractors made the headlines after a number of suicides by workers at factories run by Foxconn, one of the largest contractors for electronics firms such as Apple, and a strike by workers at a

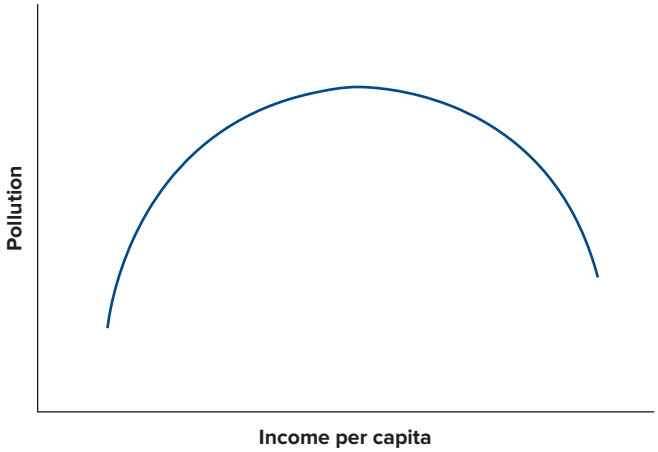
Honda plant. A year later, in May 2011, an explosion at a Foxconn iPad factory killed two employees. In a survey of Foxconn employees, over 43 percent of workers stated that they have seen or been part of a workplace accident.[37] As a result of these controversies, Foxconn, which employs more than 800,000 workers in China making products for companies such as Dell, Hewlett-Packard, and Apple, agreed to raise its base wage by more than 30 percent. Additional pressure from Apple in 2012 further improved employee safety and reduced working hours at Foxconn. By July 2013, weekly work hours had been limited to just 49 per employee; this reduced overtime hours from 80 per month to just 36. Apple also partnered with the Fair Labor Association to independently audit the safety of the Foxconn plants.[38] Some analysts believe these higher wages, combined with the geopolitical tensions, will eventually result in some lower-end manufacturing jobs moving to other countries, such as Vietnam, while higher value-added production will remain in China.

Ensuring that all contractors along the global supply chain are compliant with company standards is an ongoing issue and one that is not without challenges. This issue came to a head once again when a Bangladesh factory that produced products for Walmart caught fire in November 2012, killing 112 workers. Walmart immediately responded by severing all ties with suppliers who use subcontractors without Walmart's knowledge and began requiring all overseas factories to pass audits before they could be used to produce Walmart products.[39] Yet, a subsequent collapse of a garment factory in Bangladesh in April 2013 that killed more than 1,000 and a fire only two weeks later, also in Bangladesh, killing eight, underscored the challenges companies face in trying to develop and implement policies for production that is largely outsourced. After a number of NGOs pressed companies to take responsibility for the conditions that allowed for these tragedies, several global apparel firms—including Swedish-based retailer H&M; Inditex, owner of the Zara chain; Dutch retailer C&A; and British companies Primark and Tesco—agreed to a plan to help pay for fire safety and building improvements in Bangladesh. The Bangladesh government announced that it would improve its labor laws, raise wages, and ease restrictions on forming trade unions.[40] Walmart and Gap chose not to sign on to the European-led agreement out of concerns that they could be subject to litigation. Instead, they initiated a separate agreement with U.S. retail trade groups and a bipartisan think tank. These challenges, and the reforms they bring, should contribute to improved workers' conditions and help prevent similar tragedies.

Environmental Protection and Development

Conservation of natural resources is another area of ethics and social responsibility in which countries around the world differ widely in their values and approach. Many poor, developing countries are more concerned with improving the basic quality of life for their citizens than worrying about endangered species or the quality of air or water. There are several hypotheses regarding the relationship between economic development, as measured by per capita income, and the quality of the natural environment. The most widely accepted thesis is represented in the Environmental Kuznets Curve (EKC), which hypothesizes that the relationship between per capita income and the use of natural resources and/or the emission of wastes has an inverted U shape. (See Figure 3-1.) According to this theory, as developing economies industrialize and per capita income begins to increase, the use of natural resources and/or the emission of wastes increases. Once economic production and per capita income reach a certain inflection point, the use of natural resources and/or the emission of waste begins to decline. Reasons for this inverted U-shaped relationship are hypothesized to include income-driven changes in (1) the composition of production and/or consumption, (2) the preference for environmental quality, (3) institutions that are needed to internalize externalities, and/or (4) increasing returns to scale associated with pollution abatement. The term *EKC* is based on its similarity to the time-series pattern of income inequality described by Simon Kuznets in 1955. A 1992 World Bank Development Report made the notion of an EKC popular by suggesting that

Figure 3–1
The Environmental Kuznets Curve



environmental degradation can be slowed by policies that protect the environment and promote economic development. Subsequent statistical analysis, however, showed that while the relationship could hold in a few cases, it could not be generalized across a wide range of resources and pollutants.[41]

Despite the difficulty in achieving international consensus on environmental reform, recent progress holds promise. The "Paris Agreement," with 193 parties (192 countries and the EU) as of 2021, is a wide-ranging greenhouse gas agreement that aims to drastically reduce global emissions beginning in 2020. The agreement was originally drafted in 2015 at the 21st annual United Nations Climate Change Conference. Representatives from more than 185 countries contributed to the agreement, and all parties at the conference agreed unanimously to the final text. Following official ratification by more than 55 countries, representing in excess of 55 percent of global emissions, the Paris Agreement officially took effect in November 2016. A summary of some of the agreement's 27 articles is included in Table 3–1.

Table 3–1
Highlights of the Paris Agreement on Climate Policy

Article 2
- Outlines the objectives of the agreement, which include limiting the increase in the average temperature globally to under 2°C and aiming for just a 1.5°C increase. Also states goals of developing lower greenhouse gas emissions technology and structuring financing to nations, so that adaption to the impacts of climate change and lower greenhouse gas emissions technology is implemented.

Article 4
- Affirms that the global peaking of greenhouse gas emissions should be reached as soon as possible to ensure that goals can be reached. The long-term goal is to achieve net zero global emissions by 2070. Each individual country is tasked with determining its own contributions, with developed countries tasked with taking the lead. Smaller, less developed nations are to be assisted by developed nations.

Article 7
- Requires countries to submit reports indicating their strategies for adapting to the effects of climate change.

Article 8
- Provides a method for smaller, more vulnerable countries to mitigate potential financial losses due to climate change.

Article 9
- Requires more developed countries to provide financing to developing countries to meet emissions goals and adapt to the effects of climate change.

Article 13
- Requires all countries to be transparent with their progress toward emissions reduction goals.

Article 14
- Requires that every five years countries are to update, evaluate, and set new targets based on their progress.

Source: The Paris Agreement, https://unfccc.int.

Despite improvements in environmental protection and ethical business practices, many companies continue to violate laws and/or jeopardize safety and environmental concerns in their operations. This is particularly true in emerging and developing countries, where environmental laws may be reasonably strong but are not as vigorously enforced as in higher-income countries. As one example, in January 2019, more than 100 children at a primary school in Taizhou, China, began experiencing nausea, nosebleeds, and vomiting due to toxic chemicals used in the construction of a new running track. In response, the Chinese government announced it would update its national standards for the construction of school recreational facilities.[42] As citizens become more demanding that governments and businesses take action to address environmental pollution and the media report on these controversies, officials are likely to feel pressure to respond.

Globalization and Ethical Obligations of MNCs

This discussion about ethics, CSR, and human rights prompts the question, how much responsibility do MNCs have in changing these practices? Should they adopt the regulations in the country of origin or yield to those in the country of operation? One remedy could be to instill a business code of ethics that extends to all countries or to create contracts for situations that may arise. The nearby International Management in Action box regarding Volkswagen (VW) underscores how, despite a strong code of conduct, VW found itself the subject of numerous ethical problems, which resulted in lawsuits and severely tarnished its reputation.

"Doing the right thing" is not always as simple as it appears. Some years back, Levi Strauss experienced this issue when the company discovered that some of its Bangladesh suppliers were employing children under the age of 14. Although employing underage children did not violate the law in Bangladesh, it did go against the policy of Levi Strauss. Ultimately, Levi Strauss decided that the right thing to do would be to continue paying the wages of the children but require them to attend school instead. The company also secured a position for them once they reached the age of 14.[43] While the level of involvement is hard to standardize, having a basic set of business ethics and appropriately applying it to the culture in which one is managing is a step in the right direction. Managers need to be cautious not to blur the lines of culture in these situations.

Another phenomenon in response to globalization has been not just to offshore low-cost, labor-intensive practices, as described in Chapter 1, but to transfer a large percentage of highly specialized jobs of all types to foreign locations. This is especially true in India, where the inexpensive, highly educated workforce has aided many companies and put a strain on some industries, particularly home-based technology services. IBM, with a long history rooted in the U.S., now bases about one-third employees in India. Cutting-edge research efforts, including the development of AI and self-driving car technologies, have increased in its Indian operations. While IBM continues to shrink its domestic workforce, the company has increased its employment in India from a mere 9,000 in 2003 to more than 130,000 in 2021. The labor costs in India, at less than half of those in the U.S., give companies like IBM a competitive advantage by offering high-quality consulting expertise that is unmatched by its Indian competition but at a similarly low cost.[44,45]

The offshoring of highly technical jobs can also result in the relocation of some domestic management positions, creating an interesting dynamic in the scope of ethics and corporate responsibility. While most international managers concern themselves with understanding the social culture in which the corporation is enveloped and how that can mesh with the corporate culture, this recent wave involves the extension of an established corporate culture into a new social environment. The difference here is that the individuals being moved offshore are part of corporate citizenship, meaning

International Management in Action

Volkswagen's Challenges with Ethical Business Practices

In the fiercely competitive global automotive industry, the Volkswagen Group (VW) has pursued an ongoing global strategy that emphasizes both centralization and regional adaptation and leverages the range of capabilities from its various brands and their production. VW operates manufacturing facilities in nearly 30 countries, including two joint ventures in China, and sells its cars in over 150 countries. After two decades of sales leadership in Europe, VW reached a significant milestone in its 78-year history when, for the first half of 2015, it surpassed Toyota to become the top automobile producer by sales worldwide. However, celebrations would be short-lived.

In late 2015, VW found itself in a major ethical crisis after numerous independent investigations confirmed that VW's engine software was intentionally bugged to alter a car's performance when the vehicle was undergoing emissions testing. The VW-manufactured diesel engines were programmed to function in such a way that good gas mileage could be achieved during road tests (when emissions were not being tested) and acceptable nitrogen oxide readings were emitted during lab tests (when gas mileage was not being tested). In reality, however, the amount of nitrogen oxide emitted during regular road driving was nearly 40 times greater than what was emitted during testing, far exceeding permissible emissions levels regulated in the U.S. and Europe. In September 2015, the U.S. Environmental Protection Agency (EPA) formally issued a Notice of Violation to VW. The software modification was installed on nearly 11 million vehicles across the globe, affecting all VW diesel engines manufactured between 2009 and 2015. It has been speculated that over 30 management-level employees participated in or had knowledge of the intentional attempt to cheat on these emissions tests.

Within hours of the issuance of the EPA Notice of Violation, the scandal was receiving worldwide news coverage. Perhaps learning from the experience of other companies entangled in ethical scandals over the last several years, VW was quick to assume full responsibility. A number of key figureheads, including global CEO Martin Winterkorn and American President Michael Horn, resigned. Maintaining transparency, including open testimony before the U.S. Congress, was a key element of VW's approach to rebuilding public trust. "We've totally screwed up," stated former American VW President Horn.

The financial fallout from the scandal has been devastating to VW. After starting the year as the top global automaker, VW slumped in the final few months of 2015, and annual sales declined for the first time in 13 years. The company's stock price dropped by a third over the last several months of 2015. In the third quarter of 2015, VW posted its first quarterly loss in 15 years. By January 2021, nearly six years after the scandal became public, VW's market capitalization remained about 20 percent below its 2015 levels. The company recovered some of the lost value briefly in 2021, but in July 2022, VW's market capitalization is still about 25% below the 2015 levels.

In October 2016, a US$14.7 billion settlement was reached in the U.S., which gives affected vehicle owners the opportunity to sell their cars back to Volkswagen. By 2018, over 300,000 owners—representing more than three-quarters of all affected vehicles—had decided to take that option. A free emissions fix, developed in 2017, was offered to those who decided to keep their cars, along with financial compensation to account for the decreased resale value of their vehicles. No compensation package, however, was extended to those customers outside of the U.S.

In 2017 and 2018, nine executives, including former CEO Martin Winterkorn, were charged with various offenses in the U.S. Two employees in the U.S., including a general manager of VW's environmental office in Michigan and an engineer, have pleaded guilty and been sentenced to prison terms of seven years and three and a half years, respectively. However, most have avoided prosecution by remaining in Germany. In 2017, the U.S. government levied a combined US$4.3 billion fine against VW. By 2021, VW booked more than $35 billion to account for the losses related to this scandal.

In its 15-page code of conduct, published in the years prior to the emissions scandal, VW emphasized its commitment to its strong reputation. The trust that the public placed in the VW brand aided in its growth from a small German automaker to a global giant. Now that reputation appears to be in jeopardy. Will VW be able to recover?

Sources: Geoff Colvin, "5 years in, damages from the VW emissions cheating scandal are still rolling in," Fortune, October 6, 2020, https://fortune.com/2020/10/06/volkswagen-vw-emissions-scandal-damages/; Russell Hotten, "Volkswagen: The Scandal Explained," BBC, December 10, 2015, https://www.bbc.com/news/business-34324772; Volkswagen, https://www.vw.com.

that they will identify with the corporation and not necessarily the outside environment; the opposite occurs when the firm moves to another country and seeks to employ local citizens. IBM proves that it is possible to succeed with such an effort, but, as more and more companies follow suit, other questions and concerns may arise. How will the two cultures work together? Will employees adhere to the work schedule of the home or the host country? Will the host country be open or reluctant to an

influx of new citizens? The latter may not be a current concern due to the infrequency of offshoring, but MNCs may face a time when they have to consider more than just the survival of the company. One must also bear in mind the effects these choices will have on both cultures.

Reconciling Ethical Differences across Cultures

As noted in the introduction to this section, ethical dilemmas arise from conflicts between ethical standards of a country and business ethics, or the moral code guiding business behavior. Most MNCs seek to adhere to a code of ethical conduct while doing business around the world, yet they must make some adjustments to respond to local norms and values. Navigating this natural tension can be challenging. One approach advocated by two prominent business ethicists suggests that there exist implied social contracts that generally govern behavior around the world, some of which are universal or near-universal. These "hyper" norms include fundamental principles like respect for human life or abstention from cheating, lying, and violence. Local community norms are respected within the context of such hyper norms when they deviate from one society to another.

This approach, called Integrative Social Contracts Theory (ISCT), attempts to navigate a moral position that does not force decision makers to engage exclusively in relativism versus absolutism. It allows substantial latitude for nations and economic communities to develop their unique concepts of fairness but draws the line at flagrant neglect of core human values. It is designed to provide international managers with a framework when confronted with a substantial gap between the apparent moral and ethical values in the country in which the MNC is headquartered and the many countries in which it does business. Although ISCT has been criticized for its inability to provide precise guidance for managers under specific conditions, it nonetheless offers one approach to helping reconcile a fundamental contradiction in international business ethics.[46]

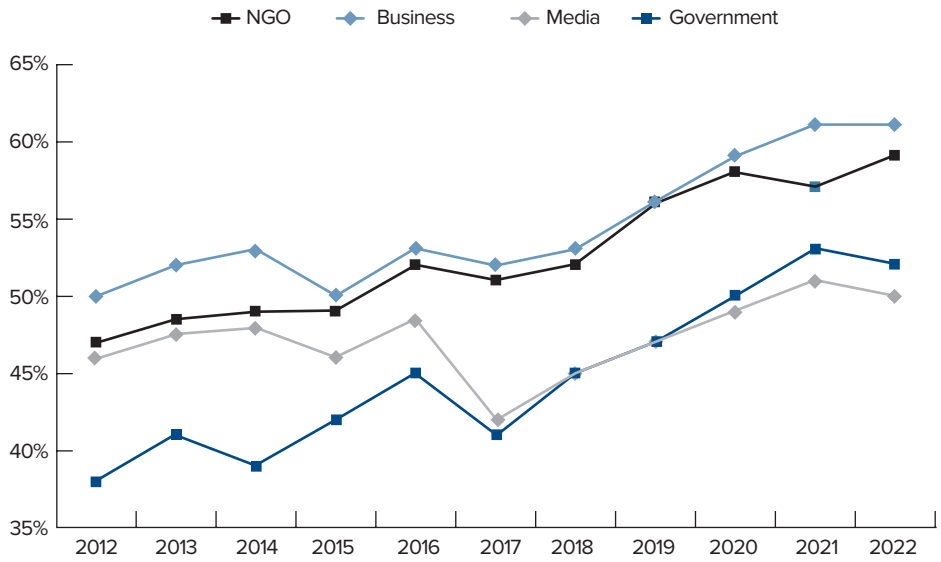
Corporate Social Responsibility and Sustainability

In addition to expectations that they adhere to specific ethical codes and principles, corporations are under increasing pressure to contribute to the societies and communities in which they operate and to adopt more socially responsible business practices throughout their entire range of operations. Corporate social responsibility (CSR) can be defined as the actions of a firm to benefit society beyond the requirements of the law and the direct interests of the firm.[47] It is difficult to provide a list of obligations since the social, economic, and environmental expectations of each company will be based on the desires of the stakeholders. Pressure for greater attention to CSR has emanated from a range of stakeholders, including civil society (the broad, societal interests in a given region or country) and from **nongovernmental organizations (NGOs)**.[48] These groups have urged MNCs to be more responsive to the range of social needs in developing countries, including concerns about working conditions in factories or service centers and the environmental impacts of their activities.[49] The increased CSR efforts by businesses appear to be effective in increasing public opinion; more than 50 percent of global respondents to the 2022 Edelman survey expressed trust in business and NGOs, despite general distrust in government and media (see Figure 3–2).[50]

nongovernmental organizations (NGOs) Private, not-for-profit organizations that seek to serve society's interests by focusing on social, political, and economic issues such as poverty, social justice, education, health, and the environment.

Many MNCs such as Intel, HSBC, Lenovo, and TOMS take their CSR commitment seriously (see Brief Integrative Case 1.2 at the end of Part One). These firms have integrated their response to CSR pressures into their core business strategies and operating principles around the world (see the following section "Response to Social and Organizational Obligations").

Figure 3–2
Public Trust in 2022



Source: Original graphic by Professor Ajai Gaur Based on the 2022 Edelman Trust Barometer. https://www.edelman.com/trust-barometer.

Civil Society, NGOs, MNCs, and Ethical Balance The emergence of organized civil society and NGOs has dramatically altered the business environment globally and the role of MNCs within it. Although social movements have been part of the political and economic landscape for centuries, the emergence of NGO activism in the U.S. during the modern era can be traced to mid-1984, when a range of NGOs, including church and community groups, human rights organizations, and other antiapartheid activists, built strong networks and pressed U.S. cities and states to divest their public pension funds of companies doing business in South Africa. This effort, combined with domestic unrest, international governmental pressures, and capital flight, posed a direct, sustained, and ultimately successful challenge to the white minority rule, resulting in the collapse of apartheid.[51]

Since then, NGOs generally have grown in number, power, and influence. Large, global NGOs such as Save the Children, Oxfam, CARE, Amnesty International, World Wildlife Fund (WWF), and Conservation International are active in all parts of the world. Their force has been felt in a range of major public policy debates, and NGO activism has been responsible for major changes in corporate behavior and governance. Some observers now regard NGOs as a counterweight to business and global capitalism. NGO criticisms have been especially sharp in relation to the activities of MNCs, such as Nike, Levi's, Chiquita, and others whose sourcing practices in developing countries have been alleged to exploit low-wage workers, take advantage of lax environmental and workplace standards, and otherwise contribute to social and economic problems.

Recent examples in the palm oil and coal industries help illustrate the complex and increasingly important impact of NGOs on MNCs. In 2018, after facing pressure from the WWF and other NGOs, Nestlé committed to achieving certified-sustainable sourcing for 100 percent of its palm oil by 2023. Palm oil is an affordable and versatile ingredient that is used in a variety of products, but obtaining the oil often results in the clear-cutting of forests and other severe environmental impacts. Many companies, including Cargill, Procter & Gamble, and Unilever, have made similar commitments and joined the Roundtable on Sustainable Palm Oil, a nonprofit group that includes NGOs and other stakeholders.[52,53] In 2015, on the opening day of the United Nations climate summit in Paris, Morgan Stanley and Wells Fargo announced that they would no longer provide financing to coal mining companies in both the developed and developing world. Morgan Stanley also stated that it, as a financier, has a responsibility to guide the global community toward a low-carbon economy. This announcement came after

several months of aggressive pressure and lobbying by environmental protection groups, including the Rainforest Action Network (RAN). An online petition initiated by RAN drew thousands of signatures.[54]

Many NGOs recognize that MNCs can have positive impacts on the countries in which they do business, often adhering to higher standards of social and environmental responsibility than local firms. In fact, MNCs may be in a position to transfer "best practices" in social or environmental actions from their home to host countries' markets. In some instances, MNCs and NGOs collaborate on social and environmental projects and, in so doing, contribute both to the well-being of communities and to the reputation of the MNC. The emergence of NGOs that seek to promote ethical and socially responsible business practices is beginning to generate substantial changes in corporate management, strategy, and governance.

Response to Social and Organizational Obligations MNCs are increasingly engaged in a range of responses to growing pressures to contribute positively to the social and environmental progress of the communities in which they do business. One response is the agreements and codes of conduct in which MNCs commit to maintaining certain standards in their domestic and global operations. These agreements, which include the U.N. Global Compact (see Table 3–2), the Global Reporting Initiative, the social accountability "SA8000" standards, and the ISO 14000 environmental quality standards, provide some assurances that when MNCs do business around the world, they will maintain a minimum level of social and environmental standards in the workplaces and communities in which they operate.[55,56,57] These codes help offset the real or perceived concern that companies move jobs to avoid higher labor or environmental standards in their home markets. They may also contribute to the raising of standards in the developing world by "exporting" higher standards to local firms in those countries.

Another interesting trend among businesses and NGOs is the movement toward increasing the availability of "fairly traded" products. Beginning with coffee and moving to chocolate, fruits, and other agricultural products, **fair trade** is an organized social movement and market-based approach that aims to help producers in developing countries obtain better trading conditions and promote sustainability. See the Closer Look box for a discussion of fair trade systems and products.

fair trade
An organized social movement and market-based approach that aims to help producers in developing countries obtain better trading conditions and promote sustainability.

Table 3–2
Principles of the Global Compact

Human Rights
Principle 1: Support and respect the protection of international human rights within their sphere of influence
Principle 2: Make sure their own corporations are not complicit in human rights abuses
Labor
Principle 3: Freedom of association and the effective recognition of the right to collective bargaining
Principle 4: The elimination of all forms of forced and compulsory labor
Principle 5: The effective abolition of child labor
Principle 6: The elimination of discrimination with respect to employment and occupation
Environment
Principle 7: Support a precautionary approach to environmental challenges.
Principle 8: Undertake initiatives to promote greater environmental responsibility
Principle 9: Encourage the development and diffusion of environmentally friendly technologies
Anticorruption
Principle 10: Business should work against all forms of corruption, including extortion and bribery.

Source: From The Ten Principles of the UN Global Compact, by The United Nations. Copyright 2019 United Nations.

A Closer Look

Fair Trade in the U.S.: Fair Trade USA

http://www.fairtradeusa.org

Fair trade certification by organizations such as Fair Trade USA helps farming families across Latin America, Africa, and Asia to improve the quality of life in their communities. Fair trade certification empowers farmers and farm workers to lift themselves out of poverty by investing in their farms and communities, protecting the environment, and developing the business skills necessary to compete in the global marketplace. Fair trade is much more than a fair price. Fair trade principles include

- **Fair price:** Democratically organized farmer groups receive a guaranteed minimum floor price and an additional premium for certified organic products. Farmer organizations are also eligible for preharvest credit.
- **Fair labor conditions:** Workers on fair trade farms enjoy freedom of association, safe working conditions, and living wages. Forced child labor is strictly prohibited.
- **Direct trade:** With fair trade, importers purchase from fair trade producer groups as directly as possible, eliminating unnecessary middlemen and empowering farmers to develop the business capacity necessary to compete in the global marketplace.
- **Democratic and transparent organizations:** Fair trade farmers and farm workers decide democratically how to invest fair trade revenues.
- **Community development:** Fair trade farmers and farm workers invest fair trade premiums in social and business development projects like scholarship programs, quality improvement training, and organic certification.
- **Environmental sustainability:** Harmful agrochemicals and genetically modified organisms (GMOs) are strictly prohibited in favor of environmentally sustainable farming methods that protect farmers' health and preserve valuable ecosystems for future generations.

Fair Trade USA, a nonprofit organization, is the only independent, third-party certifier of fair trade products in the U.S. and 1 of 20 members of Fairtrade Labeling Organizations International (FLO). Fair Trade USA's rigorous audit system, which tracks products from farm to finished product, verifies industry compliance with fair trade criteria. Fair Trade USA allows U.S. companies to display the fair trade–certified label on products that meet strict fair trade standards. Fair trade certification is currently available in the U.S. for coffee, tea and herbs, cocoa and chocolate, fresh fruit, sugar, rice, and vanilla.

sustainability
Development that meets humanity's needs without harming future generations.

Sustainability In the boardroom, the term **sustainability** used to first be associated with financial investments or the hope of steadily increasing profits, but for companies today this term means the same to them as it does to an environmental conservationist. This is partially due to corporations recognizing that dwindling resources will eventually halt productivity, but increased pressures from consumers, along with the World Economic Forum in Davos, Switzerland, have also played a part in bringing awareness to this timely subject.

While the U.S. has the Environmental Protection Agency to provide information about and enforce environmental laws,[58] the United Nations also has a division dedicated to the education, promotion, facilitation, and advocacy of sustainable practices and environmentally sound concerns called the United Nations Environment Programme (UNEP).[59] The degree to which global awareness and concern are rising extends beyond laws and regulations, as corporations are now taking strides to be leaders in this "green" movement.

Walmart, one of the most well-known and pervasive global retailers, has begun to recognize the numerous benefits of the adage "Think globally; act locally." Walmart has set three broad corporate goals in regard to sustainability: to use 100 percent renewable energy, to achieve zero waste, and to sell products that are sustainable for the environment and people.[60] Working with environmentalists, the company has innovated its production and supply chain practices to reduce waste and pollution, and therefore reduce costs. By 2021, Walmart had managed to divert 78 percent of waste and unsold products from landfills.[61] In an effort to encourage sustainability from its suppliers, Walmart created a "Sustainability Hub" website to share standards and encourage innovation. Additionally, the company has set stringent environmental policies for its

suppliers, including its 2017 Deforestation Policy, which requires suppliers to use certified or recycled wood products.[62] And Walmart's efforts are truly global. In line with the three corporate goals, the company is buying solar and wind power in Mexico, sourcing local food in China and India, and analyzing the life-cycle impact of consumer products in Brazil. Walmart aims, by 2025, to reduce emissions globally by 18 percent and achieve zero waste in its operations in the U.S., Canada, Japan, and the United Kingdom.[63] Although Walmart has faced some setbacks in its global CSR efforts, it continues to respond to pressures for social responsibility and sustainability (see In-Depth Integrated Case 2.2 at the end of Part Two).

GE has pursued an aggressive initiative to integrate environmental sustainability with its business goals through the "Ecomagination" program. Management styles again are changing as agendas are refocused on not only seeing the present but also looking to the future of human needs and the environment. Ecomagination is a GE strategic initiative to use innovation to improve energy efficiency across the globe. By meeting the demand for "green" products and services, GE is generating value for shareholders as well as promoting environmental sustainability. At a GE Hitachi Nuclear Energy power plant in North Carolina, a new wastewater system "has reduced water usage by 25 million gallons annually, avoiding nearly 80 tons per year of CO2 emissions and realizing annual savings of $160,000 in water and energy costs."[64] GE's Ecomagination ZeeWeed® membrane bioreactor (MBR) technology transforms up to 65,000 gallons per day of wastewater into treated water that can be used in the facility's cooling towers. GE Jenbacher engines capture gas from various fuel sources, even garbage, to create power. Jenbacher engines are at the core of a Mexican landfill gas-to-energy project, which President Felipe Calderón called "a model renewable energy project" for Latin America. This project's power supports "Monterrey's light-rail system during the day and city street lights at night."[65]

In addition, GE's Flight Management System (FMS) for Boeing 737 planes has enabled airlines to lower fuel costs and reduce emissions. According to a GE Ecomagination annual report, "The FMS enables pilots to determine while maintaining a highly efficient cruise altitude, the exact point where the throttle can be reduced to fly idle while allowing the aircraft to arrive precisely at the required runway approach point without the need for throttle increases."[66] SAS Scandinavian Airlines estimates that FMS will save the airline $10 million annually. GE expects the Ecomagination to play a significant role in boosting economic recovery, supporting the jobs of the future, improving the environmental impact of our customers' (and our own) operations, furthering energy independence, and fostering innovation and growth in profitable environmental solutions."[67]

Corporate Governance

The recent global, ethical, and governance scandals have placed corporations under intense scrutiny regarding their oversight and accountability. Uber, Wells Fargo, and Volkswagen are just a few of the dozens of companies that have been found to engage in inappropriate and often illegal activities related to governance in recent years. In addition, a number of financial services firms, including Danske Bank, Credit Suisse, Deutsche Bank, Citigroup, and many others, have been found to have engaged in inappropriate trading or other activities. Corporate governance is increasingly high on the agenda for directors, investors, and governments alike in the wake of financial collapses and corporate scandals in recent years. The collapses and scandals have not been limited to a single country, or even a single continent, but have been a global phenomenon.

Corporate governance can be defined as the system by which business corporations are directed and controlled.[68] The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation—such as the board, managers, shareholders, and other stakeholders—and spells out the rules and

corporate governance
The system by which business corporations are directed and controlled.

procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

Governance rules and regulations differ among countries and regions around the world. For example, the U.K. and U.S. systems have been termed "outsider" systems because of dispersed ownership of corporate equity among a large number of outside investors. Historically, although institutional investor ownership was predominant, institutions generally did not hold large shares in any given company; hence, they had limited direct control.[69] In contrast, in an insider system, such as that in many continental European countries, ownership tends to be much more concentrated, with shares often being owned by holding companies, families, or banks. In addition, differences in legal systems, as described in Chapter 2, also affect shareholders' and other stakeholders' rights and, in turn, the responsiveness and accountability of corporate managers to these constituencies. Notwithstanding recent scandals, in general, North American and European systems are considered comparatively responsive to shareholders and other stakeholders. In regions with less well-developed legal and institutional protections and poor property rights, such as some countries in Asia, Latin America, and Africa, forms of "crony capitalism" may emerge in which weak corporate governance and government interference can lead to poor performance, risky financing patterns, and macroeconomic crises.

Corporate governance will undoubtedly remain high on the agenda of governments, investors, NGOs, and corporations in the coming years, as pressure for accountability and responsiveness continues to increase.

Corruption

As noted in Chapter 2, government corruption is a pervasive element in the international business environment. Recently publicized scandals in Brazil, China, Costa Rica, Egypt, Pakistan, Russia, South Africa, and elsewhere underscore the extent of corruption globally, especially in the developing world. However, a number of initiatives have been taken by governments and companies to begin to stem the tide of corruption.[70,71]

The Foreign Corrupt Practices Act (FCPA) makes it illegal for U.S. companies and their managers to attempt to influence foreign officials through personal payments or political contributions. Prior to the passage of the FCPA, some American multinationals had engaged in this practice, but, realizing that their stockholders were unlikely to approve of these tactics, the firms typically disguised the payments as entertainment expenses, consulting fees, and so on. Not only does the FCPA prohibit these activities, but the U.S. Internal Revenue Service also continually audits the books of MNCs. Those firms that take deductions for such illegal activities are subject to high financial penalties, and individuals who are involved can even end up going to prison. Strict enforcement of the FCPA has been applauded by many people, but some critics wonder if such a strong stance has hurt the competitive ability of American MNCs. On the positive side, many U.S. multinationals have now increased the amount of business in countries where they used to pay bribes. Additionally, many institutional investors in the U.S. have made it clear that they will not buy stock in companies that engage in unethical practices and will sell their holdings in such firms. Given that these institutions have hundreds of billions of dollars invested, senior-level management must be responsive to their needs.

Looking at the effect of the FCPA on U.S. multinationals, it appears that the law has had far more of a positive effect than a negative one. Given the growth of American MNCs in recent years, it seems fair to conclude that bribes are not a basic part of business in many countries, for, when multinationals stopped this activity, they were still able to sell in that market. On the other hand, this does not mean that bribery and corruption are a thing of the past.

Indeed, bribery continues to be a problem for MNCs around the world. In fact, recent scandals at IKEA, Odebrecht, Siemens, Shell, and many other multinationals underscore the reality that executives continue to participate in bribery and corruption.[72,73]

Figure 3–3 gives the latest corruption index of countries around the world. Notice that the U.S. ranks 27th in this independent analysis.

In complying with the provisions of the FCPA, U.S. firms must be aware of changes in the law that make FCPA violators subject to Federal Sentencing Guidelines. The origin of this law and the guidelines that followed can be traced to two Lockheed Corporation executives who were found guilty of paying a $1 million bribe to a member of the Egyptian parliament in order to secure the sale of aircraft to the Egyptian military. One of the executives was sentenced to probation and fined $20,000 and the other, who initially fled prosecution, was fined $125,000 and sentenced to 18 months in prison.[74]

Another development that promises to give teeth to "antibribing" legislation is a formal agreement by a host of industrialized nations to outlaw the practice of bribing foreign government officials. The treaty, which initially included the member nations of the Organization for Economic Cooperation and Development (OECD), marked a victory for the U.S., which outlawed foreign bribery two decades previously but had not been able to persuade other countries to follow its lead. As a result, American firms had long complained that they lost billions of dollars in contracts each year to rivals that bribed their way to success.[75]

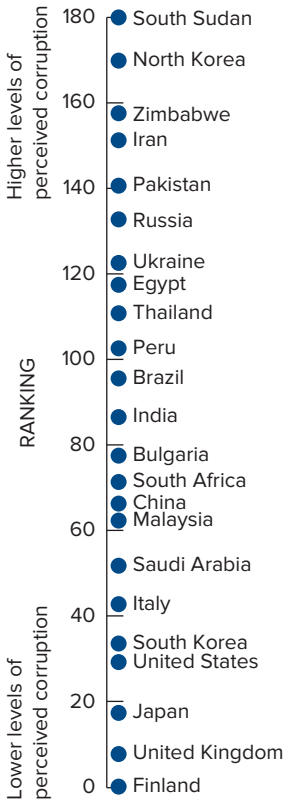
This treaty does not outlaw most payments to political party leaders. In fact, the treaty provisions are much narrower than U.S. negotiators wanted, and there undoubtedly will be ongoing pressure from the American government to expand the scope and coverage of the agreement. For the moment, however, it is a step in the direction of a more ethical and level playing field in global business. Additionally, in summing up the impact and value of the treaty, one observer noted, "For their part, business executives say the treaty . . . reflects growing support for anti-bribery initiatives among corporations in Europe and Japan that have openly opposed the idea. Some of Europe's leading industrial corporations, including a few that have been embroiled in recent allegations of bribery, have spoken out in favor of tougher measures and on the increasingly corrosive effect of corruption."[76]

In addition to the 36 members of the OECD, a number of developing countries, including Argentina, Brazil, Bulgaria, Colombia, and South Africa, have signed on to the OECD agreement. Latin American countries have established the Organization of American States (OAS) Inter-American Convention Against Corruption, which had 34 signatories by 2021, including Argentina, Brazil, Chile, Mexico, and the U.S. As a way to prevent the shifting of corrupt practices to suppliers and intermediaries, the Transparent Agents Against Contracting Entities (TRACE) standard was developed after a review of the practices of 34 companies. It applies to business intermediaries, including sales agents, consultants, suppliers, distributors, resellers, subcontractors, franchisees, and joint-venture partners, so that final producers, distributors, and customers can be confident that no party within a supply chain has participated in corruption.

Both governments and companies have made important steps in their efforts to stem the spread of corruption, but much more needs to be done in order to reduce the impact of corruption on companies and the broader societies in which they operate.[77]

Figure 3–3

Transparency International Corruption Perceptions Index Rankings, Selected Countries, 2021



Source: Original graphic by Ajai Gaur, based on data from Transparency International Corruption Perceptions Index Ratings 2021.

International Assistance

In addition to government- and corporate-sponsored ethics and social responsibility practices, governments and corporations are increasingly collaborating to provide assistance to communities around the world through global partnerships. This assistance is particularly important for those parts of the world that have not fully benefited from globalization and economic integration. Using a cost-benefit analysis of where investments would have the greatest impact, a recent study identified the top priorities around the world for development assistance. The results of this analysis are presented in Table 3–3. Fighting malnutrition, controlling malaria, and immunizing children are shown to be the best investments. Governments, international institutions, and corporations are involved in several ongoing efforts to address some of these problems.

At a United Nations summit in September 2015, world leaders placed development at the heart of the global agenda by adopting the SDGs (see Table 3–4). The 17 SDGs

Table 3–3
Copenhagen Consensus Investment Priorities

Ranking	Investment
1	Bundled micronutrient interventions to fight hunger and improve education
2	Expanding the subsidy for malaria combination treatment
3	Expanded childhood immunization coverage
4	Deworming of schoolchildren, to improve educational and health outcomes
5	Expanding tuberculosis treatment
6	R&D to increase yield enhancements, to decrease hunger, fight biodiversity destruction, and lessen the effects of climate change
7	Investing in effective early warning systems to protect populations against natural disaster
8	Strengthening surgical capacity
9	Hepatitis B immunization
10	Using low-cost drugs in the case of acute heart attacks in poorer nations (these are already available in developed countries)
11	Salt reduction campaign to reduce chronic disease
12	Geo-engineering R&D into the feasibility of solar radiation management
13	Conditional cash transfers for school attendance
14	Accelerated HIV vaccine R&D
15	Extended field trial of information campaigns on the benefits from schooling
16	Borehole and public hand pump intervention

Source: Copenhagen Consensus 2012.

Table 3–4
The U.N. Sustainable Development Goals

Goal 1: Poverty—End poverty in all its forms everywhere.
Goal 2: Food—End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
Goal 3: Health—Ensure healthy lives and promote well-being for all at all ages.
Goal 4: Education—Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Goal 5: Women—Achieve gender equality and empower all women and girls.
Goal 6: Water—Ensure availability and sustainable management of water and sanitation for all.
Goal 7: Energy—Ensure access to affordable, reliable, sustainable, and modern energy for all.
Goal 8: Economy—Promote sustained, inclusive, and sustainable economic growth; full and productive employment; and decent work for all.
Goal 9: Infrastructure—Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.
Goal 10: Inequality—Reduce inequality within and among countries.
Goal 11: Habitation—Make cities and human settlements inclusive, safe, resilient, and sustainable.
Goal 12: Consumption—Ensure sustainable consumption and production patterns.
Goal 13: Climate—Take urgent action to combat climate change and its impacts.
Goal 14: Marine ecosystems—Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.
Goal 15: Ecosystems—Protect, restore, and promote sustainable use of terrestrial ecosystems; sustainably manage forests; combat desertification; halt and reverse land degradation; and halt biodiversity loss.
Goal 16: Institutions—Promote peaceful and inclusive societies for sustainable development; provide access to justice for all; and build effective, accountable, and inclusive institutions at all levels.
Goal 17: Sustainability—Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Source: "Sustainable Development Goals." United Nations. https://www.un.org/sustainabledevelopment/sustainable-development-goals.

constitute an ambitious agenda to significantly improve the human condition by 2030. The goals set clear targets for reducing poverty, hunger, disease, and inequalities while protecting the environment and climate. For each goal, targets and indicators have been defined and are used to track the progress in meeting the goals.[78,79]

A more specific initiative is the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which was established in 2001. Through the end of 2019, the Global Fund had committed over US$45 billion in grants to over 151 countries[80]. More recently, a global alliance, COVAX was formed to provide global equitable access to COVID-19 vaccines. COVAX is co-led by the Coalition for Epidemic Preparedness Innovations (CEPI), Gavi, and the World Health Organization (WHO). Through the COVAX program, as of mid-2022, more than 1.5 billion COVID-19 vaccines have shipped to some of the poorest countries around the world.

Through these and other efforts, MNCs, governments, and international organizations are providing a range of resources to communities around the world to assist them as they respond to the challenges of globalization and development. International managers will increasingly be called upon to support and contribute to these initiatives.



The World of International Management—Revisited

The World of International Management feature that opened this chapter outlines how three companies have sought to incorporate social responsibility and sustainability into their business strategy and operations. In each case, the company has responded to changes in the external environment and sought to capitalize on increasing interest in and support of sustainability in business. This interest has spread around the globe such that both developed and developing countries and their companies are increasingly committed to a sustainable future.

In this chapter, we focused on ethics and social responsibility in global business activities, including the role of governments, MNCs, and NGOs in advancing greater ethical and socially responsible behavior. MNCs' new focus on environmental sustainability and "doing well by doing good" is an important dimension of this broad trend.

Global ethical and governance scandals have rocked the financial markets and implicated dozens of individual companies. New corporate ethics guidelines passed in the U.S. have forced many MNCs to take a look at their own internal ethical practices and make changes accordingly. Lawmakers in Europe and Asia have also made adjustments in rules over corporate financial disclosure. The continuing trend toward globalization and free trade appears to be encouraging the development of a set of global ethical, social responsibility, and anticorruption standards. This may actually help firms cut compliance costs as they realize that economies have common global frameworks.

Having read the chapter, answer the following questions: (1) Do governments and companies in developed countries have an ethical responsibility to contribute to economic growth and social development in developing countries? (2) Are governments, companies, or NGOs best equipped to provide this assistance? How might collaboration among these sectors provide a comprehensive approach? (3) Do corporations have a responsibility to use their "best" ethics and social responsibility practices when they do business in other countries, even if those countries' practices are different? (4) How can companies leverage their ethical reputation and social and environmental responsibility to improve business performance?

SUMMARY OF KEY POINTS

1. Ethics is the study of morality and standards of conduct. It is important in the study of international management because ethical behavior often varies from one country to another. Ethics manifests itself in the ways societies and companies address issues such as employment conditions, human rights, and corruption. A danger in international management is the ethical relativism trap—"When in Rome, do as the Romans do."
2. During the years ahead, multinationals likely will become more concerned about being socially responsible. NGOs are forcing the issue. Countries are passing laws to regulate ethical practices and governance rules for MNCs. MNCs are being more proactive (often because they realize it makes good business sense) in making social contributions in the regions in which they operate and in developing codes of conduct to govern ethics and social responsibility. One area in which companies have been especially active is in pursuing strategies that blend environmental sustainability and business objectives.
3. MNCs—in conjunction with governments and NGOs—are also contributing to international development assistance and working to ensure that corporate governance practices are sound and effective.

KEY TERMS

corporate governance, *89*
corporate social responsibility (CSR), *77*
ethics, *77*
fair trade, *87*
nongovernmental organizations (NGOs), *85*
sustainability, *88*

REVIEW AND DISCUSSION QUESTIONS

1. How might different ethical philosophies influence how managers make decisions when it comes to the offshoring of jobs?
2. What lessons can U.S. multinationals learn from the bribery and corruption scandals in recent years, such as those affecting large MNCs like IKEA and Siemens? Discuss two.
3. In recent years, rules have tightened such that those who work for the U.S. government in trade negotiations are now restricted from working for lobbyists for foreign firms. Is this a good idea? Why or why not?
4. What are some strategies for overcoming the impact of counterfeiting? Which strategies work best for discretionary goods (for instance, movies) versus nondiscretionary goods (e.g., pharmaceuticals)?
5. Why are MNCs getting involved in corporate social responsibility and sustainable business practice? Are they displaying a sense of social responsibility, or is this merely a matter of good business, or both? Defend your answer.

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In the International Spotlight

Qatar

Qatar is a small country with an area of less than 4,500 square miles but is among the world's richest in gross national income per capita. It is located in the Middle East, with the Gulf of Bahrain to the west and the Persian Gulf to the East, and shares a land border with Saudi Arabia in the South. After oil reserves were discovered in 1939, oil became the main source of income, replacing fishing and pearling. Large quantities of natural gas reserves were discovered in the 1970s. Both resources are exported.[81,82]

The country is an absolute monarchy with the Emir heading the state and the government. The ruling family, the Thanai Dynasty, has been in power since 1868 when a treaty was signed with Britain.[83] The country officially gained independence from Britain in 1971. Unlike the British common law system, the legal system is a mix of civil law and Islamic (sharia) law.[84]

The majority of the 2.88 million population is non-Qatari; less than 12 percent is Qatari. The median age is less than 34, the population is almost fully urban, and most of the population is clustered around the capital city, Doha. The official language is Arabic but English is also commonly used.[85]

Migrant workers make up 95 percent of the labor force. Until recent reforms to the labor laws were passed in 2020, they worked under the abusive *Kafala* system by which they did not have the right to leave their job and required an exit permit from their employer to leave the country. This kept working conditions poor and wages low. Worker rights have come under the global spotlight since the country won the bid in 2010 to become the first Arab nation to host the FIFA World Cup in 2022, as activists protested the death of stadium-building workers.[86]

Neighbors Saudi Arabia, the United Arab Emirates, Bahrain, and Egypt severed all trade and diplomatic ties with Qatar in a blockade put in place in 2017. The four nations had accused Qatar of supporting terror groups and interfering in internal affairs, and while Qatar denied aiding jihadist groups, it acknowledged aiding Islamist groups. Qatar had refused their many demands, including the closure of the Qatar-funded news outlet, Al Jazeera, which had supported the 2011 Arab Spring uprisings. Following the embargo, Qatar left the Organization of Petroleum Exporting Countries (OPEC), the oil cartel it had been part of since 1961. The diplomatic ties with the four neighbors were restored in January 2021, ending a three-and-a-half-year embargo.[87,88]

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Qatar's North Field makes it the third largest source of liquefied natural gas (LNG) in the world, after Russia and Iran. The decision to leave OPEC paralleled the government's strategic energy policy shift in deciding to focus resources toward increasing natural gas production, rather than oil. The North Field East project is heralded as the biggest LNG project in history. The national oil company, Qatar Petroleum (QP), which had formerly merged with another state-owned firm, RasGas, has spearheaded production expansion in the North Field. The company has also sought partners to share financial risks and increase production volume. Exxon Mobil, Royal Dutch Shell, TotalEnergies, and ConocoPhillips are current foreign partners, while Chevron and Eni are submitting bids for entry into new expansion projects.[89,90]

As Russia's invasion of Ukraine poses risks to global energy markets, the U.S. is considering designating Qatar as a major non-NATO ally, and countries in Europe are seeking to route LNG supplies from Qatar. Challenges persist for private firms, however, as they compete with favored state-owned firms for gas extraction. The future of gas production at large remains uncertain amidst the global reach for green energy.

Questions

1. Discuss the pros and cons of Qatar's energy policy shift in recent years.
2. What challenges do foreign oil and gas companies face in Qatar?
3. How will foreign partnerships benefit Qatar Petroleum?
4. Should Qatar consider rejoining OPEC?

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Brief Integrative Case 1.1

Coca-Cola in India

Coca-Cola is a brand name known throughout the entire world. With stagnant soft drink sales in markets like Europe and North America,[1] Coca-Cola has aggressively looked to new, expanding markets to continue to grow its brand. India, with 1.3 billion consumers, has been a primary target for Coca-Cola; through acquisitions and clever marketing, the company now covers 60 percent of India's $3.4 billion soft drink market.[2]

Coca-Cola's expansion in India has not been without minor setbacks, however. In 2006–2007, Coca-Cola faced some difficult challenges in the region of Kerala, India, after it was accused of using water that contained pesticides in its bottling plants. An environmental group, the Center for Science and Environment (CSE), found 57 bottles of Coke and Pepsi products from 12 Indian states that contained unsafe levels of pesticides.[3] The Kerala minister of health at that time, R. Ashok, imposed a ban on the manufacture and sale of Coca-Cola products in the region. Coca-Cola then arranged to have its drinks tested in a British lab, and the report found that the amount of pesticides found in Pepsi and Coca-Cola drinks was harmless to the body.[4] Coca-Cola then ran numerous ads to regain consumers' confidence in its products and brand. However, these efforts did not satisfy the environmental groups or the Minister of Health. As a result of the pesticide controversy, Coke's sales in India declined by a significant 11 percent in the third quarter of 2013.[5]

India's Changing Marketplace

During the 1960s and 1970s, India's economy faced many challenges, growing only an average of 3–3.5 percent per year. Numerous obstacles hindered foreign companies from investing in India, and many restrictions on economic activity caused huge difficulties for Indian firms and a lack of interest among foreign investors. For many years the government had problems implementing reform and overcoming bureaucratic and political divisions. Business activity has traditionally been undervalued in India; leisure is typically given more value than work. Stemming from India's colonial legacy, Indians are highly suspicious of foreign investors. Indeed, there have been a few well-publicized disputes between the Indian government and foreign investors.[6]

Post the economic liberalization of 1991, foreign firms have found it easier to do business in India. In 1991, political conditions had changed, many restrictions were eased, and economic reforms came into force. With more than 1 billion consumers, India has become an increasingly attractive market.[7] In the period between 2003-2021, foreign investment expanded from US$3 billion to US$82 billion.[8] Imported goods have become a status symbol for the burgeoning middle class.[9]

Coca-Cola has been targeting India for potential growth, due to the low per capita beverage consumption with long summers. India's 44 bottles per capita consumption is relatively low compared to the matured markets of the USA and Germany where the per capita consumption is 1,496 bottles and 1,221 bottles respectively. Even in developing markets like Mexico (1,489 bottles) and Brazil (537 bottles) the per capita consumption is relatively higher.[10] Despite the relatively low amount of beverages consumed by India on average, India has been one of Coke's best emerging market plays. In 2018, a quarter of Coca-Cola's sales growth came from India,[11] and in 2021, India surpassed Japan as Coca-Cola's fifth largest market.[12] Coca-Cola concluded its planned investment of $5 billion in 2020 as per the plan unveiled in 2012. The company has further committed an investment of $1.7 billion to create a "Fruit Circular Economy" to support the local agri-ecosystem,[13] aiming to increase both revenue and volume in India in the coming years.

Coca-Cola's Operations in India

Coca-Cola had experienced previous confrontations with the Indian government. In 1977, Coke had pulled out of India when the government demanded its secret formula.[14]

Circumstances have dramatically improved over the years for soft drink players in India. Coke and Pepsi have committed to invest nearly US$12 billion in India over the years. Together they employ more than 30,000 people directly and support 300,000 indirectly through their purchases of sugar, packaging material, and shipping services. Coke is India's number-one consumer of mango pulp for its local soft drink offerings.[15] Coca-Cola in India is also the largest domestic buyer of sugar and green coffee beans.[16]

Since 2012, Coca-Cola made investments of about $6.7 billion in India to create sustainable growth opportunities in one of its fastest growing markets. From 2014 to 2020, Coca-Cola has registered a 9.3 percent CAGR growth in operating revenue.[17] Despite the large investment in India, Coca-Cola will see serious competition from Pepsi in this market. Together Coke and Pepsi command over 70 percent market share of the Indian non-alcoholic beverage market of India.[18] Coke accounted for around 50 percent of all sales while Pepsi received 20 percent of the market share.[19]

The Charges against Coke

The pesticide issue began in 2002 in Plachimada, India. Villagers thought that water levels had sunk and the drinking water was contaminated by Coke's plant. They launched a vigil at the plant, and two years later, Coke's license was canceled. The plant was shut down in 2004 on accusations of mining freshwater and spreading pollution. Another major controversy that adversely impacted Coca-Cola was at a bottling plant in Mehdiganj. The plant was accused of exploiting the groundwater and polluting it with toxic metals such as lead, cadmium, and chromium.[20] R. Ashok, the health minister of Kerala, India, banned the sale of all Coca-Cola and PepsiCo products, claiming that the drinks contained unsafe levels of pesticides.

The alleged contamination of the water launched a debate on everything from pesticide-polluted water to the Indian middle-class's addiction to unhealthy, processed foods. "It's wonderful," said Sunita Narin, director of the Centre for Science and Environment (CSE). "Pepsi and Coke are doing our work for us. Now the whole nation knows that there is a pesticide problem."[21]

Coca-Cola fought back against the accusations. "No Indian soft drink makers have been tested for similar violations even though pesticides could be in their products such as milk and bottled teas. If pesticides are in the groundwater, why isn't anyone else being tested? We are continuously being challenged because of who we are," said Atul Singh, CEO of Coca-Cola India.[22]

Some believe that Coca-Cola was targeted to bring the subject of pesticides in consumer products to light. "If you target multinational corporations, you get more publicity," adds Arvind Kumar, a researcher at the watchdog group Toxic Links. "Pesticides are in everything in India."[23]

India's Response to the Allegations

After CSE's discovery of the unsafe levels of pesticides,[24] some suggested the high levels of pesticides came from sugar, which is 10 percent of the soft drink content. However, laboratories found the sugar samples to be pesticide-free.[25]

At the time of the pesticide controversy, Kerala was being run by a communist government and a Chief Minister who claims to have a revolutionary objection to the evils of capitalism. Defenders of Coca-Cola claimed that this is a large reason for the pesticide findings in Coca-Cola products. After the ban was placed on all Coca-Cola and PepsiCo products in the region of Kerala, Coca-Cola took its case to the State's High Court to defend its products and name. The court observed that the State Government had no jurisdiction to impose a ban on the manufacture and sale of products.[26] Kerala then lifted the state-wide ban on Coke products.[27]

In March 2010, after several years of tense battles, the Indian unit of Coca-Cola Company was asked to pay $47 million in compensation for causing environmental damage at its bottling plant in the southern Indian state of Kerala. A state government panel said Coca-Cola's subsidiary, Hindustan Coca-Cola Beverages Pvt Ltd (HCBPL), was responsible for depleting groundwater and dumping toxic waste around its Palakkad plant between 1999 and 2004. Protests by farmers, complaining about the alleged pollution, forced Coca-Cola to close down the plant in 2005. Coca-Cola responded that HCBPL was not responsible for pollution in Palakkad, however, the local governing body (the Perumatty panchayat) withdrew the plant's license on April 3, 2003. Coca-Cola took the case to the Kerala High Court, which sided with Coca-Cola, claiming that the panchayat's claims were unscientific and unsubstantiated. Three years passed while the dispute went on. The plant was operational at periods, such as between August 8 and 15, 2005, however it was finally shut down permanently.[28]

Pepsi's Experience in India

PepsiCo has had an equally noticeable presence in India, and it is not surprising that the company has weathered the same storms as its rival Coca-Cola. In addition to claims of excessive water use, a CSE pesticide study, performed in August 2006, accused Pepsi of having 30 times the "unofficial" pesticide limit in its beverages (Coke was claimed to be 27 times the limit in this study).[29] These findings, coupled with the original 2003 CSE study that first tarnished the cola companies' image, have prompted numerous consumers to stop their cola consumption. Some have even taken to the streets, burning pictures of Pepsi bottles in protest.

Indra Nooyi, the former CEO of PepsiCo Inc. and a native of India, was all too familiar with the issues of water contamination and water shortages. Yet, in light of the recent claims made against Pepsi, she has expressed frustration with the exaggerated CSE findings (local tea and coffee have thousands of times the alleged pesticide level found in Pepsi products) and the disproportionate reaction to Pepsi's water-use practices (pointing out that soft drinks and bottled water account for less than 0.04 percent of industrial water usage in India).[30]

In order to reaffirm the safety and popularity of its products, Pepsi has taken on a celebrity-studded ad campaign across India, as well as continued its legacy of corporate social responsibility (CSR). Some of Pepsi's CSR efforts have involved digging village wells, "harvesting" rainwater, and teaching better techniques for growing rice and tomatoes.[31] Pepsi has also initiated efforts to reduce water waste at its Indian facilities.

Although Pepsi sales were back on the rise, Nooyi realizes that the company should have acted sooner to counteract CSE's claims about Pepsi products. As a result, the company is trying to become more sensitive to environmental and social issues; but Nooyi also noted, "We have to invest, too, in educating communities in how to farm better, collect water, and then work with industry to retrofit plants and recycle."[32]

Coke's Social Responsibility Commitments

Coca-Cola employed The Energy and Resources Institute (TERI) to assess its operations in India. The investigations have been conducted because of claims that Coca-Cola has engaged in unethical production practices in India. These alleged practices include causing severe water shortages, locating water-extracting plants in "drought prone" areas, further limiting water access by contaminating the surrounding land and groundwater, and irresponsibly disposing of toxic waste. Colleges and universities throughout the United States, U.K., and Canada have joined in holding the company accountable for its overseas business practices by banning Coca-Cola products on their campuses until more positive results are reported. However, critics have argued that TERI's assessment would undoubtedly be biased because the organization has been largely funded by the Coca-Cola Company.[33]

Coca-Cola stands behind the safety of its products. "Multinational corporations provide an easy target," says Amulya Ganguli, a political analyst in New Delhi. "These corporations are believed to be greedy, devoted solely to profit, and uncaring about the health of the consumers." There is also a deeply rooted distrust of big business, and particularly foreign big business, in India.[34] This is a reminder that there will continue to be obstacles, as there were in the past, to foreign investments in India.

Coca-Cola has undertaken various initiatives to improve the drinking water conditions around the world. It has formally pledged support for the United Nations Global Compact and co-founded the Global Water Challenge, which improves water access and sanitation in countries in critical need. Coca Cola has also made a commitment to United Nations Sustainable Development Goals (UN SDGs) through its programs listed in Table 1[35]:

Coca-Cola is improving energy efficiency through the use of hydrofluorocarbon-free insulation for 98 percent of new refrigerator sales and marketing equipment. Coca-Cola has also committed that it will make its packaging 100 percent recyclable by 2025 and use of at least 50 percent recycled materials in packaging by 2030.[36] In 2007,

Table 1 Coca-Cola's Programs to Fulfil UN SDG Commitments

Sustainable Development Goals	Programs Targeted
SDG1: End poverty in all its forms everywhere	• Fruit Circular Economy • Tending to People and Communities
SDG2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	• Fruit Circular Economy • Choices, Done Sustainably • Tending to People and Communities
SDG3: Ensure healthy lives and promote wellbeing for all, at all ages	• Choices, Done Sustainably • Tending to People and Communities
SDG5: Achieve gender equality and empower all women and girls	• Fruit Circular Economy • Tending to People and Communities
SDG6: Ensure availability and sustainable management of water and sanitation for all	• Water Stewardship
SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	• Fruit Circular Economy • Tending to People and Communities
SDG12: Ensure sustainable consumption and production patterns	• World Without Waste • Fruit Circular Economy • Water Stewardship • Choices, Done Sustainably • Tending to People and Communities
SDG13: Take urgent action to combat climate change and its impacts	• World Without Waste • Energy conservation
SDG14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development	• World Without Waste • Water Stewardship • Choices, Done Sustainably
SDG17: Strengthen the means of implementation and revitalize the global partnership for sustainable development	• World Without Waste • Fruit Circular Economy • Water Stewardship • Choices, Done Sustainably

Source: Coca-Cola Sustainability Report, 2019-20, https://www.coca-colaindia.com/content/dam/journey/in/en/media-center/sustainability-report/Coca-Cola-Sustainability-Report-2019-20.pdf

Coca-Cola decided to replenish 100 percent of the water being used by the firm. Specifically, in India, Coke has stated, "More than one-third of the total water that is used in operations is renewed and returned to groundwater systems."[37] In its effort towards water stewardship, Coca-Cola has reduced its water usage ratio which is the average amount of water we need to produce a liter of beverage from 2.56 in 2010 to 1.73 in 2020.[38]

According to Coca-Cola India's 2020-2021 Environment Report, the company was actively engaged in over 450 rainwater harvesting projects. These projects together have the water replenishment potential 26 billion liters. These efforts were contributing to the company's eventual target of maintaining 100% regenerative water usage at all locations.[39]

At the June 2007 annual meeting of the World Wildlife Fund (WWF) in Beijing, Coca-Cola announced its multiyear partnership with the organization "to conserve and protect freshwater resources," and in 2021, the partnership was expanded to include new goals for three more years. WWF and Coca-Cola have decided to further support sustainable ecosystems and natural capital including engaging across freshwater ecosystems, plastic packaging, greenhouse gas emissions, and agricultural supply chains.[40]

Highlighting firm's water stewardship commitment, James Quincey, Chairman and Chief Executive Officer of the Coca-Cola Company said"While we remain committed to provide leadership on water through ambitious water stewardship and 100% replenishment, we are shifting our focus toward making a greater impact on people and ecosystems."

Coca-Cola hopes to spread these practices to other members of its supply chain, particularly the sugar cane industry. The Coca-Cola–WWF partnership is also focused on climate protection and protection of seven of the world's "most critical freshwater basins," including the Yangtze in China. Although Coca-Cola's corporate social responsibility efforts have included other projects with the WWF in the past, it hopes that this official partnership will help achieve larger-scale results.[41]

As a part of its 2013 goals, Coca-Cola and the WWF committed to achieve 100 percent replenishment of all water used, 75 percent recycling rate in developing markets, 30 percent plant-based packaging by 2020, and 25 percent improvement to water efficiency by 2020.[42] In addition to its joint goals with the WWF, Coca-Cola also established its own set of sustainability-related targets for 2020. These include tracking the carbon footprint of its beverages, reducing waste in its packaging, tracking the number of female entrepreneurs that it serves across its supply chain, and ensuring that its suppliers comply with a variety of human rights standards.[43] Coca-Cola has also established EthicsLine, which is a global web and telephone information and reporting service that allows anyone to report confidential information to a third party. Service is toll free—24 hours a day—and translators are available. Coca-Cola is currently focusing on improving standards through the global water challenge and enhancing global packaging to make it more environmentally friendly. It is also working on promoting nutrition and physical education by launching programs throughout the world. For example, Coca-Cola India announced a partnership with the Bharat Integrated Social Welfare Agency (BISWA) to build awareness regarding micro-nutrient malnutrition (or "hidden hunger") in the "bottom of the socio-economic pyramid" population in India. The two partners will work together to establish a successful income-generation model for communities through self-help groups in Sambalpur in Odisha and also provide them with affordable alternatives to alleviate "hidden hunger." The first product developed by Coca-Cola India to address the issue of "hidden hunger" is Vitingo, a tasty, affordable, and refreshing orange-flavored beverage fortified with micro-nutrients.

Lessons Learned

Coca-Cola was caught off guard by its experience in India. Coke did not fully appreciate how quickly local politicians would attack Coke in light of the test results, nor did it respond quickly enough to the anxieties of its consumers. The company failed to realize how fast news travels in modern India. India represents only about 1 percent of Coca-Cola's global volume, but it is central to the company's long-term growth strategy. The company needed to take action fast.[44]

In what Coke thought to be a respectful and immediate time frame, it formed committees in India and the United States. The committees worked on rebuttals and had their own labs commission the tests, and then they commented in detail. Coke also directed reporters to Internet blogs full of entries that were pro-Coke. Critics say that Coke focused too much on the charges instead of winning back the support of its customers. "Here people interpret silence as guilt," said Mr. Seth, Coke's Indian public relations expert.

Ms. Bjorhus, the Coke communications director, said she could now see how the environmental group had picked Coca-Cola as a way of attracting attention to the broader problem of pesticide contamination in Indian food products. Coca-Cola stands behind its products as being pesticide-free. It is now up to the Indian consumer to decide the success of Coca-Cola in future years.

Nevertheless, Coca-Cola has been optimistic about its future in India. Twenty-five percent of Coca-Cola's growth in sales in 2018 was attributed to India, while sales in its more established markets like the United States and Mexico remained flat. While India was still among the countries with the lowest per capita consumption of Coke, in 2021 it was the fifth largest market by revenue contribution to Coca-Cola global. Highlighting the strategic role of its Indian unit, James Quincey, CEO of Coca-Cola Company said, "In India, initiatives like omnichannel presence and marketing campaigns in key occasions by leveraging festivals

through occasion-led marketing formed sequential increase in market share and nearly 30 percent growth in transactions for the quarter."[45]

The Global Water Challenge

As per the United Nations World Water Development Report, it is projected that 6 billion people will suffer from clean water scarcity by 2050.[46] Similarly, the global water scarcity is expected to accentuate in the coming years where the urban population facing water scarcity is projected to increase from 933 million in 2016 to 1.69–2.37 billion in 2050.[47] A UN study reported that many large water corporations have decreased their investments in developing countries because of high political and financial risks. Even nations that have had abundant water supplies are experiencing significant reductions. These reductions are believed to be caused by two factors: the decline in rainfall and increased evaporation of water due to global warming and the loss of wetlands. Water is something that affects every person each and every day.

The erstwhile Executive Director of the Stockholm Water Institute, Anders Berntell, noted that water affects the areas of agriculture, energy, transportation, forestry, trade, financing, and social and political security. The Food and Agriculture Organization points out, "Agriculture is the world's largest water consumer. Any water crisis will therefore also create a food crisis."

There have been attempts to improve the water conditions around the world. The United Nations' 2019 World Water Development Report, compiled by 24 UN agencies, found that impoverished neighborhoods in India were charged nearly 40 times the standard municipal price per cubic meter of water. The report also stated that more than 2 billion people still lack access to improved water resources, and that nearly 4 billion people experience a short-term water shortage at least one month every year.[48] In China, nearly a quarter of the population is unable to access clean drinking water. Over half of China's major waterways are also polluted. The Institute of Public and Environmental Affairs reported that 34 foreign-owned or joint-venture companies, including Pepsi, have caused water pollution problems in China. Ma Jun, the institute's founder, said, "We're not talking about very high standards. These companies are known for their commitment to the environment."[49]

As per the 2022 UN World Water Development Report, India is the world's largest user of groundwater, withdrawn through an estimated 20 million wells and tube wells.[50] The report attributes India's water crisis largely to the expansion of groundwater irrigation, promoted by India's food and electricity policies of 1970. Agriculture and electricity policies have promoted Indian farmers to grow water-intensive crops, including in semi-arid regions. The 2019 UN World Water Development Report presented a concerning picture regarding global water scarcity. According to the report, the world's population will grow by 2 billion more people by 2050, with most of the growth occurring in the water-stressed regions of Asia and Africa. An estimated one-third of the global population still lacks access to safe drinking water or adequate sanitation. By 2050, the population living in urban environments will be double that of those living in rural areas.[51]

With businesses expanding globally, water is a crucial resource, and water issues will increasingly affect all industries. With water conditions improving at a slower rate than business development, businesses will have to take on the responsibility of not only finding an adequate supply of the diminishing resource but also making sure the water is safe for all to consume. This responsibility is going to be an additional cost to companies, but a necessary one that will prevent loss of sales in the future. Coca-Cola's specific situation in India is a reminder for all global corporations.

Questions for Review

1. What are the ethical and environmental responsibilities of MNCs such as Coca-Cola and PepsiCo when they enter emerging markets such as India?
2. How might Coca-Cola have responded differently when this situation first occurred, especially in terms of responding to negative perceptions among Indians of Coke and other MNCs?
3. If Coca-Cola wants to obtain more of India's soft drink market, what changes does it need to make?
4. How might companies like Coca-Cola and PepsiCo demonstrate their commitment to working with different countries and respecting the cultural and natural environments of those societies?

This case was written by Jaclyn Johns under the supervision of Professor Jonathan Doh with additional input from Shubham Singh and Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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Brief Integrative Case 1.2

TOMS Puts Its Right Foot Forward

Nearing 30 years old and tired from working long hours on his fourth start-up, serial entrepreneur Blake Mycoskie took a much-needed extended vacation to Argentina in 2006.[1] While there, Mycoskie fully immersed himself in the local culture, learning to dance the tango, enjoying fine Argentine wine, and engaging in sports such as polo.[2] Mycoskie also took note of the diverse Argentine fashion culture. One trend in particular that caught Mycoskie's eye was the soft canvas footwear called the "alpargata," worn by nearly all Argentines.[3] During his stay, Mycoskie purchased and began wearing his own alpargatas. He quickly realized how functional and comfortable the shoes were, leading him to wonder: Would consumers in the U.S. also be interested in such a product?

Blake Mycoskie: Serial Entrepreneur

Blake Mycoskie, born in Arlington, Texas, is the founder and "Chief Shoe Giver" for TOMS Shoes. A world traveler and former reality show contestant, Mycoskie has spent his entire career involved in start-ups.[4] Much of Mycoskie's business knowledge was self-taught through reading biographies of successful businesspeople. Though originally enrolled at Southern Methodist University (SMU), Mycoskie dropped out after just two years when he lost his tennis scholarship due to an injury.[5] This newly found freedom gave Mycoskie the chance to put his entrepreneurial spirit into action.

His first start-up business, EZ Laundry, was a small laundry service located at SMU. The university, with no campus dry cleaning service, provided steady demand.[6] By 1999, EZ Laundry had expanded to three more universities, and Mycoskie sold the company to his partner.[7] Following this experience, Mycoskie moved to Nashville and founded his next venture, Mycoskie Media. As an outdoor billboard company, Mycoskie Media focused on marketing country music. The company turned a steady profit, and Mycoskie sold it in just nine months.[8]

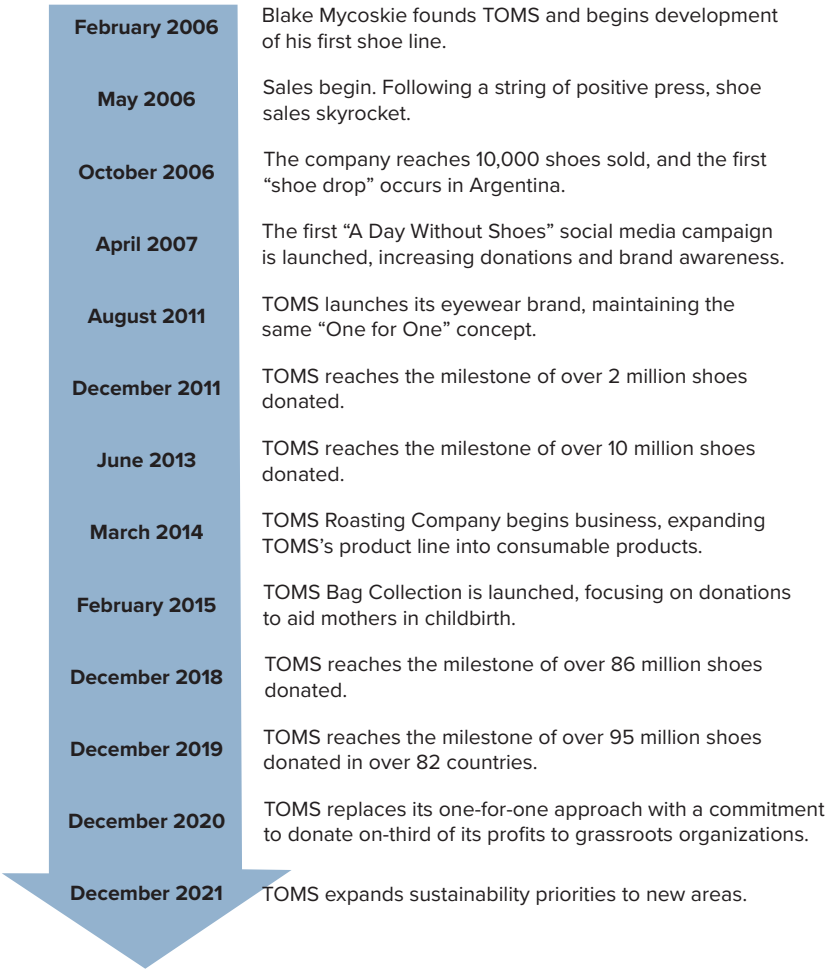
With two successful businesses behind him, Mycoskie and his sister, Paige, applied to be on the reality show *Survivor* in 2001. Although they did not make the cut for *Survivor*, they were ultimately cast in the travel-based reality series, *The Amazing Race*. Through this experience, Mycoskie was able to venture to Africa, Asia, and South America. Ultimately finishing the race as second runner-ups, the brother/sister team missed out on the million U.S. dollar prize by just a few minutes. However, and perhaps more importantly, the adventure exposed Mycoskie to Argentina for the first time.[9] Later that year, Mycoskie moved to Los Angeles, where he co-founded his third start-up, cable network Reality Central. For this new venture, Mycoskie joined forces with Larry Namer, a founder of E! Entertainment Television.[10] The network debuted in 2003, with a planned format of airing both new, original programming as well as reruns of past successful reality shows. The venture was able to raise large amounts of funding from backers and proved successful until 2005, when competitor channel Fox Reality began to dominate ratings.[11] A short time later, Mycoskie (holding true to his entrepreneurial spirit) partnered with the founders of Trafficschool.com to create his fourth business, Drivers Ed Direct, which functioned as an online-based drivers education service.[12] To increase brand awareness, Mycoskie created a viral marketing company, the Closer Marketing Group, to better promote his driver education business.[13]

The TOMS Experiment

On the heels of these successes, Mycoskie took his pivotal trip to Argentina in 2006. As his adventure was nearing its conclusion, Mycoskie happened to stumble upon an aid worker conducting a volunteer shoe drive. She was working to provide impoverished children with new shoes, explaining to Mycoskie that, even in more-developed countries like Argentina, children in poverty often lacked shoes.[14] Without shoes, simple daily tasks can be quite difficult and children are also especially vulnerable to disease and illness when lacking proper footwear. According to the volunteer, inconsistent donations limited the success of events like shoe drives.

Over the next few days, Mycoskie's eyes were opened to the realities of poverty across Argentina. He traveled with the volunteer to several local villages, observing poverty among children firsthand. The experience left a strong impression on Mycoskie, stimulating him to consider getting involved in addressing poverty.[15] Mycoskie strategized how to address the problem. Although he considered forming a charity to fund shoe donations for the children, the uncertainty posed by often inconsistent and uneven donations led Mycoskie to consider more business-oriented solutions. Having a constant flow of shoes available for donation was deemed as a critical element to the success of the effort. Mycoskie, therefore, settled on creating a for-profit business in which the sale of each pair of shoes would fund the donation of a pair of shoes for impoverished children. Mycoskie, reflecting on his Argentine adventure, based the shoe design

Figure 1 **A Brief Timeline of TOMS**



on the "alpargata" shoes, which he believed held the potential for success in the U.S. market. "Shoes for a Better Tomorrow," which Mycoskie originally named the company, was based on shoe sales today leading to donated shoes tomorrow. The name was eventually shortened to "Tomorrow's Shoes," which again was shortened to TOMS (see Figure 1).[16]

Products That Solve Problems

TOMS is built around the concept of expanding community outreach efforts through reliable business practices. As often discussed, TOMS was founded with the "One for One" company philosophy: every pair of shoes purchased would fund the donation of a pair of shoes to a child in need. First focusing on developing and selling the simple Argentine alpargata shoe, the company has since diversified its product line greatly. The current shoe selection includes winter boots, wet-weather shoes, sports shoes, and even locally produced shoes. Through this program, local locations manufacture their own traditional shoe, spurring job creation in developing areas. Each type of shoe that is donated is tailored to the specific geographic region to which it is sent.[17] Through the end of 2019, more than 95 million shoes have been donated in over 82 countries.[18]

In 2011, the company expanded to incorporate eyeglasses. With every pair of sunglasses purchased, TOMS funds the donation of a pair of prescription glasses to a person in need.[19] Furthermore, the purchase of sunglasses funds more intensive eye-related procedures, including sight-saving surgery, medical treatments, and educational programs. Through the end of 2019, over 780,000 sight restorations have been provided by TOMS's donations. In order to implement its eye care initiatives, TOMS currently partners with 16 different organizations in 14 different countries, helping a variety of communities across the globe.[20]

In 2014, TOMS formed its first consumable product offering, a coffee business called TOMS Roasting Company. With each bag of coffee purchased, TOMS provides 140 liters of water to a community in need. This equates to a week's supply of fresh, safe water to an individual person.[21] Through 2019, TOMS has provided over 722,000 weeks of safe water to locations around the globe.[22]

In 2015, TOMS expanded into the handbag industry, with the charitable link of ensuring safe childbirth for expecting mothers in developing locations. A leading cause of childbirth complications for both the mother and the infant is infections; with a portion of the profits from the sale of its bags, TOMS is financially supporting partners in its network by delivering materials and training that is needed, decreasing the chance of infection for delivering mothers by up to 80 percent.[23] Through 2019, over 345,000 mothers have received safe birth services through TOMS's donations.[24]

As TOMS carries on its "One for One" philosophy, it continues to expand its product line. It is effectively generating more revenue and at the same time helping more people in need. TOMS is also spreading its philosophy and gaining more partners to help it with the same cause.

Making a Change

While TOMS had great success with its giving model, that model limited the company's potential scope of social impact, and so TOMS announced in 2020 that it would replace its one-for-one approach with a commitment to donate one-third of its profits to grassroots organizations. In its 2020 Impact Report, TOMS made the case for this move by noting that "true progress begins on the ground, with organizations led by those closest to a community's obstacles and opportunities. We've also seen how spectacularly different every community is—their strengths, their needs, their experiences. And we've seen how there is no such thing as a one-size-fits-all solution."

The new approach focuses on three areas: promoting mental health, ending gun violence, and increasing access to opportunity. These selected areas were chosen due to TOMS's commitment to creating a more equitable social landscape: "Our vision is that of thriving humanity—something we can only achieve through relentless pursuit of equity. We say equity rather than equality because equity takes into account individual circumstances, providing people and communities with the specific resources that they need to thrive." A "Giving Team" will oversee partner selection and grant distribution with an eye toward forging strong and lasting relationships with the selected organizations.[25]

The Unconventional Leader

Mycoskie takes a somewhat unconventional approach to managing the everyday operations at TOMS. While many entrepreneurs spend long days at the office, Mycoskie takes his duties on the road with him, acting as a traveling brand representative. This allows him to personally convey the TOMS philosophy to potential customers. Back at the office, a carefully selected management team handles the day-to-day operations.[26] Even when he is in the office, Mycoskie takes an unorthodox approach to managing his staff. Informal meetings are often held out on his sailboat.

Mycoskie's personal life is equally unconventional. Prior to his recent marriage and the birth of his child, Mycoskie resided in his sailboat, docked in Marina del Ray, California. He would arise around 8:30 a.m., consume a Cliff Bar for breakfast, and spend several hours writing before finally heading into the office. Mycoskie is also a long-time user of a personal diary, allowing him to track his thoughts as they occur.[27] In fact, his journaling has filled over 50 books, containing his thoughts on all aspects of his life. He usually revisits these notes months later. In a world where instant communication is often demanded by employers, Mycoskie is notorious for leaving his e-mail inbox untouched for several days at a time. He also has been known to frequently bypass e-mail completely, utilizing handwritten letters instead. On many days, however, Mycoskie is up early to head to the airport and function as the company's traveling spokesperson.[28] Mycoskie spends much of his time speaking at different events and universities to promote personal social responsibility, the TOMS ideology, and other messages that he believes create a positive impact in the world. For two or three months in the year, Mycoskie takes time off to travel abroad, as seeing the world and meeting new people continues to inspire him.[29]

In the years since visiting Argentina and building the TOMS brand, Mycoskie has largely focused on the corporate responsibility and charitable side of the business. Several times a year, Mycoskie leads teams of volunteers and employees on "shoe drops." "Shoe drop" is the term that is used to describe when a TOMS team, composed of roughly 10 to 15 staff and volunteers, heads out into the field to hand out shoes to those in need.[30] This opportunity is considered an honor; an employee must earn the ability to participate by staying with the company for several years. Today, TOMS donates shoes in over 82 countries, preventing more diseases and providing the means for many children to live better lives.[31]

Social Responsibility, Sustainability, and Business Strategy

TOMS has seen an evolution in its social responsibility, sustainability, and business strategy. Since its original goal of One for One shoe donations, it has expanded its approach to the communities it seeks to serve. TOMS's sustainability priorities now involve six key commitments that were announced in its 2021 Impact Report. They are expanding their line of environmentally responsive products, increasing their B Corp Score, expanding the usage of sustainable cotton, using greener packaging, beginning to measure their carbon footprint with established reduction targets, and tracking efforts in an annual impact report.[32]

As for social responsibility, as a company, TOMS has created many programs to match its revolutionary One for One idea. Early on, one of the most common criticisms of TOMS's philanthropic programs was that it was not creating new jobs within local populations.[33] Using this feedback constructively, Mycoskie expanded the "One for One" philosophy and focused his company's next efforts on creating

job opportunities for those in the developing nations where donations were being directed.

In 2013, TOMS committed to producing one-third of its shoes within the regions where they are actually distributed. This effort has proven successful; over 700 jobs have been created in the regions where shoes are donated. Furthermore, employment opportunities have been kept at an equal ratio for male and female workers, promoting gender equality in developing locations.[34] Today, TOMS maintains factories in Ethiopia, India, and Kenya. Another example of TOMS's recent push toward social responsibility can be seen through TOMS Roasting Company. The coffee-producing subsidiary now engages in sourcing practices that provide farmers with a fair wage and ensure that clean water is accessible to people in the regions in which it sources its coffee beans. Interestingly, TOMS's internally conducted studies indicate that its overseas production initiatives are not negatively affecting domestic shoe manufacturers.[35]

Another program that Mycoskie started is funded directly by sales of his award winning book, *Start Something That Matters*.[36] Mycoskie donates 100 percent of the profits from the book to the Start Something That Matters Foundation, which has helped create over 20 socially responsible start-ups including Charlize Theron's African Outreach Project, Charity: Water, Movember, and Ben Affleck's Eastern Congo Initiative.[37]

Charity: Water is a nonprofit organization focused on solving the water shortage problems common to areas all over the world. Charity: Water takes donations from individuals that are then reinvested into organizations experienced in building sustainable, community-owned water projects.[38] By the end of 2018, Charity: Water maintained operations in 26 different countries, funding nearly 30,000 projects and providing over 8 million people with safe water.[39]

Movember, another nonprofit organization, is committed to the happiness and health of men. Through the end of 2018, the organization has raised over US$830 million and funded over 1,200 projects. Efforts are primarily focused on combating testicular and prostate cancers, the first and second most common cancers in males, as well as poor mental health and physical inactivity. An interesting symbol of this organization is their pride in having mustaches.[40]

Global Impact and Influence

Through TOMS's ideology of "One for One," the original organization and its offshoots have had a significant impact on the lives of those in need. TOMS partners with several different organizations in its Giving Partners program. These partners, numbering more than 186, provide expertise and input, working closely with TOMS in its shoes, sight, water, safe birth, and bullying-prevention efforts.

The statistics highlight how effective many of the company's efforts have been. An estimated 2 million children have been protected from hookworm with the TOMS shoes provided, and, following shoe distribution, there has been a 42 percent increase in maternal health-care program participation and a 1,000-student increase in enrollment.[41] The awareness program One Day Without Shoes has reached millions, showing the difficulties that people without shoes experience while also donating a pair of shoes for every social media photo shared that shows someone without shoes.[42]

Since TOMS pivoted toward a model in which it shares profits with local community groups, it has supported 43 community-based organizations, investing over $2M, impacting over 400,000 people. Some of the organizations helped were ProjectQ a non-profit community center that provides safe space for LGBTQIA+ youth, Self Help Graphics and Art which supports the advancement of new artwork by Chicana/o and Latinx artists, and East Side Riders Bike Club, an organization that focuses on impacting their community by providing adequate recreational outlets for children.[43]

The statistics from TOMS's other product initiatives are just as encouraging. TOMS's sunglasses purchases have funded hospitals and doctors in 13 different countries, with the help of 13 different local partners.[44] Funds raised through TOMS Roasting Co. have supported partners like Water for People and Aguayuda with the development and maintenance of safe water systems in local communities.[45] From bag sales, TOMS and three of its partners have helped millions of women in three countries during childbirth, decreasing the likelihood of infection or death.[46]

Socially responsible companies have gained traction in the global society as people work to raise awareness and promote a higher standard of life. Building on the one-for-one model pioneered by TOMS, other companies have pursued similar approaches, such as Warby Parker, which has provided over 10 million pairs of glasses, and Bombas Socks, which follows the same one purchased one donated model giving directly to homeless shelters. It appears as if some consumers find the direct connection between buying and giving to be appealing, and companies such as TOMS—and the charities they support—are thriving as a result.[47,48]

Questions for Review

1. How might combining commercial objectives and social goals improve the impact of corporate social responsibility efforts? How might the two conflict?
2. What aspects of the "One for One" philosophy appeal to consumers? How might it appeal to consumers who may not otherwise be motivated to support corporate social responsibility?
3. Could a company like TOMS have come about absent the role of Blake Mycoskie? What is the role of the individual in entrepreneurial ventures such as TOMS?

This case was written by Otto Eberle under the supervision of Professor Jonathan Doh with additional inputs from Ben Littell. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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In-Depth Integrative Case 1.1

Student Advocacy and "Sweatshop" Labor: The Case of Russell Athletic

Introduction

Outsourcing of production facilities and labor to developing countries has been one of the important business strategies of large U.S. corporations. While in the U.S., a typical corporation is subject to various regulations and laws such as minimum wage law, labor laws, safety and sanitation requirements, and trade union organizing provisions, in some developing countries these laws are soft and rudimentary, allowing a large corporation to derive significant cost benefits from outsourcing. Moreover, many developing countries like Bangladesh, China, Honduras, India, Pakistan, and Vietnam encourage the outsourcing of work from the developed world to factories within their borders as a source of employment for their citizens, who otherwise would suffer from a lack of jobs in their country.

However, in spite of the obvious positive fact of creating new jobs in the hosting country, large multinational corporations very often have been criticized for violating the rights of the workers, creating unbearable working conditions, and increasing workloads while cutting compensation. They have been attacked for creating a so-called sweatshop environment for their employees. A few of the recent targets of the criticism have been H&M,[1] Gap, Walmart,[2] Target,[3] Nike,[4] Adidas, Lululemon, Prada, Hermes, and Louis Vuitton.[5]

A major turning point for labor rights came over a decade ago in November 2009 when, after nearly two years of student campaigning in coordination with the apparel workers, the Honduran workers' union concluded an agreement with Russell Athletic, a major supplier of clothing and sportswear to college campuses around the country. The agreement included a commitment by Russell to put all of the workers back to work, provide compensation for lost wages, recognize the union and agree to collective bargaining, and allow access for the union to all other Russell apparel plants in Honduras for union organizing drives in which the company will remain neutral.[6]

This case addresses advocacy by students and other stakeholders toward one of these companies and documents the evolution and outcome of the dispute.

What Is a Sweatshop?

By common agreement, a sweatshop is a workplace that provides low or subsistence wages under harsh working conditions, such as long hours, unhealthy conditions, and/or an oppressive environment. Some observers see these work environments as essentially acceptable if the laborers freely contract to work in such conditions. For others, to call a workplace a sweatshop implies that the working conditions are illegitimate and immoral. The U.S. Government Accountability Office (the name since July 7, 2004) would hone this definition for U.S. workplaces to include those environments where an employer violates more than one federal or state labor, industrial homework, occupational safety and health, workers' compensation, or industry registration laws. The AFL-CIO Union of Needletrades, Industrial and Textile Employees would expand on that to include workplaces with systematic violations of global fundamental workers' rights. The Interfaith Center on Corporate Responsibility (ICCR) defines sweatshops much more broadly than either of these; even where a factory is clean, well organized, and harassment free, the ICCR considers it a sweatshop if its workers are not paid a sustainable living wage. The purpose of reviewing these varied definitions is to acknowledge that, by definition, sweatshops are oppressive, unethical, and patently unfair to workers.[7]

History of Sweatshops

Sweatshop labor systems were most often associated with garment and cigar manufacturing of the period 1880–1920. Sweated labor can also be seen in laundry work, green grocers, and most recently in the "day laborers," often legal or illegal immigrants, who landscape suburban lawns.[8] Now, sweatshops are often found in the clothing industry because it is easy to separate higher- and lower-skilled jobs and contract out the lower-skilled ones. Clothing companies can do their own designing, marketing, and cutting and contract out sewing and finishing work. New contractors can start up easily; all they need are a few sewing machines in a rented apartment or factory loft located in a neighborhood where workers can be recruited.[9] Sweatshops make the most fashion-oriented clothing—women's and girls'—because production has to be flexible, change quickly, and be done in small batches. In less style-sensitive sectors—men's and boys' wear, hosiery, and knit products—there is less change and longer production runs, and clothing can be made competitively in large factories using advanced technology.[10] Since their earliest days, sweatshops have relied on immigrant labor, usually women, who were desperate for work under any pay and conditions. Sweatshops in New York City, for example,

opened in Chinatown, the mostly Jewish Lower East Side, and Hispanic neighborhoods in the boroughs. Sweatshops in Seattle are near neighborhoods of Asian immigrants. The evolution of sweatshops in London and Paris—two early and major centers of the garment industry—followed the pattern in New York City. First, garment manufacturing was localized in a few districts: the Sentier of Paris and the Hackney, Haringey, Islington, Tower Hamlets, and Westminster boroughs of London. Second, the sweatshops employed mostly immigrants, at first men but then primarily women, who had few job alternatives.[11]

In developing countries, clothing sweatshops tend to be widely dispersed geographically rather than concentrated in a few districts of major cities, and they often operate alongside sweatshops, some of which are very large, that produce toys, shoes (primarily athletic shoes), carpets, and athletic equipment (particularly baseballs and soccer balls), among other goods. Sweatshops of all types tend to have child labor, forced unpaid overtime, and widespread violations of workers' freedom of association (i.e., the right to unionize). The underlying cause of sweatshops in developing nations—whether in China, Southeast Asia, the Caribbean, or India and Bangladesh—is intense cost-cutting done by contractors who compete among themselves for orders from larger contractors, major manufacturers, and retailers.[12] Sweatshops became visible through the public exposure given to them by reformers in the late 19th and early 20th centuries in both England and the United States. In 1889–1890, an investigation by the House of Lords Select Committee on the Sweating System brought attention in Britain. In the United States, the first public investigations came as a result of efforts to curb tobacco homework, which led to the outlawing of the production of cigars in living quarters in New York State in 1884.[13]

The spread of sweatshops was reversed in the United States in the years following a horrific fire in 1911 that destroyed the Triangle Shirtwaist Company, a women's blouse manufacturer near Washington Square in New York City. The company employed 500 workers in notoriously poor conditions. One hundred forty-six workers perished in the fire; many jumped out windows to their deaths because the building's emergency exits were locked. The Triangle fire made the public acutely aware of conditions in the clothing industry and led to pressure for closer regulation. The number of sweatshops gradually declined as unions organized and negotiated improved wages and conditions and as government regulations were stiffened (particularly under the 1938 Fair Labor Standards Act, which imposed a minimum wage and required overtime pay for work of more than 40 hours per week).[14] Unionization and government regulation never completely eliminated clothing sweatshops, and many continued on the edges of the industry; small sweatshops were difficult to locate and could easily close and move to avoid union organizers and government inspectors. In the 1960s, sweatshops began to reappear in large numbers among the growing labor force of immigrants, and by the 1980s sweatshops were again "business as usual." In the 1990s, atrocious conditions at a sweatshop once again shocked the public.[15] A 1994 U.S. Department of Labor spot check of garment operations in California found that 93 percent had health and safety violations, 73 percent of the garment makers had improper payroll records, 68 percent did not pay appropriate overtime wages, and 51 percent paid less than the minimum wage.[16]

Sweatshop Dilemma

The fight against sweatshops is never a simple matter; there are mixed motives and unexpected outcomes. For example, unions object to sweatshops because they are genuinely concerned about the welfare of sweated labor, but they also want to protect their own members' jobs from low-wage competition even if this means ending the jobs of the working poor in other countries.[17] Also, sweatshops can be evaluated from moral and economic perspectives. Morally, it is easy to declare sweatshops unacceptable because they exploit and endanger workers. But from an economic perspective, many now argue that, without sweatshops, developing countries might not be able to compete with industrialized countries and achieve export growth. Working in a sweatshop may be the only alternative to subsistence farming, casual labor, prostitution, and unemployment. At least most sweatshops in other countries, it is argued, pay their workers above the poverty level and provide jobs for women who are otherwise shut out of manufacturing. And American consumers have greater purchasing power and a higher standard of living because of the availability of inexpensive imports.[18]

NGOs' Anti-Sweatshop Initiatives

International nongovernmental organizations (NGOs) have attempted to step into the sweatshop conflict to suggest voluntary standards to which possible signatory countries or organizations could commit. For instance, the International Labour Office has promulgated its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, which offers guidelines for employment, training, conditions of work and life, and industrial relations. The "Tripartite" nature refers to the critical cooperation necessary from governments, employers' and workers' organizations, and the multinational enterprises involved.[19]

On December 10, 1948, the General Assembly of the United Nations adopted its Universal Declaration of Human Rights, calling on all member countries to publicize the text of the Declaration and to cause it to be disseminated, displayed, and read. The Declaration recognizes that all humans have inherent dignity and specific equal and inalienable rights. These rights are based on the foundation of freedom, justice, and peace. The UN stated that the rights should be guaranteed without distinction of any kind, such as race, color, sex, language, religion, political or other opinions, national or social origin, property, birth, or other status. Furthermore, no

distinction shall be made on the basis of the political, jurisdictional, or international status of the country or territory to which a person belongs. The foundational rights also include the right to life, liberty, and security of person and protection from slavery or servitude, torture, or cruel, inhuman, or degrading treatment or punishment.[20] Articles 23, 24, and 25 discuss issues with immediate implications for sweatshops. By extrapolation, they provide recognition of the fundamental human right to nondiscrimination, personal autonomy or liberty, equal pay, reasonable working hours and the ability to attain an appropriate standard of living, and other humane working conditions. All these rights were reinforced by the United Nations in its 1966 International Covenant on Economic, Social, and Cultural Rights.[21]

These are but two examples of standards promulgated by the international labor community, though the enforcement of these and other norms is spotty. In the apparel industry, in particular, the process of internal and external monitoring has matured such that it has become the norm at least to self-monitor, if not to allow external third-party monitors to assess compliance of a supplier factory with the code of conduct of a multinational corporation or with that of NGOs. Though a number of factors affected this evolution, one such factor involved pressure by American universities on their apparel suppliers, which resulted in two multistakeholder efforts—the Fair Labor Association, primarily comprised and funded by the multinational retailers, and the Worker Rights Consortium, originally perceived as university driven. Through a cooperative effort of these two organizations, large retailers such as Nike and Adidas not only have allowed external monitoring, but Nike has now published a complete list of each of its suppliers.[22]

The Case of Russell Athletic

While some argue that sweatshop scandals cause little or no impact on the corporate giants because people care more for the ability to buy cheap and affordable products rather than for the working conditions of those who make these products,[23] the scandal around the Russell Athletic brand has proved that it may no longer be as easy for a corporation to avoid the social responsibility for its outsourcing activities as it has been for a long time. November 2009 became a tipping point in the many years of struggle between the student anti-sweatshop movement and the corporate world. An unprecedented victory was won by the United Students Against Sweatshops (USAS) coalition against Russell Athletic, a corporate giant owned by Fruit of the Loom, a Berkshire-Hathaway portfolio company. USAS pressure tactics persuaded one of the nation's leading sportswear companies, Russell Athletic, to agree to rehire 1,200 workers in Honduras who lost their jobs when Russell closed their factory soon after the workers had unionized.[24]

Russell Corporation, founded by Benjamin Russell in 1902, is a manufacturer of athletic shoes, apparel, and sports equipment. Russell products are marketed under many brands, including Russell Athletic, Spalding, Brooks, Jerzees, Dudley Sports, and others. This company with more than 100 years of history has been a leading supplier of team uniforms at the high school, college, and professional levels. Russell Athletic™ active wear and college-licensed products are broadly distributed and marketed through department stores, sports specialty stores, retail chains, and college bookstores.[25] After an acquisition in August 2006, Russell's brands joined Fruit of the Loom in the Berkshire-Hathaway family of products.

Russell/Fruit of the Loom is the largest private employer in Honduras. Unlike other major apparel brands, Russell/Fruit of the Loom owns all eight of its factories in Honduras rather than subcontracting to outside manufacturers.[26] The incident related to Russell Athletic's business in Honduras that led to a major scandal in 2009 was the company's decision to fire 145 workers in 2007 for supporting a union. This ignited the anti-sweatshop campaign against the company. Russell later admitted its wrongdoing and was forced to reverse its decision. However, the company continued violating worker rights in 2008 by constantly harassing the union activists and making threats to close the Jerzees de Honduras factory. It finally closed the factory on January 30, 2009, after months of battling with a factory union.[27]

NGOs' Anti-Sweatshop Pressure

The Worker Rights Consortium (WRC) has conducted a thorough investigation of Russell's activities, and ultimately released a 36-page report on November 7, 2008, documenting the facts of worker rights violations by Russell in its factory Jerzees de Honduras, including the instances of death threats received by the union leaders.[28] The union's vice president, Norma Mejia, publicly confessed at a Berkshire-Hathaway shareholders' meeting in May 2009 that she had received death threats for helping lead the union.[29] The Worker Rights Consortium continued monitoring the flow of the Russell Athletic scandal and issued new reports and updates on this matter throughout 2009, including its recommendation for Russell's management on how to mediate the situation and resolve the conflict.

As stated in its mission statement, the Worker Rights Consortium is an independent labor rights monitoring organization, whose purpose is to combat sweatshops and protect the rights of workers who sew apparel and make other products sold in the U.S. The WRC conducts independent, in-depth investigations, issues public reports on factories producing for major U.S. brands, and aids workers at these factories in their efforts to end labor abuses and defend their workplace rights. The WRC is supported by over 175 college and university affiliates and is primarily focused on the labor practices of factories that make apparel and other goods bearing university logos.[30]

Worker Rights Consortium assessed that Russell's decision to close the plant represented one of the most serious

challenges yet faced to the enforcement of university codes of conduct. If allowed to stand, the closure would not only unlawfully deprive workers of their livelihoods, it would also send an unmistakable message to workers in Honduras and elsewhere in Central America that there is no practical point in standing up for their rights under domestic or international law and university codes of conduct and that any effort to do so will result in the loss of one's job. This would have a substantial chilling effect on the exercise of worker rights throughout the region.[31]

The results of the WRC investigation of Russell Athletic's unfair labor practices in Honduras spurred the nationwide student campaign led by United Students Against Sweatshops (USAS), who persuaded the administrations of Boston College, Columbia, Harvard, NYU, Stanford, Michigan, North Carolina, and 89 other colleges and universities to sever or suspend their licensing agreements with Russell. The agreements—some yielding more than $1 million in sales—allowed Russell to put university logos on T-shirts, sweatshirts, and fleeces.[32]

As written in its mission statement, USAS is a grassroots organization run entirely by youth and students. USAS strives to develop youth leadership and run strategic student-labor solidarity campaigns with the goal of building sustainable power for working people. It defines "sweatshop" broadly and considers all struggles against the daily abuses of the global economic system to be a struggle against sweatshops. The core of its vision is a world in which society and human relationships are organized cooperatively, not competitively. USAS struggles toward a world in which all people live in freedom from oppression, in which people are valued as whole human beings rather than exploited in a quest for productivity and profits.[33]

The role of USAS in advocating for the rights of the Honduran workers in the Russell Athletic scandal is hard to overestimate. One can only envy the enthusiasm and effort contributed by students fighting the problem that did not seem to have any direct relationship to their own lives. They did not just passively sit on campus, but went out to the public with creative tactical actions such as picketing the NBA finals in Orlando and Los Angeles to protest the league's licensing agreement with Russell, distributing fliers inside Sports Authority sporting goods stores, and sending Twitter messages to customers of Dick's Sporting Goods urging them to boycott Russell products. The students even sent activists to knock on Warren Buffett's door in Omaha because his company, Berkshire-Hathaway, owns Fruit of the Loom, Russell's parent company.[34]

United Students Against Sweatshops involved students from more than 100 campuses where it did not have chapters in the anti-Russell campaign. It also contacted students at Western Kentucky University in Bowling Green, where Fruit of the Loom has its headquarters.[35] The USAS activists even reached Congress, trying to gain more support and inflict more political and public pressure on Russell Athletic. On May 13, 2009, 65 congressmen signed the letter addressed to Russell CEO John Holland expressing their grave concern over the labor violations.

In addition, the Fair Labor Association (FLA), a nonprofit organization dedicated to ending sweatshop conditions in factories worldwide, issued a statement on June 25, 2009, putting Russell Athletic on probation for noncompliance with FLA standards.[36] The FLA is one of the powerful authorities that oversee the labor practices in the industry and represents a powerful coalition of industry and nonprofit sectors. The FLA brings together colleges and universities, civil society organizations, and socially responsible companies in a unique multistakeholder initiative to end sweatshop labor and improve working conditions in factories worldwide. The FLA holds its participants, those involved in the manufacturing and marketing processes, accountable to the FLA Workplace Code of Conduct.[37] The 19-member Board of Directors, the FLA's policy-making body, comprises equal representation from each of its three constituent groups: companies, colleges, and universities, and civil society organizations.[38]

Victory for USAS and WRC

As mentioned at the start of this case, in November 2009, after nearly two years of student campaigning in coordination with the apparel workers, the Honduran workers' union concluded an agreement with Russell that put all of the workers back to work, provided compensation for lost wages, recognized the union and agreed to collective bargaining, and provided access for the union to all other Russell apparel plants in Honduras for union-organizing drives in which the company will remain neutral. According to the November 24, 2009, press release from Fibre2Fashion, this has been an "unprecedented victory for labor rights."[39] Rod Palmquist, USAS International Campaign Coordinator and University of Washington alumnus, noted that there were no precedents for a factory apparently being shut down to dislodge a union and "later reopened after a worker-activist campaign."[40]

This was not an overnight victory for the student movement and the coalition of NGOs such as USAS, WCR, and FLA. It took over 10 years of building a movement that persuaded scores of universities to adopt detailed codes of conduct for the factories used by licensees like Russell.[41] It is another important lesson for the corporate world in the era of globalization, which can no longer expect to conduct business activities in isolation from the rest of the world. Global corporations such as Russell Athletic, Nike, Gap, Walmart, and others will have to assess the impact of their business decisions on all the variety of stakeholders and take higher social responsibility for what they do in any part of the world.

More recently, several horrific accidents at garment factories in Bangladesh have placed renewed pressure on U.S. and European clothing brands to take greater responsibility for the working conditions of the factories from which they source products. On April 24, 2013, more than 1,000

workers were killed when an eight-story building collapsed while thousands of people were working inside. Less than two weeks later, eight people were killed in a fire at a factory in Dhaka that was producing clothes for Western retailers. There are about 4,500 still operational sweatshops in Bangladesh, which is the world's number 2 apparel exporter after China/Hong Kong.

After a number of investor, religious, labor, and human rights groups voiced concerns about the lack of oversight and accountability by the major companies, several of the world's largest apparel firms agreed to a plan to help pay for fire safety and building improvements. Companies agreeing to the plan included the Swedish-based retailer H&M; Inditex, owner of the Zara chain; the Dutch retailer C&A; and British companies Primark and Tesco. At the same time, the Bangladesh government announced that it would improve its labor laws and raise wages, and ease restrictions on forming trade unions. U.S. retailers Walmart and Gap did not commit to the agreement, expressing concerns about legal liability in U.S. courts. Instead, with the help of a U.S.-based think tank, they announced they would pursue a separate accord to improve factory conditions in Bangladesh.[42]

Despite these promises by various companies and governmental organizations, and a commitment of over a quarter of a billion dollars, much work remains to be done. According to a report by NYU Stern Center for Business and Human Rights, only 8 out of over 3,000 factories in Bangladesh had cleared violations in the years since the garment fires and building collapse. Bangladesh needs an investment of about $1.2 billion for the repair work that would make Bangladeshi garment factories safe.[43] In a country, where the minimum wage for the garment workers is just about $0.42 per hour, such an investment would be difficult to come by. While the country earns valuable foreign exchange by exporting garments, workers continue to face unhealthy levels of dust and pollution inhalation, physical strain, long-term mental stress, exhaustion, and overheating.[44]

In more recent news, social media giant, Facebook, has been accused of its own unethical outsourcing. In February 2022, the company came under fire for its work with Sama, a data-labeling company with a presence in Nairobi, Kenya. The over 200 employees of the Nairobi office earn as little as $1.50 per hour acting as content moderators for Facebook. Their job duties Include screening and removing banned content from the platform. Criticisms of the facilities extend beyond limited pay and forced trauma. According to workers, Sama responded to a threat to strike by firing the attempted strike's leader. London NGO, Foxglove, along with Kenyan law firm Katiba Institute, are preparing to sue Sama for this wrongful termination. NGOs are continuing to respond to these new allegations against Facebook and time will tell how the company will respond.[45,46]

In light of the pandemic, employees working in these environments are facing additional pressures. For example, in the Nairobi office of Sama, workers claim that they were pressured to return to the building, even as COVID-19 cases rose. Sama directors informed employees that to be granted sick leave, employees must receive a note from one of two specific hospitals in the city. This left many employees with limited access to healthcare coming to work while sick.[47] In the U.S., similar situations have come to light. A factory operated by Los Angeles Apparel was mandated to close after an outbreak led to over 300 positive COVID cases and 4 employee deaths. When these workers were laid off, many could not receive unemployment or stimulus benefits due to their undocumented status.[48]

Questions for Review

1. Assume that you are an executive of a large U.S. multinational corporation planning to open new manufacturing plants in China and India to save on labor costs. What factors should you consider when making your decision? Is labor outsourcing to developing countries a legitimate business strategy that can be handled without the risk of running into a sweatshop scandal?
2. Do you think that sweatshops can be completely eliminated throughout the world in the near future? Provide an argument as to why you think this can or cannot be achieved.
3. Would you agree that in order to eliminate sweatshop conflicts, large corporations such as Russell Athletic should retain the same high labor standards and regulations that they have in the home country (for example, in the U.S.) when they conduct business in developing countries? How hard or easy can this be to implement?
4. Do you think that the public and NGOs like USAS should care about labor practices in other countries? Isn't this a responsibility of the government of each particular country to regulate the labor practices within the borders of its country? Who do you think provides a better mechanism for regulating and improving the labor practices: NGOs or country governments?
5. Would you agree that Russell Athletic made the right decision by conceding to USAS and union demands? Isn't a less expensive way to handle this sort of situation simply to ignore the scandal? Please state your pros and cons regarding Russell's decision to compromise with the workers' union and NGOs as opposed to ignoring this scandal.

This case was prepared by Professor Jonathan Doh and Tetyana Azarova. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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In-Depth Integrative Case 1.2

The Ethics of Global Drug Pricing

In early 2022, several drug manufacturers raised list prices by an average of 6.6 percent for cancer, diabetes and other prescription medicines. Price hikes on drugs rivaled the 7 percent overall consumer inflation rate, the highest in nearly four decades. The price increase includes some of the most common and biggest-selling medicines in the U.S. For example, AbbVie Inc. raised the price of its anti-inflammatory drug Humira by 7 percent; Bristol-Myers Squibb Co. raised the price for blood-thinner Eliquis, which it co-markets with Pfizer Inc., by 6 percent; and Eli Lilly & Co. raised the price of its diabetes medicine Trulicity by 5 percent.

In the years prior to COVID-19, the price hike has been even steeper.[1] In 2019, over 30 different drug manufacturers announced price increases on more than 1,000 different drugs. U.S.-based drug producer 7T Pharma raised the price of its pain medication Zingo by over 100 percent, and biopharmaceutical company AbbVie Inc spiked the price of Humira, the world's top-selling arthritis drug. Several larger pharma companies initiated price increases on significant portions of their entire drug portfolio, including Allergan Plc, which raised prices on 50 different drugs accounting for half of its entire portfolio, and Pfizer, the world's largest drug manufacturer, which raised prices on 41 drugs accounting for 10 percent of its portfolio.[2,3,4] Annual price increases such as these, which are far in excess of the inflation rate, are nothing new in the drug manufacturing industry. In 2018, Virtus Pharmaceuticals increased the price of muscle relaxant Methocarbamol by over 1000 percent, and in 2015, Turing Pharmaceuticals increased the price of a 62-year-old drug used for treating life-threatening parasitic infections in HIV and cancer patients by over 5,000 percent—from US$13.50 to US$750 per tablet.[5,6,7]

This highlight just a few examples of numerous price increases that continue to fuel the debate regarding the cost of prescription medication in the U.S., prompting comparisons to drug prices in other industrialized countries. Moreover, a related debate has simmered regarding access to life-saving medicine in developing countries, the relatively low investments by major global pharma companies in developing new medicines for diseases such as tuberculosis and malaria, and the prices major pharmaceutical companies charge for HIV/AIDS medications.

Pharmaceuticals and Pricing—a Complicated Calculation

The issue of drug pricing is incredibly complex and, as more prescription medications are becoming available to the growing global population, that complexity is increasing. Debates regarding prescription medication pricing involve such hot-button issues as the appropriate levels of corporate profits, the responsibility of the corporations who own the medication (profit for shareholders versus providing a need for suffering patients), and insurance coverage, to name a few. The ethical debate over drug pricing is not confined to just the U.S., but extends to developed and developing companies alike.

The pricing of pharmaceuticals is influenced by a myriad of stakeholders who represent a wide range of competing interests. These include the patients taking the drugs, the doctors prescribing the drugs, the insurance companies paying for the drugs, the pharmaceutical manufacturers that either produce or acquire the rights and supply the drug, and the government that often acts as a bulk purchaser and regulator, policing the entire process. Tensions among these diverse stakeholders are aggravated by continued growth in prescription-drug spending. In 2019, drug prices grew by an estimated 6.3 percent from the previous year, and prices for some medications grew by as much as 30 percent.[8]

Patients need reliable drugs that can be used to treat their conditions; however, the costs to patients vary widely based on the health care system of the countries in which they live, whether they are subject to public or private insurance (or no insurance at all), and various other factors. In the U.S. insurance options vary widely, with some patients paying out of pocket, others opting for coverage under their employer-paid or commercial insurance, and some utilizing a form of government-paid insurance, like Medicare. The type of provider and type of plan ultimately determine the cost that the patient must pay out of pocket for any prescription medications. Some plans require co-pays, premiums, or deductibles to cover the costs of prescriptions, and some pay a certain percentage of prescription costs, leaving the balance to the patient. In many countries featuring single-payer models, health plans determine which drugs are available and how they are to be allocated to patients. In a similar vein, insurance plans in the U.S. maintain a "booklet" or listing of what prescription medications are covered under a given plan. This booklet can change from year-to-year, meaning that one year a given insurance company will cover costs for a certain medication and, due to factors like huge price increases, the medication may not be covered the following year.

In the U.S., prescribing doctors are an important stakeholder in this issue. Until recently, their responsibility and incentives were not always well established. In the past, it was common practice for pharmaceutical companies to offer doctors fees for research and clinical assessments.

Because these fees created at least the appearance of a conflict of interest, legislation and regulation began to require greater disclosure and reporting. Now, all compensation, including nonmonetary items such as food and entertainment, that pharmaceutical companies provide to doctors in exchange for research and promotional activities must be reported.[9]

Putting that role aside, doctors are generally expected to treat patients with whatever means result in the highest efficacy levels. Higher prescription drug prices inevitably interact with that responsibility. Recent trends seem to indicate that these tensions will only grow; the number of drug prescriptions filled annually in the U.S. has increased by 85 percent in the last 20 years, and more than 55 percent of Americans now regularly take prescription medicine. In fact, the average American adult has four prescriptions.[10] As drug prices continue to soar, doctors are placed in the difficult situation of prescribing their patients medication that may not be affordable or performing alternative methods with a lower efficacy.

In defending relatively high prices of drugs, pharmaceutical companies routinely cite the high failure rate of new drugs during the FDA approval process and the steep costs of research and development. Indeed, some estimates put the price of developing a new drug at nearly $3 billion when including the cost of failures and drugs that never reach the marketplace.[11] Opponents of this argument cite the fact that, in cases where a new drug is successful, it enjoys approximately two decades of protection from any competition under strict patent laws. Additionally, some companies, especially in the "orphan" drug industry, which will be discussed later, receive grants for research and development. Finally, in extreme cases of companies like Valeant Pharmaceuticals, which gained notoriety after raising the price of Wilson's disease drug Cuprimine by more than 3,000 percent in 2015, critics point to the fact that some companies do not appear to invest much if any financial resources into developing new drugs. Valeant, for example, invests less than 3 percent of revenue into research and development activities.[12]

The Wall Street Journal conducted an exhaustive investigation into the pricing of drugs at Pfizer, which involved interviewing management regarding pricing for its new breast cancer medication Ibrance. The results revealed that Pfizer's multistep pricing process is not based on a single algorithm but is derived—and adjusted—based on a range of external inputs and internal benchmarks. According to the report, research and development costs had minimal influence on the ultimate price per dose set by the company. Rather, factors including demand in the marketplace, competition, the opinions of medical professionals, and potential pressure from insurers heavily influenced the resulting pricing strategy.[13] Pfizer explained that it seeks to reduce this complex analysis into a three-point approach: patients receive maximum access to the drug; payers, such as insurers, will accept the price; and Pfizer receives strong financial returns. In this case, Pfizer spent three years of market research to determine pricing for what was a revolutionary medication to treat advanced breast cancer. The final step of the process was a meeting of Pfizer economists to determine the financial impact on the company, the health insurers, and the patients. Finally, the commercial team decided to set the price at US$9,850 per month. This price was approved by Pfizer and, just as the medication was set to go to market, a competitor raised the price of its comparable medication by 9.9 percent, putting the monthly cost of that medication at US$687 more than Pfizer's, on the basis of "reflecting an evolving health-care and competitive environment."[14] According to *The Wall Street Journal*, Pfizer was left thinking, "was US$9,850 too low?"[15]

In the most egregious cases of price increases, companies like Valeant and Turing buy the rights to specialty medications that have been on the market for years and for which there are few direct substitutes. These companies then raise the prices of the drugs exponentially. Decades-old specialty medications often do not have generic alternatives due to traditionally low sales volumes. Therefore, patients who require these medications and have been using them as standard care are left without any real cost-effective alternative when prices skyrocket.

Pharmaceutical companies also argue that they provide subsidies—sometimes significant ones—for patients who are not able to pay the full cost. These programs include providing medication free of charge to patients in both developed and developing countries, as well as offering a type of financial aid to help other patients obtain the medication at a discount. Pharma companies' programs to provide access to medicines for patients in developing countries are discussed below.

When taken together, the many considerations associated with drug costs and pricing conspire to create a confusing web of social, economic, and political challenges, some of which are detailed below.

Drug Pricing in the U.S. and around the World

Although the U.S. is facing rapidly increasing prescription medication prices, this is not the case in much of the world. In the U.S., a mostly market-based system provides economic and other incentives for companies that develop new drugs or improve existing ones. The drug companies in market-based systems, benefiting from patent-protected exclusivity, ultimately recoup their large research and development investments with higher market-based prices for their breakthrough products. In other parts of the world, where public health care and prescription drug purchasing systems are commonplace, different factors prevail.

The Wall Street Journal conducted a study comparing prescription drug prices in the market-based U.S., using the data available through Medicare Part B, to the prices found in three

Table 1 **Drug Price Comparison**

Drug	Dose Size	Medicare (U.S.)	Norway	England	Ontario	Drug Used For
Lucentis	0.5 mg	US $ 1,936	US $ 894	US $ 1,159	US $1,254	Macular degeneration
Eylea	2 mg	1,930	919	1,274	1,129	Macular degeneration
Rituxan/MabThera	500 mg	3,679	1,527	1,364	1,820	Rheumatoid arthritis
Neulasta	6 mg	3,620	1,018	1,072	n/a	White blood cell deficiency
Ayastin	100 mg	685	399	379	398	Cancer
Prolia	60 mg	893	260	286	285	Osteoporosis
Alimta	100 mg	604	313	250	342	Lung cancer
Velcade	3.5 mg	1,610	1,332	1,191	n/a	Cancer
Herceptin	100 mg	858	483	424	493	Breast cancer
Eligard	7.5 mg	217	137	n/a	247	Prostate cancer

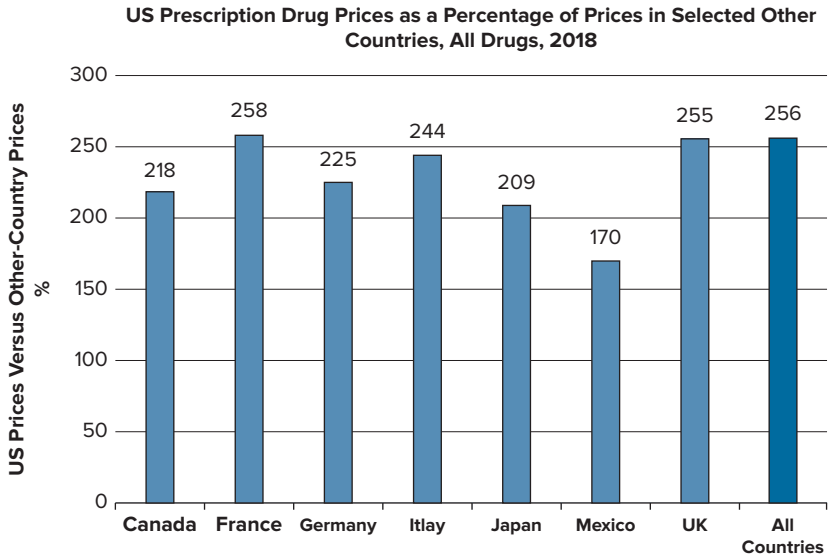
Source Whalen, Jeanne. "Why the U.S. Pays More Than Other Countries for Drugs." *The Wall Street Journal,* December 1, 2015. https://www.wsj.com/articles/why-the-u-s-pays-more-than-other-countries-for-drugs-1448939481.

countries with public health care systems: Norway, England, and Canada's Ontario province. This investigation used both public and nonpublic data.[16] Table 1 summarizes the results of that study. Among the findings was that, in the case of the top 40 selling drugs, prices in the U.S. were 93 percent higher than in Norway. Similarly, England and Ontario also showed significantly cheaper prices than those found in the U.S. Research seems to conclude that, in general, branded prescription drugs are more expensive in the market-based U.S. system than in other developed countries.[17]

A more recent study by Rand Corporation confirms that the prices of prescription drugs are significantly higher in the U.S. than in the rest of the world. The price comparison, presented in Figure 1, shows that the prices in the U.S. were 256 percent higher than the average prices in 32 OECD countries. Within the G7 countries, U.S. prices ranged from 209 percent of prices in Japan to 258 percent of prices in France.[18]

The patent protection and exclusivity prevalent in the market-based U.S. system are not the only reason for steep drug prices; structural differences in the healthcare system, the lobbying and political power of pharmaceutical companies, and the fear of rationing all contribute to the increased prices in the market.[19] Conversely, the state-run health systems in other developed countries, like Norway, exert strong negotiating leverage with drug companies. In these countries, nearly all drug purchasing is completed by government agencies, shifting the power from pure market demand to a single government purchaser. In these systems, it is common for government healthcare agencies to set firm caps on pricing, require strong evidence that breakthrough drugs truly provide higher value than existing medications, and refuse to pay for higher-priced drugs that offer only minimal improvements over cheaper alternatives.[20] By contrast, the U.S. marketplace is more disjointed. Individuals, employers, large and small insurance companies, and even state and federal government agencies foot the bill for medications, resulting in decreased bargaining power. Furthermore, Medicare, which pays for more medications than any other company or agency in the country, is legally prevented from negotiating pricing.[21]

Figure 1 **Drug Price Comparison**



Drug manufacturers and developers are quick to note the huge financial disincentives posed by European public health care systems. Lower returns coupled with strong governmental control arguably result in decreased research investment and less patient access to life-saving drugs. Without the large profits achieved through the U.S. pricing model, new drug development would sharply decline.[22] Per Pharmaceutical Research and Manufacturers of America (PhRMA) executive vice president Lori Reilly, "The U.S. has a competitive biopharmaceutical marketplace that works to control costs while encouraging the development of new treatments and cures."[23]

Below is a brief summary of drug pricing approaches in key European countries.

Norway, Canada, and the United Kingdom

Norway created the Norwegian Medicines Agency (NMA) to determine the appropriateness of specific drugs for treatment. The agency evaluates patient information to determine the cost-effectiveness of new drugs. Pharmaceutical companies submit a price for reimbursement, which must be below the maximum price set by the agency, and the pharmaceutical companies must file detailed documents outlining the additional benefits and value that the new drug provides that existing drugs do not. QALY, or quality-adjusted life year, is a metric that is often used to measure the value of the drug.[24] Interestingly, Medicare in the U.S. is prohibited from incorporating such an approach. Many drug companies ultimately discount their drugs to ensure that they are accepted by NMA for inclusion in the health care system, though companies are able to resubmit rejected drugs if they can improve the value proposition.[25]

England's health care cost agency, the National Institute for Health and Care Excellence (NICE), is one of Europe's strictest regulators. Providing a high value is critical to any specific drug's acceptance by NICE; the agency evaluates the cost versus the effectiveness of drugs, ultimately determining whether the medication provides enough benefit to warrant coverage. If NICE determines that the value offered by the new drug is too low compared to the price, drug makers have the opportunity to try for acceptance again with a revised price point.[26] The level of spending by the National Health Service (NHS) on individual drugs is also capped, and the pharmaceutical industry must reimburse the NHS for any additional spending over that cap. Nearly every drug covered by both Medicare Part B and the English health care system was more expensive in the U.S.[27]

Though the Canadian health care system does not include a centralized government agency responsible for all drug payments and negotiations, the country has been able to maintain lower drug costs due to government regulation.[28] First, maximum drug prices, based on the effectiveness and overall value of the pharmaceutical product as well as the cost of the drug in the U.S. and Europe, are set by Canada's Patented Medicine Prices Review Board. After the price ceiling is set on a particular drug, the pharmaceutical company producing the product is prohibited from increasing the price above the comparable U.S. or European price. Additionally, the annual rate of price increase is capped at Canada's rate of inflation.[29] Because Canada has a nationalized system with heavy subsidies for low- and fixed-income citizens, the Canadian government also must determine whether or not any specific drug will be available to seniors and those on government assistance. The Canadian Agency for Drugs and Technologies in Health ultimately makes this decision. These regulations appear to effectively reduce costs, especially when compared to the U.S. For example, of 30 pharmaceutical drugs covered by both Ontario's Ministry of Health and Long-Term Care and the U.S.'s Medicare Part B, only 7 percent of the drugs were more expensive in Canada.[30]

Obviously, the significant difference in health care systems and prescription medication practices makes it extremely difficult to debate whether the U.S. approach or the Norway-England-Canada approach is better. Of more practical relevance, it would be extremely difficult for the U.S. to adopt the approach used in these three countries. Indeed, the U.S. has (so far) rejected a universal, government-paid health care system.[31] The arguments for and against that type of system are well-documented and will not be addressed here, but it is worth mentioning that there are valid reasons for opposing it. One is that adopting a universal system could result in the government being unwilling to pay for certain medications, something that is quite controversial in the U.S., where freedom and choice are highly valued.[32] This reality complicates the process of encouraging the development of specialty and orphan drugs that by definition treat a very small portion of the population. In these cases, there is usually a lack of effective alternatives or generic medications and it is only with strong economic incentives that pharmaceutical companies are willing to take the risk of developing new products. As such, a public health care system does not provide a solution to high drug prices in cases where there are little to no alternative treatments.[33]

Germany, Spain, and Italy

Another approach to drug pricing, which has features of both a private, market-based system, like that of the U.S., and a public system, like that of Norway, can be found in Germany, Spain, and Italy. A *New York Times* analysis described how these countries approach the pricing challenge.

In Germany, Spain, and Italy, pharmaceutical drugs are categorized into groupings with other similar drugs.[34] Insurers, whether public or private, then set a single specific price that they will pay for any drug that is grouped within a specific category. This price is referred to as the "reference price." If any individual drug within a category is priced

higher than the set reference price for that category, the consumer must pay the excess cost if he or she wants the more expensive drug.[35] This approach results in significant consumer pressure on the drug manufacturer. When a low reference price is set, consumers become more willing to switch the specific drug that they are taking to avoid any additional, uncovered cost. Drug companies, with the desire to keep consumers, respond by lowering their prices to as close to the reference price as possible.[36] Germany, Italy, and Spain vary slightly in how reference prices are actually set. In Germany and Spain, averages are used to calculate the proper reference price, while in Italy, the lowest price in each drug category effectively acts as the reference price.

Price controls, whether through government agencies or insurers, are often blamed for slowing drug research and development. While this may be rooted in some truth, the reference price strategy can still result in a financial incentive for innovation. When a new, breakthrough drug is developed, reference pricing allows for that drug to be placed into a category by itself, eliminating the price competition seen in categories of drugs established with multiple competitors. The new drug is still able to reap the financial benefits of being a first-to-market innovator, likely for many years.[37] Additionally, the reference pricing strategy can encourage innovations within long-established drug categories. When an existing drug within a crowded, competitive drug category is improved and its cost to manufacture is reduced, the drug manufacturer can likewise lower its price point in an attempt to steal market share. This results in savings for the end consumer.

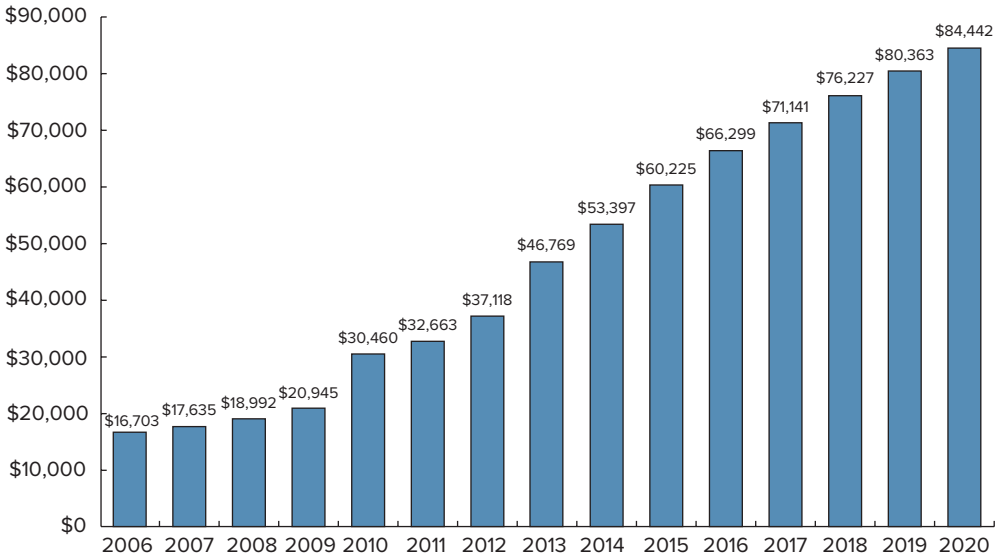
As stated already, it is difficult to argue against a system that has prices a fraction of those in the U.S., but it is worth mentioning that this system is still difficult to implement in cases where there are no comparable drugs. Furthermore, companies could shave margins on drugs that have comparable alternatives but attempt to make up those margins in areas where they provide novel medications. Finally, as seen with Pfizer's pricing example, pharmaceutical companies routinely look to competitors for guidance on pricing. Implementing a reference-pricing system could incentivize companies to set higher prices knowing that the government will be imposing a bottom price or average price and encourage a type of price-fixing.

Specialty and "Orphan" Drugs

Specialty drugs—which are generally understood to be drugs that are structurally complex and often require special handling or delivery mechanisms—are typically priced much higher than traditional drugs. While some of these drugs have been groundbreaking in the treatment of cancer, rheumatoid arthritis, multiple sclerosis, and other chronic conditions, the cost of treating a patient with specialty drugs can exceed tens of thousands of dollars a year. Over the past decade, the industry has seen significant increases in the pricing of specialty drugs. Figure 2 shows the growth in these costs, which have quintupled in 15 years between 2006 and 2020.

Depending on the effectiveness, demand, and disease being treated, some specialty drugs cost upwards of three-quarters of a million U.S. dollars annually. In fact, within the last few years, a third of all spending on prescription drugs in the U.S. has been dedicated to specialty drugs. This has resulted in a surge in the development of new specialty drugs; since 2010, the U.S. Food and Drug Administration (FDA) has been approving more specialty drugs than traditional drugs. For example, in 2018, specialty drugs accounted for 58 percent of all FDA approvals.[38]

Figure 2 **Growth in Average Annual Cost of Specialty Drug Regime**



Source: Trends in Retail Prices of Specialty Prescription Drugs Widely Used by Older Americans, 2006 to 2020", AARP PUBLIC POLICY INSTITUTE, September 2021, https://www.aarp.org/ppi/info-2019/trends-in-retail-prices-of-drugs.html

Another classification of drugs—called "orphan drugs"—[is] pharmaceutical products aimed at rare diseases or disorders. In the market-based U.S. system, orphan drugs can be financially lucrative for drug developers, especially since the passage of the Orphan Drug Act of 1983. Since the passage of the law, over 400 new orphan drugs have received FDA approval, resulting in treatments for nearly 400 rare diseases. In the U.S., orphan drugs often cost 20 times that of drugs used to treat traditional diseases. Additionally, the market for orphan drugs continues to grow. More than 30 million U.S. citizens, representing almost 10 percent of the entire population, are estimated to be inflicted with a rare disease. While demand for traditional prescription drugs is only expected to increase 6 percent annually in Japan, the U.S., and Europe through 2024, total sales for orphan drugs will increase by 11 percent year-over-year. By 2024, an estimated 21.7 percent of all non-generic drugs sold globally will be orphan drugs, totaling more than US$260 billion in annual sales.[39] In 2021, US FDA approved 50 new drug therapies, of which 26 were Orphan drugs.[40] A big share of orphan drugs is taken by big pharma, which is fueling calls to reform the Orphan Drug Act in the US.

As discussed previously, the U.S. spending on prescription medication is substantially higher than in most other countries. One argument justifying these high prices is that the high prices for medications in the U.S. and some other developed countries make it possible for the same companies to offer medications needed in developing countries at a significant discount.

Access to Medicine and Pricing in Developing Countries

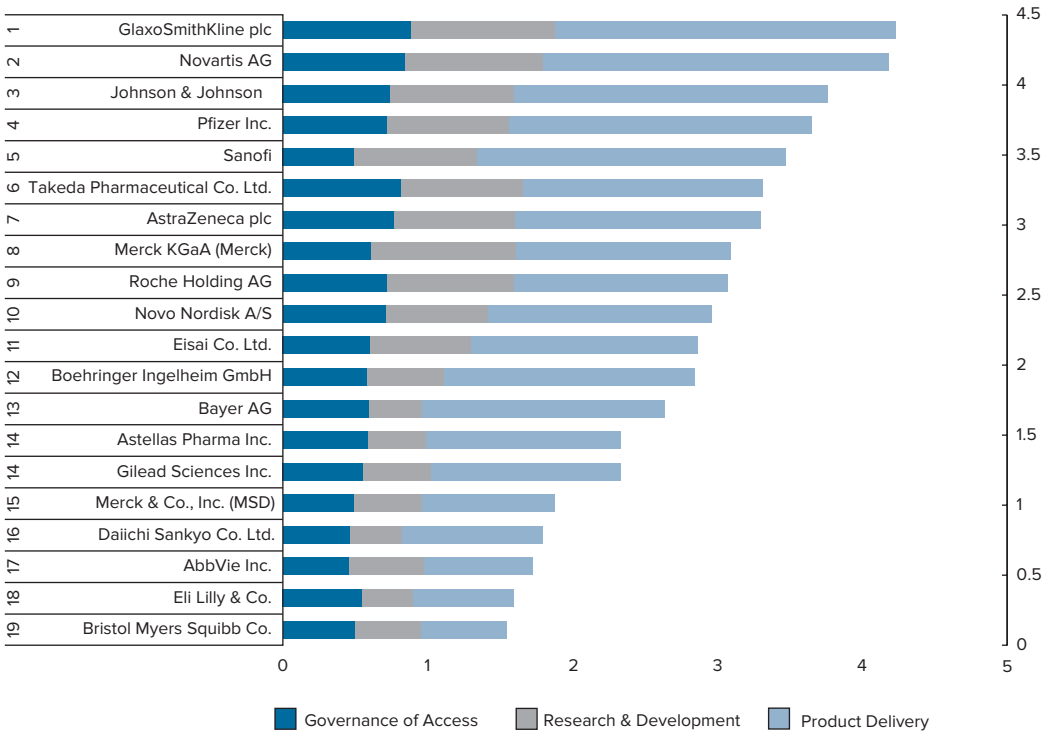
Prescription drugs are the primary method of medical treatment in most developing countries and largely dominate total health-care spending in these economies. As a result, drug affordability in emerging countries is critical to ensuring medical treatment for those who are in need. Despite aid from the international community, developing countries still lack access to life-saving medications. Less than 20 percent of all drug importing, and only 6 percent of all drug exporting, occurs in emerging nations. Furthermore, a full third of people in these countries are without consistent access to prescription drugs.[41] A study by the Center for Global Development found that in some poor countries, everyday drugs such as omeprazole or acetaminophen (also known as paracetamol) can cost up to 20 to 30 times more than in developed countries.[42]

One grouping of major global initiatives that [is] helping to make medication more available to the developing countries is the Neglected Tropical Disease (NTD) programs. NTDs are defined as common, easily transmitted diseases that are most often found in the approximately 150 developing nations located in tropical regions. The economic impact of these diseases is estimated to be in the US$ billions annually, directly and indirectly affecting more than a fifth of the world's population. Often, factors such as unsanitary water and livestock contribute to the spread of NTDs.[43] Specific programs, such as the one established by the Centers for Disease Control and Prevention (CDC), aim to combat NTDs directly. This includes attempting to completely eliminate diseases through Mass Drug Administration (MDA) programs, as well as working together with pharmaceutical companies and local NGOs. With a lack of formal doctors and nurses in many of these areas, localized community leaders and volunteers, such as teachers, function as drug administrators. These volunteers have the training required to effectively and properly provide drugs to the community members. Pharmaceutical companies provide support through large drug donations.[44,45] The U.S. Agency for International Development (USAID) is a key partner with organizations like the CDC and the World Health Organization (WHO). In addition, USAID, CDC, and WHO also collaborate with other organizations, including foundations such as the Bill and Melinda Gates Foundation, as well as individual pharmaceutical companies that donate medications that can combat these diseases.

In the U.S., concern about NTDs and the lack of incentives for pharmaceutical companies to develop drugs for those diseases caught the attention of three academics from Duke University. In their 2006 paper, researchers David Ridley, Henry Grabowski, and Jeffery Moe proposed a voucher system based on the Orphan Drug program to reward companies for investing in the development of drugs targeted at treating NTDs.[46] Under this system, the incentive provided to pharmaceutical companies developing NTD treatments would be the expedited FDA review of a subsequent drug of the company's choice, potentially generating millions of dollars of added revenue due to the fact that the chosen drug would gain market access earlier than would otherwise be the case. The researchers also suggested providing some flexibility in redeeming this reward, including allowing the benefit to be sold to another company. In the U.S., the voucher system idea quickly transformed from a concept into law; U.S. Senator Sam Brownback adapted and included the program in the Food and Drug Administration Amendments Act (FDAAA) of 2007.[47]

In addition to the above initiatives, pharmaceutical companies are increasingly evaluated and assessed based on their ability and willingness to make drugs available to poor countries. The Access to Medicine Foundation, an independent nongovernmental organization, publishes the "Access to Medicine Index," which ranks pharmaceutical companies by their access-related policies and practices. The index is based on an analysis of 69 indicators, in relation to 106 countries and 77 diseases.[48] Figure 3 shows the overall ranking for the top 20 pharmaceutical companies globally in 2021.

Figure 3 **The Access to Medicine Index 2021—Overall Ranking**



Source: Access to Medicine Foundation. "2021 Ranking." Accessed June 1, 2022. https://accesstomedicinefoundation.org/access-to-medicine-index/2021-ranking.

In addition, individual companies have taken it upon themselves to provide free or low-cost access to their own production and distribution channels or with partners. For example, the pharmaceutical giant Merck developed a drug—Mectizan—to fight onchocerciasis, also known as river blindness, in 1987 and established the Mectizan Donation Program (MDP) to oversee the initiative.[49] Onchocerciasis is found primarily in Latin America and Africa. It is transmitted through the bites of black flies and can cause disfiguring dermatitis, eye lesions, and, over time, blindness. MDP approves more than 140 million treatments for onchocerciasis annually.[50] Another company, Novartis, developed a highly effective malaria treatment called Coartem that was made available in a lemon-flavored disbursable format, making it easier for children to take. It has become one of the largest access-to-medicine programs in the healthcare industry, measured by the number of patients reached annually.[51] Since 2001, working with a range of international organizations such as the World Health Organization and the Gates Foundation, Novartis has provided more than 880 million treatments for adults and children, to more than 60 malaria-endemic countries, contributing to a dramatic reduction of the malaria burden in Africa.[52] It is estimated that 3.3 million lives have been saved as a result.[53] Interestingly, Novartis chose to sell the drug on a cost-recovery (not-for-profit) basis rather than give away the drug, perhaps because it believes this approach will make the program more sustainable over the long term. Novartis was the first recipient of an NTD priority review voucher described above.

COVID-19 Pandemic and Vaccine Inequity around the World

Following the global outbreak of the SARS-CoV-2 coronavirus pandemic in early 2020, the world came to a standstill after authorities around the world implemented lockdowns and quarantine as a measure to restrict the spread of the virus. Vaccine was the only hope to contain the unprecedented spread of the SARS-CoV-2 coronavirus; however, the optimism for an early success against the virus was low as the fastest any vaccine had been previously developed from sampling to approval was four years in case of mumps. The world saw a never before collaboration between vaccine developers, regulators, policymakers, funders, public health bodies and governments for the accelerated development of vaccines through the use of next-generation vaccine technology platforms.[54] In April 2020, there were 115 vaccine candidates globally and by early 2021 the world had three vaccines approved for emergency use against SARS-CoV-2 made by Pfizer and German biotech firm BioNTech, US pharma firm Moderna and UK based AstraZeneca together with the University of Oxford.[55] As per Global Alliance for Vaccines and Immunization (GAVI), globally 137

COVID-19 vaccine candidates are undergoing clinical trials, 194 candidates are in pre-clinical trials and 37 vaccines are approved for emergency use.[56] Although vaccines were discovered in an unprecedented shorter period, their access was only limited to a few high-income countries with their purchasing power and influence ensuring their first right to the vaccine. The world saw how some countries secured 5 doses of vaccine for every citizen while in others people continued to face the wrath of the pandemic.

Vaccine production is a complex and expensive process wherein high precision is required in every step of the production process. Most of the COVID-19 vaccines currently in production are based on emerging technology that has not been previously used, thus only a few firms globally have the access to sophisticated know-how of vaccine production. Given the complex nature of vaccine manufacturing, regulators license not just the final product but each stage of the production process and the facilities where the production takes place. Only a few production facilities had the infrastructure to undertake the production of COVID-19 vaccines with a limited supply of vaccine ingredients further adding to the complexity of mass production of vaccines. The majority of the firms undertaking the production of the COVID-19 vaccine were located either in the U.S. or Europe. Even after vaccines entered into production, several factors determine whether the vaccine will be available to other countries outside of the host nation's production facility. Public authorities in the host countries faced the dilemma of whom to prioritize for the vaccine inoculation with its severely limited supply. High-income countries were the first to secure supply contracts with vaccine producers and held their first obligation to their own population over the supply/donation to other nations or institutions.

Vaccine Availability

While the early development of the vaccine was positive and extraordinary, inequity in the supply of vaccines has deeply impacted the recovery from COVID-19. As per World Health Organization data, as of April 2022, only 3 percent of the people living in low-income countries have received at least one dose of the COVID-19 vaccine compared to 78 percent of the population in high-income countries.[57] Similarly, while around 65 percent of the population in the U.S. and 75 percent adult population in Europe have received complete dose of the primary series of COVID-19 vaccine, the figure in Africa stands at only 15 percent of the population having received only a single dose.[58] Countries in Africa and the Middle East faced an acute shortage of vaccines and were highly dependent on multilateral agencies like World Health Organization (WHO) for vaccine supply.

As per estimates by Bill & Malinda Gates Foundation, $25 billion is required for supplying low-income countries with COVID-19 vaccines.[59] To ensure equitable access to COVID-19 tests, treatments, and vaccines, the COVID-19 Vaccines Global Access Facility (COVAX) was formed. One of the prime focus areas of COVAX was to ensure the availability of COVID-19 vaccines in low- and middle-income countries. In 2021 COVAX set the target of delivering 2 billion doses of COVID-19 vaccines to low- and middle-income countries, however, it failed to deliver even half of it due to the limited supply of vaccines as a result of "vaccine nationalism" by those who have access to them.[60] Majority of the initial vaccine production was secured by high-income countries, and they started the hoarding of COVID-19 vaccines prioritizing their first use over supplying to any other nation also known as "vaccine nationalism." The "vaccine nationalism" approach has not only restricted the free and equitable availability of vaccines but also led to a surge in vaccine prices with the greatest suffering inflicted upon the low and middle-income countries. However, with vaccination in developed countries reaching universal levels, the situation has started to ease. Several of these nations have started making vaccine commitments to low-income countries. The US for example as of April 2022 has shipped over 500 million doses of vaccine and committed to supplying 1.2 billion doses.[61] Similarly, European countries had pledged to donate 700 million doses of COVID-19 vaccines. As a result of the successful global collaborations, 65.5 percent of the world population has received at least one dose of a COVID-19 vaccine and 11.65 billion doses have been administered globally as of April 2022.[62]

Vaccine Pricing Policies

The global market for COVID-19 vaccine was around $67 billion in 2021 and is expected to reach $125.49 billion in 2028 at a CAGR of 10.8 percent.[63] Currently, there is a wide diversity in the pricing of COVID-19 vaccines ranging between $2 and $40.[64] Large pharmaceutical firms are reaping huge profits from the sale of COVID-19 vaccines. Pfizer/BioNTech and Moderna's vaccines were the most expensive with prices ranging between $14.70 and $23.50 a dose.[65] AstraZeneca has announced that it is selling its vaccine without profit and its inter-country price per dose ranges between $2.15 in Europe and $5.25 in South Africa.[66]

Analysis by the People's Vaccine Alliance suggests that Pfizer/BioNTech and Moderna have reaped $41 billion above the estimated cost of vaccine production.[67] The two large firms Pfizer and Moderna have made up over $60 billion in sales of vaccines in just two years 2021 and 2022 and estimates suggest these two companies will lock up an additional $14 billion from the sales of booster doses.[68] Estimates suggest that the cost of production of mRNA COVID vaccine to be as low as $1.18 for which large pharmaceutical firms like Pfizer and Moderna are charging as high as $40.[69] Governments are paying between 4 and 24 times for COVID-19 vaccines over the cost of production.

The exorbitant vaccine prices by private firms raised serious concerns as the majority of the COVID-19 vaccines in production were the result of collaboration and large

investment by public agencies. For instance, in the U.S. the mRNA-based vaccines were the result of collaboration between private pharma firms and public agencies like the National Institutes of Health (NIH), the Defense Department and federally funded academic laboratories. Further, these pharma firms had received a direct investment of $10.5 billion from the government to accelerate vaccine development.[70] However, despite the significant support in form of taxpayers' money, vaccine manufacturers have not paid their fair share in supporting public health through transparent vaccine pricing.

The Future of Drug Pricing around the World

The question of how to price pharmaceutical drugs is difficult and ethically complex. As an industry directly related to the health and welfare of humankind, political and ideological decisions regarding health-care provision and delivery can be deeply personal for many. In addition, income disparities both within countries and across the developing world are on the rise, and these differences pose difficult questions about fairness, equity, and moral obligations.

It seems clear that drug pricing will remain a contentious and debated issue. From the perspective of globalization, it is interesting to consider whether or not price differentials for drugs will persist, or, as is the case in many other areas, prices will converge due to growing wealth in developing and emerging markets, regulatory coordination across jurisdictions, increasing market pressures, or some combination of these factors.

Questions for Review

1. What is the proper balance for pharmaceutical companies between delivering the fiduciary obligation of earning a profit for owners and providing life-saving or life-extending drugs to customers? How much profit is too much profit and who determines the amount? How does that balance get achieved?
2. Should the U.S. consider other methods for controlling drug pricing, such as those used in some European countries? Are there other ways the U.S. might use market forces or incentives from government programs to control drug prices? Given that one of the most prevalent and persuasive arguments for relatively high drug prices is the high cost associated with research and development and regulatory compliance, is there a way to combat those costs?
3. What are your views on the role of patents in prescription medication? What is the proper balance of patent protection for costly research and development versus lack of competition?
4. What should be done on the issue of orphan drugs to combat high costs without viable alternatives? Should there be cost restrictions? Should there be patent restrictions?
5. Should there be some kind of price control for vaccines and drugs that are critical for society such as the vaccines for the COVID-19 pandemic? What is the moral obligation of firms in such cases?
6. How can the U.S. and other developed countries stimulate greater research and development of treatments for NTDs and offer those drugs at prices that are affordable?

This case was written by Jaclyn Johns under the supervision of Professor Jonathan Doh with additional input from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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PART TWO

THE ROLE OF CULTURE



Chapter 4

THE MEANINGS AND DIMENSIONS OF CULTURE

OBJECTIVES OF THE CHAPTER

A major challenge of doing business internationally is to respond and adapt effectively to different cultures. Such adaptation requires an understanding of cultural diversity, perceptions, stereotypes, and values. In recent years, a great deal of research has been conducted on cultural dimensions and attitudes, and the findings have proved useful in providing integrative profiles of international cultures. However, a word of caution must be given when discussing these country profiles. It must be remembered that stereotypes and overgeneralizations should be avoided; there are always individual differences and even subcultures within every country.

This chapter examines the meaning of culture as it applies to international management, reviews some of the value differences and similarities among various national groups, studies important dimensions of culture and their impact on behavior, and examines country clusters. The specific objectives of this chapter are

1. **DEFINE** the term *culture* and discuss some of the comparative ways of differentiating cultures.
2. **DESCRIBE** the concept of cultural values and relate some of the international differences, similarities, and changes occurring in terms of both work and managerial values.
3. **IDENTIFY** the major dimensions of culture relevant to work settings and discuss their effects on behavior in an international environment.
4. **DISCUSS** the value of country cluster analysis and relational orientations in developing effective international management practices.

The World of International Management

Culture Clashes in Cross-Border Mergers and Acquisitions

In early 2022, the management of GSK, rebuffed a US$50 billion bid from Unilever to buy the consumer healthcare spinoff that GSK has been planning for a while. While the deal valuation was cited as one of the reasons for GSK's refusal to consider Unilever's offer, some shareholders raised concerns about strategic and cultural mismatch between the two companies.[1] Unilever's attempt to buy the spinoff unit from GSK seemed a rehash of a previous acquisition attempt by the American giant, Kraft Heinz, to buy Unilever for US$143 billion in 2017. In that instance, Paul Polman, the CEO of Unilever argued that the cost-cutting culture of Kraft Heinz would force Unilever to sacrifice its ideals on sustainability and responsible capitalism.[2]

Mergers and acquisitions are among the most challenging strategic moves by companies seeking to grow their markets and reap hoped-for efficiencies. Many cross-border mergers and acquisitions have failed or experienced extreme difficulties in the face of cultural differences that manifest in communication, work policies, compensation systems, and other aspects of strategy and operations. These cultural differences can be aggravated by geographic, institutional, and psychological distance. As Unilever searches for alternate targets to diversify into consumer health segment, it needs to assess the challenges of in fully realizing the benefits of combining people, production, and brands from diverse cultures. Looking at some past cross-border mergers, both successful and failed, may provide some insight.

Du Pont in Denmark

When Du Pont, the U.S.-based giant chemicals company, set out to acquire Danisco, a Danish producer of food ingredients, shareholders in Denmark initially voiced skepticism and disapproval. To better understand the concerns of the Danish investment community, Du Pont sent executives to Copenhagen.[3] Gaining an understanding of the cultural and business perspectives of those shareholders through face-to-face, in-person meetings, Du Pont executives were able to determine that their original offer was seen as offensively low. In response, Du Pont adjusted its offer, resulting in a 92 percent approval rate from Danisco's shareholders. Du Pont's CEO claims, "These face-to-face conversations were

critical for the actions we took next, and, ultimately, for the successful outcome of the deal."[4]

After the deal was complete, Du Pont made culture a strong focus of its integration efforts by first hosting a "Welcome Week," with presentations to all employees about the new, combined firm, adjusted to local communication styles. After this week-long celebration, designed to encourage excitement and positive thinking, the company gauged successes and failures using regular pulse surveys. These surveys "created a heat map of potential geographic locations where there might be confusion or miscommunication."[5] Anticipating and measuring potential places of difficulty allowed managers to address issues as quickly and transparently as possible, easing the integration process. Du Pont's CEO reflected on the successful acquisition of Danisco, saying, "If we didn't execute and integrate well, and if we didn't get synergies quickly, it wouldn't be a victory."[6]

Du Pont's careful, level-headed due diligence, strong communication, and appreciation for Danisco's corporate and national cultures ultimately helped the firm evaluate the potential success of a combined business venture and avoided deal-ending cultural conflicts. Forming the right deal and designing an integration process with the goal of maximizing the value of the deal provided the merging companies with the tools necessary to optimize their combined value and avoid the pitfalls of cultural miscommunications.[7]

The Daimler-Chrysler Debacle

Looking at failed cross-border mergers can lend some valuable insight as well. One classic case is that of Daimler-Chrysler, two companies that came together in a US$36 billion acquisition that faced severe challenges from the start. Although it was hailed as a historic "merger of equals," enthusiasm dissolved in the face of cultural and personality clashes.[8] From the onset, German executives were uncomfortable with the lack of protocol and loose structure at Chrysler. Conversely, the American managers felt that their German bosses were too formal and lacked any flexibility.

In its first attempt to resolve these issues, the company's top leaders quickly worked to establish firmwide processes that would dictate a unified approach to planning, information exchange, communication, and decision making. Executives believed that a unified company culture—part American, part German—would lead to a better working relationship between employees and result in improved financial results for the company. After just a few months, however, continued cultural difficulty led executives to conclude that imposing a single culture on its diverse workforce was a short-sighted strategy. Engineers between the two companies continued to disagree over quality and design, and personality conflicts persisted. Americans found Germans to have an "attitude," while Germans found Americans to be "chaotic."[9]

In response to these failures, Daimler-Chrysler took a more drastic approach to alter its operations. Rather than attempting to impose the Daimler culture on Chrysler employees, individual business groups were permitted to adopt whichever culture worked best for them. Essentially, two cultures were allowed to persist at the merged company—those of American Chrysler and those of German Daimler. Though this strategy worked well for groups that were located solely in the United States or Germany, business divisions that spanned both countries continued to face challenges. Communication was often misinterpreted, and the approach to staffing was questioned by executives on both sides.[10]

After a decade of struggle, the merger was ultimately reversed. Daimler sold nearly its entire stake in Chrysler to an American private equity group for a fraction of its original investment, and Chrysler entered bankruptcy proceedings just two years later. Roland Klein, former manager of corporate communications at the merged Daimler-Chrysler, remarked, "Maybe we should have had a cultural specialist to counsel us. But we wanted to achieve the integration without outside help."[11]

ABInBev's Purchase of SABMiller

In one of the largest cross-border deals ever executed, Belgian-Brazilian beverage giant ABInBev acquired British-owned SABMiller for US$104.2 billion in 2016. Both companies were already heavily invested in every major beer market around the world. The merger brought ABInBev's brands of Budweiser, Busch, Corona, and Stella Artois together with SABMiller's brands of Miller, Foster, Grolsch, Peroni, Castle, and Carlton, resulting in the largest beverage company on the globe. Today, the combined company accounts for 28 percent of beer sales worldwide and 45 percent of sales in the U.S. market.[12,13,14]

The regulatory approval process for large cross-border acquisitions, like that of ABInBev and SABMiller, can be complex. Rather than having to clear just one country's regulatory board, ABInBev was required to gain approval from nearly two dozen different jurisdictions. The primary concern for most countries, including the United States, was the potential monopolization of the beer market by the combined company. To prevent this, many jurisdictions required ABInBev to divest some of its brands

and holdings in an effort to reduce the company's market share. The United States Department of Justice required ABInBev to sell SABMiller's 58 percent stake in MillerCoors to Molson Coors Brewing Company, and Chinese regulators required SABMiller to sell its 49 percent holding of Snow Beer to China Resources Beer Co. for US$1.6 billion. In Europe, regulators gave approval once ABInBev agreed to divest five of its popular Eastern European brands, which were purchased by Japan's Asahi Group Holdings for US$7.8 billion.[15,16,17]

The transition to a single, combined company has not been without challenges. In order to finance the acquisition of SABMiller, ABInBev took on US$75 billion of debt.[18] At the time of acquisition, this amount of debt seemed reasonable, given the growth trajectory of the beer market. However, in the years since, external factors have impacted ABInBev's projections and finances. The currency collapse in Argentina, one of ABInBev's biggest growth markets, diminished profits for the company in 2018.[19] In both Brazil and South Africa, lower consumer confidence in the broader economy has resulted in decreased spending on luxury goods, including beer. The craft beer movement in the United States continues to gain momentum at the expense of traditional beer brands, like ABInBev's Budweiser and Bud Light. Additionally, the global beverage market as a whole has shifted toward wine and liquor with the share of beer consumption declining by 0.8% between 2000 and 2018.[20] In July 2019, ABInBev had to pull back its plans to raise US$10 billion from an IPO in Asia after unfavorable reaction from investors. Instead, it planned an asset sale In Asia and elsewhere to raise capital and reduce its debt to earning ratio. In June 2020, AbInBev completed the sale of it's Australian subsidiary to the Asahi Group of Japan for US$ 11 billion.[21] By late January, 2022, ABInBev's share price had fallen to just US$65 per share, down nearly 50 percent from its all-time high of US$130 in 2016.[22]

Whether or not ABInBev is able to transform itself to achieve strong growth in a stagnant global beer market remains to be seen. With control of the world's most recognizable beer brands, ABInBev should be able to maintain profits for years to come. However, the company is realizing that as consumption of its products in developed markets continues to slow, emerging markets must be a key focus for the company.[23]

Going Forward

Companies from the same cultural clusters inherently understand one another's values, expectations of leadership, and communication styles better than people from different cultural clusters do. With diligent planning and education of their workforce, two firms from different organizational and national cultural backgrounds can still find success through mergers or acquisitions. Although companies from different geographic regions would not have an "inherent understanding," it is possible to replicate it through employee training and strong leadership, as past mergers at Du Pont demonstrated. Managers and executives at a newly merged company should educate its employees on the cultural differences between the two joining firms, putting the combined company in a position to leverage the merger as an opportunity to create a new corporate culture that emphasizes elements and values common to both companies' national cultures while preserving, where necessary, attributes of the distinct cultures of each.

As Unilever searches for other acquisition targets, it needs to carefully consider the cultural compatibility of potential targets, especially when such firms may have roots in geographically and culturally distant countries, as demonstrated by past successes, proper management and careful planning can minimize the risks associated with acquisitions.

Our opening discussion shows how culture can have a great impact on mergers. For some companies, like Du Pont, early recognition of differences leads to more successful company integration. National cultural characteristics can strengthen, empower, and enrich management effectiveness and success. MNCs that are aware of the potential positives and negatives of different cultural characteristics will be better equipped to manage under both smooth and trying times and environments.

The Nature of Culture

culture
Acquired knowledge that people use to interpret experience and generate social behavior. This knowledge forms values, creates attitudes, and influences behavior.

The word *culture* comes from the Latin *cultura,* which is related to cult or worship. In its broadest sense, the term refers to the result of human interaction.[24] For the purposes of the study of international management, **culture** is acquired knowledge that people use to interpret experience and generate social behavior.[25] This knowledge forms values, creates attitudes, and influences behavior. Most scholars of culture would agree on the following characteristics of culture:

1. *Learned.* Culture is not inherited or biologically based; it is acquired by learning and experience.
2. *Shared.* People as members of a group, an organization, or a society share culture; it is not specific to single individuals.
3. *Transgenerational.* Culture is cumulative, passed down from one generation to the next.

4. *Symbolic.* Culture is based on the human capacity to symbolize, or use one thing to represent another.
5. *Patterned.* Culture has structure and is integrated; a change in one part will bring changes in another.
6. *Adaptive.* Culture is based on the human capacity to change, or adapt, as opposed to the more genetically driven adaptive process of animals.[26]

Because different cultures exist in the world, an understanding of the impact of culture on behavior is critical to the study of international management.[27] If international managers do not know something about the cultures of the countries they deal with, the results can be quite disastrous. For example, a partner in one of New York's leading private banking firms tells the following story:

> I traveled nine thousand miles to meet a client and arrived with my foot in my mouth. Determined to do things right, I'd memorized the names of the key men I was to see in Singapore. No easy job, inasmuch as the names all came in threes. So, of course, I couldn't resist showing off that I'd done my homework. I began by addressing top man Lo Win Hao with plenty of well-placed Mr. Hao's—sprinkled the rest of my remarks with a Mr. Chee this and a Mr. Woon that. Great show. Until a note was passed to me from one man I'd met before, in New York. Bad news. "Too friendly too soon, Mr. Long," it said. Where diffidence is next to godliness, there I was, calling a room of VIPs, in effect, Mr. Ed and Mr. Charlie. I'd remembered everybody's name—but forgot that in Chinese the surname comes first and the given name last.[28]

Cultural Diversity

There are many ways of examining cultural differences and their impact on international management. Culture can affect technology transfer, managerial attitudes, managerial ideology, and even business-government relations. Perhaps most important, culture affects how people think and behave. Table 4–1, for example, compares the most important cultural values of the U.S., Japan, and the Arab countries. A close look at this table shows a great deal of difference among these three cultures. Culture affects a host of business-related activities, even including the common handshake. Here are some contrasting examples:

Culture	Type of Handshake
United States	Firm handshake, and introduce yourself.
Australia	A woman shaking a man's hand offers her hand first; women do not tend to shake other women's hands.
Morocco	Only those of the same gender shake hands, and the handshake is gentle.
Russia	Only those of the same gender shake hands except in business situations, and men kiss women's hands.
Mexico	A handshake is long-lasting and may be followed by a hug.
South Korea	Gentle handshake, with the person of the higher seniority taking the lead.
Turkey	Gentle, prolonged handshake.
United Arab Emirates	A prolonged handshake is normal; when shaking multiple hands, start with the oldest person.
Brazil	Firm, long-lasting handshake, with strong eye contact.
China	Avoiding direct eye contact, shake the oldest person's hand first; do a gentle handshake with slight bow.
United Kingdom	Use a light handshake; maintain a reasonable distance following the handshake (do not stand too close to each other).
Thailand	Handshaking is not common; instead, greetings involve placing palms together and bowing.
France	Gentle and quick handshake.
Switzerland	Greet formally using the person's title and last name while handshaking.

Source: Elkins, Kathleen, and Gould, Skye. "Here's how to properly shake hands in 14 different countries." *Business Insider*, (March 5, 2015). https://www.businessinsider.com.

Table 4–1
Priorities of Cultural Values: United States, Japan, and Arab Countries

United States	Japan	Arab Countries
1. Freedom	1. Belonging	1. Family security
2. Independence	2. Group harmony	2. Family harmony
3. Self-reliance	3. Collectiveness	3. Parental guidance
4. Equality	4. Age/seniority	4. Age
5. Individualism	5. Group consensus	5. Authority
6. Competition	6. Cooperation	6. Compromise
7. Efficiency	7. Quality	7. Devotion
8. Time	8. Patience	8. Patience
9. Directness	9. Indirectness	9. Indirectness
10. Openness	10. Go-between	10. Hospitality

Note: "1" represents the most important cultural value, "10" the least.
Source: Elashmawi, Farid, and Philip Robert Harris. *Multicultural Management: New Skills for Global Success*. Houston: Gulf Publishing, 1993.

In overall terms, the cultural impact on international management is reflected by basic beliefs and behaviors. Here are some specific examples where the culture of a society can directly affect management approaches:

- *Centralized versus decentralized decision making.* In some societies, top managers make all the important organizational decisions. In others, these decisions are diffused throughout the enterprise, and middle- and lower-level managers actively participate in, and make, key decisions.
- *Safety versus risk.* In some societies, organizational decision makers are risk averse and have great difficulty with conditions of uncertainty. In others, risk taking is encouraged and decision making under uncertainty is common.
- *Individual versus group rewards.* In some countries, personnel who do outstanding work are given individual rewards in the form of bonuses and commissions. In others, cultural norms require group rewards, and individual rewards are frowned on.
- *Informal versus formal procedures.* In some societies, much is accomplished through informal means. In others, formal procedures are set forth and followed rigidly.
- *High versus low organizational loyalty.* In some societies, people identify very strongly with their organization or employer. In others, people identify with their occupational group, such as engineer or mechanic.
- *Cooperation versus competition.* Some societies encourage cooperation between their people. Others encourage competition between their people.
- *Short-term versus long-term horizons.* Some cultures focus most heavily on short-term horizons, such as short-range goals of profit and efficiency. Others are more interested in long-range goals, such as market share and technological development.
- *Stability versus innovation.* The culture of some countries encourages stability and resistance to change. The culture of others puts high value on innovation and change.

These cultural differences influence the way that international management should be conducted.

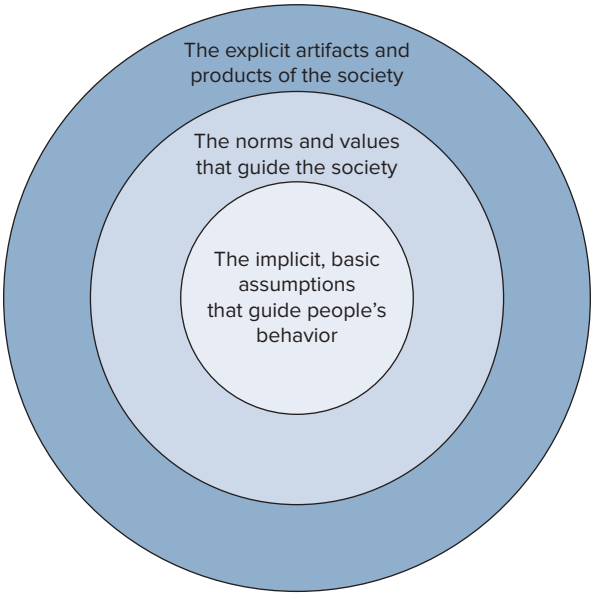


Figure 4–1
A Model of Culture

Source: Trompenaars, Alfons, and Charles Hampden-Turner. *Riding the Waves of Culture: Understanding Diversity in Global Business.* New York: McGraw-Hill, 1998.

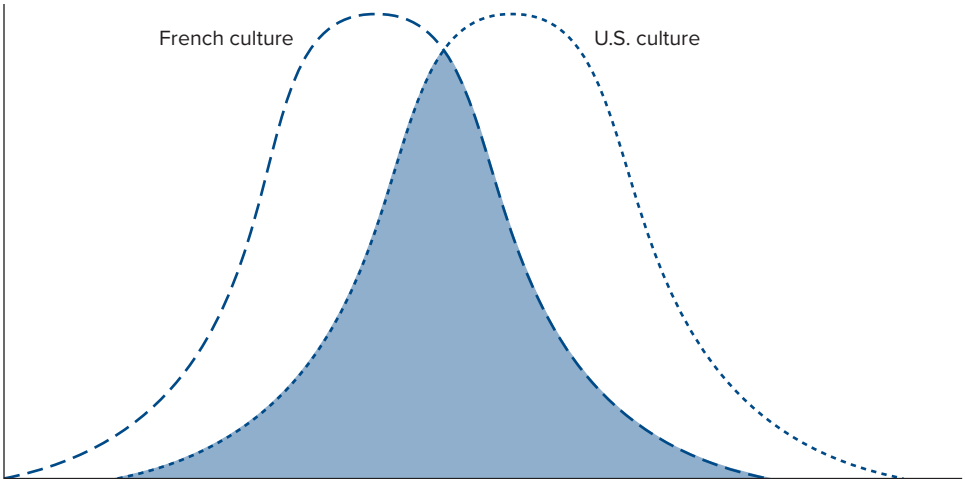
Another way of depicting cultural diversity is through visually separating its components. Figure 4–1 provides an example by using concentric circles. The outer ring consists of the explicit artifacts and products of the culture. This level is observable and consists of such things as language, food, buildings, and art. The middle ring contains the norms and values of the society. These can be both formal and informal, and they are designed to help people understand how they should behave. The inner circle contains the implicit, basic assumptions that govern behavior. By understanding these assumptions, members of a culture are able to organize themselves in a way that helps them increase the effectiveness of their problem-solving processes and interact well with each other. In explaining the nature of the inner circle, Trompenaars and Hampden-Turner have noted that

> [t]he best way to test if something is a basic assumption is when the [situation] provokes confusion or irritation. You might, for example, observe that some Japanese bow deeper than others. . . . If you ask why they do it the answer might be that they don't know but that the other person does it too (norm) or that they want to show respect for authority (value). A typical Dutch question that might follow is: "Why do you respect authority?" The most likely Japanese reaction would be either puzzlement or a smile (which might be hiding their irritation). When you question basic assumptions you are asking questions that have never been asked before. It might lead others to deeper insights, but it also might provoke annoyance. Try in the USA or the Netherlands to raise the question of why people are equal and you will see what we mean.[29]

A supplemental way of understanding cultural differences is to compare culture as a normal distribution, as in Figure 4–2 and then to examine it in terms of stereotyping, as in Figure 4–3. Chinese culture and American culture, for example, have quite different norms and values. Thus, the normal distribution curves for the two cultures have only limited overlap. However, when one looks at the tail-ends of the two curves, it is possible to identify stereotypical views held by members of one culture about the other. The stereotypes are often exaggerated and used by members of one culture in describing the other, thus helping reinforce the differences between the two while reducing the likelihood of achieving cooperation and communication. This is one reason an understanding of national culture is so important in the study of international management.

Figure 4–2

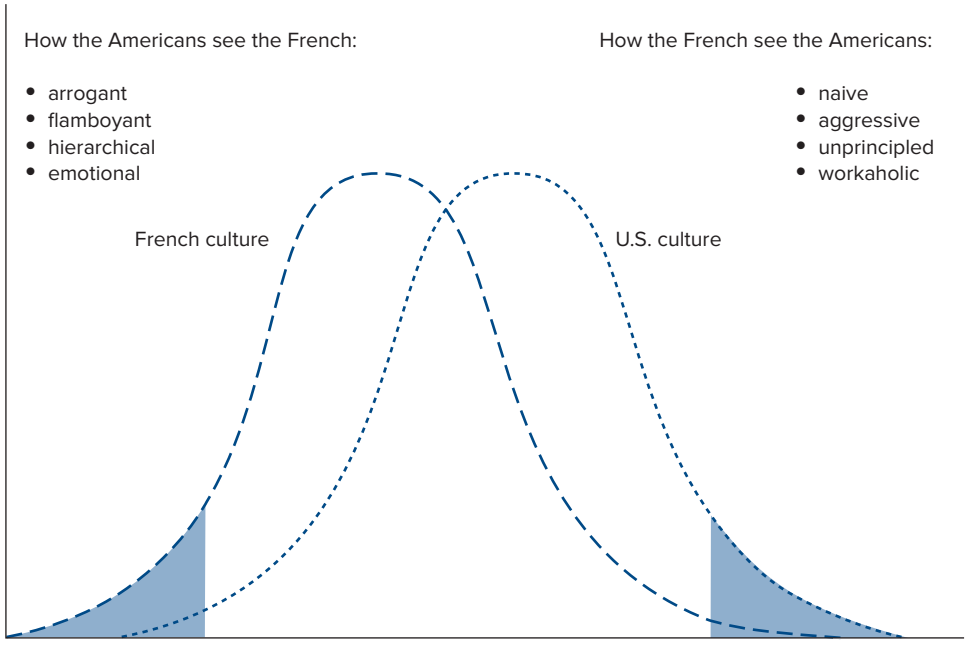
Comparing Cultures as Overlapping Normal Distributions



Source: Revised and adapted from various sources, including Trompenaars, Alfons, and Charles Hampden-Turner. *Riding the Waves of Culture: Understanding Diversity in Global Business.* New York: McGraw-Hill, 1998.

Figure 4–3

Stereotyping from the Cultural Extremes



Source: Revised and adapted from various sources, including Trompenaars, Alfons, and Charles Hampden-Turner. *Riding the Waves of Culture: Understanding Diversity in Global Business.* New York: McGraw-Hill, 1998.

Values in Culture

values
Basic convictions that people have regarding what is right and wrong, good and bad, and important and unimportant.

A major dimension in the study of culture is values. **Values** are basic convictions that people have regarding what is right and wrong, good and bad, and important and unimportant. These values are learned from the culture in which the individual is reared, and they help direct the person's behavior. Differences in cultural values often result in varying management practices.

Values in Transition

Do values change over time? Past research indicated that personal value systems were relatively stable and did not change rapidly, even though there is some evidence that economic development brings pervasive cultural changes.[30,31] However, there are more visible changes in managerial values as a result of both culture and technology. A good example is provided by examining the effects of the U.S. environment on the cultural values of Japanese managers working for Japanese firms in the U.S. Researchers, focusing

attention on such key organizational values as lifetime employment, formal authority, group orientation, seniority, and paternalism, found that

1. Lifetime employment is widely accepted in Japanese culture, but the stateside Japanese managers did not believe that unconditional tenure in one organization was of major importance. They did believe, however, that job security was important.
2. Formal authority, obedience, and conformance to a hierarchic position are very important in Japan, but the stateside managers did not perceive obedience and conformity to be very important and rejected the idea that one should not question a superior. However, they did support the concept of formal authority.
3. Group orientation, cooperation, conformity, and compromise are important organizational values in Japan. The stateside managers supported these values but also believed it was important to be an individual, thus maintaining a balance between a group and a personal orientation.
4. In Japan, organizational personnel often are rewarded based on seniority, not merit. Support for this value was directly influenced by the length of time the Japanese managers had been in the U.S. The longer they had been there, the lower their support for this value.
5. Paternalism, often measured by a manager's involvement in both personal and off-the-job problems of subordinates, is very important in Japan. Stateside Japanese managers disagreed, and this resistance was positively associated with the number of years they had been in the U.S.[32]

There is increasing evidence that individualism in Japan is on the rise, indicating that Japanese values are changing—and not just among managers outside the country. The country's long economic slump has convinced many Japanese that they cannot rely on large corporations or the government to ensure their future. They have to do it for themselves. As a result, today a growing number of Japanese are starting to embrace what is being called the "era of personal responsibility." Instead of denouncing individualism as a threat to society, they are proposing it as a necessary solution to many of the country's economic ills.[33] This thinking is supported by past research, which reveals that a culture with a strong entrepreneurial orientation is important to global competitiveness, especially in the small business sector of an economy. This current trend may well be helpful to the Japanese economy in helping it meet foreign competition at home.[34]

Other countries, such as China and Turkey, have more recently undergone a transition of values. As discussed in Chapter 2, China is moving away from a collectivist culture, and it appears as though even China is not sure what cultural values it will adhere to. Confucianism was worshiped for over 2,000 years, but the powerful messages of Confucius' teachings were overshadowed in a world where profit became a priority. Now, Confucianism is slowly gaining popularity once again, emphasizing respect for authority, concern for others, balance, harmony, and overall order. Even the communist party, which was determined to suppress traditional Chinese culture just a few decades ago, seems to be embracing the new movement toward Confucianism. While some Confucianism ideals seem to pose a direct threat to the government, it appears that President Xi Jinping and other senior officials see it as an opportunity to create a more unified national identity and culture.[35]

In the case of Turkey, there have been major political, social and economic changes in the past 20–30 years, that have altered the cultural values of the Turkish people. The two Iraq wars, the Arab spring of 2010, and the Syrian war resulted in an influx of about 4 million refugees in Turkey. These events and their impact on the economy and polity have also impacted Turkish culture which historically is a combination of Islamic values with elements of western traditions and values. Analysis of the Globe study data that we discuss later in this chapter, shows that Turkish culture has become more tolerant of ambiguity, but there is a deterioration in community values such that people are less helpful to others who are not in their close circle. Moreover, the cultural shift is reflected in increased assertiveness, increased power distance, and a greater emphasis on predetermined roles for each gender.[36]

Cultural Dimensions

Understanding the cultural context of a society, and being able to respond and react appropriately to cultural differences, is becoming increasingly important as the global environment becomes more interconnected. Over the past several decades, researchers have attempted to provide a composite picture of culture by examining its subparts, or dimensions.

Hofstede

In 1980, Dutch researcher Geert Hofstede identified four original (and later two additional) dimensions of culture that help explain how and why people from various cultures behave as they do.[37] His initial data were gathered from two questionnaire surveys with over 116,000 respondents from over 70 countries around the world—making it the largest organizationally based study ever conducted. The individuals in these studies all worked in the local subsidiaries of IBM. As a result, Hofstede's research has been criticized because of its focus on just one company; however, samples for cross-national comparison need not be representative, as long as they are functionally equivalent. Because they are so similar in respects other than nationality (their employers, their kind of work, and—for matched occupations—their level of education), employees of multinational companies like IBM form attractive sources of information for comparing national traits. The only thing that can account for systematic and consistent differences between national groups within such a homogeneous multinational population is nationality itself—the national environment in which people were brought up before they joined that employer. Comparing IBM subsidiaries, therefore, shows national culture differences with unusual clarity.[38] Despite being first published nearly 40 years ago, Hofstede's massive study continues to be a focal point for additional research, including the most recent **GLOBE** project, discussed at the end of this chapter. The original four dimensions that Hofstede examined were (1) power distance, (2) uncertainty avoidance, (3) individualism, and (4) masculinity.[39] Further research by Hofstede led to the recent identification of the fifth and sixth cultural dimensions: (5) time orientation, identified in 1988, and (6) indulgence versus restraint, identified in 2010.[40]

GLOBE
Global Leadership and Organizational Behavior Effectiveness: a multicountry study and evaluation of cultural attributes and leadership behaviors among more than 17,000 managers from 951 organizations in 62 countries.

power distance
The extent to which less powerful members of institutions and organizations accept that power is distributed unequally.

Power Distance **Power distance** is "the extent to which less powerful members of institutions and organizations accept that power is distributed unequally."[41] Countries in which people blindly obey the orders of their superiors have high power distance. In many societies, lower-level employees tend to follow orders as a matter of procedure. In societies with high power distance, however, strict obedience is found even at the upper levels; examples include Mexico, South Korea, and India. For example, a senior Indian executive with a Ph.D. from a prestigious U.S. university related the following story:

> What is most important for me and my department is not what I do or achieve for the company, but whether the [owner's] favor is bestowed on me. . . . This I have achieved by saying "yes" to everything [the owner] says or does. . . . To contradict him is to look for another job. . . . I left my freedom of thought in Boston.[42]

The effect of this dimension can be measured in a number of ways. For example, organizations in low-power-distance countries generally are decentralized and have flatter organizational structures. These organizations also have a smaller proportion of supervisory personnel, and the lower strata of the workforce often consists of highly qualified people. By contrast, organizations in high-power-distance countries tend to be centralized and have tall organizational structures.[43] Organizations in high-power-distance countries have a large proportion of supervisory personnel, and the people at the lower levels of the structure often have low job qualifications. This latter structure encourages and promotes inequality between people at different levels.[44]

uncertainty avoidance
The extent to which people feel threatened by ambiguous situations and have created beliefs and institutions that try to avoid these.

Uncertainty Avoidance **Uncertainty avoidance** is the extent to which people feel threatened by ambiguous situations and have created beliefs and institutions that try to avoid these.[45] Countries populated with people who do not like uncertainty tend to have a high need for security and a strong belief in experts and their knowledge; examples include

Germany, Japan, and Spain. Cultures with low uncertainty avoidance have people who are more willing to accept that risks are associated with the unknown and that life must go on in spite of this. Examples include Denmark and Great Britain.

The effect of this dimension can be measured in a number of ways. Countries with high-uncertainty-avoidance cultures have a great deal of structuring of organizational activities, more written rules, less risk-taking by managers, lower labor turnover, and less ambitious employees.[46]

Low-uncertainty-avoidance societies have organizational settings with less structuring of activities, fewer written rules, more risk-taking by managers, higher labor turnover, and more ambitious employees. The organization encourages personnel to use their own initiative and assume responsibility for their actions.

Individualism We discussed individualism and collectivism in Chapter 2 in reference to political systems. **Individualism** is the tendency of people to look after themselves and their immediate family only.[47] Hofstede measured this cultural difference on a bipolar continuum, with individualism at one end and collectivism at the other. **Collectivism** is the tendency of people to belong to groups or collectives and to look after each other in exchange for loyalty.[48]

Like the effects of the other cultural dimensions, the effects of individualism and collectivism can be measured in a number of ways.[49] Hofstede found that wealthy countries have higher individualism scores and poorer countries higher collectivism scores (see Table 4–2 for the 74 countries used in Figure 4–4 and subsequent figures). Note that in Figure 4–4, the U.S., Canada, Australia, France, and the United Kingdom, among others,

individualism
The political philosophy that people should be free to pursue economic and political endeavors without constraint (Chapter 2); the tendency of people to look after themselves and their immediate family only (Chapter 4).

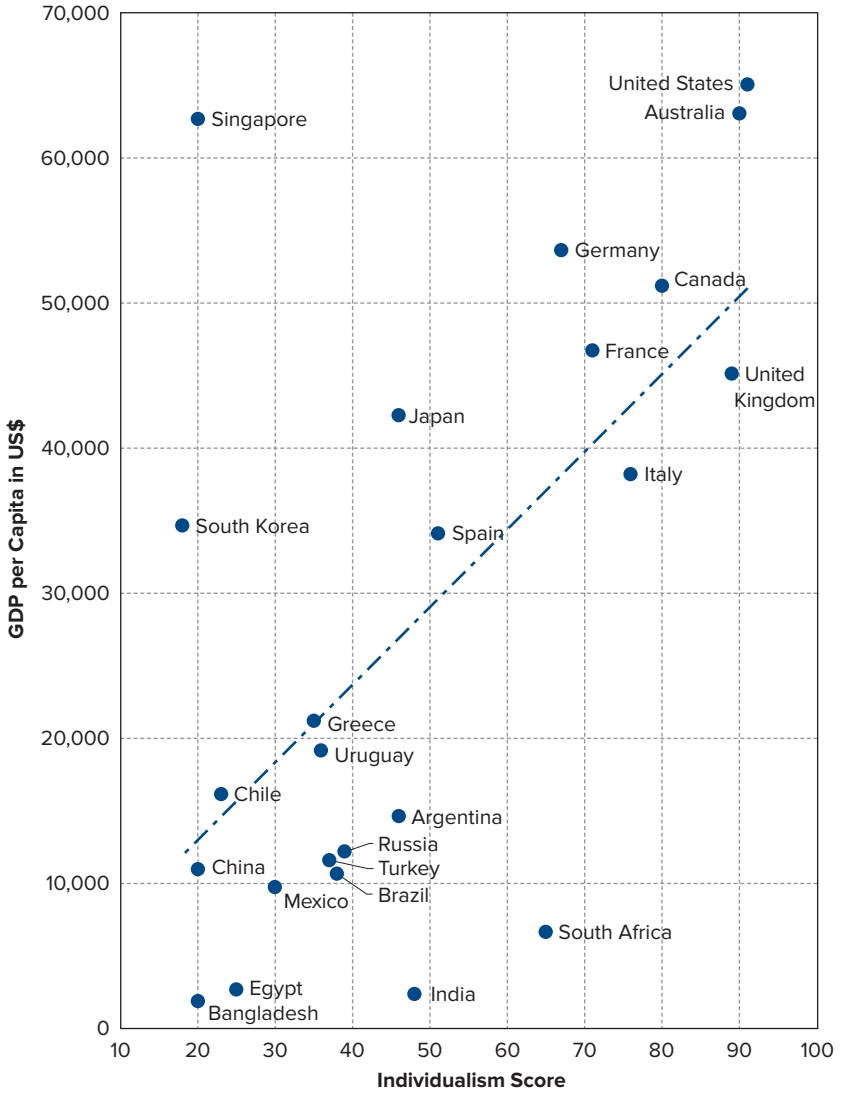
collectivism
The political philosophy that views the needs and goals of society as a whole as more important than individual desires (Chapter 2); the tendency of people to belong to groups, or collectives, and to look after each other in exchange for loyalty (Chapter 4).

Table 4–2
Countries and Regions Used in Hofstede's Research

Arabic-speaking countries (Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, United Arab Emirates)	Ecuador	Panama
Argentina	Estonia	Peru
Australia	Finland	Philippines
Austria	France	Poland
Bangladesh	Germany	Portugal
Belgium Flemish (Dutch speaking)	Great Britain	Romania
Belgium Walloon (French speaking)	Greece	Russia
Brazil	Guatemala	Salvador
Bulgaria	Hong Kong (China)	Serbia
Canada Quebec	Hungary	Singapore
Canada total	India	Slovakia
Chile	Indonesia	Slovenia
China	Iran	South Africa
Colombia	Ireland	Spain
Costa Rica	Israel	Suriname
Croatia	Italy	Sweden
Czech Republic	Jamaica	Switzerland French
Denmark	Japan	Switzerland German
East Africa (Ethiopia, Kenya, Tanzania, Zambia)	Korea (South)	Taiwan
	Luxembourg	Thailand
	Malaysia	Trinidad
	Malta	Turkey
	Mexico	United States
	Morocco	Uruguay
	Netherlands	Venezuela
	New Zealand	Vietnam
	Norway	West Africa (Ghana, Nigeria, Sierra Leone)
	Pakistan	

Source: Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 1997.

Figure 4–4
GDP per Capita in 2021 versus Individualism



Sources: Original graphic by Professor Jonathan Doh based on data from The World Bank and from Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 2005.

have high individualism and high GNP. Conversely, China, Mexico, and a number of South American countries have low individualism (high collectivism) and low GNP. Countries with high individualism also tend to have greater support for the Protestant work ethic, greater individual initiative, and promotions based on market value. Countries with low individualism tend to have less support for the Protestant work ethic, less individual initiative, and promotions based on seniority.

masculinity
A cultural characteristic in which the dominant values in society are success, money, and things.

femininity
A cultural characteristic in which the dominant values in society are caring for others and the quality of life.

Masculinity

Masculinity is defined by Hofstede as "a situation in which the dominant values in society are success, money, and things."[50] Hofstede measured this dimension on a continuum ranging from masculinity to femininity. Contrary to some stereotypes and connotations, **femininity** is the term used by Hofstede to describe "a situation in which the dominant values in society are caring for others and the quality of life."[51]

Countries with a high masculinity index, such as the Germanic countries, place great importance on earnings, recognition, advancement, and challenge. Individuals are encouraged to be independent decision makers, and achievement is defined in terms of recognition and wealth. The workplace is often characterized by high job stress, and many managers believe that their employees dislike work and must be kept under some degree of control.[52] The school system is geared toward encouraging high performance.

Young men expect to have careers, and those who do not often view themselves as failures. Historically, fewer women held higher-level jobs, although this is changing. The school system is geared toward encouraging high performance.

Countries with a low masculinity index (Hofstede's femininity dimension), such as Norway, tend to place great importance on cooperation, a friendly atmosphere, and employment security. Individuals are encouraged to be group decision makers, and achievement is defined in terms of layman contacts and the living environment. The workplace tends to be characterized by low stress, and managers give their employees more credit for being responsible and allow them more freedom. Culturally, this group prefers small-scale enterprises, and they place greater importance on the conservation of the environment. The school system is designed to teach social adaptation. Some young men and women want careers; others do not. Many women hold higher-level jobs and do not find it necessary to be assertive.

Time Orientation Originally called Confucian Work Dynamism, time orientation is defined by Hofstede as "dealing with society's search for virtue." Long-term-oriented societies tend to focus on the future. They have the ability to adapt their traditions when conditions change, have a tendency to save and invest for the future, and focus on achieving long-term results. Short-term-oriented cultures focus more on the past and present than on the future. These societies have a deep respect for tradition, focus on achieving quick results, and do not tend to save for the future.[53] Hofstede's original time orientation research included only 23 countries, leading to some criticism. However, in 2010, the research was expanded to include 93 countries. Table 4–3 highlights 10 differences between long- and short-term-oriented cultures.

Asian cultures primarily exhibit long-term orientation. Countries with a high long-term orientation index include China, Japan, and Indonesia (see Figure 4–5). In these cultures, individuals are persistent, thrifty with their money, and highly adaptable to unexpected circumstances. Relationships tend to be ordered by status, which can affect the way that situations are handled. Additionally, people in long-term-oriented cultures are more likely to believe that there are multiple truths to issues that arise, rather than just one, absolute answer.

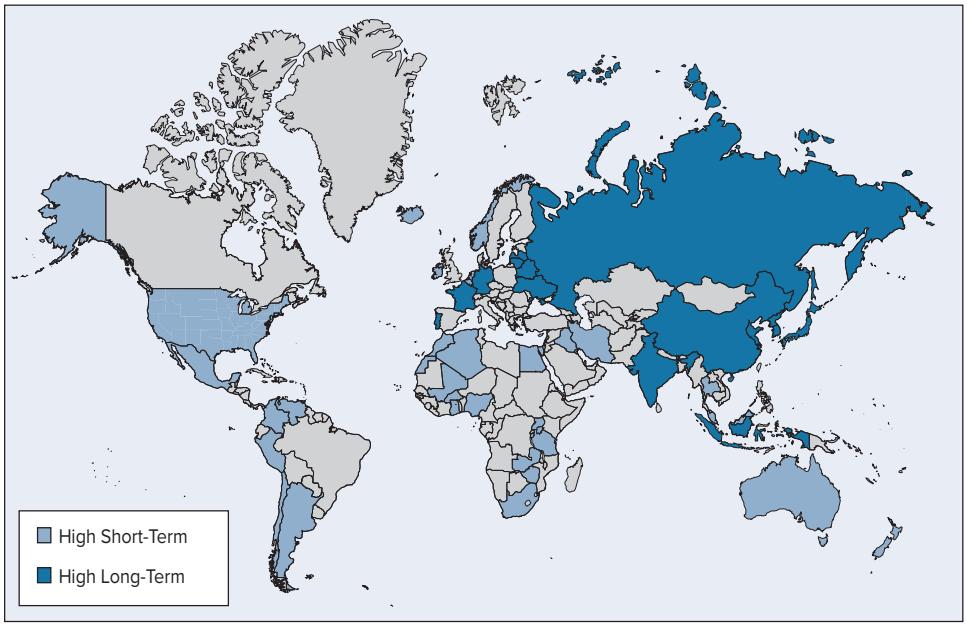
Table 4–3
Ten Differences between Short- and Long-Term-Oriented Societies

Short-Term Orientation	Long-Term Orientation
Most important events in life occurred in the past or take place now.	Most important events in life will occur in the future.
Personal steadiness and stability: a good person is always the same	A good person adapts to the circumstances.
There are universal guidelines about what are good and evil.	What are good and evil depend on the circumstances.
Traditions are sacrosanct.	Traditions are adaptable to changed circumstances.
Family life is guided by imperatives.	Family life is guided by shared tasks.
One is supposed to be proud of one's country.	Trying to learn from other countries
Service to others is an important goal.	Thrift and perseverance are important goals.
Social spending and consumption	Large savings quote, funds available for investment
Students attribute success and failure to luck.	Students attribute success to effort and failure to lack of effort.
Slow or no economic growth of poor countries	Fast economic growth of countries up until a level of prosperity

Source: Hofstede, Geert. "Dimensionalizing Cultures: The Hofstede Model in Context." *Online Readings in Psychology and Culture*, International Association for Cross-Cultural Psychology, 2011.

Figure 4–5

Countries with Very High Long-Term and Short-Term Orientation Scores



Note: Country rankings were completed using Geert Hofstede's Long-Term Orientation (LTO) scores. *High Short-Term* refers to countries with scores less than 35 and *High Long-Term* refers to countries with scores greater than 60.

Source: Original graphic by Ben Littell under supervision of Professor Jonathan Doh based on data from Hofstede, Geert. "Dimensionalizing Cultures: The Hofstede Model in Context." *Online Readings in Psychology and Culture*, International Association for Cross-Cultural Psychology, 2011.

Spain, the U.S., and the U.K. were identified as having a low long-term orientation index (Hofstede's short-term orientation). Individuals in short-term-oriented societies believe in absolutes (good and evil), value stability and leisure time, and spend money more freely. Traditional approaches are respected, and feedback cycles tend to be short. Gift giving and greetings are shared and reciprocated.[54]

Indulgence versus Restraint Based on research related to relative happiness around the world, Hofstede's most recent dimension measures the freedom to satisfy one's natural needs and desires within a society. Indulgent societies encourage instant gratification of natural human needs, while restrained cultures regulate and control behavior based on social norms.[55] The research leading to the identification of this sixth dimension included participants from 93 countries. Table 4–4 highlights 10 differences between indulgent and restrained cultures.

Countries that show a high indulgence index tend to be located in the Americas and Western Europe, including the U.S., Australia, Mexico, and Chile (see Figure 4–6). Freely able to satisfy their basic human desires, individuals in these societies tend to live in the moment. They participate in more sports and activities, express happiness freely, and view themselves as being in control of their own destiny. Freedom of speech is considered vital, and smaller police forces are commonplace. People in indulgent cultures tend to view friendships as important, have less moral discipline, and exhibit a more extroverted, positive personality.

Countries that show a low indulgence index (Hofstede's dimension of high restraint) tend to be located in Asia and Eastern Europe, including Egypt, Russia, India, and China. In these societies, individuals participate in fewer activities and sports, express less happiness, and believe that their own destiny is not in their control. Maintaining order is seen as vital, resulting in larger police forces and less crime. People tend to value work ethic over friendships, exhibit introverted personalities, and follow a stricter moral discipline.[56]

Table 4–4
Ten Differences between Indulgent and Restrained Societies

Indulgent	Restrained
Higher percentage of people declaring themselves very happy	Fewer very happy people
A perception of personal life control	A perception of helplessness: what happens to me is not my own doing
Freedom of speech seen as important	Freedom of speech not a primary concern
Higher importance of leisure	Lower importance of leisure
More likely to remember positive emotions	Less likely to remember positive emotions
In countries with educated populations, higher birthrates	In countries with educated populations, lower birthrates
More people actively involved in sports	Fewer people actively involved in sports
In countries with enough food, higher percentages of obese people	In countries with enough food, fewer obese people
In wealthy countries, lenient sexual norms	In wealthy countries, stricter sexual norms
Maintaining order in the nation not given a high priority	Higher number of police officers per 100,000 population

Source: Hofstede, Geert. "Dimensionalizing Cultures: The Hofstede Model in Context." *Online Readings in Psychology and Culture*, International Association for Cross-Cultural Psychology, 2011.

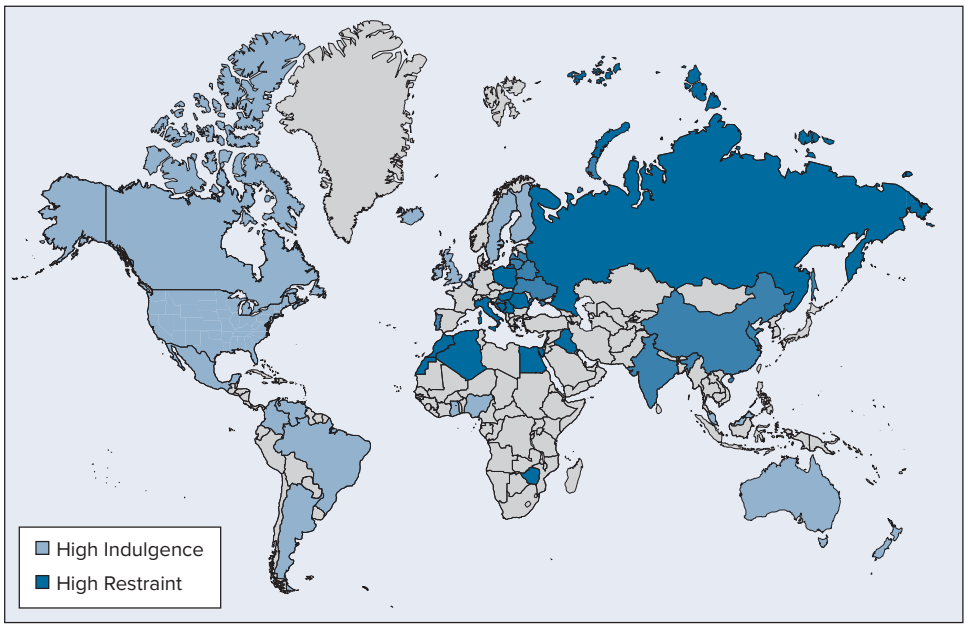


Figure 4–6
Countries with Very High Indulgence and Restraint Scores

Note: Country rankings were completed using Geert Hofstede's Indulgence versus Restraint (IVR) scores. *High Indulgence* refers to countries with scores greater than 50 and *High Restraint* refers to countries with scores less than 25.

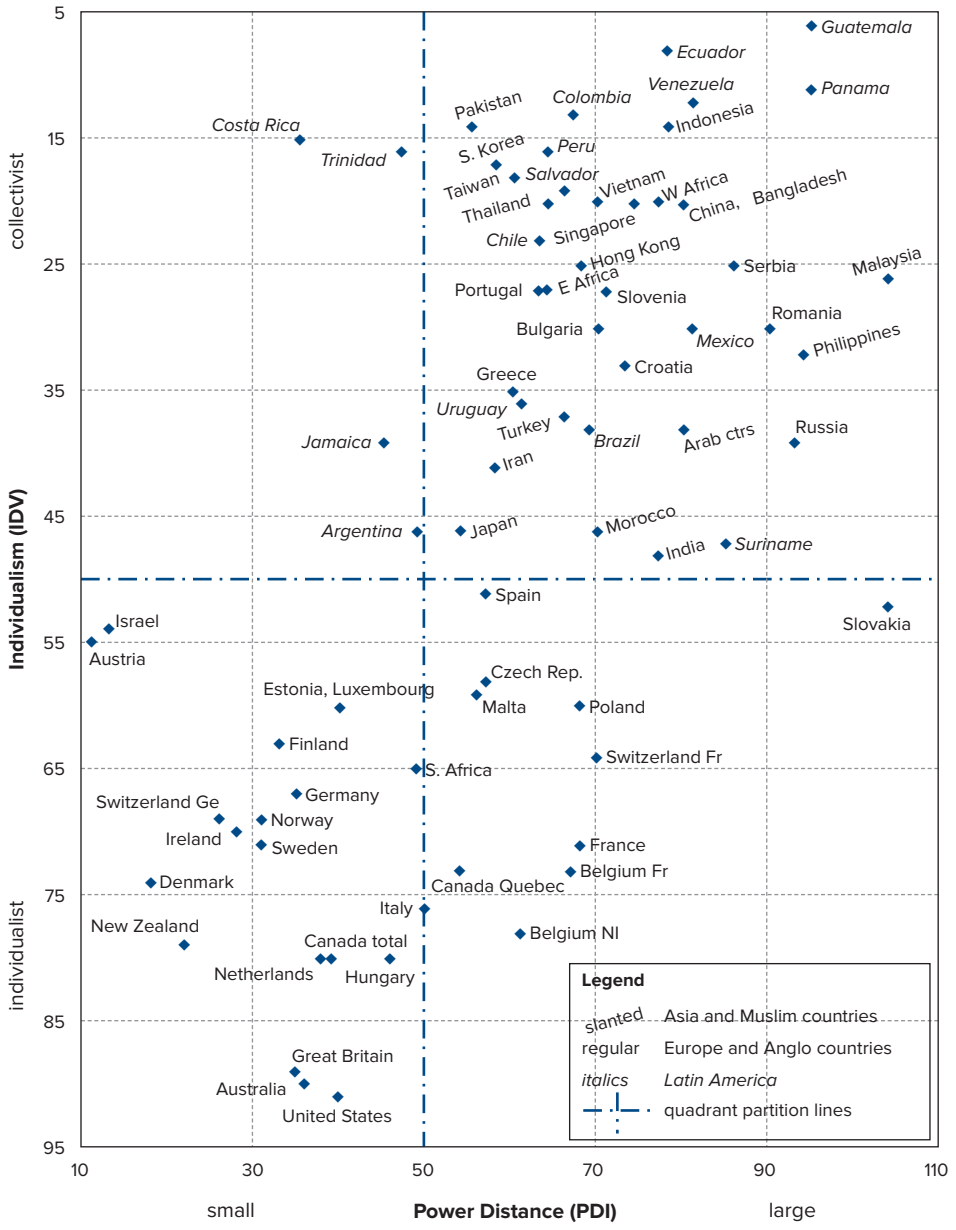
Source: Original graphic by Ben Littell under supervision of Professor Jonathan Doh based on data from Hofstede, Geert. "Dimensionalizing Cultures: The Hofstede Model in Context." *Online Readings in Psychology and Culture*, International Association for Cross-Cultural Psychology, 2011.

Integrating the Dimensions Rather than just evaluating cultural dimensions individually, Hofstede and other researchers also evaluated the interaction between the cultural dimensions. Countries can be described in terms of pairs of dimensions, and these pairings and clusters can provide useful summaries for international managers. It is always best to have an in-depth understanding of the multicultural environment, but the general groupings outline common ground that one can use as a starting point. Figure 4–7, which incorporates power distance and individualism, provides an example.

On first examination of the cluster distribution, the data may appear confusing. However, they are very useful in depicting what countries appear similar in values and to what extent they differ from other country clusters. The same countries are not always clustered together in subsequent dimension comparisons. This indicates that while some beliefs overlap between cultures, it is where they diverge that makes groups unique to manage.

Figure 4–7

Power Distance versus Individualism



Source: Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 1997.

In Figure 4–7, the U.S., Australia, Canada, Britain, Denmark, and New Zealand are located in the lower-left-hand quadrant. Americans, for example, have very high individualism and relatively low power distance. They prefer to do things for themselves and are not upset when others have more power than they do. The other countries, while they may not be a part of the same cluster, share similar values. Conversely, many of the underdeveloped or newly industrialized countries, such as Colombia, Hong Kong, Portugal, and Singapore, are characterized by large power distance and low individualism. These nations tend to be collectivist in their approach.

Similarly, Figure 4–8 plots the uncertainty-avoidance index against the power-distance index. Once again, there are clusters of countries. Many of the Anglo nations tend to be in the upper-left-hand quadrant, which is characterized by small power distance and weak uncertainty avoidance, while, in contrast, many Latin, Mediterranean, and Asian nations are characterized by high power distance and strong uncertainty avoidance.

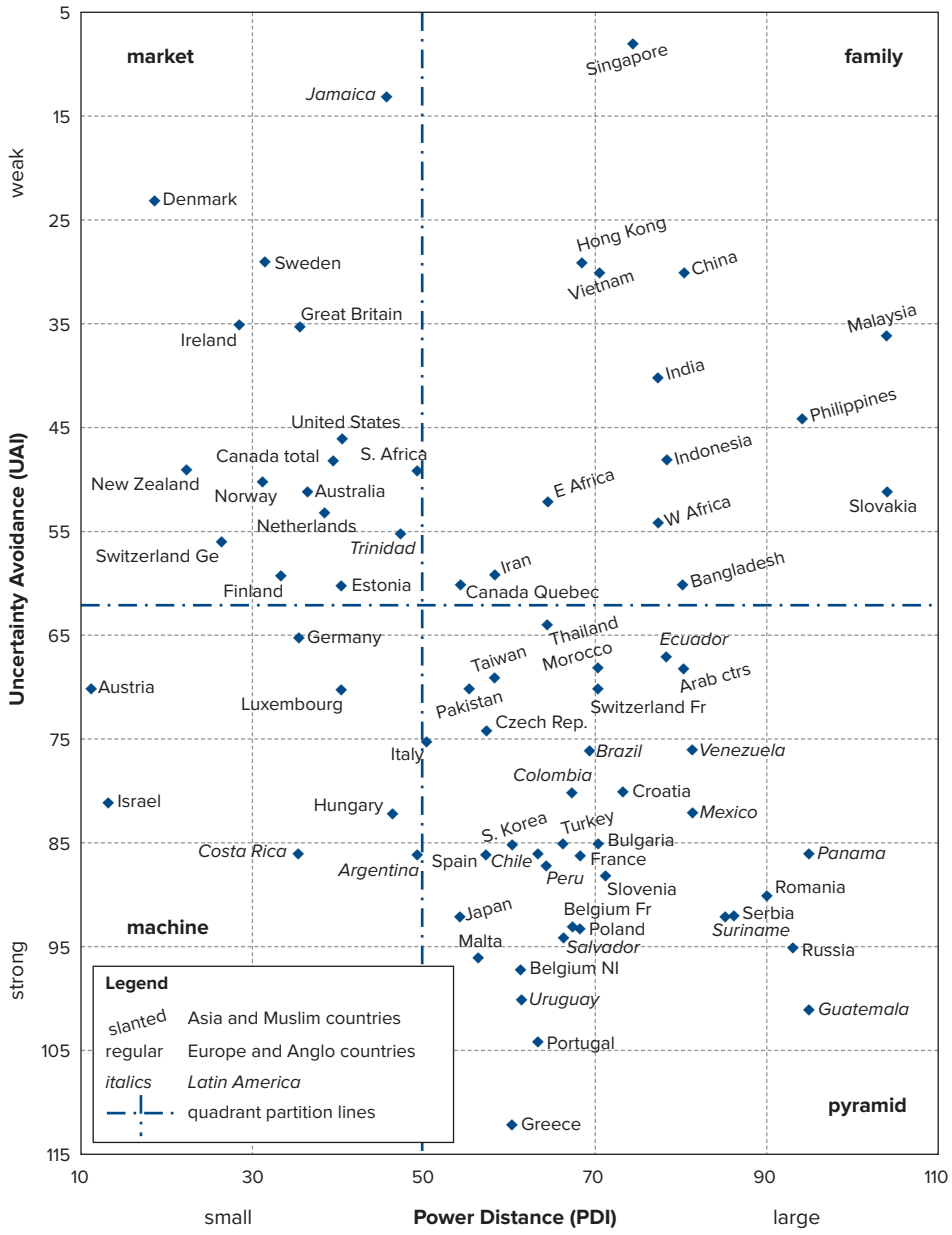


Figure 4–8

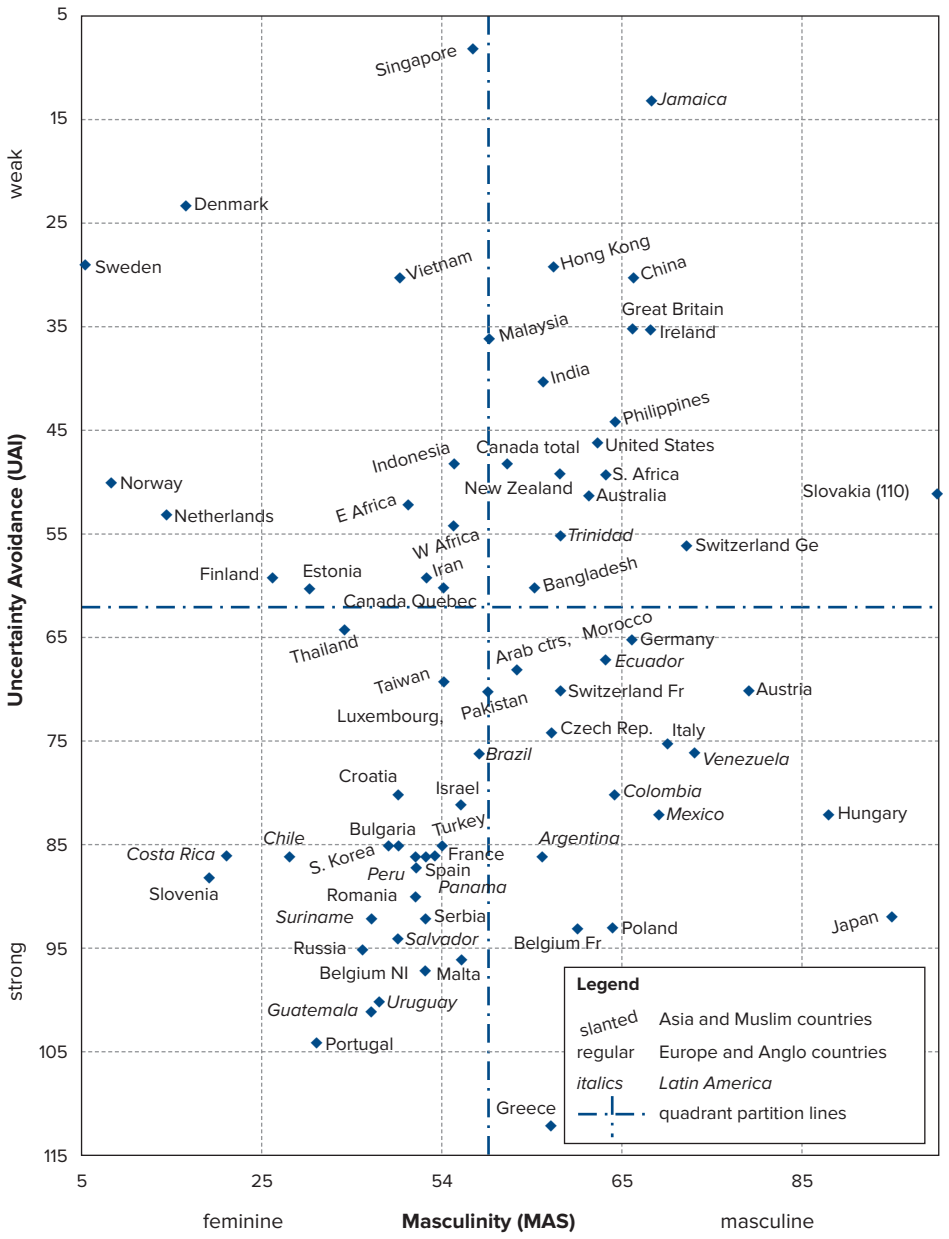
Power Distance versus Uncertainty Avoidance

Source: Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 1997.

The integration of these cultural factors into two-dimensional plots helps illustrate the complexity of understanding culture's effect on behavior. A number of dimensions are at work, and sometimes they do not all move in the anticipated direction. For example, at first glance, a nation with high power distance would appear to be low in individualism, and vice versa, and Hofstede found exactly that (see Figure 4–7). However, low uncertainty avoidance does not always go hand in hand with high masculinity, even though those who are willing to live with uncertainty will want rewards such as money and power and accord low value to the quality of work-life and caring for others (see Figure 4–9). Simply put, empirical evidence on the impact of cultural dimensions may differ from commonly held beliefs or stereotypes. Research-based data are needed to determine the full impact of differing cultures.

Figure 4–9

Masculinity versus Uncertainty Avoidance



Source: Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 1997.

The Hofstede cultural dimensions and country clusters are widely recognized and accepted in the study of international management. His work has served as a springboard to numerous recent cultural studies and research projects.

universalism
The belief that ideas and practices can be applied everywhere in the world without modification.

particularism
The belief that circumstances dictate how ideas and practices should be applied and that something cannot be done the same everywhere.

communitarianism
People regard themselves as part of a group.

Trompenaars

In 1994, another Dutch researcher, Fons Trompenaars, expanded on the research of Hofstede and published the results of his own 10-year study on cultural dimensions.[57] He administered research questionnaires to over 15,000 managers from 28 countries and received usable responses from at least 500 in each nation. Building heavily on value orientations and the relational orientations of well-known sociologist Talcott Parsons,[58] Trompenaars derived five relationship orientations that address the ways in which people deal with each other; these can be considered to be cultural dimensions that are analogous to Hofstede's dimensions. These dimensions are presented in Table 4–5.

Table 4–5
Trompenaars's Five Relationship Orientations

Relationship Orientation	Definition		Common Traits	Countries
Universalism vs. **particularism**	Universalism is the belief that ideas and practices can be applied everywhere without modification. Particularism is the belief that circumstances dictate how ideas and practices should be applied.	High Universalism	• More of a focus on formal rules than on relationships • Business contracts adhered to very closely • Belief that "a deal is a deal"	• United States • Australia • Germany • Sweden • United Kingdom
		High Particularism	• More of a focus on relationships and trust than on formal rules • Legal contracts often modified • As people get to know each other better, they often change the way in which deals are executed.	• Venezuela • Russia • Indonesia • China
Individualism vs. **communitarianism**	Individualism refers to people regarding themselves as individuals, while communitarianism refers to people regarding themselves as part of a group.	High Individualism	• Stress personal and individual matters • Negotiations typically made on the spot by a representative • People ideally achieve things alone. • People assume a great deal of personal responsibility.	• Canada • Thailand • Netherlands • France
		High Communitarianism	• Value group-related issues • Decisions typically referred to committees • People ideally achieve things in groups. • People jointly assume responsibility.	• Malaysia • Korea

(*continued*)

Table 4–5
Trompenaars's Five Relationship Orientations (*continued*)

Relationship Orientation	Definition		Common Traits	Countries
Neutral culture vs. **emotional culture**	A neutral culture is one in which emotions are held in check. An emotional culture is one in which emotions are openly and naturally expressed.	High Neutralism	• People try not to show their feelings. • People act stoically and maintain their composure.	• Japan • United Kingdom
		High Emotionalism	• People often smile a great deal. • People talk loudly when they are excited. • People greet each other with a great deal of enthusiasm.	• Mexico • The Netherlands • Switzerland
Specific culture vs. **diffuse culture**	A specific culture is one in which individuals have a large public space they readily let others enter and share and a small private space they guard closely and share with only close friends and associates. A diffuse culture is one in which public space and private space are similar in size and individuals guard their public space carefully because entry into public space affords entry into private space as well.	High Specific	• People often are invited into a person's open, public space. • Individuals often are open and extroverted. • There is a strong separation of work and private life.	• United States
		High Diffuse	• People are not quickly invited into a person's open, public space because, once they are in, there is easy entry into the private space as well. • Individuals in these cultures often appear to be indirect and introverted. • Work and private life often are closely linked.	• Germany
Achievement culture vs. **ascription culture**	An achievement culture is one in which people are accorded status based on how well they perform their functions. An ascription culture is one in which status is attributed based on who or what a person is.	High Achievement	• Gives high status to high achievers, such as the company's number-one salesperson or a medical researcher who has found a novel treatment for cancer	• Austria • Switzerland • United States
		High Ascription	• Accords status based on age, gender, or social connections, such as a person who has been with the company for 40 years or an individual who has friends in high places may be afforded status because of whom she knows	• China • Indonesia • Venezuela

neutral culture
A culture in which emotions are held in check.

emotional culture
A culture in which emotions are expressed openly and naturally.

specific culture
A culture in which individuals have a large public space they readily share with others and a small private space they guard closely and share with only close friends and associates.

diffuse culture
A culture in which public space and private space are similar in size and individuals guard their public space carefully because entry into public space affords entry into private space as well.

achievement culture
A culture in which people are accorded status based on how well they perform their functions.

ascription culture
A culture in which status is attributed based on who or what a person is.

Trompenaars also looked at attitudes toward both time and the environment, and the result of his research is a wealth of information helping explain how cultures differ and offering practical ways in which MNCs can do business in various countries. Table 4-6 examines attitudes toward time and the environment.[59]

Table 4–6
Trompenaars' Time and Environment Research

	Definition		Common Traits	Countries
Time	The way in which people deal with the concept of time	Sequential	• People tend to do only one activity at a time. • People keep appointments strictly. • Individuals show a strong preference for following plans as they are laid out and not deviating from them.	• United States
		Synchronous	• People tend to do more than one activity at a time. • Appointments are approximate and may be changed at a moment's notice. • Schedules generally are subordinate to relationships. • People often will stop what they are doing to meet and greet individuals coming into their office.	• Mexico • France
	The degree to which cultures are past- or present-oriented as opposed to future-oriented	Future-Oriented	• The future is more important than the past or the present. • When doing business, emphasize the opportunities and limitless scope that any agreement can have, agree to specific deadlines for getting things done, and be aware of the core competence or continuity that the other party intends to carry with it into the future.	• United States • Italy • Germany
		Past- and Present-Oriented	• The present is more important than the future. • When doing business, emphasize the history and tradition of the culture, find out whether internal relationships will sanction the types of changes that need to be made, and agree to future meetings in principle but fix no deadlines for completions.	• Venezuela • Indonesia • Spain
Environment	The degree to which people believe that they can control outcomes (inner-directed) or let things take their own course (outer-directed)	Inner-Directed	• People feel that they are masters of their own fate. • People have a dominant attitude (sometimes bordering on aggressiveness) toward the environment. • People have discomfort when things seem to get out of control.	• Switzerland • Belgium • Indonesia
		Outer-Directed	• People believe that things move in waves or natural shifts and one must "go with the flow." • People have a flexible attitude, characterized by a willingness to compromise and maintain harmony with nature.	• China • Japan • Singapore

Integrating Culture and Management: The GLOBE Project

Most recently, the GLOBE (Global Leadership and Organizational Behavior Effectiveness) research program reflects an additional approach to measuring cultural differences. Conceived in 1991, the GLOBE project is an ongoing research project; three major, interrelated phases have been completed so far, and a fourth phase is underway. GLOBE extends and integrates the previous analyses of cultural attributes and variables published by Hofstede and Trompenaars. The three completed GLOBE phases explore the various elements of the dynamic relationship between the culture and organizational behavior. In the most recent phase, GLOBE 2020 will build on past two decades of collaborative work to advance our understanding of different cultural dimensions and how they change.[60]

At the heart of phases one and two, first published in 2004 and 2007, is the study and evaluation of nine different cultural attributes using middle managers from 951 organizations in 62 countries.[61,62] A team of 170 scholars worked together to survey over 17,000 managers in three industries: financial services, food processing, and telecommunications. When developing the measures and conducting the analysis, they also used archival measures of country economic prosperity and of the physical and psychological well-being of the cultures studied. Countries were selected so that every major geographic location in the world was represented. Additional countries, including those with unique types of political and economic systems, were selected to create a complete and comprehensive database on which to build the analysis.[63] This research has been considered among the most sophisticated in the field to date, and a collaboration of the work of Hofstede and GLOBE researchers could provide an influential outlook on the major factors characterizing global cultures.[64]

While phases one and two focused on middle management, phase three, first published in 2012, examined the interactions of culture and leadership in upper-level management positions. More than 1,000 CEOs, and more than 5,000 of their direct reports, were surveyed by 40 researchers across 24 countries. To provide compatibility across all phases of the GLOBE project, 17 of the 24 countries surveyed in phase three were also included in the initial study performed for phases one and two.[65] A further explanation of phase three, which deals primarily with leadership, occurs in Chapter 13. Table 4–7 also provides an overview of the purposes and results of the different phases.

The GLOBE study is interesting because its nine constructs were defined, conceptualized, and operationalized by a multicultural team of over 100 researchers. In addition, the data in each country were collected by investigators who either were natives of the cultures studied or had extensive knowledge and experience in those cultures.

Table 4–7
GLOBE Cultural Variable Results

Variable	Highest Ranking	Medium Ranking	Lowest Ranking
Assertiveness	Spain, U.S.	Egypt, Ireland	Sweden, New Zealand
Future orientation	Denmark, Canada	Slovenia, Egypt	Russia, Argentina
Gender differentiation	South Korea, Egypt	Italy, Brazil	Sweden, Denmark
Uncertainty avoidance	Austria, Denmark	Israel, U.S.	Russia, Hungary
Power distance	Russia, Spain	England, France	Denmark, Netherlands
Collectivism/societal	Denmark, Singapore	Hong Kong, U.S.	Greece, Hungary
In-group collectivism	Egypt, China	England, France	Denmark, Netherlands
Performance orientation	U.S., Taiwan	Sweden, Israel	Russia, Argentina
Humane orientation	Indonesia, Egypt	Hong Kong, Sweden	Germany, Spain

Source: Javidan, Mansour, 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): 76.

Culture and Management

GLOBE researchers adhere to the belief that certain attributes that distinguish one culture from others can be used to predict the most suitable, effective, and acceptable organizational and leader practices within that culture. In addition, they contend that societal culture has a direct impact on organizational culture and that leader acceptance stems from tying leader attributes and behaviors to subordinate norms.[66]

The GLOBE project set out to answer many fundamental questions about cultural variables shaping leadership and organizational processes. The meta-goal of GLOBE was to develop an empirically based theory to describe, understand, and predict the impact of specific cultural variables on leadership and organizational processes and the effectiveness of these processes. Overall, GLOBE hopes to provide a global standard guideline that allows managers to focus on local specialization. Specific objectives include answering these fundamental questions:

- Are there leader behaviors, attributes, and organizational practices that are universally accepted and effective across cultures?
- Are there leader behaviors, attributes, and organizational practices that are accepted and effective in only some cultures?
- How do attributes of societal and organizational cultures affect the kinds of leader behaviors and organizational practices that are accepted and effective?
- What is the effect of violating cultural norms that are relevant to leadership and organizational practices?
- What is the relative standing of each of the cultures studied on each of the nine core dimensions of culture?
- Can the universal and culture-specific aspects of leader behaviors, attributes, and organizational practices be explained in terms of an underlying theory that accounts for systematic differences across cultures?[67]

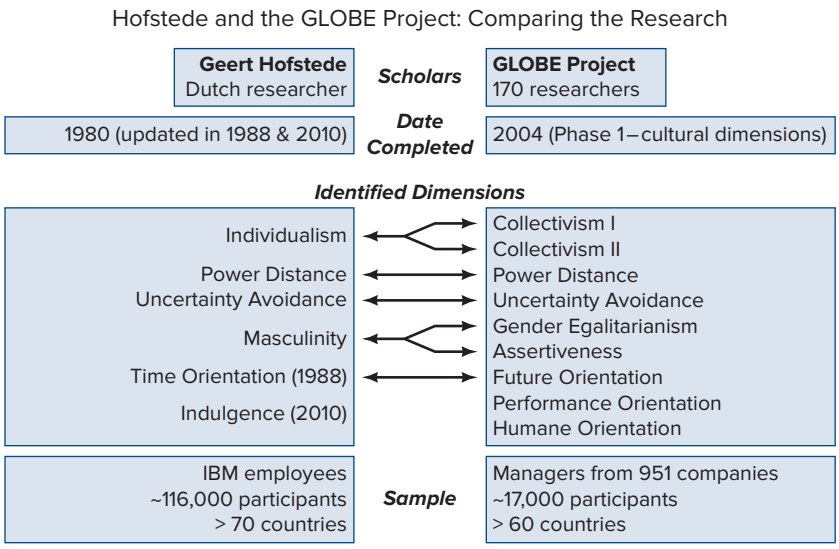
GLOBE's Cultural Dimensions

Phase one of the GLOBE project identified nine cultural dimensions:

1. *Uncertainty avoidance* is defined as the extent to which members of an organization or society strive to avoid uncertainty by reliance on social norms, rituals, and bureaucratic practices to alleviate the unpredictability of future events.
2. *Power distance* is defined as the degree to which members of an organization or a society expect and agree that power should be unequally shared.
3. *Collectivism I: Societal collectivism* refers to the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.
4. *Collectivism II: In-group collectivism* refers to the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.
5. *Gender egalitarianism* is defined as the extent to which an organization or a society minimizes gender role differences and gender discrimination.
6. *Assertiveness* is defined as the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships.
7. *Future orientation* is defined as the degree to which individuals in organizations or societies engage in future-oriented behaviors such as planning, investing in the future, and delaying gratification.
8. *Performance orientation* refers to the extent to which an organization or a society encourages and rewards group members for performance improvement and excellence.
9. *Humane orientation* is defined as the degree to which individuals in organizations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring, and kind to others.[68]

Figure 4–10

Comparing the Cultural Dimension Research: Geert Hofstede and the GLOBE Project



Source: Original graphic by Professor Jonathan Doh based on data from Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 2005, and the GLOBE project research.

The first six dimensions have their origins in Hofstede's cultural dimensions (see Figure 4–10). The collectivism I dimension measures societal emphasis on collectivism; low scores reflect individualistic emphasis and high scores reflect collectivistic emphasis by means of laws, social programs, or institutional practices. The collectivism II scale measures in-group (family or organization) collectivism such as pride in and loyalty to family or organization and family or organizational cohesiveness. In lieu of Hofstede's masculinity dimension, the GLOBE researchers developed the two dimensions they labeled gender egalitarianism and assertiveness. The dimension of future orientation is similar to Hofstede's time orientation dimension. Future orientation also has some origin in past research, as do performance orientation and humane orientation.[69] These measures are therefore integrative and combine a number of insights from previous studies.

A unique contribution of the GLOBE project is the identification of both values, which represent how people think things should be, and practices, which represent how things actually are. For example, GLOBE researchers found that China exhibits a high level of power distance in practice (a score of 5.02) despite the fact that the Chinese people desire a lower level of power distance (a score of 3.01) in their culture. Figure 4-11 shows the differences in values and practices within Brazil. Recently, further analysis has been conducted with regard to corporate social responsibility (CSR), a topic discussed in detail in Chapter 3.[70]

GLOBE Country Analysis

The GLOBE analysis corresponds generally with those of Hofstede and Trompenaars, although with some variations resulting from the variable definitions and methodology. Hofstede critiqued the GLOBE analysis, pointing out key differences between the research methods; Hofstede was the sole researcher and writer of his findings, while GLOBE consisted of a team of perspectives; Hofstede focused on one institution and surveyed employees, while GLOBE interviewed managers across many corporations; and so on. The disparity of the terminology between these two, coupled with the complex research, makes it challenging to compare and fully reconcile these two approaches.[71] Other assessments have pointed out that Hofstede may have provided an introduction to the psychology of culture, but further research is necessary in this changing world. The GLOBE analysis is sometimes seen as complicated, but so are cultures and perceptions. An in-depth understanding of all facets of culture is difficult, if not impossible, to attain, but GLOBE provides a current, comprehensive overview of general stereotypes that can be further analyzed for greater insight.[72,73]

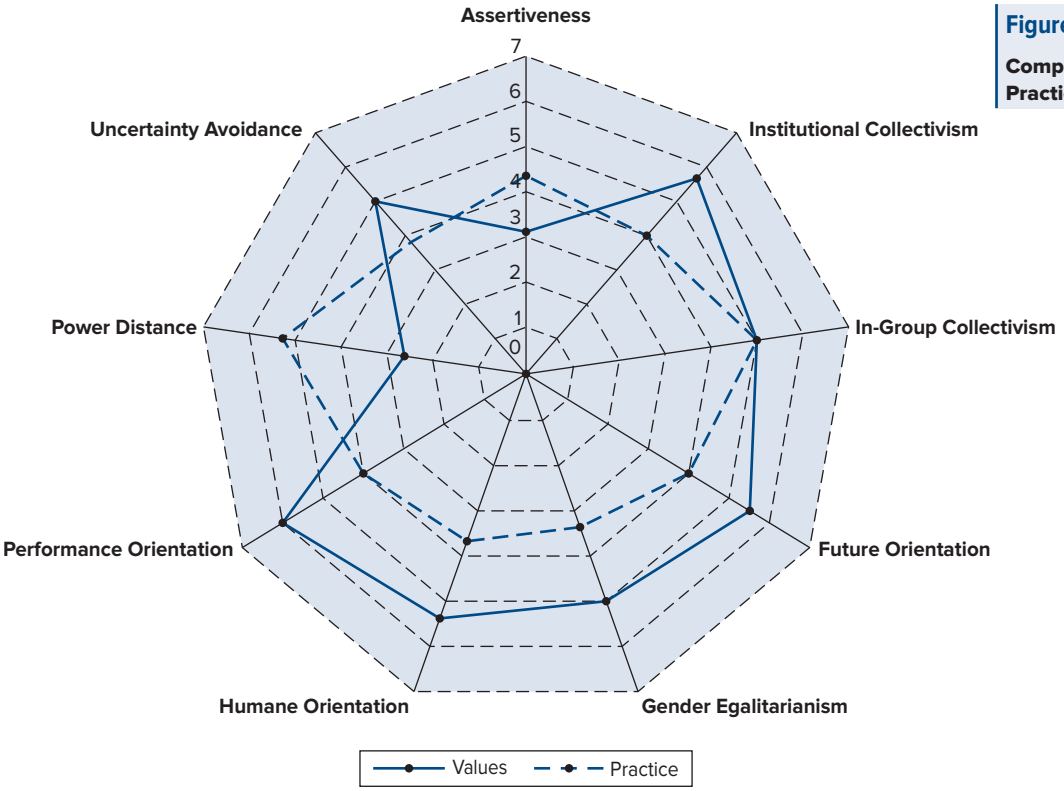


Figure 4–11
Comparing Values and Practices in Brazil

Source: Original graphic by Professor Jonathan Doh based on data from Hofstede, Geert. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill, 2005, and the GLOBE project research.

We will explore additional implications of the GLOBE findings as they relate to cross-cultural perspectives in Chapter 5 and managerial leadership in Chapter 13.

National Culture and the COVID-19 Pandemic

As the COVID-19 pandemic has evolved into what most medical experts describe as endemic, governments around the world are looking to learn from what worked in curtailing its spread so that they can be better prepared for future pandemics. Even though some of the first cases appeared in China, the number of cases and deaths have been significantly less there and in some other Asian countries versus those in many Western countries. The natural cultural differences discussed in this chapter can help explain some of these differences.[74]

For example, East Asian countries such as China and South Korea rank higher than Western countries such as the U.S. and the United Kingdom on cultural dimensions such as power distance, collectivism, uncertainty (power distance), and feminity. These differences, especially the willingness of citizens to take direction from authorities (power distance) and join together on a collective response (collectivism) may partially explain the types of actions (lockdowns and strict stay-at-home orders) and the compliance individuals demonstrated to those policies. By contrast, an analysis of the growth of COVID-19 cases in 107 countries during the first 91 days of the pandemic showed that countries ranked higher in individualism (versus collectivism) and uncertainty avoidance found it more difficult to control the growth of the pandemic while countries that ranked higher in power distance and masculinity-femininity scores were more successful in controlling the growth of the COVID-19 cases.

Control of the pandemics such as COVID-19 requires coordinated actions from different actors in society. In countries with individualistic cultures, people tend to focus on themselves and their immediate family, often ignoring the interests of the larger society to which they belong. In contrast, in collectivist societies, people tend to care about the broader

society, sometimes even sacrificing their personal freedom for the good of society.[75] For example, while there were protests and political movements against the use of facemasks in the USA, in many Asian countries, wearing masks was considered a civic duty and failure to do so was viewed as a violation of a collective norm. Similarly, when the power distance is high, individuals are more inclined to follow the instructions from the authority. The COVID-related restrictions in China, South Korea, Taiwan, and Singapore were often severe, yet there was almost universal compliance to these orders.[76] These cultural differences appeared to prove quite powerful in this context as they do in a wide range of others.



The World of International Management—Revisited

This chapter's opening World of International Management regarding the successes and failures of cross-border mergers by Du Pont, ABInBev, and Chrysler illustrates the importance of culture and how cultural differences may contribute to global management challenges. Cultural distance can influence both positively and negatively how decisions are made, reported, and resolved. Having read this chapter, you should understand the impact culture has on the actions of MNCs, including general management practices and relations with employees and customers, and on maintaining overall reputation.

Recall the chapter opening discussion about the failure of Unilever to acquire the healthcare spinoff of GSK, and the cultural clashes that lead to the Daimler-Chrysler debacle and then draw on your understanding of Hofstede's and Trompenaars' cultural dimensions and the GLOBE project to answer the following questions: (1) What dimensions contribute to the differences between how German and American workers address management problems, including operational or product flaws? (2) What are some ways that German culture may affect operational excellence in a positive way? (3) How could managers from one culture adopt the best practices from another culture as they invest in overseas markets and acquire foreign films?

SUMMARY OF KEY POINTS

1. Culture is acquired knowledge that people use to interpret experience and generate social behavior. Culture also has the characteristics of being learned, shared, transgenerational, symbolic, patterned, and adaptive. There are many dimensions of cultural diversity, including centralized versus decentralized decision making, safety versus risk, individual versus group rewards, informal versus formal procedures, high versus low organizational loyalty, cooperation versus competition, short-term versus long-term horizons, and stability versus innovation.
2. Values are basic convictions that people have regarding what is right and wrong, good and bad, and important and unimportant. Research shows that there are both differences and similarities between the work values and managerial values of different cultural groups. Work values often reflect culture and industrialization, and managerial values are highly related to success. Research shows that values tend to change over time and often reflect age and experience.
3. Hofstede originally identified and researched four major dimensions of culture: power distance, uncertainty avoidance, individualism, and masculinity. More recently, he added a fifth dimension, time orientation, and more recently yet, a sixth dimension, indulgence versus restraint: Each will affect a country's political and social systems. The integration of these factors into two-dimensional figures can illustrate the complexity of culture's effect on behavior.
4. In recent years, researchers have attempted to cluster countries into similar cultural groupings to study similarities and differences. Through analyzing the relationship between two dimensions, as Hofstede illustrated, two-dimensional maps can be created to show how countries differ and where they overlap.
5. Research by Trompenaars has examined five relationship orientations: universalism versus particularism, individualism versus communitarianism, affective versus neutral cultures, specific versus diffuse cultures, and achievement versus ascription cultures. Trompenaars also looked at attitudes toward time and toward the environment. The result is a wealth of information helping explain how cultures differ as well as practical ways in which MNCs can do business effectively in these environments. In particular, his findings update those of Hofstede while helping support the previous work by Hofstede on clustering countries.

6. Recent research undertaken by the GLOBE project has attempted to extend and integrate cultural attributes and variables as they relate to managerial leadership and practice. The GLOBE project identified nine cultural dimensions through the study of middle managers from over 900 countries. These analyses confirm much of the Hofstede and Trompenaars research, with greater emphasis on differences in managerial leadership styles. Unique to the GLOBE project is the identification of both values, which represent how people think things should be, and practices, which represent how things actually are.

KEY TERMS

achievement culture, *150*
ascription culture, *150*
collectivism, *141*
communitarianism, *149*
culture, *134*
diffuse culture, *150*
emotional culture, *150*
femininity, *142*
GLOBE, *140*
individualism, *141*
masculinity, *142*
neutral culture, *150*
particularism, *149*
power distance, *140*
specific culture, *150*
uncertainty avoidance, *140*
universalism, *149*
values, *138*

REVIEW AND DISCUSSION QUESTIONS

1. What is meant by the term *culture*? In what way can measuring attitudes about the following help differentiate between cultures: centralized or decentralized decision making, safety or risk, individual or group rewards, high or low organizational loyalty, cooperation or competition? Use these attitudes to compare the U.S., Germany, and Japan. Based on your comparisons, what conclusions can you draw regarding the impact of culture on behavior?
2. What is meant by the term *values*? Are cultural values the same worldwide, or are there marked differences? Are these values changing over time, or are they fairly constant? How does your answer relate to the role of values in a culture?
3. What are the four major dimensions of culture studied by Geert Hofstede? Identify and describe each. What is the cultural profile of the U.S.? Of Asian countries? Of Latin American countries? Of Latin European countries? Based on your comparisons of these four profiles, what conclusions can you draw regarding cultural challenges facing individuals in one group when they interact with individuals in one of the other groups? Why do you think Hofstede added the fifth dimension of time orientation and the sixth dimension related to indulgence versus restraint?
4. As people engage in more international travel and become more familiar with other countries, will cultural differences decline as a roadblock to international understanding, or will they continue to be a major barrier? Defend your answer.
5. What are the characteristics of each of the following pairs of cultural characteristics derived from Trompenaars' research: universalism versus particularism, neutral versus emotional cultures, specific versus diffuse cultures, achievement versus ascription cultures? Compare and contrast each pair.
6. How did project GLOBE build on and extend Hofstede's analysis? What unique contributions are associated with project GLOBE?
7. In what way is time a cultural factor? In what way is the need to control the environment a cultural factor? Give an example for each.

INTERNET EXERCISE: RENAULT-NISSAN IN SOUTH AFRICA

The Renault-Nissan alliance, established in March 1999, was the first industrial and commercial partnership of its kind involving a French company and a Japanese company. The alliance invested more than 1 billion rand in upgrading Nissan's manufacturing plant in Rosslyn, outside Pretoria, South Africa, to increase output and produce the Nissan NP200 pickup and the Renault Sandero for the South African market. Visit the Renault-Nissan website at **https://www.renault.co.uk** to see where factories reside for each car group. Compare and contrast the similarities and differences between these markets. Then answer these three questions: (1) How do you think cultural differences affect the way the firm operates in South Africa versus France versus Japan? (2) In what way is culture a factor in auto sales? (3) Is it possible for a car company to transcend national culture and produce a global automobile that is accepted by people in every culture? Why or why not?

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Turkey

In the International Spotlight

Situated on the Aegean and Mediterranean Seas at the intersection of Europe and Asia, Turkey's location played an important role in its long history. The cultural, geographically, and biologically diverse country borders Bulgaria and Greece in eastern Europe and Syria, Iraq, Iran, Amenia, and Georgia in western Asia. Because of its strategic ownership of the Turkish Straits, Turkey controls access to the Black Sea.[77]

Turkey is the 17th most populous country in the world, with over 84 million residents.[78] Turks are the largest ethnic group in the country, constituting over 70 percent of the population. The remaining population is primarily Kurdish, making up about 19 percent of the population. By religion, Turkey is 99.8 percent Muslim, of which most are Sunni. About three-quarters of the population live in urban environments. The country ranks 110th in the world for life expectancy, with the total population averaging 76 years.[79]

Turkey's US$720 billion economy grew 1.79 percent in 2020, despite the ongoing COVID-19 pandemic. Economic growth in 2021 is estimated to be the highest in 10 years. The country has been growing faster than many emerging markets over the past decade. However, per capita, GDP has been declining since 2014 and remains relatively low at US$8,600 as of 2020. The largely free-market economy is driven by its industry and service sectors, although agriculture still accounts for about 25 percent of employment. Turkey's increasing participation in the global economy has revealed some persistent underlying imbalances and financial difficulties. In particular, Turkey's large current account deficit means it must rely on external investment inflows to finance growth, leaving the economy vulnerable to destabilizing shifts in investor confidence. Other troublesome trends include double-digit unemployment and high inflation, the latter of which reached nearly 25 percent in late 2018 and escalated to almost 50 percent in early 2022. The lack of Central Bank autonomy and the President pressurizing the Central Bank to cut interest rates amidst rising prices have not helped.[80,81,82]

Political uncertainty has plagued Turkey in recent years. A failed coup attempt in 2016 resulted in increased authoritarianism and the declaration of a two-year state of emergency. Shortly after being sworn in for his second term in July 2018, President Recep Tayyip Erdogan ordered a complete restructuring of the Turkish government. The changes consolidated the president's hold on power and nearly eliminated any government system of checks and balances. As a result, many major media outlets were shut down and information outflow from the nation was limited.[83] Later that summer, the value of the Turkish lira plunged to record lows, losing 38 percent of its value against the US dollar, due to U.S.-imposed sanctions and global uncertainty over the nation's impending economic crisis.[84] The lira has since been under further strain dropping as much as 100 percent against the USD since 2021.

You Be the International Management Consultant

To penetrate the Turkish market, US-based Ford Motor Company partnered with Turkish Koc Holding in 1977. The longstanding joint venture, Ford Otosan, employs a staff of over 10,000 making it the largest employer in the Turkish automotive industry. To date, Ford Otosan has spent over US$1.6 billion building factories in the country. The rapidly growing economy and increasing wealth within Turkey proved to be lucrative for Ford. However, with the recent political and economic uncertainty in Turkey, questions have been raised about Ford's continued investment in the country and whether the company should take drastic steps to lessen its exposure to the instability in the region.[85]

Questions

1. How should an international company, like Ford, address the concerns it faces in Turkey?
2. If you were in charge of Ford's Turkish business, what would you be most concerned about when considering the political-economic landscape?
3. If you are consulting for a business looking to capitalize on an emerging market, is Turkey an option that you would recommend?
4. What would you want to see out of Turkish political reform in order to make the country more desirable for foreign investment?

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Chapter 5

MANAGING ACROSS CULTURES

OBJECTIVES OF THE CHAPTER

Traditionally, both scholars and practitioners assumed the universality of management. There was a tendency to take the management concepts and techniques that worked at home into other countries and cultures. It is now clear, from both practice and cross-cultural research, that this universality assumption, at least across cultures, does not hold up. Although there is a tendency in a borderless economy to promote a universalist approach, there is enough evidence from many cross-cultural researchers to conclude that the universalist assumption that may have held for U.S. organizations and employees is not generally true in other cultures.[1]

The overriding purpose of this chapter is to examine how MNCs can and should manage across cultures. This chapter puts into practice Chapter 4's discussion on the meaning and dimensions of culture and serves as a foundation and point of departure for Chapters 8 and 9 on strategic management. The first part of this chapter addresses the traditional tendency to attempt to replicate successful home-country operations overseas without taking into account cultural differences. Next, attention is given to cross-cultural challenges, focusing on how differences can impact multinational management strategies. Finally, the cultures in specific countries and geographic regions are examined. The specific objectives of this chapter are

1. **EXAMINE** the strategic dispositions that characterize responses to different cultures.
2. **DISCUSS** cross-cultural differences and similarities.
3. **REVIEW** cultural differences in select countries and regions and note some of the important strategic guidelines for doing business in each.

The World of International Management

Taking a Bite Out of Apple: Corporate Culture and an Unlikely Chinese Start-up

Since first introducing the iPhone over a decade ago, Apple has achieved tremendous success in the smartphone industry. User-friendly innovations, including the first touchscreen display, transformed the smartphone market. Through 2021, Apple sold over 2 billion iPhones, becoming one of the most admired and recognizable brands worldwide.[2,3] Though Apple has faced competition from traditional rivals Samsung and Motorola for several years, new competition from unexpected companies in developing markets is beginning to disrupt the smartphone market. Xiaomi, a Chinese start-up formed in 2010, is perhaps the largest and most successful of these new smartphone marketplace entrants. Xiaomi released its first phone in 2011; since then, sales have soared. In 2013, Xiaomi surpassed Apple in terms of sales within China, the world's largest smartphone market. And by 2020, Xiaomi had become the fourth largest smartphone producer worldwide, leading the competition in both the Indian and Chinese markets, and shipping up to 12.4 percent of the world's smartphones in the fourth quarter of 2021.[4,5]

Though they are competing for the same customers, Apple and Xiaomi could not be more different. Their approaches to innovation, their supply chains, their product lines, and even their ideas about intellectual property rights are diametrically opposed. How have these two incredibly different companies achieved success, and will Xiaomi's corporate culture and accompanying strategy ultimately propel the company to rival Apple in the smartphone battle?

Individual versus the Collective

At Apple, individual achievement is highly regarded. Innovating for the company, as an individual, is expected and required. In fact, according to an urban legend, the late Steve Jobs allegedly once fired an employee in the elevator for not having an answer to the question "So what have you done for Apple lately?" Personal excellence is required by every employee, with an overall focus on end results and exceeding corporate goals.[6] Internal competition, and challenging others, is strongly encouraged.

Hierarchy exists, but individuals are encouraged to speak up if it means achieving a better, more innovative product. According to a former employee, "There's a mentality that it's okay to shred somebody in the spirit of making the best products."[7]

Collectivism and group achievement, on the other hand, permeate Xiaomi's corporate culture. From initial design to final production, collaboration between employees and the public is more celebrated than individual creativity. Rather than developing innovations in secret, Xiaomi takes an unconventional approach to design by using crowd-sourcing as a key element of its strategy.[8] End users provide input and feedback continuously to Xiaomi, shaping the direction in which Xiaomi takes its products. This feedback results in continual product evolution; rather than release new phones annually, like Apple, Xiaomi actually releases new, incrementally better smartphone models every week.[9]

Supply Chain Management

Apple has been able to maximize profits through its complex, yet carefully doctored supply chain. To minimize costs, Apple outsources the majority of its production processes. Nearly a thousand factories produce components for Apple across the globe, with over 600 in Southeast Asia alone.[10] It was able to weather the pandemic due to this strong supply chain. In fact, during the fourth quarter of 2021, Apple's total revenue rose by 11 percent year-over-year, despite the supply constraints that it experienced.[11] As a result of its low manufacturing costs, Apple is able to sell iPhones with close to a 50 percent gross profit margin.[12] Relinquishing its control over the manufacturing process, however, has led to some major negative consequences for Apple. A series of manufacturing bottlenecks caused a six-week delay in shipping the iPhone X in 2017, nearly missing the critical holiday retail season.[13] Furthermore, the lack of control over its suppliers' actions has exposed Apple to criticism over human rights violations. Highly publicized worker suicides and alleged underage labor have tarnished Apple's image, even though the abuses occurred at the suppliers' facilities. In response, Apple has been forced to spend additional resources to educate its outsourced employees on their human rights.[14]

Like Apple, Xiaomi works with a variety of suppliers throughout Asia to produce its products. A key advantage of Xiaomi's approach to its supply chain, however, is its unique ability to adjust production to meet demand. To achieve this, Xiaomi maintains a strict policy with its suppliers that demand alone drives the production quantity. This has allowed for great flexibility in its supply. For example, in 2015, Xiaomi was able to set the world record for most smartphones sold in 24 hours when it sold and shipped 2.1 million units. To keep costs low along its supply chain, Xiaomi sells its products for longer periods of time than its competitors, reducing production expenses over the life of the product. While Apple and other competitors retire their products nearly every year, Xiaomi continues to manufacture the same phone for nearly two years.[15] This flexibility also lowers inventory carrying costs. Xiaomi owns no warehouses for long-term inventory holding, considering itself more of an Internet-based merchant.[16] In India, where Xiaomi has an especially strong presence, it has been further localizing its supply chain. It recently added two new supply chain partners, BYD and DBG, in the country. This has helped to cope with rising labor costs at home and any transportation costs from exporting the products.[17] Because of these strategies, Xiaomi is able to sell its products directly to consumers at a five percent margin, which is lower than any other player in the industry.[18]

Product Focus

Apple is dedicated to maintaining first-mover advantage. As a result, Apple focuses narrowly on a few key products, with little variation in features and price. The iPhone, for example, is the only phone offered by Apple. When purchasing the latest Apple product, customers know that they are buying the most current technology on the market. By continually being the first to market with new technology, Apple can maintain a loyal customer base that is willing to put up with minor defects and flaws in the design. This narrow product focus has created a trendy "brand" image for the company. However, by offering only one product line, Apple sacrifices sales to potential customers who are less concerned with the latest technology.

Knowing that it cannot compete for the first-mover customers who want the newest technology fastest, Xiaomi focuses on competing on price. Xiaomi aims to provide the best value in the marketplace to its customers by not sacrificing quality to meet consumer pricing demands; the hardware specifications of Xiaomi phones rival those of Apple and Samsung but remain at a fraction of the cost. Unlike Apple, Xiaomi offers a wide array of products at multiple price points. In fact, Xiaomi plans to introduce regionally-specific models for every new market it enters. With dozens of different phone products, for example, customers can sacrifice features and the most current technology for a phone within their budget. Xiaomi is willing to quickly try multiple products, releasing slightly updated models nearly every week.[19]

Intellectual Property

Apple, as a company that differentiates itself through innovation, values its intellectual property as an important asset. This culture starts at the top and permeates through the company: Steve Jobs alone was listed as the inventor of over 300 patents.[20] Having spent millions in research and development for new technology and improved designs, Apple has accused Samsung and others of essentially stealing patent-protected technology. Apple has sued numerous companies over the past decade to protect its intellectual property. In 2010, Apple sued HTC over 20 patent infringements relating to its iPhone's hardware and software.[21] In 2012 alone, Apple and Samsung launched over a dozen lawsuits against each other, primarily over patent infringements. Contested issues ranged from component technology to software design. Although the lawsuits cost Apple millions of dollars to fight and were not settled until 2018, the prevention of intellectual property theft is critical to Apple's ability to innovate. According to Apple, protecting its patents allows it to provide "distinctive products that stand apart from the masses."[22] In 2019 and 2020, Apple filed 215 trademark challenges, more than Microsoft, Amazon, Facebook, and Google combined. Dozens of these were waged against entrepreneurs and small businesses. Apple is committed to maintaining its valuable brand and iconic products.[23]

Xiaomi's approach to intellectual property mirrors its collective approach to design; exclusivity and secrecy are not seen as important to its overall strategy. Little priority is placed on protecting its own intellectual property, and the company often skirts the line of violating other companies' intellectual property. For example, Xiaomi's "MiPad" looks like, operates similarly to, and mimics the naming of Apple's "iPad." In fact, Xiaomi will find it difficult, if not impossible, to sell its products in many markets without facing lawsuits due to patent violations. Most of the largest cell phone markets have strict intellectual property protections in place. Xiaomi holds over 1000 patents in the U.S. Yet, Xiaomi finds it very difficult to defend itself against lawsuits from Apple and other cell phone producers, given that Xiaomi has only successfully entered the U.S. market with non-smartphone products.[24,25] It has been estimated that Xiaomi would need to spend as much as US$100 million on lawsuits in the first two years if it were to start selling products in the United States.[26,27]

Looking Forward—Which Strategy Is Working?

The first-mover advantage that Apple has leveraged since 2007 has begun to deliver diminishing returns. Growth in the smartphone market is increasingly occurring in developing markets, where the high-priced iPhone has trouble competing. By 2021, Apple held a 23.4 percent share of the global smartphone market.[28] Xiaomi, however, has maintained its market-leader status in both China and India, holding a 12.4 percent market share globally, yet intellectual property issues could prevent Xiaomi from ever being able to do business in places like the U.S., and expensive lawsuits could cause serious financial trouble for the company. While Xiaomi has a presence in the U.S. with other goods, it seems unlikely it will introduce its smartphone lines. This is partly due to an effective duopoly between Apple and Samsung, and because Xiaomi has been facing legal problems from the U.S. government, including when the Trump administration placed it on the blacklist for its alleged ties to the Chinese Military. While it is no longer on the U.S.' blacklist, it is not clear whether Xiaomi can ultimately innovate on its own, overcome these legal battles, and prevail over rival Apple in the smartphone battle.[29]

The cultural differences between Xiaomi and Apple highlight how, within the same industry, two companies can achieve success despite opposing strategies. This chapter provides insight into uncovering similarities and differences across cultures and using those insights to develop international management approaches that are effective and responsive to local cultures.

The Strategy for Managing across Cultures

As MNCs become more transnational, their strategies must address the cultural similarities and differences in their varied markets. A good example is provided by Renault, the French auto giant. For years, Renault manufactured a narrow product line, which is sold primarily in France. Because of this limited geographic market and the fact that its cars continued to have quality-related problems, the company's performance was, at best, mediocre. In an effort to improve profitability, Renault made a number of strategic decisions that dramatically changed the way it conducted business in foreign markets.

One key element of Renault's strategy was to acquire an interest in established foreign automakers. Over the course of several years, Renault bought controlling stakes in Nissan Motors of Japan, Samsung Motors of South Korea, Dacia of Romania, and AvtoVAZ of Russia. After establishing ownership in these well-known, foreign automakers, Renault began strategically marketing its car models under whichever of its brands would be most familiar to the local market. A good example of this is seen through the Logan. Originally manufactured by Dacia, the Logan is a versatile sedan that many consider to be a "world car." Renault was able to offer the Logan under either the Dacia, Renault, AvtoVAZ, or Nissan

name, depending on the market. The Logan has now been sold in over three dozen countries across Western and Eastern Europe, Africa, Latin America, and western Asia.[30]

Another strategic move by Renault has been to leverage its partnership with Nissan to bring efficiency to its operations. This included integrating its sales organizations with those of Nissan in Europe, thus creating one well-integrated, efficient sales force on the continent. Additionally, Renault decided to start producing Nissan models in its Brazilian plant, so that it could expand its South American offerings by more efficiently using current facilities. These decisions have led to continual growth and year-over-year improvements in sales and efficiency.[31] The Renault–Nissan alliance has sought to foster multicultural management at all levels. Each year, more than 30 teams with Renault and Nissan employees from all regions and functions worked together to identify synergies and best practices. Thousands of people with cross-cultural experience have been in collaboration since the beginning of the alliance. Mitsubishi Motors joined the alliance in 2016 and in 2017 Renault-Nissan-Mitsubishi displaced Volkswagen as the world's largest auto-making liaison.[32]

Renault has also strategically targeted developing international markets that provide the most potential for future growth. In 2015, Renault introduced the Kwid, an ultra-low-cost hatchback, for the Indian market. Unlike Tata's Nano and other low-price cars in the Indian market, the Kwid was designed to offer features similar to those of more expensive cars, including good gas mileage, generous leg and headroom, and attractive design. Initial pricing started at only US$5,000.[33] The Kwid was subsequently introduced into other emerging markets including Indonesia, Brazil, South Africa, Colombia, Mexico, and Argentina. Most recently in April 2022, Renault launched its all-electric Kwid E-TECH in Brazil.

Addressing the cultural differences and similarities within different auto markets has resulted in success for the Renault brand, but the Franco-Japanese union has come with its share of troubles. In 2018, Carlos Ghosn, a Brazil-born, French citizen of Lebanese descent who was the chairman of both Renault in France and the alliance, was accused of financial misconduct and arrested in Japan. At the inception of the alliance, Ghosn had been appointed the Chief Operating Officer of Nissan in 1999, became its CEO in 2001, and was credited for turning the company around from near bankruptcy. Following his arrest, in 2019, Ghosn made a dramatic escape from Tokyo to Lebanon, smuggling himself out in a music equipment box. The Renault-Nissan-Mitsubishi alliance has since been strained, and Renault is also dealing with the aftermath of its exit from Russia, its second-largest market, after Russia's invasion of Ukraine in 2022.

Strategic Predispositions

Most MNCs have a cultural strategic predisposition toward doing things in a particular way. Four distinct predispositions have been identified: ethnocentric, polycentric, regiocentric, and geocentric.

A company with an **Ethnocentric predisposition** allows the culture of the parent company's home country to guide strategic decisions. Firms with a **polycentric predisposition** make strategic decisions tailored to suit the cultures of the countries where the MNC operates. A **regiocentric predisposition** leads a firm to try to blend its own interests with those of its subsidiaries on a regional basis. A company with a **geocentric predisposition** tries to integrate a global systems approach to decision making. Table 5-1 provides details of each of these orientations.

If an MNC relies on one of these profiles over an extended time, the approach may become institutionalized and greatly influence strategic planning. By the same token, a predisposition toward any of these profiles can provide problems for a firm if it is out of step with the economic or political environment. For example, a firm with an ethnocentric predisposition may find it difficult to implement a geocentric strategy because it is unaccustomed to using global integration. Commonly, successful MNCs use a mix of these predispositions based on the demands of the current environment described in the chapters in Part One.

ethnocentric predisposition
A nationalistic philosophy of management in which the strategic decisions are shaped by the culture of parent company's home country.

polycentric predisposition
A philosophy of management whereby strategic decisions are tailored to suit the cultures of the countries where the MNC operates.

regiocentric predisposition
A philosophy of management whereby the firm tries to blend its own interests with those of its subsidiaries on a regional basis.

geocentric predisposition
A philosophy of management whereby the company tries to integrate a global systems approach to decision making.

Table 5–1
Orientation of an MNC under Different Profiles

	Orientation of the Firm			
	Ethnocentric	**Polycentric**	**Regiocentric**	**Geocentric**
Mission	Profitability (viability)	Public acceptance (legitimacy)	Both profitability and public acceptance (viability and legitimacy)	Same as regiocentric
Governance	Top-down	Bottom-up (each subsidiary decides on local objectives)	Mutually negotiated between region and its subsidiaries	Mutually negotiated at all levels of the corporation
Strategy	Global integration	National responsiveness	Regional integration and national responsiveness	Global integration and national responsiveness
Structure	Hierarchical product divisions	Hierarchical area divisions, with autonomous national units	Product and regional organization tied through a matrix	A network of organizations (including some stakeholders and competitor organizations)
Culture	Home country	Host country	Regional	Global
Technology	Mass production	Batch production	Flexible manufacturing	Flexible manufacturing
Marketing	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standardized within region, but not across regions	Global product, with local variations
Finance	Repatriation of profits to home country	Retention of profits in host country	Redistribution within region	Redistribution globally
Personnel practices	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

Source: Chakravarthy, Balaji S. and Perlmutter, Howard V. "Strategic Planning for a Global Business." *Columbia Journal of World Business*, 1986.

Meeting the Challenge

globalization imperative
A belief that one worldwide approach to doing business is the key to both efficiency and effectiveness.

Despite the need for and, in general, the tendency of MNCs to address regional differentiation issues, many MNCs remain committed to a **globalization imperative**, which is a belief that one worldwide approach to doing business is the key to both efficiency and effectiveness. However, despite this predilection to use home strategies, effective MNCs are continuing their efforts to address local needs. A number of factors are moving companies to facilitate the development of unique strategies for different cultures, including:

1. The diversity of worldwide industry standards such as those in broadcasting, where television sets must be manufactured on a country-by-country basis.
2. A continual demand by local customers for differentiated products, as in the case of consumer goods that must meet local tastes.
3. The importance of being an insider, as in the case of customers who prefer to "buy local."
4. The difficulty of managing global organizations, as in the case of some local subsidiaries that want more decentralization and others that want less.
5. The need to allow subsidiaries to use their own abilities and talents and not be restrained by headquarters, as in the case of local units that know how to customize products for their market and generate high returns on investment with limited production output.

Responding to the cultural needs of local operations and customers, MNCs find that regional strategies can be used effectively in capturing and maintaining worldwide market niches. A good example is provided by appliance producer Whirlpool, which has

International Management in Action

Ten Key Factors for MNC Success

Why are some international firms successful, while others are not? Some of the main reasons are that successful multinational firms take a worldwide view of operations, support their overseas activities, pay close attention to political winds, and use local nationals whenever possible. These are the overall findings of a report that looked into the development of customized executive education programs. Specifically, there are 10 factors or guidelines that successful global firms seem to employ. Successful global competitors

1. See themselves as multinational enterprises and are led by a management team that is comfortable in the world arena
2. Develop integrated and innovative strategies that make it difficult and costly for other firms to compete
3. Aggressively and effectively implement their worldwide strategy and back it with large investments
4. Understand that innovation no longer is confined to the U.S. and develop systems for tapping innovation abroad
5. Operate as if the world were one large market rather than a series of individual, small markets
6. Have organization structures that are designed to handle their unique problems and challenges and thus provide them the greatest efficiency
7. Develop a system that keeps them informed about political changes around the world and the implications of these changes on the firm
8. Have management teams that are international in composition and thus better able to respond to the various demands of their respective markets
9. Allow their outside directors to play an active role in the operation of the enterprise
10. Are well managed and tend to follow such important guidelines as sticking close to the customer, having lean organization structures, and encouraging autonomy and entrepreneurial activity among the personnel

Source: James F. Bolt, "Global Competitors: Some Criteria for Success," *Business Horizons*, January/February 1988, 34–41; Sheida Hodge, *Global Smarts: The Art of Communicating and Deal Making Anywhere in the World* (New York: Wiley, 2000); Alan S. Rugman and Richard M. Hodgetts, *International Business*, 2nd ed. (London: Pearson, 2000), Chapter 1.

manufacturing facilities spread across the U.S. Each plant is specialized and produces a small number of products for the entire North American market; in this way, each can focus on tailoring products for the unique demands of the various markets.

The globalization versus national responsiveness challenge is even more acute when marketing cosmetics and other products that vary greatly in consumer use. For example, marketers sell toothpaste as a cosmetic product in Spain and Greece but as a cavity fighter in the Netherlands and U.S. Soap manufacturers market their products as cosmetic items in Spain but as functional commodities in Germany. Moreover, the way in which the marketing message is delivered also is important. For example,

- Germans want advertising that is factual and rational; they fear being manipulated by "the hidden persuader." The typical German spot features the standard family of two parents, two children, and a grandmother.
- The French avoid reasoning or logic. Their advertising is predominantly emotional, dramatic, and symbolic. Spots are viewed as cultural events, art for the sake of money, and are reviewed as if they were literature or films.
- The British value laughter above all else. The typical broad, self-deprecating British commercial amuses by mocking both the advertiser and the consumer.[34]

In some cases, however, both the product and the marketing message are similar worldwide. This is particularly true for high-end products, where the lifestyles and expectations of the market niche are similar regardless of the country. Heineken beer, Hennessey brandy, Porsche cars, and the *Financial Times* all appeal to consumer niches that are fairly homogeneous, regardless of geographic locale. The same is true at the lower end of the market for goods that are impulse purchases, novel products, or fast foods, such as Coca-Cola's soft drinks, Levi's jeans, pop music, and ice cream bars. In most cases, however, it is necessary to modify products as well as the market approach for the regional or local market. One analysis noted that the more marketers understand the way in which a

particular culture tends to view emotion, enjoyment, friendship, humor, rules, status, and other culturally-based behaviors, the more control they have over creating marketing messages that will be interpreted in the desired way.

The need to adjust global strategies for regional markets presents three major challenges for most MNCs. First, an MNC must stay abreast of local market conditions and sidestep the temptation to assume that all markets are basically the same. Second, the MNC must know the strengths and weaknesses of its subsidiaries, so that it can provide these units with the assistance they need in addressing local demands. Third, the multinational must give the subsidiary more autonomy, so that it can respond to changes in local demands. The International Management in Action box "Ten Key Factors for MNC Success" provides additional insights into the ways that successful MNCs address these challenges.

Cross-Cultural Differences and Similarities

As you saw in Chapter 4, cultures can be similar or quite different across countries. The challenge for MNCs is to recognize and effectively manage the similarities and differences. Generally, the way in which MNCs manage their home businesses often should be different from the way they manage their overseas operations.[35] After recognizing the danger for MNCs of drifting toward parochialism and simplification in spite of cultural differences, the discussion in this section shifts to some examples of cultural similarities and differences and how to effectively manage across cultures by a *contingency approach*.

Parochialism and Simplification

parochialism
The tendency to view the world through one's own eyes and perspectives.

Parochialism is the tendency to view the world through one's own eyes and perspectives. This can be a strong temptation for many international managers, many of whom come from advanced economies and believe that their state-of-the-art knowledge is more than adequate to handle the challenges of doing business in less developed countries. In addition, many of these managers have a parochial point of view fostered by their background.[36] A good example is provided by Randall and Coakley, who studied the impact of culture on successful partnerships in the former Soviet Union. Initially, after the breakup of the Soviet Union, the republics called themselves the Commonwealth of Independent States (CIS). Randall and Coakley found that while outside MNC managers typically entered into partnerships with CIS enterprises with a view toward making them efficient and profitable, the CIS managers often brought a different set of priorities to the table.

Commenting on their research, Randall and Coakley noted that the way CIS managers did business was sharply different from that of their American counterparts. CIS managers were still emerging from socially focused cultural norms embedded in their history, past training, and work experiences that emphasized strategic values unlike those that existed in an international, market-driven environment. For example, while an excess of unproductive workers may lead American managers to lay off some individuals for the good of the company, CIS managers would focus on the good of the working community and allow the company to accept significant profit losses as a consequence. This led the researchers to conclude,

> As behavioral change continues to lag behind structural change, it becomes imperative to understand that this inconsistency between what economic demands and cultural norms require manifests problems and complexities far beyond mere structural change. In short, the implications of the different perspectives on technology, labor, and production . . . for potential partnerships between U.S. and CIS companies need to be fully grasped by all parties entering into any form of relationship.[37]

simplification
The process of exhibiting the same orientation toward different cultural groups.

Simplification is the process of exhibiting the same orientation toward different cultural groups. For example, the way in which a U.S. manager interacts with a British manager is the same way in which he or she behaves when doing business with an Asian executive. Moreover, this orientation reflects one's basic culture. Table 5–2 provides an example, showing several widely agreed-on, basic cultural orientations, and the range of

Table 5–2
Six Basic Cultural Variations

Orientations	Range of Variations
What is the nature of people?	Good (changeable/unchangeable)
	A mixture of good and evil*
	Evil (changeable/unchangeable)
What is the person's relationship to nature?	Dominant*
	In harmony with nature
	Subjugation
What is the person's relationship to other people?	Lineal (hierarchical)
	Collateral (collectivist)
	Individualist*
What is the modality of human activity?	Doing*
	Being and becoming
	Being
What is the temporal focus of human activity?	Future*
	Present
	Past
What is the conception of space?	Private*
	Mixed
	Public

Note: * indicates the dominant U.S. orientation.
Source: The work of Florence Rockwood Kluckhohn and Fred L. Stodtbeck.

variations for each. Asterisks indicate the dominant U.S. orientation. Quite obviously, U.S. cultural values are not the same as those of managers from other cultures; as a result, a U.S. manager's attempt to simplify things can result in erroneous behavior. Here is an example of a member of the purchasing department of a large European oil company who was negotiating an order with a Korean supplier:

> At the first meeting, the Korean partner offered a silver pen to the European manager. The latter, however, politely refused the present for fear of being bribed (even though he knew about the Korean custom of giving presents). Much to our manager's surprise, the second meeting began with the offer of a stereo system. Again the manager refused, his fear of being bribed probably heightened. When he gazed at a piece of Korean china at the third meeting, he finally realized what was going on. His refusal had not been taken to mean "let's get on with business right away," but rather "If you want to get into business with me, you had better come up with something bigger."[38]

Understanding the culture in which they do business can make international managers more effective.[39] Unfortunately, when placed in a culture with which they are unfamiliar, most international managers are not culturally knowledgeable, so they often misinterpret what is happening. This is particularly true when the environment is markedly different from the one from which they come. Consider, for example, the difference between the cultures in Malaysia and the U.S. Malaysia has what can be called a high-context culture, which possesses characteristics such as the following:

1. Relationships between people are relatively long-lasting, and individuals feel deep personal involvement with each other.
2. Communication often is implicit, and individuals are taught from an early age to interpret these messages accurately.
3. People in authority are personally responsible for the actions of their subordinates, and this places a premium on loyalty to both superiors and subordinates.

4. Agreements tend to be spoken rather than written.
5. Insiders and outsiders are easily distinguishable, and outsiders typically do not gain entrance to the inner group.

These Malaysian cultural characteristics are markedly different from those of low-context cultures such as the U.S., which possess the following characteristics:

1. Relationships between individuals are relatively short in duration, and, in general, deep personal involvement with others is not valued greatly.
2. Messages are explicit, and individuals are taught from a very early age to say exactly what they mean.
3. Authority is diffused throughout the bureaucratic system, and personal responsibility is hard to pin down.
4. Agreements tend to be in writing rather than spoken.
5. Insiders and outsiders are not readily distinguished, and the latter are encouraged to join the inner circle.[40]

These differences are exacerbated by the fact that Malaysian culture is based on an amalgamation of diverse religions, including Hinduism, Buddhism, and Islam. The belief is pervasive that success and failure are the will of God, which may create issues with American managers attempting to make deals.

At the same time, it is important to realize that while there are cultural differences, there also are similarities. Therefore, in managing across cultures, not everything is totally different. Some approaches that work at home also work well in other cultural settings.

Similarities across Cultures

When internationalization began to take off in the 1970s, many companies quickly admitted that it would not be possible to do business in the same way in every corner of the globe. There was a secret hope, however, that many of the procedures and strategies that worked so well at home could be adopted overseas without modification. This has proved to be a false hope. At the same time, some similarities across cultures have been uncovered by researchers. For example, a co-author of this text (Luthans) and his associates studied through direct observation a sample of managers in the largest textile factory in Russia to determine their activities. Like U.S. managers studied earlier, Russian managers carried out traditional management, communication, human resources, and networking activities. The study also found that, as in the U.S., the relative attention given to networking activity increased the Russian managers' opportunities for promotion, and that communication activity was a significant predictor of effective performance in both Russia and the U.S.[41]

In another cross-cultural study, this time using a large Korean sample, Luthans and colleagues analyzed whether demographic and situational factors identified in the U.S.-based literature had the same antecedent influence on the commitment of Korean employees.[42,43] As in the U.S. studies, Korean employees' position in the hierarchy, tenure in their current position, and age all related to organizational commitment. Other similarities with U.S. firms included the following: (1) As organizational size increased, commitment declined; (2) as structure became more employee-focused, commitment increased; and (3) the more positive the perceptions of organizational climate, the greater the employee commitment. The following conclusion was drawn:

> This study provides beginning evidence that popular constructs in the U.S. management and organizational behavior literature should not be automatically dismissed as culture bound. Whereas some organizational behavior concepts and techniques do indeed seem to be culture specific . . . a growing body of literature is demonstrating the ability to cross-culturally validate other concepts and techniques, such as behavior management. . . . This study contributed to this cross-cultural evidence for the antecedents to organizational commitment. The antecedents for Korean employees' organizational commitment were found to be similar to their American counterparts.[44]

Many Differences across Cultures

We have stressed throughout the text how different cultures can be from one another and how important it is for MNCs to understand the points of disparity. Here, we look at some differences from a human resources perspective, a topic that will be covered in depth in Chapter 14. We introduce human resource management (HRM) here as a way to illustrate that the cultural foundations utilized in the selection of employees can further form the culture that international managers will oversee. In other words, understanding the HRM strategies before becoming a manager in the industry can aid in effective performance. The focus here is more from a socially cultural perspective; the organizational perspective will be discussed further in Chapter 14.

Despite similarities between cultures in some studies, far more differences than similarities have been found. MNCs are discovering that they must carefully investigate and understand the culture where they intend to do business and modify their approaches appropriately. Sometimes these cultures are quite different from the U.S.—as well as from each other! One human resource management example has been offered by Trompenaars, who examined the ways in which personnel in international subsidiaries were appraised by their managers. The head office had established the criteria to be used in these evaluations but left the prioritization of the criteria to the national operating company. As a result, the outcome of the evaluations could be quite different from country to country because what was regarded as the most important criterion in one subsidiary could be ranked much lower on the evaluation list of another subsidiary. In the case of Shell Oil, for example, Trompenaars found that the firm was using a HAIRL system of appraisal. The acronym stood for the five criteria (1) helicopter—the capacity to take a broad view from above; (2) analysis—the ability to evaluate situations logically and completely; (3) imagination—the ability to be creative and think outside the box; (4) reality—the ability to use information realistically; and (5) leadership—the ability to effectively galvanize and inspire personnel. When staff in Shell's operating companies in four countries were asked to prioritize these five criteria from top to bottom, the results were as follows:

Netherlands	France	Germany	Britain
Reality	Imagination	Leadership	Helicopter
Analysis	Analysis	Analysis	Imagination
Helicopter	Leadership	Reality	Reality
Leadership	Helicopter	Imagination	Analysis
Imagination	Reality	Helicopter	Leadership

Quite obviously, personnel in the different operating companies were being evaluated differently. In fact, no two of the operating companies in the four countries had the same criterion at the top of their lists. Moreover, the criterion at the top of the list for operating companies in the Netherlands—reality—was at the bottom of the list for those in France; and the one at the top of the list in French operating companies—imagination—was at the bottom of the list of the Dutch firms. Similarly, the German operating companies put leadership at the top of the list and helicopter at the bottom, while the British companies did the opposite! In fact, the whole list for the Germans was in exactly the reverse order of the British list.[45]

Other HRM differences can be found in areas such as wages, compensation, pay equity, and maternity leave. Here are some representative examples:

1. The concept of an hourly wage plays a minor role in Mexico. Labor law requires that employees receive a daily rate that is paid 365 days a year.
2. In Austria and Finland, employees are legally entitled to be given 25 days of paid vacation. In the U.S., vacation time is not legally mandated.
3. California, New York, Massachusetts, and Oregon in the U.S. have legislated pay equity between male- and female-intensive jobs, although other states have not.

4. In Japan, compensation levels are determined by using the objective factors of age, length of service, and educational background rather than skill, ability, and performance. Performance does not count until after an employee reaches age 45.
5. In the United Kingdom, employees are allowed up to 52 weeks of maternity leave, and employers must provide partial pay for 39 of those weeks.
6. In 87 percent of large Swedish companies, the head of human resources is on the board of directors.[46,47,48,49]

Because of the diversity of HRM practices around the globe, MNCs need to modify their approaches when they go into these countries if they hope to be successful. Compensation plans, in particular, provide an interesting area of contrast across different cultures.

Drawing on the work of Hofstede (see Chapter 4), it is possible to link cultural clusters and compensation strategies. Each cluster requires a different approach to formulating an effective compensation strategy:

1. In Pacific Rim countries, incentive plans should be group-based. In high-masculinity cultures (Japan, Hong Kong, Malaysia, the Philippines, Singapore), high salaries should be paid to senior-level managers.
2. In EU nations such as France, Spain, Italy, and Belgium, compensation strategies should be similar. In the last two nations, however, significantly higher salaries should be paid to local senior-level managers because of the high masculinity index. In Portugal and Greece, both of which have a low individualism index, profit-sharing plans would be more effective than individual incentive plans, while in Denmark, the Netherlands, and Germany, personal-incentive plans would be highly useful because of the high individualism in these cultures.
3. In the United Kingdom, Ireland, and the U.S., managers value their individualism and are motivated by the opportunity for earnings, recognition, advancement, and challenge. Compensation plans should reflect these needs.[50]

Figure 5–1 shows how specific HRM areas can be analyzed contingently on a country-by-country basis. Take, for example, the information on Japan. When it is contrasted with U.S. approaches, a significant number of differences are found. Recruitment and selection in Japanese firms often are designed to help identify those individuals who will do the best job over the long run. In the U.S., people often are hired based on what they can do for the firm in the short run because many of them eventually will quit or be downsized. Similarly, the Japanese use a great deal of cross-training, while the Americans tend to favor specialized training. The Japanese use group performance appraisal and reward people as a group; at least traditionally, Americans use manager-subordinate performance appraisal and reward people as individuals. In Japan, unions are regarded as partners; in the U.S., management and unions view each other in a much more adversarial way. Only in the area of job design, where the Japanese use a great deal of participative management and autonomous work teams, are the Americans beginning to employ a similar approach. The same types of differences can be seen in the matrix of Figure 5–1 among Japan, Germany, Mexico, and China.

These differences should not be interpreted to mean that one set of HRM practices is superior to another. In fact, research from Japan and Europe shows that these firms often have a higher incidence of personnel-related problems than do U.S. companies. Figure 5–1 clearly indicates the importance of MNCs using a contingency approach to HRM across cultures. Not only are there different HRM practices in different cultures, but there are also different practices within the same cultures. For instance, one study involving 249 U.S. affiliates of foreign-based MNCs found that in general, affiliate HRM practices closely follow local practices when dealing with the rank and file but even more closely approximate parent-company practices when dealing with upper-level management.[51] In other words, this study found that a hybrid approach to HRM was being used by these MNCs.

Aside from the different approaches used in different countries, it is becoming clear that common assumptions and conventional wisdom about HRM practices in certain countries no longer are valid. For example, for many years, it was assumed that Japanese

Figure 5–1 **A Partially Completed Contingency Matrix for International Human Resource Management**

	Japan	Germany	Mexico	China
Recruitment and selection	• Prepare for a long process. • Ensure that your firm is "here to stay." • Develop a trusting relationship with a recruit.	• Obtain skilled labor from government-subsidized apprenticeship programs.	• Use expatriates sparingly. • Recruit Mexican nationals at U.S. colleges	• Recent public policy shifts encourage the use of sophisticated selection procedures.
Training	• Make substantial investment in training. • Use general training and cross-training. • Training is everyone's responsibility.	• Reorganize and utilize apprenticeship programs. • Be aware of government regulations on training.	• Use bilingual trainers.	• Carefully observe existing training programs. • Utilize team training.
Compensation	• Use recognition and praise as motivators. • Avoid pay for performance.	• Note high labor costs for manufacturing.	• Consider all aspects of labor cost.	• Use technical training as reward. • Recognize egalitarian values. • Use "more work, more pay" with caution.
Labor relations	• Treat unions as partners. • Allow time for negotiations.	• Be prepared for high wages and short workweek. • Expect high productivity from unionized workers.	• Understand changing Mexican labor law. • Prepare for increasing unionization of labor.	• Tap large the pool of labor cities. • Lax labor laws may become more stringent.
Job design	• Include participation. • Incorporate group goal setting • Use autonomous work teams • Use uniform, formal approaches. • Encourage co-worker input. • Empower teams to make decisions.	• Utilize works councils to enhance worker participation.	• Approach participation cautiously.	• Determine the employee's motives before implementing participation.

Source: Luthans, Fred, Marsnik, Paul A. and Luthans, Kyle W. "A Contingency Matrix Approach to IHRM," *Human Resource Management Journal* 36, no. 2 (1997), 183–199.

employees did not leave their jobs for work with other firms, that they were loyal to their first employer, and that it would have been virtually impossible for MNCs operating in Japan to recruit talent from Japanese firms. However, job-hopping among Japanese employees is becoming increasingly common, reaching a near all-time high in 2017. Perhaps most interesting is that this cultural shift is being driven by highly experienced employees who are in the middle of their careers.[52]

These findings clearly illustrate one important point: Managing across cultures requires careful understanding of the local environment because common assumptions and stereotypes may not be valid. Cultural differences must be addressed, and this is why cross-cultural research will continue to be critical in helping firms learn how to manage across cultures.[53,54]

Cultural Differences in Selected Countries and Regions

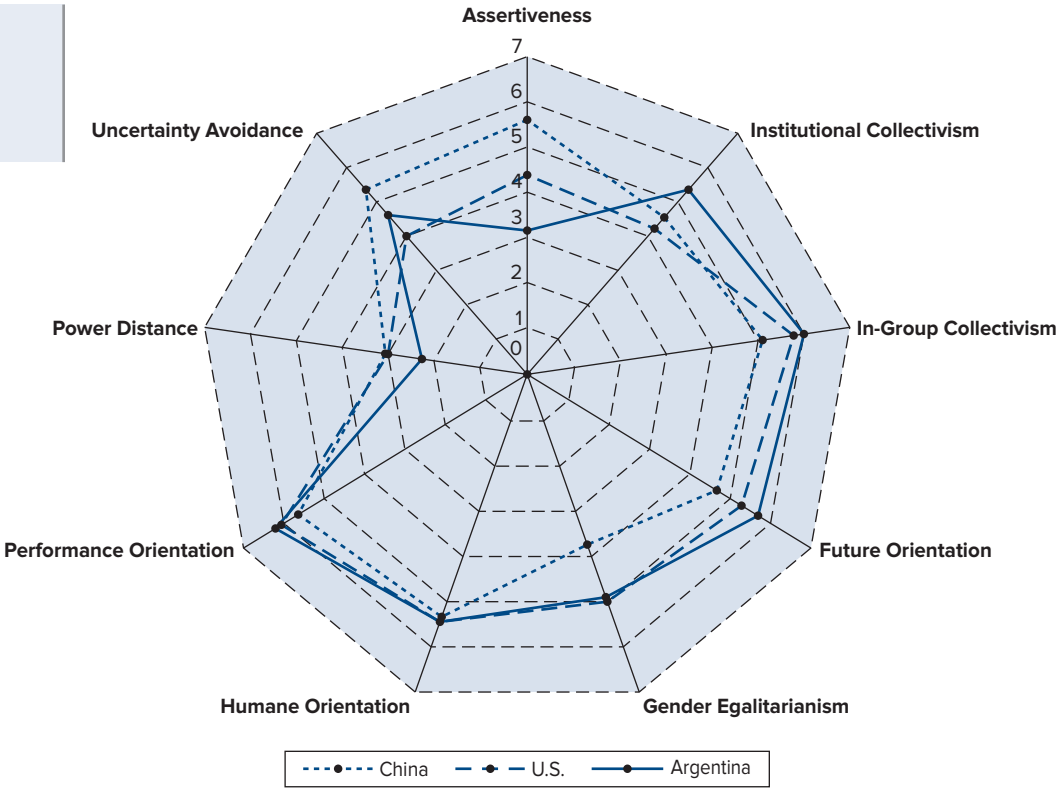
As noted in Part One and in Chapter 4, MNCs are increasingly active in all parts of the world, including the developing and emerging regions because of their recent growth and future potential. Chapter 4 introduced the concept of country clusters, which is the idea that certain regions of the world have similar cultures. For example, the way that Americans do business in the U.S. is very similar to the way that the British do business in England. Even in this Anglo culture, however, there are pronounced differences, and, in other clusters, such as in Asia, these differences become even more pronounced. This section focuses on cultural highlights and differences in selected countries and regions that provide the necessary understanding and perspective for effective management across cultures.

Using the GLOBE Project to Compare Managerial Differences

Examination of the GLOBE project has resulted in an extensive breakdown of how managers behave and how different cultures can yield managers with similar perspectives in some realms, with quite divergent opinions in other sectors. One example, as illustrated in Figure 5–2, shows how the value scores for managers in China compare to those of managers in the U.S. and Argentina. The web structure, based on factors such as individualism, the consciousness of social and professional status, and risky behaviors, can be used to show both similarities and differences among multiple cultures at once, indicating potential areas of cultural misunderstanding when conducting business. As can be seen through the web structure shown, Chinese managers typically score higher than their Argentine and U.S. counterparts in the area of uncertainty avoidance. This indicates that Chinese managers prefer structured situations, rules, and careful planning, while their counterparts in the U.S. and Argentina are more open to looser restrictions and more unplanned situations. When managers from the U.S. and Argentina are conducting business in a culture with high uncertainty avoidance preferences, like China, it is suggested

Figure 5–2

GLOBE Analysis: Comparing Values in China, the U.S., and Argentina



Source: Original graphic by Professor Jonathan Doh based on data from the GLOBE project research.

that they give their employees a clear plan and a structural framework to complete their assigned tasks. Interestingly, all three countries score similarly low in the area of power distance, indicating that managers in these cultures prefer structures with less hierarchy and more equality—even if, in practice, the opposite is true within their country.[55]

As shown in the figure, Chinese managers tend to value assertiveness significantly more than managers from Argentina, indicating that aggressive or confrontational behavior in a business negotiation, for example, would not be viewed in a negative way by Chinese businesspeople but might by Argentine businesspeople. A Chinese businessperson may walk away from intense negotiation feeling as though things went well, while an Argentine counterpart across the table might view the same meeting as unproductive and detrimental.[56]

One interesting development is the increasing frequency of managers and executives from one part of the world assuming leadership roles in another. For example, in April 2021, Mitsubishi Chemical Holdings named Belgian Jean-Marc Gilson as its CEO in the country's first appointment of a foreign executive to run a large local company since Carlos Ghosn's arrest and dismissal from Renault-Nissan-Mitsubishi.[57] He joins the ranks of the few, but an increasing number of, foreign heads of Japanese firms, who now include Christophe Weber, CEO of Takeda Pharmaceutical Company; and Eva Chen, CEO of Trend Micro. Foreign CEOs still face cultural difficulties, however. Because Japanese culture tends to favor executives who are humble, keep a low profile, and refuse the high salaries typical in other countries. Carlos Ghosn's alleged misdeeds including underreporting his income and misusing company funds, coupled with his extravagant personality, were seen as particularly offensive.[58] Another example can be seen at Nippon Sheet Glass, where American Craig Naylor resigned suddenly in 2012 after just two years as CEO. Naylor cited "fundamental disagreements with the board on company strategy" as the key reason for his departure.[59] Chapters 13 and 14 provide an in-depth discussion of leadership and human resource management across cultures, respectively. Because of the increasing importance of developing and emerging regions and countries in the global economy, knowledge of these contexts is more and more important for global managers. In a study by the China Europe International Business School's Leadership Behavioral Laboratory and the Center for Creative Leadership, executives identified critical characteristics in their careers that contributed to their development as managers in emerging-markets settings. These included setting an example for junior employees and learning to thrive in unstable environments.[60] In addition, managers emphasized the importance of learning about their business and the emerging-markets environment, through formal classes, mentoring, and direct experience.

Managing Culture in Selected Countries and Regions

More specific insights into cultural practices specific to China, Russia, India, France, Brazil, and the Arab countries are presented in this section. Before this discussion, however, it is important to note a word of caution on overgeneralizing about cultures. Businesspeople from all cultures are individuals with unique personalities and styles; there are always exceptions to the general cultural characteristics discussed in the following sections. Stereotyping in cross-cultural dealings is unwarranted. In this chapter, we review general cultural characteristics, but, from your own experience, you know the importance of understanding of the particular individuals or situations you are dealing with.

Managing Culture in China The People's Republic of China (China, for short) has had a long tradition of isolation. In 1979, Deng Xiaoping opened this country to the world. Although his bloody 1989 put-down of protesters in Tiananmen Square was a definite setback for progress, China is rapidly trying to close the gap between itself and economically advanced nations and to establish itself as a power in the world economy. As noted in Chapter 1, China is actively trading in world markets, is a member of the WTO, and is a major trading partner of the U.S. Despite this global presence, many U.S. and European multinationals still find that doing business in China can be a long, grueling process.[61,62] Foreign firms still find it difficult to make a profit in China. One primary

reason is that Western-based MNCs do not appreciate the important role and impact of Chinese culture.

Experienced executives report that the primary criterion for doing business in China is technical competence. For example, in the case of MNCs selling machinery, Chinese businesspeople tend to want to know exactly how the machine works, what its capabilities are, and how repairs and maintenance must be handled. Sellers must be prepared to answer these questions precisely. This is why successful multinationals send only seasoned engineers and technical people to China. They know that the questions to be answered will require both knowledge and experience, and young, fresh-out-of-school engineers will not be able to answer them.

A major cultural difference between China and many Western countries is the issue of time. Chinese culture tends to value punctuality, so it is important that those who do business with them arrive on time, as discussed in Chapter 4. During meetings, such as those held when negotiating a contract, Chinese businesspeople may ask many questions and nod their assent at the answers. This nodding usually means that they understand or are being polite; it seldom means that they like what they are hearing and want to enter into a contract. For this reason, when dealing with Chinese businesspeople, one must keep in mind that patience is critically important. Chinese businesspeople will make a decision in their own good time, and it is common for outside businesspeople to make several trips to China before a deal is finally concluded. Moreover, not only are there numerous meetings but sometimes these are unilaterally canceled at the last minute and rescheduled. This often tries the patience of outsiders and is inconvenient in terms of rearranging travel plans and other problems.

guanxi
In Chinese, "good connections."

Another important dimension of Chinese culture is **guanxi**, which means "good connections."[63] In turn, these connections can result in such things as lower costs for doing business.[64] Yet guanxi goes beyond just lower costs. Several studies found that guanxi networking offered a number of potential benefits, including greater trust and increased business success.[65] In practice, guanxi resembles nepotism, where individuals in authority make decisions on the basis of family ties or social connections rather than objective indices.[66] Additionally, outsiders doing business in China must be aware that Chinese people typically argue that they have the guanxi to get a job done when in reality, they may or may not have the necessary connections.

When conducting business in China, one must realize that the Chinese are a collective society in which people pride themselves on being members of a group. Chinese people are very proud of their collective economic accomplishments and want to share these feelings with outsiders. This is in sharp contrast to the situation in the U.S. and other Western countries, where individualism is highly prized. For this reason, one must never single out a Chinese employee and praise him or her for a particular quality, such as intelligence or kindness, because doing so may embarrass the individual in the presence of his or her peers. It is equally important to avoid using self-centered conversation, such as excessive use of the word *I* because it appears that the speaker is trying to single him- or herself out for special consideration.

In negotiations, reciprocity is important. If Chinese partners give concessions, they expect some in return. Additionally, it is common to find them slowing down negotiations to take advantage of Westerners' desire to conclude arrangements as quickly as possible. The objective of this tactic is to extract further concessions. Another common strategy used by Chinese businesspeople is to pressure the other party during final arrangements by suggesting that this counterpart has broken the spirit of friendship in which the business relationship originally was established. Again, through this strategy, the Chinese partners are trying to gain additional concessions. Because negotiating can involve a loss of face, it is common to find Chinese businesspeople carrying out the whole process through intermediaries. This allows them to convey their ideas without fear of embarrassment.[67] During negotiations, it is also important not to show excessive emotion of any kind. Anger or frustration, for example, is viewed as antisocial and unseemly. Negotiations should be viewed with a long-term perspective. Those who will do best are the ones who realize they are investing in a long-term relationship.[68]

While these are the traditional behaviors of Chinese businesspeople, the transitioning economy (see Chapter 1) has also caused a shift in business culture, which has affected working professionals' private lives. Performance, which was once based on effort, is now being evaluated from the angle of results as the country continues to maintain its flourishing profits. While traditional Chinese culture focused on family first, financial and material well-being has become a top priority. This performance orientation has increased stress and contributed to the growing incidence of burnout, depression, substance abuse, and other ailments. Some U.S. companies have attempted to curb these psychological ailments by offering counseling; however, this service is not as readily accepted by Chinese culture. Instead of bringing attention to the "counseling" aspect, firms instead promote "workplace harmony" and "personal well-being services."[69] This suggests that while some aspects of Chinese culture are changing, international managers must recognize the foundational culture of the country and try to deal with such issues according to local beliefs.

Managing Culture in India In recent years, India has begun to attract the attention of large MNCs. Unsaturated consumer markets, coupled with cheap labor and production locations, have helped make India a desirable market for global firms. The government continues to play an important role in this process, although recently many of the bureaucratic restrictions have been lifted as India works to attract foreign investment and raise its economic growth rate.[70,71] In addition, although most Indian businesspeople speak English, many of their values and beliefs are markedly different from those in the West. Thus, understanding Indian culture is critical to successfully doing business in India.

Shaking hands with male business associates is almost always an acceptable practice. Foreign businesspeople in India are considered equals, however, and an accepted method of greeting an equal is to press one's palms together in front of the chest and say, "Namaste," which means "greetings to you." Therefore, if a handshake appears to be improper, it always is safe to use "namaste." It is important to note that India is culturally very diverse, with different languages and food cultures in different states. Although not common in business settings, banana leaves are often used instead of plates to serve meals during traditional events in southern states. It is common to use hands to eat meals in addition to or in place of cutlery. Food choices may also depend on religion, with beef shunned by the Hindu-majority population.

For Western business people in India, business casual attire or, in more formal situations, business formal attire is the norm. Indian businesspeople, on the other hand, often will wear traditional clothes, such as saris worn by women. Attire may also depend on religious practices, such as turbans worn by Sikhs. However, many Indian professionals also wear western formal attire, and it is unnecessary to adopt local dress codes.[72]

Finally, it is important to remember that Indians are very tolerant of outsiders and understand that many are unfamiliar with local customs and procedures. Therefore, there is no need to make a phony attempt to conform to Indian cultural traditions. Making an effort to be polite and courteous is sufficient.[73]

Managing Culture in France Many in the U.S. believe that it is more difficult to get along with the French than with other Europeans. This feeling probably reflects the French culture, which is markedly different from that in the U.S. In France, one's social class is very important, and these classes include the aristocracy, the upper bourgeoisie, the upper-middle bourgeoisie, the middle, the lower middle, and the lower. Social interactions are affected by class stereotypes, and, during their lifetime, most French people do not encounter much change in social status. Additionally, the French are very status-conscious, and they like to provide signs of their status, such as knowledge of literature and the arts; a well-designed, tastefully decorated house; and a high level of education.

In the workplace, many French people are not motivated by competition or the desire to emulate fellow workers. They often are accused of not having as intense a work ethic as, for example, Americans or Asians. Many French workers frown on overtime, and statistics show that on average they have the longest vacations in the world (four to five weeks annually). On the other hand, few would disagree that they work extremely hard in their regularly

scheduled time and have a reputation for high productivity. Part of this reputation results from the French tradition of craftsmanship. Part of it also is accounted for by a large percentage of the workforce being employed in small, independent businesses, where there is widespread respect for a job well done. In general, French employees do not derive much motivation from professional accomplishments. Rather, they believe that quality of life is what really matters. As a result, they attach a great deal of importance to leisure time, and many are unwilling to sacrifice the enjoyment of life for dedication to work.

Most French organizations tend to be highly centralized and have rigid structures. As a result, it usually takes longer to carry out decisions. Because this arrangement is quite different from the more decentralized, flattened organizations in the U.S., both middle- and lower-level U.S. expatriate managers who work in French subsidiaries often find bureaucratic red tape a source of considerable frustration. There also are marked differences at the upper levels of management. In French companies, top managers have far more authority than their U.S. counterparts, and they are less accountable for their actions. While top-level U.S. executives must continually defend their decisions to the CEO or board of directors, French executives are challenged only if the company has poor performance. As a result, those who have studied French management find that French executives take a more autocratic approach.[74]

Managing Culture in Brazil Brazil is considered a Latin American country, but it is important to highlight this nation because some characteristics make it markedly different to manage as compared to other Latin American countries.[75] Brazil was originally colonized by Portugal, and it remained affiliated with its parent country until 1865. Even though today Brazil is extremely multicultural, the country still demonstrates many attributes derived from its Portuguese heritage, including its official language. For example, the Brazilian economy was once completely centrally controlled, like those of many other Latin American countries, yet was motivated by such Portuguese influences as flexibility, tolerance, and commercialism.[76] This may be a significant reason behind its successful economic emergence.

Brazilian businesspeople tend to have a relaxed work ethic, often respecting those who inherit wealth and have strong familial roots over those seeking entrepreneurial opportunities. They view time in a very relaxed manner, so punctuality is not a strong suit in this country. Overall, the people are very good-natured and tend to avoid confrontation, yet they seek out risky endeavors.

In Brazil, physical contact is acceptable as a form of communication. Brazilian businesspeople tend to stand very close to others when having a conversation and touch the person's back, arm, or elbow as a greeting or sign of respect. Additionally, face-to-face interaction is preferred as a way to communicate, so avoid simply e-mailing or calling. Do not be surprised if business meetings begin anywhere from 10 to 30 minutes after the scheduled time because Brazilian culture tends to not be governed by the clock.

Appearance can be very important to Brazilian culture, as it will reflect both you and your company. When conducting business, men should wear conservative dark suits, shirts, and ties. Women should dress nicely but avoid too conservative or formal attire. Brazilian managers often wonder, for example, If Americans make so much money, why do they dress as if they were poor?

Patience is key when managing business in Brazil. Many processes, including negotiations, are longer and more drawn out than in other cultures. Expressing frustration or impatience and attempting to speed up procedures may lose the deal. The slow processes and relaxed atmosphere do not imply that it is acceptable to be ill-prepared. Presentations should be informative and expressive, and consistency is important. It is common for Brazilian businesspeople to bring a lot of people to attend negotiations, mostly to observe and learn. Subsequent meetings may include members of higher management, requiring a rehashing of information.[77,78]

Managing Culture in Arab Countries The intense media attention given to the Syrian Civil War, the Iraq War, terrorist actions, and other continuing conflicts in the Middle East has perhaps revealed to everyone that Arab cultures are distinctly different from Anglo cultures.[79,80] Many Arab nations have reformed traditional cultural practices in recent years,

such as Saudi Arabia ending its mandate on gender segregation in restaurants. Europeans and Americans, however, still often find it extremely hard to do business in Arab countries, and a number of Arab cultural characteristics can be cited for this difficulty.

One such characteristic is the Arab view of time. In the U.S., it is common to use the cliché "Time is money." In Arab countries, a favorite expression is *Bukra Insha Allah,* which means "Tomorrow if God wills," an expression that explains the fatalistic approach to time common to many Arab cultures. As a result, if Arab businesspeople commit themselves to a date in the future and fail to show up, they may feel no guilt or concern because they believe they have no control over time in the first place.

When conducting business in an Arab country, it is important to understand that culture generally holds that destiny depends more on the will of a supreme being than on the behavior of individuals. A higher power dictates the outcome of important events, so individual action is of little consequence. Also of importance is that in the culture of many Arab countries, social status is largely determined by family position and connections, not necessarily by accomplishments.

In Arab countries, initial meetings are typically used to get to know the other party. Business-related discussions may not occur until the third or fourth meeting. Also, in contrast to the common perception among many Western businesspeople who have never been to an Arab country, it is not necessary to bring the other party a gift. If this is done, however, it should be a modest gift. A good example is a novelty or souvenir item from the visitor's home country. Also, Arab businesspeople tend to attach a great deal of importance to status and rank. When meeting with them, one should pay deference to the senior person first. It also is important never to criticize or berate anyone publicly. This causes the individual to lose face, and the same is true for the person who makes these comments. Mutual respect is required at all times.[81]



The World of International Management—Revisited

Management at many companies and in many countries is becoming more and more multicultural, yet individual corporate cultures persist. Apple and Xiaomi, as discussed in the chapter-opening World of International Management, are both examples of highly successful companies with radically different approaches to strategy and management. Apple prides itself on groundbreaking innovation, individual achievement, and excellence. At Xiaomi, the emphasis is on extending innovations and applications and on group achievement and collective responsibility, all geared toward companywide success. The two companies even take a very different approach to their supply chains, with Apple outsourcing the entirety of its production and only manufacturing its new phone models for about a year, while Xiaomi produces its new phone models for a longer period of time and maintains contracts with suppliers that can adjust production based on frequent changes in demand. In terms of products, Apple is a first mover with a universal product focus, while Xiaomi is a "fast follower" with a variety of phones for its different markets. In some ways, these two companies epitomize the cultures from which they emanate, but both are now global players.

Cross-border investments by Chinese, Indian, and other developing-country firms have prompted investing firms, especially in Europe and North America, to more thoughtfully consider cultural issues as they seek to integrate local companies and employees into their global organizations. As we saw in Chapter 4, East Asian, U.S., and Western European cultures differ on many dimensions, which may pose challenges for companies seeking to operate across these geographic/cultural boundaries.

Now that you have read this chapter, you should have a good understanding of the importance and the difficulties of managing across cultures. Using this knowledge as a platform, answer the following questions: (1) Which aspects of Apple's culture have helped it succeed in its global growth, and which may have impeded it? (2) Which aspects of Xiaomi's culture have helped it succeed in its global growth and which may have impeded it? (3) How would you characterize Apple and Xiaomi in terms of the four basic strategic predispositions? (4) What might Apple learn from Xiaomi and Xiaomi learn from Apple?

SUMMARY OF KEY POINTS

1. One major problem facing MNCs is that they sometimes attempt to manage across cultures in ways similar to those of their home country. MNC dispositions toward managing across cultures can be characterized as (1) ethnocentric, (2) polycentric, (3) regiocentric, and (4) geocentric. These different approaches shape how companies adapt and adjust to cultural pressures around the world.
2. One major challenge when dealing with cross-cultural problems is that of overcoming parochialism and simplification. Parochialism is the tendency to view the world through one's own eyes and perspectives. Simplification is the process of exhibiting the same orientation toward different cultural groups. Another problem is that of doing things the same way in foreign markets as they are done in domestic markets. Research shows that in some cases this approach can be effective; however, effective cross-cultural management more commonly requires approaches different from those used at home. One area where this is particularly evident is human resource management. Recruitment, selection, training, and compensation often are carried out in different ways in different countries, and what works in the U.S. may have limited value in other countries and geographic regions.
3. Doing business in various parts of the world requires the recognition and understanding of cultural differences. Some of these differences revolve around the importance the society assigns to time, status, control of decision making, personal accomplishment, and work itself. These types of cultural differences help explain why effective managers in China or Russia often are quite different from those in France, and why a successful style in the U.S. will not be ideal in Arab countries.

KEY TERMS

ethnocentric predisposition, *165*
geocentric predisposition, *165*
globalization imperative, *166*
guanxi, *176*
parochialism, *168*
polycentric predisposition, *165*
regiocentric predisposition, *165*
simplification, *168*

REVIEW AND DISCUSSION QUESTIONS

1. Define the four basic predispositions MNCs have toward their international operations.
2. If a locally based manufacturing firm with sales of US$350 million decided to enter the EU market by setting up operations in France, which orientation would be the most effective: ethnocentric, polycentric, regiocentric, or geocentric? Why?
3. In what ways are parochialism and simplification barriers to effective cross-cultural management? In each case, give an example.
4. Many MNCs would like to do business overseas in the same way that they do business domestically. Do research findings show that any approaches that work well in the U.S. also work well in other cultures? If so, identify and describe two.
5. In most cases, local managerial approaches must be modified for doing business overseas. What are three specific examples that support this statement? Be complete in your answer.
6. What are some categories of cultural differences that help make one country or region of the world different from another? In each case, describe the value or norm and explain how it would result in different behavior in two or more countries. If you like, use the countries discussed in this chapter as your point of reference.

INTERNET EXERCISE: HAIER'S APPROACH

Haier is a China-based multinational corporation that sells a wide variety of commercial and household appliances in the international marketplace. These range from washers, dryers, and refrigerators to industrial heating and ventilation systems. Visit Haier's website at **http://eww.haier.net** and read about some of the latest developments in which the company is engaged: (1) What type of cultural challenges does Haier face when it attempts to market its products worldwide? Is demand universal for all these offerings, or is there a "national responsiveness" challenge, as discussed in the chapter, that must be addressed? (2) Investigate the way in which Haier has adapted its products in different countries and regions, especially emerging markets. What are some examples? (3) In managing its far-flung enterprise, what are two cultural challenges that the company is likely to face, and what will it need to do to respond to these?

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Poland



In the International Spotlight

Poland is located in Central Europe and shares borders with Germany, the Czech Republic, Slovakia, Ukraine, Belarus, and Lithuania. The Baltic Sea is located to the northwest. Slightly smaller than New Mexico, the country's terrain is largely flat with mountain ranges along its southern border. Its climate is relatively cool, with moderately severe winters and mild summer temperatures. Poland's history dates back to the 10th century. After nearly 800 years as a sovereign country, Poland was partitioned in the 18th century by Russia, Prussia, and Austria. The country regained its independence at the conclusion of the First World War, only to be occupied by Germany in the Second World War. From 1947 to 1989, Poland functioned as a satellite nation of the Soviet Union. In the early 1990s, a "shock therapy" economic program and a series of democratic, market-oriented policy shifts transformed the Polish economy into one of the most robust in Central Europe.[82] The country became a parliamentary republic and was one of the first ex-communist countries to embrace a capitalistic economy with privatization and economic liberalization. It joined NATO in 1999 and became a member of the European Union in 2004.

Poland's population, estimated at 37.95 million in 2020, has remained steady for the last several years.[83] With a median age of 42, Poland has an older-than-average population. The country is almost entirely made up of native Poles. Silesian, German, and Ukrainian immigrants constitute less than 4 percent of the population. Poland has no citizenship by birth; instead, citizenship is awarded by descent, which requires both parents to be citizens of Poland. Most of the population is Roman Catholic.[84]

Poland's GDP stands at US$596 billion, or approximately US$15,700 per capita. Although real GDP shrank 2.7 percent in 2020, the country has been one of the best performers during the Covid-19 pandemic. Growth in the three preceding years was above 4.5 percent, with steady economic gains in prior years.[85,86] Poland was also one of the only countries in the European Union to avoid a recession during 2008–2009. Once a largely agricultural nation, the country's economy has transitioned to one based primarily on industry (41 percent) and services (57 percent). The labor force, with 9.6 million people, ranks 51st in the world in size. Poland's main export partners include Germany, the U.K., the Czech Republic, France, Italy, the Netherlands, and Russia. Machinery and transportation equipment, intermediate manufactured goods, miscellaneous manufactured goods, foodstuffs, and live animals are all major exports.[87]

The country's economic success following the fall of the Soviet Union was largely attributed to the government's success at privatizing most of the small and medium state-owned companies and encouraging foreign direct investment. Poland's major difficulties lie in its somewhat deficient infrastructure, rigid labor codes, a burdensome commercial court system, extensive government red tape, a lack of energy mix, and a burdensome tax system.[88]

Poland's proximity to Ukraine, with a shared 330-mile border, and its membership in NATO have made it crucially important in the Russia–Ukraine war in 2022. It has been a source point for the global supply of military aid to Ukraine. It has also served as a safe haven for millions of Ukrainian refugees.[89]

You Be the International Management Consultant

For decades, Poland relied primarily on Russian coal to electrify its grid, leaving it vulnerable to energy disruptions. A prior conflict between Russia and Ukraine in 2009 resulted in Russian energy giant Gazprom shutting down a critical pipeline, causing Poland and its neighbors to experience blackouts for three weeks. When Russia annexed Crimea in 2014, the then Polish prime minister, Donald Tusk, warned that Europe risked depending too much on Russia for energy. To avoid future disruptions, Poland began transitioning to the use of liquid natural gas (LNG), provided by Qatar, Norway, and the U.S. In 2018, three U.S.-based companies—Cheniere Energy, Venture Global LNG, and Sempra Energy—signed long-term agreements with Poland. An LNG terminal in the Baltic port of Świnoujście and the Baltic Pipe connecting Poland to Norway's offshore gas fields were built. Saudi Aramco is entering into a deal to supply almost half of Poland's oil.[90,91,92,93]

Following Russia's recent invasion of Ukraine, Poland does not plan to renew its contract with Gazprom which ends after 2022. However, Russia currently supplies 55 percent of Poland's demand for gas and two-thirds of its demand for oil.[94]

Questions

1. If you were a consultant for the Polish government, would you advise policies that detach the country from Russian energy, despite its cost advantage?
2. If you were a consultant for an American LNG company, would you recommend targeting Polish customers? Why or why not?
3. If you were a consultant for Gazprom, how would you attempt to solve the issue of countries attempting to separate themselves from your energy?

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Chapter 6

ORGANIZATIONAL CULTURES AND DIVERSITY

OBJECTIVES OF THE CHAPTER

The previous two chapters focused on national cultures. The overriding objective of this chapter is to examine the interaction of national culture (diversity) and organizational cultures and to discuss ways in which MNCs can manage the often inherent conflicts between national and organizational cultures. Many times, the cultural values and resulting behaviors that are common in a particular country are not the same as those in another. To be successful, MNCs must balance and integrate the national cultures of the countries in which they do business with their own organizational culture. Employee relations, which includes how organizational culture responds to national culture or diversity, deals with internal structures and defines how the company manages. Customer relations, associated with how national culture reacts to organizational cultures, reflects how the local community views the company from a customer service and employee satisfaction perspective.

Although the field of international management has long recognized the impact of national cultures, only recently has attention been given to the importance of managing organizational cultures and diversity. This chapter first examines common organizational cultures that exist in MNCs, then presents and analyzes ways in which multiculturalism and diversity are being addressed by the best, world-class multinationals. The specific objectives of this chapter are

1. **DEFINE** exactly what is meant by *organizational culture* and discuss the interaction of national and MNC cultures.
2. **IDENTIFY** the four most common categories of organizational culture that have been found through research and discuss the characteristics of each.
3. **PROVIDE** an overview of the nature and degree of multiculturalism and diversity in today's MNCs.
4. **DISCUSS** common guidelines and principles that are used in building multicultural effectiveness at the team and organizational levels.

The World of International Management

The Fundamentals of Strong Multinational Teams

According to many international consultants and managers, diverse and global teams are one of the most consistent sources of competitive advantage for any organization. In today's multinational organizations, these global teams are also "virtual" teams. According to a study by Kirkman, Rosen, Gibson, and Tesluk, virtual teams are "groups of people who work interdependently with shared purpose across space, time, and organization boundaries using technology to communicate and collaborate."[1] These teams are often cross-cultural and cross-functional. Furthermore, Kirkman and colleagues explain that virtual teams allow "organizations to combine the best expertise regardless of geographic location."[2]

When building a successful multinational team, international managers face a unique set of additional challenges. When working virtually, team members may be more likely to experience miscommunication, become frustrated, and feel excluded. We illustrate several of these challenges in the Brief Integrative Case 2.1 — The X-Culture Project. By working to better understand cultural differences, build trustworthy communication, and embrace diversity, multinational managers can better ensure the success and efficiency of their teams.

Understanding Cultural Differences

Forming cohesive teams, especially when working with people from differing cultural backgrounds, can pose a big challenge to MNCs. Deloitte Touche Tohmatsu, an international accounting and consulting firm, has embraced a global mindset when building its virtual teams. Leadership is trained to adapt to the cultural differences that their globally located employees exhibit. Leveraging the experiences of one of their global teams, the company conducted a three-month study into how cultural dynamics impact performance and success. The team included employees from Spain, Germany, Australia, the U.S., and Japan. Through this study, Deloitte identified four key findings regarding culture and global leadership:

1. "Cultural and/or personality diversity is in the eye of the beholder." Despite prior assumptions that cultural differences would have the largest impact on the team's final deliverable, the team members in the study were split

as to whether culture or personality led to a greater impact. In many instances, the individual personalities of the team members, irrespective of national origin, were shown to be equally as differentiating.

2. "Cultural diversity can positively contribute to people's professional and personal enjoyment of the project, as well as a project's outcome." The team members in the study universally expressed an enhanced experience from working with others of differing cultures. A few factors seemed to lead to this. Having genuine curiosity about their fellow team members, learning how to build new types of relationships, and being challenged to think differently were all found to be enjoyable by the employees.
3. "Cultural diversity can indirectly encourage project members to rethink their usual working habits and expectations, behave with fewer assumptions about the 'right' way to address an issue, and promote linguistic clarity." Unexpectedly, the lack of a common first language between team members actually enhanced communication. Employees spent more time ensuring that the content of their communication was clearly understood by the team, and team members reported that they actually found themselves transforming into better listeners.
4. "The dominance of cultural diversity amongst team members reduces the bias to interact with people who have common characteristics and create a unique bond." With each employee bringing a different set of perspectives to the table, the playing field among the team members was more level. The employees expressed a sense of synergy, with many stating that they felt better prepared to overcome challenges by having such a diverse set of skills at their disposal. Ironically, the lack of similarities between the employees in the study actually led to greater personal connections to each other, with team members expressing a familial feeling among the group.[3]

Building Trustworthy Communication

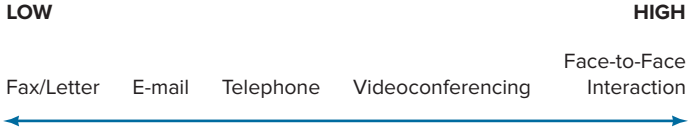
Communicating without face-to-face interaction can have its drawbacks. In a Kenan-Flagler Business School survey, nearly 94 percent of respondents stated that the biggest obstacle in global team communication was the inability to read nonverbal cues.[4] Another study of 3,001 individuals working in 679 global virtual teams as part of the X-Culture project, researchers found the low-richness of online communication as a major obstacle to building cohesion and trust in teams.[5] Intent and emotion can be easily misunderstood when communication occurs only via written correspondence. Furthermore, global teams are challenged with coordinating meetings that work across multiple time zones. Team members are frequently located on opposite sides of the globe, and virtual meetings may need to be held in the early morning or late at night. Being consciously aware of these communication challenges can increase the chances of success for your team.

In her article *Tips for Working in Global Teams,* Melanie Doulton provides helpful suggestions for good communication in a global team:

- When starting a project with a new team, hold an initial meeting in which all members introduce themselves and describe the job each one is going to do.
- Hold regular meetings throughout the project to ensure everyone is "on the same page." Follow-up conference calls with written minutes to reinforce what was discussed and what individual team members are responsible for.
- Put details of the project in writing, especially for a new team in which all team members speak in different accents and use different idioms and colloquialisms.
- Communicate using the most effective technology. For example, decide when an e-mail is preferable to a phone call or instant messaging is preferable to a videoconference. In addition, try to understand everyone's communication style. For example, in a high-context culture such as India, people tend to speak in the passive voice, whereas in North America people use the active voice.[6]

Moreover, while acknowledging the challenges of communication in virtual teams, Steven R. Rayner also points out that when used effectively, written communication can have an advantage. He states, "The process of writing—where the sender must carefully examine how to communicate his/her message—provides the sender with the opportunity to create a more refined response than an 'off-the-cuff' verbal comment."[7]

Likelihood of Message Getting Interpreted Correctly



Source: Rayner, Steven R. "The Virtual Team Challenge." Rayner & Associates, Inc., 1997.

Embracing Diversity

A generation ago, the definition of *diversity* was frequently limited to include only racial and ethnic differences. Today, the concept has been expanded to cover a wide spectrum of different attributes that uniquely contribute to an individual's life experience. This includes variances in culture, education, sexual orientation, religious beliefs, and political ideology, just to name a few. Diversity is not only an inevitable component of multinational teams; it is one of its key advantages. Studies have shown that diverse teams lead to more creativity, greater productivity, and increased professional development.[8] Despite these known advantages, many MNCs still struggle to embrace diversity when constructing their teams.

Uber, known for its ride-sharing services, has become one of the most valuable tech companies in the world. The company has rapidly evolved from a small start-up to a multinational company and, as of 2022, maintains operations in over 80 countries. Despite its success, Uber has faced considerable challenges and public scrutiny as a direct result of its perceived inability to embrace diversity. In 2017, several former employees alleged that the company engaged in sexual harassment, gender bias, and LGBTQ discrimination. Although Uber denied such claims, its founder and CEO, Travis Kalanick, along with several top executives and more than 20 other employees were terminated after further investigation.[9]

In an effort to keep Uber accountable under new CEO Dara Khosrowshahi, the company began releasing a demographics and diversity report to monitor progress. Since the publication of In the first report five years ago in March 2018, women's representation in leadership positions has grown from 22 percent in 2017 to 33.6 percent in 2021. Racially underrepresented groups account for 11.4 percent of leadership positions in 2021 as compared to 3.1 percent in 2017.[10] With more than 29,000 employees across the globe, Uber still faces significant challenges when it comes to being sensitive to diversity and inclusion, both within the company as well as in its policies for customers. In 2021, the justice department in the U.S. sued UBER for overcharging people with disabilities and for being non-compliant with the Americans with Disability Act.[11] However, as Uber continues to encourage cultural, gender, and racial diversity on its teams, the creativity of its products, the productivity of its teams, and its overall public image will all improve.

Advantages of Global Virtual Teams

In addition to the challenges of overcoming cultural and communication barriers, multinational virtual teams have certain advantages over face-to-face teams. First, Kirkman and colleagues concluded that "working virtually can reduce team process losses associated with stereotyping, personality conflicts, power politics, and cliques commonly experienced by face-to-face teams. Virtual team members may be unaffected by potentially divisive demographic differences when there is minimal face-to-face contact." Managers may even give fairer assessments of team members' work because managers are compelled to rely on objective data rather than being influenced by their perceptual biases.[12]

Second, Rayner observed that "having members span many different time zones can literally keep a project moving around the clock. . . . Work doesn't stop—it merely shifts to a different time zone."[13] Third, according to Rayner, "the ability for an organization to bring people together from remote geography and form a cohesive team that is capable of quickly solving complex problems and making effective decisions is an enormous competitive advantage."[14]

For an international manager, this competitive advantage makes overcoming the challenges of managing global teams worth the effort.

As can be seen from Deloitte's and Uber's experiences, there are great benefits inherent in multinational, diverse teams. These teams, which are almost always diverse groups, having members with varying functional, geographic, ethnic, and cultural backgrounds, can be an efficient and effective vehicle for tackling increasingly multidimensional business problems. At the same time, this very diversity brings challenges that are often exacerbated when the teams are geographically distant. Research has demonstrated the benefits of diversity and has offered insight into how best to overcome the inherent challenges of global teams, including those that are "virtual."

In this chapter, we explore the nature and characteristics of organizational culture as it relates to doing business in today's global context. In addition, strategies and guidelines for establishing a strong organizational culture in the presence of diversity are presented.

The Nature of Organizational Culture

The chapters in Part One provided the background on the external environment, and the chapters so far in Part Two have been concerned with the external culture. Regardless of whether this environment or cultural context affects the MNC when individuals join an MNC, not only do they bring their national culture, which greatly affects their learned beliefs, attitudes, values, and behaviors, but they also enter into an organizational culture. Employees of MNCs are expected to "fit in." For example, at PepsiCo, personnel are expected to be cheerful, positive, and enthusiastic and have committed optimism; at Ford, they are expected to show self-confidence, assertiveness, and machismo.[15] Regardless of the external environment or their national culture, managers and employees must

understand and follow their organization's culture to be successful. In this section, after first defining organizational culture, we analyze the interaction between national and organizational cultures. An understanding of this interaction has become recognized as vital to effective international management.

Definition and Characteristics

organizational culture
Shared values and beliefs that enable members to understand their roles and the norms of the organization.

Organizational culture has been defined in several ways. In its most basic form, organizational culture can be defined as the shared values and beliefs that enable members to understand their roles in and the norms of the organization. A more detailed definition is offered by organizational cultural theorist Edgar Schein, who defines it as a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, and that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.[16]

Regardless of how the term is defined, a number of important characteristics are associated with an organization's culture. These have been summarized as the following:

1. Observed behavioral regularities, as typified by common language, terminology, and rituals
2. Norms, as reflected by things such as the amount of work to be done and the degree of cooperation between management and employees
3. Dominant values that the organization advocates and expects participants to share, such as high product and service quality, low absenteeism, and high efficiency
4. A philosophy that is set forth in the MNC's beliefs regarding how employees and customers should be treated
5. Rules that dictate the dos and don'ts of employee behavior relating to areas such as productivity, customer relations, and intergroup cooperation
6. Organizational climate, or the overall atmosphere of the enterprise, as reflected by the way that participants interact with each other, conduct themselves with customers, and feel about the way they are treated by higher-level management[17]

This list is not intended to be all-inclusive, but it does help illustrate the nature of organizational culture. The major problem is that sometimes an MNC's organizational culture in one country's facility differs sharply from organizational cultures in other countries. For example, managers who do well in England may be ineffective in Germany, despite the fact that they work for the same MNC. In addition, the cultures of the English and German subsidiaries may differ substantially from those of the home U.S. location. Effectively dealing with multiculturalism within the various locations of an MNC is a major challenge for international management.

A good example is provided by British-Swedish pharmaceutical MNC AstraZeneca PLC. With operations in over 100 countries on six continents, AstraZeneca's 12-member senior executive team includes leaders from the United Kingdom, India, China, Croatia, Sweden, France, the U.S., and the Netherlands.[18] The employees come from 169 different countries, with about 40 percent coming from Asia, Africa, and Australia.[19] To unite such a diverse set of employees under a common corporate culture, AstraZeneca's Global Steering Group has focused on three universal cultural pillars: "Leadership and Management Capability," "Transparency in Talent Management and Career Progression," and "Work/Life Challenges." In 2021, AstraZeneca spent $35 million on developing a culture of lifelong learning and expanding the diversity and inclusion learning programs.[20,21]

In some cases, companies have deliberately maintained two different business cultures because they do not want one culture influencing the other.[22] A good example is provided by the Tata Group, a giant conglomerate based in India, which has made multiple

transnational acquisitions in recent years. When its automobile subsidiary, Tata Motors, bought control of Daewoo, a Korean automaker, it used a strategy that is not very common when one company controls another. Rather than impose its own culture on the chain, Tata's management took a back seat. To emphasize this approach, Tata Group chairman Ratan Tata publicly stated that "Tata Motors will operate Daewoo as a Korean company, in Korea, managed by Koreans."[23] Tata maintained the Daewoo brand name, appointed a Korean as the new CEO, and operated as a Korean business. The union vice president even remarked, "Though Tata is a foreign company, we were able to confirm that it recognizes and respects Korea in many aspects." In the first four years after the acquisition, revenue doubled, operating profit grew sevenfold, and trust between the employees' union and management improved.[24]

Tata Chemicals took a similar approach when it purchased British soda ash producer Brunner Mond and its Kenyan subsidy, Magadi Soda. To maintain the existing company culture at Brunner Mond and Magadi Soda, Tata Chemicals did not change the companies' names or logos, kept all existing senior executives in place, and made it clear that all major decisions would be made jointly among Brunner Mond, Magadi Soda, and Tata Chemicals. To ensure a smooth ownership transition, executives from all three companies jointly created a plan of action for the first 100 days post-acquisition. Since then, Tata Chemicals has leveraged resources from all three companies to build strong relationships with external suppliers, expand global growth opportunities, and coordinate sales and operations.[25]

Interaction between National and Organizational Cultures

There is a widely held belief that organizational culture tends to moderate or erase the impact of national culture. The logic of such conventional wisdom is that if a U.S. MNC set up operations in, say, France, it would not be long before the French employees began to "think like Americans." In fact, evidence is accumulating that just the opposite may be true. Hofstede's research found that the national cultural values of employees have a significant impact on their organizational performance, and that the cultural values employees bring to the workplace are not easily changed by the organization. So, for example, while some French employees would have a higher power distance than Swedes and some a lower power distance, chances are "that if a company hired locals in Paris, they would, on the whole, be less likely to challenge hierarchical power than would the same number of locals hired in Stockholm."[26]

Andre Laurent's research supports Hofstede's conclusions.[27] He found that cultural differences are actually more pronounced among foreign employees working within the same multinational organization than among personnel working for firms in their native lands. Nancy Adler summarized these research findings as follows:

> When they work for a multinational corporation, it appears that Germans become more German, Americans become more American, Swedes become more Swedish, and so on. Surprised by these results, Laurent replicated the research in two other multinational corporations, each with subsidiaries in the same nine Western European countries and the U.S. Similar to the first company, corporate culture did not reduce or eliminate national differences in the second and third corporations. Far from reducing national differences, organization culture maintains and enhances them.[28]

There often are substantial differences between the organizational cultures of different subsidiaries, and, of course, this can cause coordination problems. For example, when Lucent Technologies Inc. of Murray Hill, New Jersey, merged with Alcatel SA of Paris, France, both parties failed to realize some of the cultural differences between themselves and their new partners. Leadership concerns due to cultural misunderstandings arose from the very beginning of the merger. Frenchman Serge Tchuruk was appointed chair of the combined company, while American Patricia Russo was appointed as CEO. In France, the chair is often seen as the company's leader, while, in the U.S.,

the CEO is viewed as the person highest in command. This cultural difference led to confusion as to whether Russo or Tchuruk was actually in charge.[29] Additionally, Patricia Russo did not speak French, despite leading a now-French company, resulting in additional confusion.[30]

When Alcatel-Lucent faced financial crises, the cultural response differed greatly between the American and French executives, leading to further disagreement. In the U.S., jobs are often cut when finances are pressured, while, in France, companies tend to reach out to the government for assistance. As a result, Alcatel-Lucent was unable to cut costs but also unable to secure government assistance.[31] Local restrictions, overlooked before the merger, further hindered the combined company's success and added to the financial strain; in Bonn, Germany, for example, the company was required to keep both Lucent's and Alcatel's original offices open, despite employing only a combined 75 employees.[32] After just a few years, both top executives were forced to step aside. The merger never did result in profitability for the company; for all seven years that Alcatel-Lucent operated independently before being acquired by Nokia in 2015, the company posted negative cash flows.

In examining and addressing the differences between organizational cultures, Hofstede provided the early database of a set of proprietary cultural-analysis techniques and programs known as DOCSA (Diagnosing Organizational Culture for Strategic Application). This approach identifies the dimensions of organizational culture summarized in Table 6–1. It was found that when cultural comparisons were made

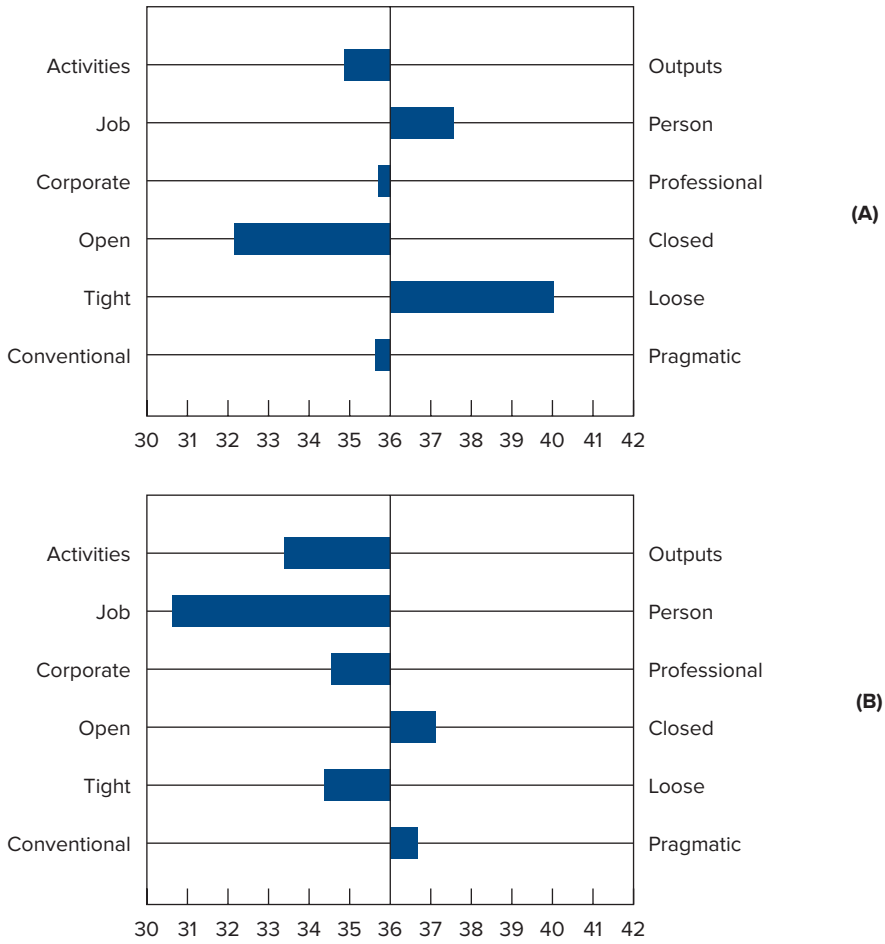
Table 6–1
Dimensions of Corporate Culture

Motivation	
Activities	**Outputs**
To be consistent and precise. To strive for accuracy and attention to detail. To refine and perfect. Get it right.	To be pioneers. To pursue clear aims and objectives. To innovate and progress. Go for it.
Relationship	
Job	**Person**
To put the demands of the job before the needs of the individual.	To put the needs of the individual before the needs of the job.
Identity	
Corporate	**Professional**
To identify with and uphold the expectations of the employing organizations.	To pursue the aims and ideals of each professional practice.
Communication	
Open	**Closed**
To stimulate and encourage a full and free exchange of information and opinion.	To monitor and control the exchange and accessibility of information and opinion.
Control	
Tight	**Loose**
To comply with clear and definite systems and procedures.	To work flexibly and adaptively according to the needs of the situation.
Conduct	
Conventional	**Pragmatic**
To put the expertise and standards of the employing organization first. To do what we know is right.	To put the demands and expectations of customers first. To do what they ask.

Source: Hoecklin, Lisa Adent. *Managing Cultural Differences: Strategies for Competitive Advantage.* England: Addison-Wesley, 1995, 145.

Figure 6–1

Europeans' Perception of the Cultural Dimensions of U.S. Operations (A) and European Operations (B) of the Same MNC



Source: Hoecklin, Lisa Adent. *Managing Cultural Differences: Strategies for Competitive Advantage.* England: Addison-Wesley, 1995.

between different subsidiaries of an MNC, different cultures often existed in each one. Such cultural differences within an MNC could reduce the ability of units to work well together. An example is provided in Figure 6–1, which shows the cultural dimensions of a California-based MNC and its European subsidiary as perceived by the Europeans. A close comparison of these perceptions reveals some startling differences.

The Europeans viewed the culture in the U.S. facilities as only slightly activities oriented (see Table 6–1 for a description of these dimensions), but they saw their own European operations as much more heavily activities oriented. The U.S. operation was viewed as moderately people-oriented, but their own relationships were viewed as very job oriented. The Americans were seen as having a slight identification with their own organization, while the Europeans had a much stronger identification. The Americans were perceived as being very open in their communications; the Europeans saw themselves as moderately closed. The Americans were viewed as preferring very loose control, while the Europeans felt they preferred somewhat tight control. The Americans were seen as somewhat conventional in their conduct, while the Europeans saw themselves as somewhat pragmatic. If these perceptions are accurate, then it obviously would be necessary for both groups to discuss their cultural differences and carefully coordinate their activities to work well together.

This analysis is relevant to multinational alliances. It shows that even though an alliance may exist, the partners will bring different organizational cultures with them.

Lessem and Neubauer, who have portrayed Europe as offering four distinct ways of dealing with multiculturalism (based on the U.K., French, German, and Italian characteristics), provide an example in Table 6–2, which briefly describes each of these sets of cultural characteristics. A close examination of the differences highlights how difficult it can be to do business with two or more of these groups because each group perceives things differently than the others. Another example is the way in which negotiations occur between groups; here are some contrasts between French and Spanish negotiators:[33]

French	Spanish
Look for a meeting of minds.	Look for a meeting of people.
Intellectual competence is very important.	Social competence is very important.
Persuasion through carefully prepared and skilled rhetoric is employed.	Persuasion through emotional appeal is employed.
Strong emphasis is given to a logical presentation of one's position coupled with well-reasoned, detailed solutions.	Socialization always precedes negotiations, which are characterized by an exchange of grand ideas and general principles.
A contract is viewed as a well-reasoned transaction.	A contract is viewed as a long-lasting relationship.
Trust emerges slowly and is based on the evaluation of perceived status and intellect.	Trust is developed on the basis of frequent and warm interpersonal contact and transaction.

Such comparisons also help explain why it can be difficult for an MNC with a strong organizational culture to break into foreign markets where it is not completely familiar with divergent national cultures. The International Management in Action box "Doing Things the Walmart Way" provides an illustration. When dealing with these challenges, MNCs must work hard to understand the nature of the country and institutional practices to both moderate and adapt their operations in a way that accommodates the company and customer base.

Table 6–2
European Management Characteristics

	Characteristic			
Dimension	**Western (United Kingdom)**	**Northern (France)**	**Eastern (Germany)**	**Southern (Italy)**
Corporate	Commercial	Administrative	Industrial	Familial
Management attributes				
Behavior	Experiential	Professional	Developmental	Convivial
Attitude	Sensation	Thought	Intuition	Feeling
Institutional models				
Function	Salesmanship	Control	Production	Personnel
Structure	Transaction	Hierarchy	System	Network
Societal ideas				
Economics	Free market	Dirigiste	Social market	Communal
Philosophy	Pragmatic	Rational	Holistic	Humanistic
Cultural images				
Art	Theatre	Architecture	Music	Dance
Culture	(Anglo-Saxon)	(Gallic)	(Germanic)	(Latin)

Sources: Lessen, Ronald, and Neubauer, Fred. *European Management Systems.* McGraw-Hill, 1994, and Hoecklin, Lisa. *Managing Cultural Differences: Strategies for Competitive Advantage.* England: Addison-Wesley, 1995.

International Management in Action

Doing Things the Walmart Way; Germans Say, "Nein, vielen Dank"

Across the globe, Walmart employees engage in the "Walmart cheer" to start their day. It is a way to show inclusivity and express their pride in the company, and it can be heard in many different languages. Walmart not only operates in more than two dozen countries but also is a leader in diversity in the workplace. In 2021, Walmart was ranked at number 26 in a ranking of top 50 U.S. companies on corporate diversity, equity and inclusion by *DiversityInc* magazine. However, despite Walmart's multinational presence and representation, its internal culture has proved to be less than satisfactory to the German market.

Walmart has experienced a fair share of negative PR over the years, so it is no surprise that some may have adverse reactions to news of Walmart moving into the neighborhood. Before the unflattering buzz, Walmart sometimes discovers that even the best intentions can fall flat.

Walmart entered the German market in 1997 and stressed the idea of friendly service with a smile, where the customers always come first. Even before the employees walked onto the sales room floor, employee dissatisfaction became clear. The pamphlet that outlined the workplace code of ethics was simply translated from English to German, but the message was not expressed the way Walmart had intended. It warned employees of potential supervisor-employee relationships, implying sexual harassment, and encouraged reports of "improper behavior," which spoke more to legal matters. The Germans interpreted this to mean that there was a ban on any romantic relationships in the workplace and saw the reporting methods as more of a way to rat out co-workers than benefit the company. As we saw in Chapter 3, ethical values in one country may not be the same as in another, and Walmart experienced this firsthand. Another employee relations issue that arose dealt with local practices. Walmart has never been open to unionized employees, so when the German operations began dealing with workers' councils and adhering to co-determination rules, a common practice there, Walmart was less than willing to listen to suggestions as to how to improve employee working conditions. As if this were not enough, Walmart soon experienced problems with customer relations as well.

Doing things the Walmart way included smiling at customers and assisting them by bagging their groceries at the Supercenter locations. This policy presented problems in the German environment. Male employees who were ordered to smile at customers were often seen as flirtatious to male customers, and Germans do not like strangers handling their groceries. These are just a few reasons that customers did not enjoy their shopping experience. This does not mean that everything Walmart attempted was wrong. Products that are popular in Germany were available on the shelves in place of products that would be common in other countries. Enhanced distribution processes guaranteed the availability of most requested items, and efficiency was pervasive.

Despite some successes and good intentions and numerous attempts to improve the German stores, the Walmart culture proved to be a poor fit for the German market, and Walmart vacated Germany in 2006. Unfortunately, Walmart learned the hard way that in the retail or service industry, local customs are often more important than a strong, unyielding organizational culture. The challenge to incorporate everyone into the Walmart family certainly fell short of expectations. If the Walmart culture does not become more flexible, or locally relevant, it may be chastised from numerous global markets, and the company could hear, "no, thank you" in even more languages than German as it continues to expand. (See In-Depth Integrative Case 2.2 at the end of Part Two for more detail on Walmart's experiences around the world.)

Source: Landler, Mark, and Michael Barbaro. "Wal-Mart Finds That Its Formula Doesn't Fit Every Culture." *New York Times,* August 2, 2006, http://www.nytimes.com.

Organizational Cultures in MNCs

Organizational cultures in MNCs are shaped by a number of factors, including the cultural preferences of the leaders and employees. In the international arena, some MNCs have subsidiaries that, except for the company logo and reporting procedures, would not be easily recognizable as belonging to the same multinational.[34]

Given that many recent international expansions are a result of mergers or acquisitions, the integration of these organizational cultures is a critical concern in international

management. Numeroff and Abrahams have suggested that there are four steps that are critical in this process:

1. The two groups have to establish the purpose, goal, and focus of their merger.
2. Then they have to develop mechanisms to identify the most important organizational structures and management roles.
3. They have to determine who has authority over the resources needed for getting things done.
4. They have to identify the expectations of all involved parties and facilitate communication between both departments and individuals in the structure.[35]

Companies all over the world are finding out firsthand that there is more to an international merger or acquisition than just sharing resources and capturing greater market share. Differences in workplace cultures sometimes temporarily overshadow the overall goal of long-term success of the newly formed entity. With the proper management framework and execution, successful integration of cultures is not only possible but also the most preferable paradigm in which to operate. It is the role of the sponsors and managers to keep sight of the need to create, maintain, and support the notion of a united front. It is only when this assimilation has occurred that an international merger or acquisition can truly be labeled a success.[36]

In addition, there are three aspects of organizational functioning that seem to be especially important in determining MNC organizational culture: (1) the general relationship between the employees and their organization; (2) the hierarchical system of authority that defines the roles of managers and subordinates; and (3) the general views that employees hold about the MNC's purpose, destiny, and goals and their place in them.[37]

When examining these dimensions of organizational culture, Trompenaars suggested the use of two continua: One distinguishes between equity and hierarchy, and the other examines orientation to the person and the task. Along these continua, which are shown in Figure 6–2, he identifies and describes four different types of organizational cultures: family, Eiffel Tower, guided missile, and incubator.[38]

In practice, of course, organizational cultures do not fit neatly into any of these four, but the groupings can be useful in examining the bases of how individuals relate to each other, think, learn, change, are motivated, and resolve conflict. The following discussion examines each of these cultural types.

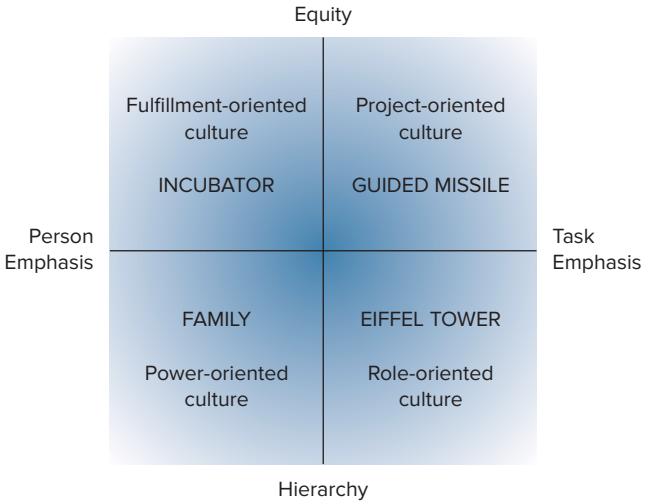


Figure 6–2
Organizational Cultures

Source: Trompenaars, Fons. *Riding the Waves of Culture: Understanding Cultural Diversity in Global Business.* Illinois: Irwin Professional Pub, 1994.

Family Culture

family culture
A culture that is characterized by a strong emphasis on hierarchy and orientation to the person.

Family culture is characterized by a strong emphasis on hierarchy and orientation to the person. The result is a family-type environment that is power-oriented and headed by a leader who is regarded as a caring parent and one who knows what is best for the personnel. Trompenaars found that this organizational culture is common in countries such as Turkey, Pakistan, Venezuela, China, Hong Kong, and Singapore.

In this culture, personnel not only respect the individuals who are in charge but look to them for both guidance and approval as well. In turn, management assumes a paternal relationship with personnel, looks after employees, and tries to ensure that they are treated well and have continued employment. Family culture is also characterized by traditions, customs, and associations that bind together the personnel and make it difficult for outsiders to become members. When it works well, family culture can catalyze and multiply the energies of the personnel and appeal to their deepest feelings and aspirations. When it works poorly, members of the organization end up supporting a leader who is ineffective and drains their energies and loyalties.

This type of culture is foreign to most managers in the U.S., who believe in valuing people based on their abilities and achievements, not on their age or position in the hierarchy. As a result, many managers in U.S.-based MNCs fail to understand why senior-level managers in overseas subsidiaries might appoint a relative to a high-level, sensitive position even though that individual might not appear to be the best qualified for the job. They fail to realize that family ties are so strong that the appointed relative would never do anything to embarrass or let down the family member who made the appointment. Here is an example:

> A Dutch delegation was shocked and surprised when the Brazilian owner of a large manufacturing company introduced his relatively junior accountant as the key coordinator of a $15 million joint venture. The Dutch were puzzled as to why a recently qualified accountant had been given such weighty responsibilities, including the receipt of their own money. The Brazilians pointed out that the young man was the best possible choice among 1,200 employees since he was the nephew of the owner. Who could be more trustworthy than that? Instead of complaining, the Dutch should consider themselves lucky that he was available.[39]

Eiffel Tower Culture

Eiffel Tower culture
A culture that is characterized by strong emphasis on hierarchy and orientation to the task.

Eiffel Tower culture is characterized by strong emphasis on hierarchy and orientation to the task. Under this organizational culture, jobs are well defined, employees know what they are supposed to do, and everything is coordinated from the top. As a result, this culture—like the Eiffel Tower itself—is steep, narrow at the top, and broad at the base. Unlike family culture, where the leader is revered and considered to be the source of all power, the person holding the top position in the Eiffel Tower culture could be replaced at any time, and this would have no effect on the work that organization members were doing or on the organization's reasons for existence. In this culture, relationships are specific, and status remains with the job. Therefore, if the boss of an Eiffel Tower subsidiary were playing golf with a subordinate, the subordinate would not feel any pressure to let the boss win. In addition, these managers seldom create off-the-job relationships with their people because they believe this could affect their rational judgment. In fact, this culture operates very much like a formal hierarchy—impersonal and efficient.

Each role at each level of the hierarchy is described; is rated for its difficulty, complexity, and responsibility; and has a salary attached to it. Then follows a search for a person to fill it. In considering applicants for the role, the personnel department will treat everyone equally and neutrally, match the person's skills and aptitudes with the job requirements, and award the job to the best fit between role and person. The same procedure is followed in evaluations and promotions.

Eiffel Tower culture is most commonly found in northwestern European countries. Examples include Denmark, Germany, and the Netherlands. The way that people in this culture learn and change differs sharply from that in the family culture. Learning involves the accumulation of skills necessary to fit a role, and organizations will use qualifications in deciding how to schedule, deploy, and reshuffle personnel to meet their needs. The organization also will employ such rational procedures as assessment centers, appraisal systems, training and development programs, and job rotation in managing its human resources. All these procedures help ensure that a formal hierarchic or bureaucracy-like approach works well. When changes need to be made, however, the Eiffel Tower culture often is ill-equipped to handle things. Manuals must be rewritten, procedures changed, job descriptions altered, promotions reconsidered, and qualifications reassessed.

Because the Eiffel Tower culture does not rely on values that are similar to those in most U.S. MNCs, U.S. expatriate managers often have difficulty initiating change in this culture. As Trompenaars notes,

> An American manager responsible for initiating change in a German company described to me the difficulties he had in making progress, although the German managers had discussed the new strategy in depth and made significant contributions to its formulation. Through informal channels, he had eventually discovered that his mistake was not having formalized the changes to structure or job descriptions. In the absence of a new organization chart, this Eiffel Tower company was unable to change.[40]

Guided Missile Culture

guided missile culture
A culture that is characterized by strong emphasis on equality in the workplace and orientation to the task.

Guided missile culture is characterized by strong emphasis on equality in the workplace and orientation to the task. This organizational culture is oriented to work, which typically is undertaken by teams or project groups. Unlike the Eiffel Tower culture, where job assignments are fixed and limited, personnel in the guided missile culture do whatever it takes to get the job done. This culture gets its name from high-tech organizations such as the National Aeronautics and Space Administration (NASA), which pioneered the use of project groups working on space probes that resembled guided missiles. In these large project teams, more than a hundred different types of engineers often were responsible for building, say, a lunar landing module. The team member whose contribution would be crucial at any given time in the project typically could not be known in advance. Therefore, all types of engineers had to work in close harmony and cooperate with everyone on the team.

To be successful, the best form of synthesis must be used in the course of working on the project. For example, in a guided missile project, formal hierarchical considerations are given low priority, and individual expertise is of the greatest importance. Additionally, all team members are equal (or at least potentially equal) because their relative contributions to the project are not yet known. All teams treat each other with respect because they may need each other for assistance. This egalitarian and task-driven organizational culture fits well with the national cultures of the U.S. and the United Kingdom, which helps explain why high-tech MNCs commonly locate their operations in these countries.

Unlike in family and Eiffel Tower cultures, change in guided missile culture comes quickly. Goals are accomplished, and teams are reconfigured and assigned new objectives. People move from group to group, and loyalties to one's profession and project often are greater than loyalties to the organization itself.

Trompenaars found that the motivation of those in guided missile cultures tends to be more intrinsic than just concern for money and benefits. Team members become enthusiastic about, and identify with, the struggle toward attaining their goal. For example, a project team that is designing and building a new computer for the Asian market may be highly motivated to create a machine that is at the leading edge of

technology, user-friendly, and likely to sweep the market. Everything else is secondary to this overriding objective. Thus, both intragroup and intergroup conflicts are minimized and petty problems between team members are set aside; everyone is so committed to the project's main goal that no one has time for petty disagreements. As Trompenaars notes,

> This culture tends to be individualistic since it allows for a wide variety of differently specialized persons to work with each other on a temporary basis. The scenery of faces keeps changing. Only the pursuit of chosen lines of personal development is constant. The team is a vehicle for the shared enthusiasm of its members, but is itself disposable and will be discarded when the project ends. Members are garrulous, idiosyncratic, and intelligent, but their mutuality is a means, not an end. It is a way of enjoying the journey. They do not need to know each other intimately and may avoid doing so. Management by objectives is the language spoken, and people are paid for performance.[41]

Incubator Culture

incubator culture
A culture that is characterized by strong emphasis on equality and orientation to the person.

Incubator culture is characterized by a strong emphasis on equality and personal orientation. This culture is based on the premise that organizations per se are secondary to the fulfillment of the individuals within them and that the role of organizations is to serve as incubators for the self-expression and self-fulfillment of their members. As a result, this culture often has little formal structure. Participants in an incubator culture are there primarily to perform roles such as confirming, criticizing, developing, finding resources for, or helping complete the development of an innovative product or service. These cultures often are found among start-up firms in Silicon Valley, California, or Silicon Glen, Scotland. These incubator-type organizations typically are entrepreneurial and often founded and made up by a creative team who left larger, Eiffel Tower-type employers. They want to be part of an organization where their creative talents will not be stifled.

Incubator cultures often create environments where participants thrive on an intense, emotional commitment to the nature of the work. For example, the group may be in the process of gene splitting which could lead to radical medical breakthroughs and extend life. Often, personnel in such cultures are overworked, and the enterprise typically is underfunded. As breakthroughs occur and the company gains stability, however, it starts moving down the road toward commercialization and profit. In turn, this engenders the need to hire more people and develop formalized procedures for ensuring the smooth flow of operations. In this process of growth and maturity, the unique characteristics of the incubator culture begin to wane and disappear, and the culture is replaced by one of the other types (family, Eiffel Tower, or guided missile).

As noted, change in the incubator culture often is fast and spontaneous. All participants are working toward the same objective. Because there may not yet be a customer who is using the final output, however, the problem itself often is open to redefinition, and the solution typically is generic, aimed at a universe of applications. Meanwhile, the motivation of the personnel remains highly intrinsic and intense, and it is common to find employees working 70 hours a week—and loving it. The participants are more concerned with the unfolding creative process than they are in gathering power or ensuring personal monetary gain. In sharp contrast to the family culture, leadership in this incubator culture is achieved, not gained by position.

The four organizational cultures described by Trompenaars are "pure" types and seldom exist in practice. Rather, the types are mixed and, as shown in Table 6–3, overlaid with one of the four major types of culture dominating the corporate scene. Trompenaars and his associates have created a questionnaire designed to identify national patterns of corporate culture, as shown in Figures 6–3.

Table 6–3
Summary Characteristics of the Four Corporate Cultures

	Corporate Culture			
Characteristic	**Family**	**Eiffel Tower**	**Guided Missile**	**Incubator**
Relationships between employees	Diffuse relationships to organic whole to which one is bonded	Specific role in mechanical system of required interaction	Specific tasks in cybernetic system targeted on shared objectives	Diffuse, spontaneous relationships growing out of shared creative process
Attitude toward authority	Status is ascribed to parent figures who are close and powerful.	Status is ascribed to superior roles that are distant yet powerful.	Status is achieved by project group members who contribute to targeted goal.	Status is achieved by individuals exemplifying creativity and growth.
Ways of thinking and learning	Intuitive, holistic, lateral, and error correcting	Logical, analytical, vertical, and rationally efficient	Problem centered, professional, practical, and cross-disciplinary	Process oriented, creative, ad hoc, and inspirational
Attitudes toward people	Family members	Human resources	Specialists and experts	Co-creators
Ways of changing	"Father" changes course.	Change rules and procedures.	Shift aim as target moves.	Improvise and attune.
Ways of motivating and rewarding	Intrinsic satisfaction in being loved and respected	Promotion to greater position, larger role	Pay or credit for performance and problems solved	Participation in the process of creating new realities
	Management by subjectives	Management by job description	Management by objectives	Management by enthusiasm
Criticism and conflict resolution	Turn other cheek, save other's face, do not lose power game	Criticism is accusation of irrationalism unless there are procedures to arbitrate conflicts.	Constructive task-related only, then admit error and correct fast	Improve creative idea, not negate it.

Source: Trompenaars, Fons, and Hampden-Turner, Charles. *Riding the Waves of Culture: Understanding Diversity in Global Business.* New York: McGraw-Hill, 1998, 184.

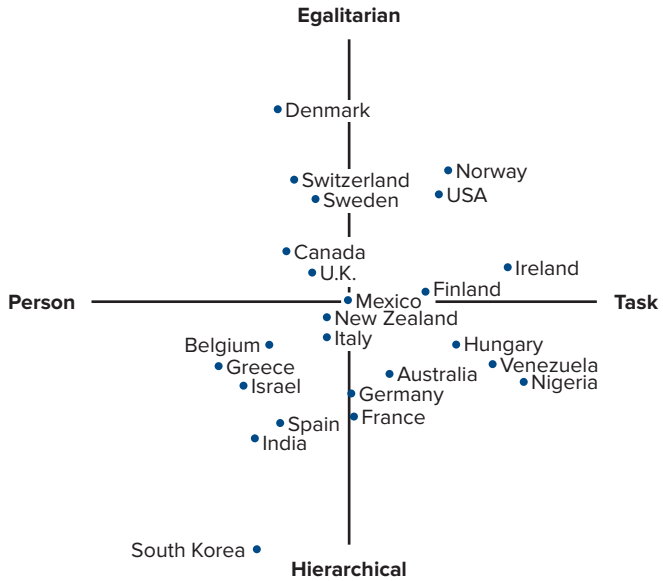


Figure 6–3
National Patterns of Corporate Culture

Source: Adapted from Trompenaars, Fons, and Charles Hampden-Turner. *Riding the Waves of Culture: Understanding Diversity in Global Business*, 2nd ed. New York: McGraw-Hill, 1998.

International Management in Action

Panasonic Goes Global http://www.panasonic.com

In recent years, growing numbers of multinationals have begun to expand their operations, realizing that if they do not increase their worldwide presence now, they likely will be left behind in the near future. In turn, this has created a number of different challenges for these MNCs, including making a fit between their home organizational culture and the organizational cultures at local levels in the different countries where the MNC operates. Panasonic provides an excellent example of how to handle this challenge with its macro-micro approach. This huge Japanese MNC has developed a number of guidelines that it uses in setting up and operating its more than 150 industrial units. At the same time, the company complements these macro guidelines with on-site micro techniques that help create the most appropriate organizational culture in the subsidiary.

At the macro level, Panasonic employs six overall guidelines that are followed in all locales: (1) Be a good corporate citizen in every country by, among other things, respecting cultures, customs, and languages. (2) Give overseas operations the best manufacturing technology the company has available. (3) Keep the expatriate headcount down, and groom local management to take over. (4) Let operating plants set their own rules, fine-tuning manufacturing processes to match the skills of the workers. (5) Create local research and development to tailor products to markets. (6) Encourage competition between overseas outposts and plants back home. Working within these macro guidelines, Panasonic then allows each local unit to create its own culture. The Malaysian operations are a good example. Panasonic operates through 20 subsidiaries in Malaysia that collectively consist of about 30,000 employees. Less than 1 percent of the employee population, however, is Japanese. From these Malaysian operations, Panasonic has been producing more than 1.3 million televisions and 1.8 million air conditioners annually, and 75 percent of these units are shipped overseas. To produce this output, local plants reflect Malaysia's cultural mosaic of Muslim Malays, ethnic Chinese, and Indians. To accommodate this diversity, Panasonic cafeterias offer Malaysian, Chinese, and Indian food, and, to accommodate Muslim religious customs, Panasonic provides special prayer rooms at each plant and allows two prayer sessions per shift.

How well does this Malaysian workforce perform for the Japanese MNC? In the past, the Malaysian plants' slogan was "Let's catch up with Japan." Today, however, these plants frequently outperform their Japanese counterparts in both quality and efficiency. The comparison with Japan no longer is used. Additionally, Panasonic has found that the Malaysian culture is very flexible, and the locals are able to work well with almost any employer.

Today, Panasonic faces a number of important challenges, including remaining profitable in a slow-growth, high-cost Japanese economy. Fortunately, this MNC is doing extremely well overseas, which is buying it time to get its house in order back home. A great amount of this success results from the MNC's ability to nurture and manage overseas organizational cultures (such as in Malaysia) that are both diverse and highly productive.

Source: Lowry Miller, Karen. "Siemens Shapes Up." *BusinessWeek,* May 1, 1995, 52–53; Riordan, Christine M., and Robert J. Vandenberg. "A Central Question in Cross-Cultural Research: Do Employees of Different Cultures Interpret Work-Related Measures in an Equivalent Manner?" *Journal of Management* 20, no. 3 (1994): 643–71; Schlender, Brenton R. "Matsushita Shows How to Go Global." *Fortune*, July 11, 1994, 159–66.

■ Managing Multiculturalism and Diversity

As the International Management in Action box "Panasonic Goes Global" indicates, success in the international arena often is greatly determined by an MNC's ability to manage both multiculturalism and diversity.[42] Both domestically and internationally, organizations find themselves leading workforces that have a variety of cultures (and subcultures) and consist of a largely diverse population of women, men, young and old people, blacks, whites, Latins, Asians, Arabs, Indians, LGBT, and many others.

Phases of Multicultural Development

The effect of multiculturalism and diversity varies depending on the stage of the firm in its international evolution. Figure 6–4 depicts the characteristics of the major phases in this evolution. For example, Adler has noted that international cultural diversity has minimal impact on domestic organizations, although domestic multiculturalism has a highly significant impact. As firms begin exporting to foreign clients, however, and become what she calls "international corporations" (Phase II in Figure 6–4), they must adapt their

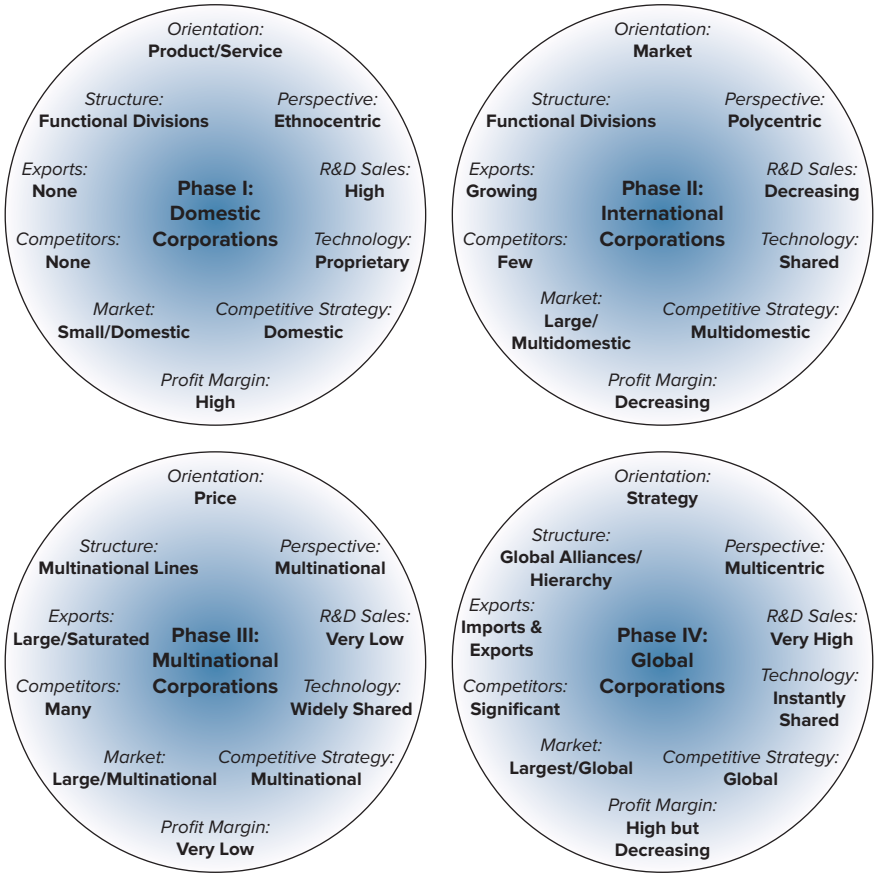


Figure 6–4
International Corporation Evolution

Source: Adler, Nancy J. *International Dimensions of Organizational Behavior.* Cengage Learning, Inc., 2008.

approach and products to those of the local market. For these international firms, the impact of multiculturalism is highly significant. As companies become what she calls "multinational corporations" (Phase III), they often find that price tends to dominate all other considerations and the direct impact of culture may lessen slightly. For those who continue this international evolution and become full-blown "global corporations" (Phase IV), the impact of culture again becomes extremely important.[43]

As shown in Figure 6–5, international cultural diversity traditionally affects neither the domestic firm's organizational culture nor its relationship with its customers or clients.

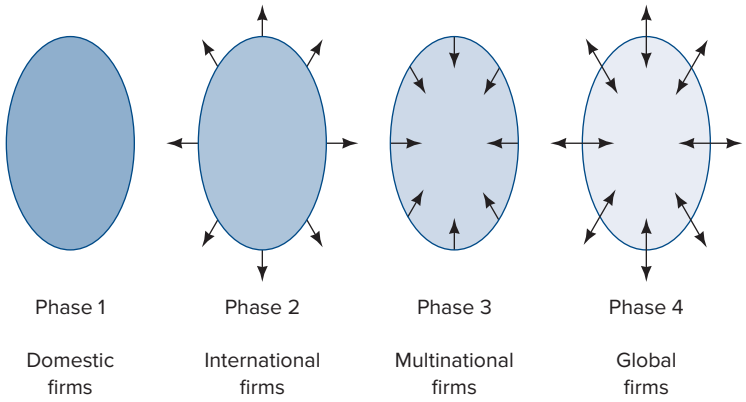


Figure 6–5
Locations of International Cross-Cultural Interaction

Source: Adler, Nancy J. *International Dimensions of Organizational Behavior.* Cengage Learning, Inc., 2008.

These firms work domestically, and only domestic multiculturalism has a direct impact on their dynamics as well as on their relationship to the external environment.

Conversely, among international firms, which focus on exporting and producing abroad, cultural diversity has a strong impact on their external relationships with potential buyers and foreign employees. In particular, these firms rely heavily on expatriate managers to help manage operations; as a result, the diversity focus is from the inside out. This is the reverse of what happens in multinational firms, where there is less emphasis on managing cultural differences outside the firm and more on managing cultural diversity within the company. This is because multinational firms hire personnel from all over the world. As shown in Figure 6–5, this results in a diversity focus that is primarily internal.

Global firms need both an internal and an external diversity focus (again see Figure 6–5). To be effective, everyone in the global organization needs to develop cross-cultural skills that allow them to work effectively with internal personnel as well as external customers, clients, and suppliers.

Types of Multiculturalism

In the international management arena, there are several ways of examining multiculturalism and diversity. One is to focus on the domestic multicultural and diverse workforce that operates in the MNC's home country. In addition to domestic multiculturalism, there is a diverse workforce in other geographic locales, and increasingly common is the mix of domestic and overseas personnel found in today's MNCs. The following discussion examines both domestic and group multiculturalism and the potential problems and strengths.

Domestic Multiculturalism It is not necessary for today's organizations to do business in another country to encounter people with diverse cultural backgrounds. Culturally distinct populations can be found within organizations almost everywhere in the world. In Singapore, for example, there are four distinct cultural and linguistic groups: Chinese, Eurasian, Indian, and Malay. In Switzerland, there are four distinct ethnic communities: French, German, Italian, and Romansch. In Belgium, there are two linguistic groups: French and Flemish. In the U.S., millions of first-generation immigrants have brought both their languages and their cultures. In Los Angeles, for example, there are more Samoans than on the island of Samoa, more Israelis than in any other city outside Israel, and more first- and second-generation Mexicans than in any other city except Mexico City. In Miami, over one-half of the population is Latin, and most residents speak Spanish fluently. More Puerto Ricans live in New York City than in Puerto Rico.

It is even possible to examine domestic multiculturalism within the same ethnic groups. For example, Lee, after conducting research in Singapore among small Chinese family businesses, found that the viewpoints of the older generation differ sharply from those of the younger generation.[44] Older generations tend to stress hierarchies, ethics, group dynamics, and the status quo, while the younger generations focus on worker responsibility, strategy, individual performance, and striving for new horizons. These differences can slow organizational processes as one generation considers the other to be ineffective in its methods. Managers, therefore, need to consider employees on an individual basis and try to compile techniques that convey a common message, ultimately maximizing productivity while satisfying everyone across the ages. In short, there is considerable multicultural diversity domestically in organizations throughout the world, and this trend will continue. For example, the U.S. civilian labor force of the next decade will change dramatically in ethnic composition. In particular, there will be a significantly lower percentage of white males in the workforce and a growing percentage of women, African Americans, Hispanics, and Asians.

Group Multiculturalism There are a number of ways that diverse groups can be categorized. Four of the most common are the following: include

1. **Homogeneous groups**, in which members have similar backgrounds and generally perceive, interpret, and evaluate events in similar ways. An example is a group of male German bankers who are forecasting the economic outlook for a foreign investment.
2. **Token groups**, in which all members but one have the same background. An example is a group of Japanese retailers and a British attorney who are looking into the benefits and shortcomings of setting up operations in Bermuda.
3. **Bicultural groups**, in which two or more members represent each of two distinct cultures. An example is a group of four Mexicans and four Canadians who have formed a team to investigate the possibility of investing in Russia.
4. **Multicultural groups**, in which there are individuals from three or more different ethnic backgrounds. An example is a group of three American, three German, three Uruguayan, and three Chinese managers who are looking into mining operations in Chile.

homogeneous group
A group in which members have similar backgrounds and generally perceive, interpret, and evaluate events in similar ways.

token group
A group in which all members but one have the same background, such as a group of Japanese retailers and a British attorney.

bicultural group
A group in which two or more members represent each of two distinct cultures, such as four Mexicans and four Taiwanese who have formed a team to investigate the possibility of investing in a venture.

multicultural group
A group in which there are individuals from three or more different ethnic backgrounds, such as three American, three German, three Uruguayan, and three Chinese managers who are looking into mining operations in South Africa.

As the diversity of a group increases, the likelihood of all members perceiving things, in the same way, decreases sharply. Attitudes, perceptions, and communication, in general, maybe a problem. On the other hand, there also are significant advantages associated with the effective use of multicultural, diverse groups. International managers need to be cognizant of the likelihood that they will oversee a group that represents many cultures, not just the pervasive culture associated with that country. The following sections examine the potential problems and the advantages of workplace diversity.

Potential Challenges Associated with Diversity

Overall, diversity may cause a lack of cohesion that results in the unit's inability to take concerted action, be productive, and create a work environment that is conducive to both efficiency and effectiveness. These potential problems are rooted in people's attitudes. An example of an attitudinal problem in a diverse group is the mistrust of others. For example, many U.S. managers who work for Japanese operations in the U.S. complain that Japanese managers often huddle together and discuss matters in their native language. The U.S. managers wonder aloud why the Japanese do not speak English. What are they talking about that they do not want anyone else to hear? In fact, the Japanese often find it easier to communicate among themselves in their native language, and, because no Americans are present, the Japanese managers ask why they should speak English. Nevertheless, such practices tend to create cultural friction and promote an atmosphere of mistrust.[45]

Another potential problem is perceptual. Unfortunately, when culturally diverse groups come together, they often bring preconceived stereotypes with them. In initial meetings, for example, engineers from economically advanced countries often are perceived as more knowledgeable than those from less advanced countries. In turn, this perception can result in status-related problems because some of the groups initially are regarded as more competent than others and likely are accorded status on this basis. As the diverse group works together, erroneous perceptions often are corrected, but this takes time.

A related problem is inaccurate biases. For example, it is well known that Japanese companies depend on groups to make decisions. Entrepreneurial behavior, individualism,

and originality are typically downplayed.[46] However, in a growing number of Japanese firms, this stereotype is proving to be incorrect. Here is an example:

> Mr. Uchida, a 28-year-old executive in a small software company, dyes his hair brown, keeps a sleeping bag by his desk for late nights in the office, and occasionally takes the day off to go windsurfing. "Sometimes I listen to soft music to soothe my feelings, and sometimes I listen to hard music to build my energy," said Mr. Uchida, who manages the technology development division of the Rimnet Corporation, an Internet access provider. "It's important that we always keep in touch with our sensibilities when we want to generate ideas." The creative whiz kid, a business personality often prized by corporate America, has come to Japan Inc. Unlikely as it might seem in a country renowned for its deference to authority and its devotion to group solidarity, freethinkers like Mr. Uchida are popping up all over the workplace. Nonconformity is suddenly in.[47]

Still another potential problem with diverse groups is miscommunication or inaccurate communication, which can occur for several reasons. Misunderstandings can be caused by a speaker using words that are not clear to other members. For example, in a diverse group in which one of the authors was working, a British manager told her U.S. colleagues, "I will fax you this report in a fortnight." When the author asked the Americans when they would be getting the report, most of them believed it would be arriving in four days. They did not know that the common British word *fortnight* (14 nights) means "two weeks." In a study of 15 multinational teams, Tenzer and Pudelko found that language differences impacted the power dynamics of teams such that not being fluent in English could be a significant disadvantage in enacting team leadership roles.[48]

Another contribution to miscommunication may be the way in which situations are interpreted. In many societies, it is impolite to say no, and, if the listener believes that the other person wants a positive answer, the listener will say yes even though this is incorrect. As a result, many U.S. managers find out that promises made by individuals from other cultures cannot be taken at face value—and, in many instances, the other individual assumes that the Americans realize this!

Diversity also may lead to communication problems because of different perceptions of time. For example, many Japanese will not agree to a course of action on the spot. They will not act until they have discussed the matter with their own people because they do not feel empowered to act alone. Many Latin managers refuse to be held to a strict timetable because they do not have the same time urgency that U.S. managers do. Here is another example, as described by a European manager:

> In attempting to plan a new project, a three-person team composed of managers from Britain, France, and Switzerland failed to reach an agreement. To the others, the British representative appeared unable to accept any systematic approach; he wanted to discuss all potential problems before making a decision. The French and Swiss representatives agreed to examine everything before making a decision but then disagreed on the sequence and scheduling of operations. The Swiss, being more pessimistic in their planning, allocated more time for each suboperation than did the French. As a result, although everybody agreed on its validity, we never started the project. If the project had been discussed by three Frenchmen, three Swiss, or three Britons, a decision, good or bad, would have been made. The project would not have been stalled for lack of agreement.[49]

Advantages of Diversity

While there are some potential problems to overcome when using culturally diverse groups in today's MNCs, there are also very many benefits to be gained. In particular, there is growing evidence that culturally diverse groups can enhance creativity, lead to better decisions, and result in more effective and productive performance.[50]

One main benefit of diversity is the generation of more and better ideas. Because group members come from a variety of cultures, they often are able to create a greater number of unique (and thus creative) solutions and recommendations. For example, a

U.S. MNC recently was preparing to launch a new software package aimed at the mass consumer market. The company hoped to capitalize on the upcoming Christmas season with a strong advertising campaign in each of its international markets. A meeting of the sales managers from these markets in Spain, the Middle East, and Japan helped the company revise and better target its marketing effort. The Spanish manager suggested that the company focus its campaign around the coming of the Magi (January 6) and not Christmas (December 25) because, in Latin cultures, gifts typically are exchanged on the date that the Magi brought their gifts. The Middle Eastern manager pointed out that most of his customers were not Christians, so a Christmas campaign would not have much meaning in his area. Instead, he suggested the company focus its sales campaign around the value of the software and how it could be useful to customers and not worry about getting the product shipped by early December at all. The Japanese manager concurred with his Middle Eastern colleague but further suggested that some of the colors being proposed for the sales brochure be changed to better fit with Japanese culture. Thanks to these diverse ideas, the sales campaign proved to be one of the most effective in the company's history.

A second major benefit is that culturally diverse groups can prevent **groupthink**, which is social conformity and pressures on individual members of a group to conform and reach consensus. When groupthink occurs, group participants come to believe that their ideas and actions are correct and that those who disagree with them either are uninformed are deliberately trying to sabotage their efforts. Multicultural diverse groups often are able to avoid this problem because the members do not think similarly or feel pressure to conform. As a result, they typically question each other, offer opinions and suggestions that are contrary to those held by others, and must be persuaded to change their minds. Therefore, unanimity is achieved only through a careful process of deliberation. Unlike homogeneous groups, where everyone can be "of one mind," diverse groups may be slower to reach a general consensus, but the decision may be more effective and free of groupthink.

groupthink
Social conformity and pressures on individual members of a group to conform and reach consensus.

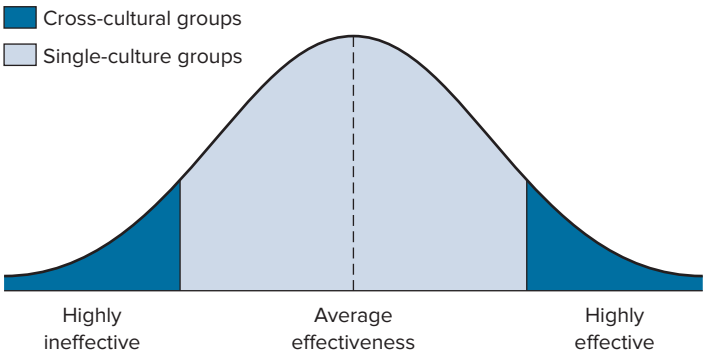
Diversity in the workplace enhances more than just internal operations—it enhances relationships with customers as well. It is commonly held that anyone will have insight into and connect better with others of the same nationality or cultural background, resulting in more quickly building trust and understanding one another's preferences. Therefore, if the customer base is composed of many cultures, it may benefit the company to have representatives from corresponding nationalities. U.S. multinational cosmetic firm Avon adopted this philosophy. When Avon observed an increase in the number of Korean shoppers at one of its U.S. locations, it quickly employed Korean sales staff.[51] The external environment, even in the MNC's home country, can encompass many cultures that managers should bear in mind. Expanding diversity in the workplace to better serve the customer means that even local managers have international exposure, further emphasizing the importance of learning about multicultural surroundings.

Building Multicultural Team Effectiveness

Multiculturally diverse teams have a great deal of potential, depending on how they are managed. As shown in Figure 6–6, Carol Kovach, who conducted research on the importance of leadership in managing cross-cultural groups, reports that if cross-cultural groups are led properly, they can indeed be highly effective; unfortunately, she also found that if they are not managed properly, they can be highly ineffective. In other words, diverse groups are more powerful than single-culture groups. They can hurt the organization, but, if managed effectively, they can be the best.[52] The following sections provide the conditions and guidelines for managing diverse groups in today's organizations effectively.

Understanding the Conditions for Effectiveness Multicultural teams are most effective when they face tasks requiring innovativeness but are far less effective when

Figure 6–6
Group Effectiveness and Culture



Source: Adler, Nancy J. *International Dimensions of Organizational Behavior.* Cengage Learning, Inc., 2008.

they are assigned to routine tasks.[53] To achieve the greatest effectiveness from diverse teams, the focus of attention must be determined by the stage of team development (e.g., entry, working, and action stages).[54] In the entry stage, the focus should be on building trust and developing team cohesion, as we saw in The World of International Management at the opening of the chapter. This can be difficult for diverse teams, whose members are accustomed to working in different ways. For example, Americans, Germans, and Swiss typically spend little time getting to know each other; they find out the nature of the task and set about pursuing it on their own without first building trust and cohesion. This contrasts sharply with individuals from Latin America, southern Europe, and the Middle East, where team members initially spend a great deal of time getting to know each other. This contrast between task-oriented and relationship-oriented members of a diverse team may slow progress due to communication and strategic barriers. To counteract this problem, it is common in the entry stage of development to find experienced multicultural managers focusing attention on the team members' equivalent professional qualifications and status. Once this professional similarity and respect are established, the group can begin forming a collective unit. In the work stage of development, attention may be directed more toward describing and analyzing the problem or task that has been assigned. This stage often is fairly easy for managers of multicultural teams because they can draw on the diversity of the members in generating ideas. As noted earlier, diverse groups tend to be most effective when dealing with situations that require innovative approaches.

In the action stage, the focus shifts to decision-making and implementation. This can be a difficult phase because it often requires consensus-building among the members. In achieving this objective, experienced managers work to help the diverse group recognize and facilitate the creation of ideas with which everyone can agree. In doing so, it is common to find a strong emphasis on problem-solving techniques such as the nominal group technique (NGT), where the group members individually make contributions before group interaction takes place and consensus is reached.

Using the Proper Guidelines Some specific guidelines have proved to be helpful as a quick reference for managers when setting out to manage a culturally diverse team. Here are some of the most useful ideas:

1. Team members must be selected for their task-related abilities and not solely based on ethnicity. If the task is routine, homogeneous membership often is preferable; if the task is innovative, multicultural membership typically is best.
2. Team members must recognize and be prepared to deal with their differences. The goal is to facilitate a better understanding of cross-cultural differences and generate a higher level of performance and rapport. In doing so, members need to become aware of their own stereotypes, as well as those of others, and use this information to better understand the real differences that exist

between them. This can then serve as a basis for determining how each individual member can contribute to the overall effectiveness of the team.

3. Because members of diverse teams tend to have more difficulty agreeing on their purpose and task than members of homogeneous groups, the team leader must help the group identify and define its overall goal. This goal is most useful when it requires members to cooperate and develop mutual respect in carrying out their tasks.
4. Members must have equal power so that everyone can participate in the process; cultural dominance always is counterproductive. As a result, managers of culturally diverse teams distribute power according to each person's ability to contribute to the task, not according to ethnicity.
5. It is important that all members have mutual respect for each other. This is often accomplished by managers choosing members of equal ability, making prior accomplishments and task-related skills known to the group, and minimizing early judgments based on ethnic stereotypes.
6. Because teams often have difficulty determining what is a good or a bad idea or decision, managers must give teams positive feedback on their process and output. This feedback helps the members see themselves as a team, and it teaches them to value and celebrate their diversity, recognize contributions made by the individual members, and trust the collective judgment of the group.



The World of International Management—Revisited

Our discussion in the World of International Management box at the outset of the chapter introduced the challenges and benefits of diverse, multicultural teams. These teams are becoming commonplace in organizations around the world as work becomes more flexible and less geographically bound. In addition, companies are looking to such teams to solve intractable problems and bring creativity and fresh thinking to their organizations. Using what you have learned from this chapter, answer the following questions: (1) What steps should organizations take to get the most out of their global virtual teams? (2) What types of organizational culture (family, Eiffel Tower, guided missile, incubator) would be best for leveraging global teams? (3) What advantages and problems associated with diversity have been experienced by global teams? How might they be overcome? (4) What features of multicultural teams are most critical for successful global team collaboration?

SUMMARY OF KEY POINTS

1. Organizational culture is a pattern of basic assumptions developed by a group as it learns to cope with its problems of external adaptation and internal integration and taught to new members as the correct way to perceive, think, and feel in relation to these problems. Some important characteristics of organizational culture include observed behavioral regularities, norms, dominant values, philosophy, rules, and organizational climate.
2. Organizational cultures are shaped by a number of factors, including the general relationship between employees and their organization; the hierarchical system of authority that defines the roles of managers and subordinates; and the general views that employees hold about the organization's purpose, destiny, and goals and their place in the organization. When examining these differences, Trompenaars suggested the use of two continua—equity-hierarchy and person-task orientation—resulting in four basic types of organizational cultures: family, Eiffel Tower, guided missile, and incubator.
3. Family culture is characterized by a strong emphasis on hierarchical authority and orientation to the person. Eiffel Tower culture is characterized by a strong emphasis on hierarchy and orientation to the task. Guided missile culture is characterized by a strong emphasis on equality in the workplace and orientation to the task. Incubator culture is characterized by a

strong emphasis on equality and orientation to the person.

4. Success in the international arena often is heavily determined by a company's ability to manage multiculturalism and diversity. Firms progress through four phases in their international evolution: (1) domestic corporation, (2) international corporation, (3) multinational corporation, and (4) global corporation.
5. There are several ways to examine multiculturalism and diversity. One is by looking at the domestic multicultural and diverse workforce that operates in the MNC's home country. Another is by examining the variety of diverse groups that exist in MNCs, including homogeneous groups, token groups, bicultural groups, and multicultural groups. Several potential problems, as well as advantages, are associated with multicultural, diverse teams. Diverse teams not only are helpful to internal operations but can enhance sales to customers as well, as shown at Avon.
6. A number of guidelines have proved to be particularly effective in managing culturally diverse groups. These include the careful selection of the members, identification of the group's goals, establishment of equal power and mutual respect among the participants, and delivery of positive feedback on performance.

KEY TERMS

bicultural group, *203*
Eiffel Tower culture, *196*
family culture, *196*
groupthink, *205*
guided missile culture, *197*
homogeneous group, *203*
incubator culture, *198*
multicultural group, *203*
organizational culture, *189*
token group, *203*

REVIEW AND DISCUSSION QUESTIONS

1. Some researchers have found that when Germans work for a U.S. MNC, they become even more German, and when Americans work for a German MNC, they become even more American. Why would this knowledge be important to these MNCs?
2. When comparing the negotiating styles and strategies of French versus Spanish negotiators, a number of sharp contrasts are evident. What are three of these and what could MNCs do to improve their position when negotiating with either group?
3. In which of the four types of organizational cultures—family, Eiffel Tower, guided missile, incubator—would most people in the U.S. feel comfortable? In which would most Japanese feel comfortable? Based on your answers, what conclusions could you draw regarding the importance of understanding organizational culture for international management?
4. Most MNCs need not enter foreign markets to face the challenge of dealing with multiculturalism. Do you agree or disagree with this statement? Explain your answer.
5. What are some potential problems that must be overcome when using multicultural, diverse teams in today's organizations? What are some recognized advantages? Identify and discuss two of each.
6. A number of guidelines can be valuable in helping MNCs make diverse teams more effective. What are five of these? How do they relate to the guidelines established by Panasonic, as discussed in the International Management in Action box?

INTERNET EXERCISE: LENOVO'S INTERNATIONAL FOCUS

Based in China, Lenovo is one of the largest computer brands in the world. Several years ago, Lenovo purchased IBM's PC business and now sells more computers to retail customers and businesses than any other company in the world. From its base in China, it is moving aggressively into global markets, especially emerging countries like India.

Visit Lenovo's website at **https://www.lenovo.com** and review some of the latest developments. In particular, pay close attention to its product line and international expansion. On the website, identify three countries where the firm is doing business: one from the Americas, one from Europe, and one from Southeast Asia or India. (The sites are all presented in the local language, so you might want to make India or Hong Kong your choice because this site is in English.) Compare and contrast the product offerings and ways in which Lenovo goes about marketing itself over the web in these locations. What do you see as some of the major differences? Second, using Figure 6–2

and Table 6–3 as your guide, in what way are differences in organizational cultures internationally likely to present significant challenges to Lenovo's efforts to create a smooth-running international enterprise? Look at the web page showing Lenovo's leadership team. What do you notice? What would you see as two of the critical issues with which management will have to deal? Third, what are two steps that you think Lenovo will have to take in order to build multicultural team effectiveness? What are two guidelines that can help it do this?

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In the International Spotlight

Singapore

An island country located at the mouth of the Strait of Malacca, Singapore is strategically positioned as a node for over 40 percent of global maritime trade flows. Once occupied by Japan during World War II, Singapore became a British colony before gaining independence in 1959. Merging with the Federation of Malaysia, the country became a part of Malaysia in 1963 before separating and declaring independence in 1965. The government has since been a parliamentary republic, with the prime minister and cabinet appointed by the elected president.[55,56] The government in Singapore is considered to be honest and practical, and the nation has one of the lowest rates of corruption in the world. With strict regulations, Singapore is known to be clean, disciplined, and orderly.

Singapore is densely populated. With a size a bit bigger than 3.5 times Washington D.C., it holds a mostly urban population of 5.69 million. Three-quarters of the population is ethnic Chinese, 13.5 percent are Malays, and 9 percent are Indians. English, Mandarin, Malay, and Tamil are all official languages. With a median age of nearly 36, the largest demographic group is the 25-to-54-year-old group.[57,58] GDP in 2021 was US$397 billion, which is the highest ever after a slight decline in 2020 due to the COVID-19 pandemic. In per capita terms, the 2021 GDP was nearly US$72,800, making it one of the richest nations in the world.[59]

The country's first prime minister, Lee Kwan Yew, who held office from 1959 until his retirement 31 years later in 1990, is credited with the nation's exemplary transformation into one of the most prosperous. Endowed with few natural resources, Lee Kwan Yew directed policy at building up the country's most valuable resource: its people. Additionally, reflecting the role that foreign trade and foreign direct investment played in contributing to its speedy economic progress, Singapore is ranked the world's most open country.[60]

Singapore is a curious case of a highly restrictive government that has maintained its stature as a democracy and spearheaded development. The government's reputation of being clean and wise, built up during Lee Kwan Yew's leadership, is the primary reason why its restrictiveness of many freedoms including speech and assembly, and strict control over the media and electoral process, have not been a cause for concern thus far. However, the younger demographic in Singapore is increasingly dissatisfied with the lack of many freedoms commonly enjoyed in other democracies. With the scale of power yielded to the government, the future also depends on whether the country's future leaders will remain equally trustworthy, capable, and corruption-free.

Singapore is consistently ranked as one of the easiest nations to do business.[61] With lower costs to set up, excellent infrastructure, and a highly skilled and high-income population, foreign companies have found Singapore to be an attractive destination for business. The aging workforce, economic maturity, inflation, and the Covid-19 pandemic are some short- and long-term challenges. Given its entrenchment into the global economy, Singapore is also vulnerable to geopolitical disputes between trade partners, such as the trade and tech war between China and the U.S. However, political developments such as China's control of Hong Kong are also diverting foreign investors to Singapore.

You Be the International Management Consultant

Dyson, well known for its state-of-the-art vacuum cleaners, decided in 2019 to relocate its headquarters from the United Kingdom to Singapore. The firm's founder, Sir James Dyson, and Chief Executive, Jim Rowan, have said the move had nothing to do with Brexit but was a shift to secure its future strategy. The move was intended to bring the firm closer to customers and Asian manufacturing operations and to allow better supervision of its electric car factory in Singapore. The new headquarters officially opened in 2022. Dyson plans to invest US$1.1 billion in the next four years to expand its presence in Singapore.[62,63]

Dyson first entered Singapore in 2017, opening a technology center. In 2018, it opened its electric vehicle (EV) factory there with plans to invest US$2.5 billion in EV manufacturing. However, as early as 2019, the firm quickly scrapped its EV ambitions and claimed its car, though innovative, was not commercially viable. With salaries currently among the highest globally, Singapore does not attract many car manufacturers. Car manufacturing in the country had ended over 40 years ago when Ford Motor Co. left. Despite the halt of its EV production, Dyson plans to continue investing in other new technologies instead and is committed to its presence in Singapore.[64,65]

Questions

1. Why is Singapore an attractive location for foreign companies?
2. Is Singapore's economic success sustainable?
3. Are there any risks in Singapore's reliance on foreign trade and investment?
4. Did Dyson make the right decision by relocating its headquarters to Singapore?

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Chapter 7

CROSS-CULTURAL COMMUNICATION AND NEGOTIATION

OBJECTIVES OF THE CHAPTER

Communication takes on special importance in international management because of the difficulties in conveying meanings between parties from different cultures. The problems of misinterpretation and error are compounded in the international context. Chapter 7 examines how the communication process in general works, and it looks at the downward and upward communication flows that commonly are used in international communication. Then the chapter examines the major barriers to effective international communication and reviews ways of dealing with these communication problems. Finally, one important dimension of international communication and international negotiation, is examined, with particular attention to how negotiation approaches and strategies must be adapted to different cultural environments. The specific objectives of this chapter are

1. **DEFINE** the term *communication*, examine some examples of verbal communication styles, and explain the importance of message interpretation.
2. **ANALYZE** the common downward and upward communication flows used in international communication.
3. **EXAMINE** the language, perception, and culture of communication and nonverbal barriers to effective international communications.
4. **PRESENT** the steps that can be taken to overcome international communication problems.
5. **DEVELOP** approaches to international negotiations that respond to differences in culture.
6. **REVIEW** different negotiating and bargaining behaviors that may improve negotiations and outcomes.

The World of International Management

Netflix's Negotiations: Global Expansion Strategies

In just a decade, Netflix has disrupted the global entertainment industry and transformed the way in which consumers watch television around the world. Today, nearly half of households in the U.S. have access to a Netflix subscription, and the company has evolved into the world's largest provider of Internet-based content. Over the past few years, Netflix has been particularly aggressive in expanding its operations internationally; in 2015 alone, Netflix launched service in 130 new countries, tripling the number of international markets it served.[1] By the end of 2021, the company, which originally started as a mail-order DVD rental service in 1997, had established video-streaming operations in nearly every country in the world. Of its 209 million subscribers, over 66 percent are outside the U.S.[2]

Netflix does not make content or expand to new countries with a one-size fits all strategy. Specifically, it targets regional audiences with content that represents their lived experience, rather than a foreign, Hollywood experience. All social conventions within a given country are respected and incorporated in local programming, making it more appealing to global users. In fact, in most non-English-speaking countries, about 90 percent of all content is local originals and programming.[3] However, this strategy does not limit success to countries and regional markets isolated from one another. Netflix has invested in local programming that can still appeal to broader markets. Nothing better depicts this than the global success of Netflix's South Korean show, "Squid Game." As of the third quarter of 2021, over 110 million viewers globally have watched at least two minutes of the show. Beyond increasing viewership, local programming saves Netflix substantial costs. A show like "Squid Game" uses local talent and earns Netflix financial incentives, such as tax credits from countries looking to increase recognition. "Squid Game" cost Netflix a mere $21.4 million, which is a fraction of the sum required to refilm and reproduce the show in Hollywood with Hollywood talent. Money Heist, a Spanish drama, experienced similar success, reaching audiences across the globe.[4]

Critical to this rapid expansion was Netflix's entry strategy. As a digital service provider, without physical goods or merchandise being imported and exported into the countries in which it operates, Netflix has been able to skip the lengthy, typically required governmental negotiations that most other companies must endure when expanding into foreign markets. For the most part, Netflix's strategy appears to have worked; the company has been able to operate across North and South America, Africa, and Europe without any governmental challenge. However, in places where government regulators have made entry difficult, such as China, and in places where subscriber growth has been lacking, such as France, Netflix has learned to alter its approach and negotiate strategic partnerships that ensure access to the market.

Entry Strategies

To succeed on a regional and international basis, the company has developed a strategy of negotiating partnerships with external cellular and cable television providers. These providers, which have large-scale, well-established operations in their respective countries, provide services to millions of subscribers through the existing infrastructure. By partnering with cellular and cable companies, Netflix is able to access these potential subscribers almost instantaneously. The typical expenses associated with acquiring new customers, including marketing and distribution, can be reduced substantially.[5] Netflix is better able to create local programming content and reach markets that will consume it through existing local carriers.

The first deal of this kind was with Orange, one of the largest telecom providers in France. Initial negotiations were challenging; Netflix and Orange were deadlocked over the details surrounding revenue sharing, and French regulators required that Netflix help fund local-language video content. Despite the difficulties during the negotiations, the deal has proved to be lucrative for Netflix. Through its partnership with Orange, Netflix now has easier access to 200 million Orange customers in nearly 30 countries across Europe, Africa, and the Middle East.[6]

Similarly, in India, Netflix partnered with Airtel and Reliance Jio — the top two wireless service market leaders to catapult its growth prospects. Under the partnership, Netflix offered a free mobile-only subscription to post-paid subscribers of the wireless carriers, with subscribers having the option to upgrade to Netflix's traditional plans.

Although Netflix improved its user base, Netflix faced stiff competition from Amazon Prime and Hotstar-Disney in acquiring new customers. As a country-specific offering, Netflix launched ultra-low-cost subscriptions, priced less than $2 per month to achieve customer retention and make streaming affordable to a wider customer base. These strategies helped Netflix reach a subscriber base of 4.5 million.[7]

South Korea also represents a market with great potential for Netflix. With over 200,000 new subscribers per quarter, Netflix is on target to become the largest streaming platform in South Korea. To do this, it partnered with a local mobile carrier, Korea Telecom. Through KT, it began testing out a mobile-device only subscription plan.[8] This plan made Netflix's negotiation tactics in South Korea more innovative and favorable, as it adapted to changing local consumption habits. Netflix also partners with South Korea film producers like Studio Dragon. A three-year deal formed with Studio Dragon in 2020 allows Netflix to produce original, local series with the firm and even receive distribution rights for some local titles not produced with Netflix.[9] Partnering with local producers allows Netflix access to well established resources and talent pools.

Netflix's negotiations in South Korea have not all been positive. SK Broadband is suing Netflix for the increased network costs that it is facing because of Netflix's success, specifically with "Squid Game." The lawsuit estimates costs of $23 million just for 2020, before "Squid Game" was even released. YouTube and Netflix are the only content providers that do not pay SK Broadband network usage fees. Facing lawsuits in foreign countries requires a firm understanding of cultural norms and the accompanying legal system. Negotiations also require persistence and flexibility. Netflix has had a similar issue domestically with Comcast, and it is using what it learned in that lawsuit to ensure that customers are not affected and connections with SK Broadband are not severed.[10]

Negotiations in China

With more than 1.3 billion consumers—many of whom are ascending into the middle class—China has become a prominent market with the potential to become Netflix's largest subscription base. However, unlike other markets, Netflix must have specific governmental approval to operate in China. Negotiations in China have notoriously taken long periods of time to complete. Additionally, Chinese regulators exert heavy control over content. All shows, including original programming produced by Netflix, would undergo censoring prior to inclusion on the Chinese Netflix platform. Domestic streaming services, though lacking the infrastructure and content selection that Netflix boasts, add an additional layer of complexity to negotiations. Most of the domestic streaming services are free to the public and

funded by the government, giving the Chinese government a stake in Netflix's competitors.

When negotiating in China, Netflix first had to manage the process with government officials. According to Harvard Business Review, there are multiple cultural differences when negotiating in China that companies like Netflix should be aware of, a few of which are

- Formality in business dealings is critical in China, while informality is commonplace in the U.S. Failure to address Chinese business partners by their rank or importance could be seen as insulting, ultimately leading to a deterioration of negotiations.
- The presence of a high-level company official, like the CEO, at the bargaining table is culturally seen as increasing the level of seriousness and can significantly improve the outcome of the negotiations for the company.
- Chinese negotiators tend to require a longer period of relationship building than their U.S. counterparts. It is not uncommon for several months of vetting to be required before discussions become more serious and detailed. Rushing a deal may be perceived as culturally rude.[11] In negotiating in China, reciprocity is also key. Reciprocity shows that the relationship is not merely a money-grab, but a desire to build a mutual connection.[12]

In 2017, after struggling for several years to win government approval to operate in China, Netflix finally landed a deal to partner with iQiyi, a Chinese video-streaming platform. This partnership allows Netflix to license its online content, including its original programming, to iQiyi. With this licensing deal, Netflix hoped to quickly grow its number of viewers in China, but after two years, the deal was terminated. iQiyi CEO Gong Yu credits the end of the partnership to the incompatibility of Netflix and users' tastes.[13] Following the conclusion of the partnership, Netflix' co-CEO, Ted Sarandos said that breaking into the Chinese market is not likely to happen "any time really soon."[14] He explained that many companies in the industry inevitably face these negotiation barriers, and until the walls break down, Netflix will focus its energies on countries that welcome it. Netflix used cultural understanding in negotiating with Chinese officials, both in knowing when how to interact with and push through disagreements, but also, in knowing when to move on.

Agreement with IATSE

Negotiations are also required when considering labor relations. For example, beginning in 2015, Netflix hired a handful of employees in Japan. One of the key differences that Netflix adapted to with these workers is that feedback typical in the U.S. is considered intimidating and harsh in Japan. Netflix must act with intentionality and compassion when considering labor affairs, both domestically, and abroad. Netflix put this practice to work by reaching a tentative deal with the International Alliance of Theatrical Stage Employees (the IATSE) in October of 2021, as a member of the Alliance of Motion Picture and Television Producers (AMPTA).[15]

Terms of the agreement include a living wage for all earners, specified weekend and daily rest periods, and the adoption of DEI initiatives. In exchange, Netflix and other producers averted an imminent, first of its kind strike by IATSE members across the globe. It will also benefit from higher morale and less interruptions during the production process. Netflix and the AMPTA have many things to consider when negotiating with a union, specifically outlined in the National Labor Relations Act in the U.S. This Act deems the refusal to bargain collectively with a union representative an unfair business practice and requires the company to meet with a union representative at reasonable times with relative frequency.[16] When negotiating with unions, as Netflix shows, balancing the desire to provide the best for employees with profit maximization and labor standards is key. The agreement with the IATSE only directly impacts producers on the west coast of the U.S., but it will hopefully translate beyond the industry and across borders.

The opening World of International Management illustrates how partnerships and negotiations between a U.S. multinational company, like Netflix, and a foreign government or business can result in successful expansion into new markets. Netflix's partnership with Orange and Korea Telecom allowed the company to leverage existing infrastructure to expand its subscriber base, and while it did not fully work out, iQiyi provided the company with potential access to the largest market on the globe and reflects the successes and challenges of foreign negotiation.

In this chapter, we explore communication and negotiation styles across cultures, emphasizing the importance of understanding different approaches to the development of effective international communication and negotiation strategies.

The Overall Communication Process

communication
The process of transferring meanings from sender to receiver.

Communication is the process of transferring meanings from sender to receiver. On the surface, this appears to be a fairly straightforward process. On analysis, however, there are a great many problems in the international arena that can result in the failure to transfer meanings correctly.

In addition, as suggested in the chapter opening World of International Management, the means and modes of communication have changed dramatically in recent decades. The advent of the telephone, then the Internet, and most recently personal communication devices (smartphones) has influenced how, when, and why people communicate. These trends have both benefits and disadvantages. On the plus side, we have many more opportunities to communicate rapidly, without delays or filters, and often can incorporate rich content, such as photos, videos, and links to other information, in our exchanges. On the other hand, some

are concerned that these devices are rendering our communication less meaningful and personal. In his book, Carr argues that when we go online, "we enter an environment that promotes cursory reading, hurried and distracted thinking, and superficial learning." He calls the Internet "a technology of forgetfulness." Web pages draw us into a myriad of embedded links while we are assaulted by other messages via e-mail, RSS, and Instagram and Facebook accounts. He suggests that greater access to knowledge is not the same as greater knowledge and that an ever-increasing plethora of facts and data is not the same as wisdom.[17]

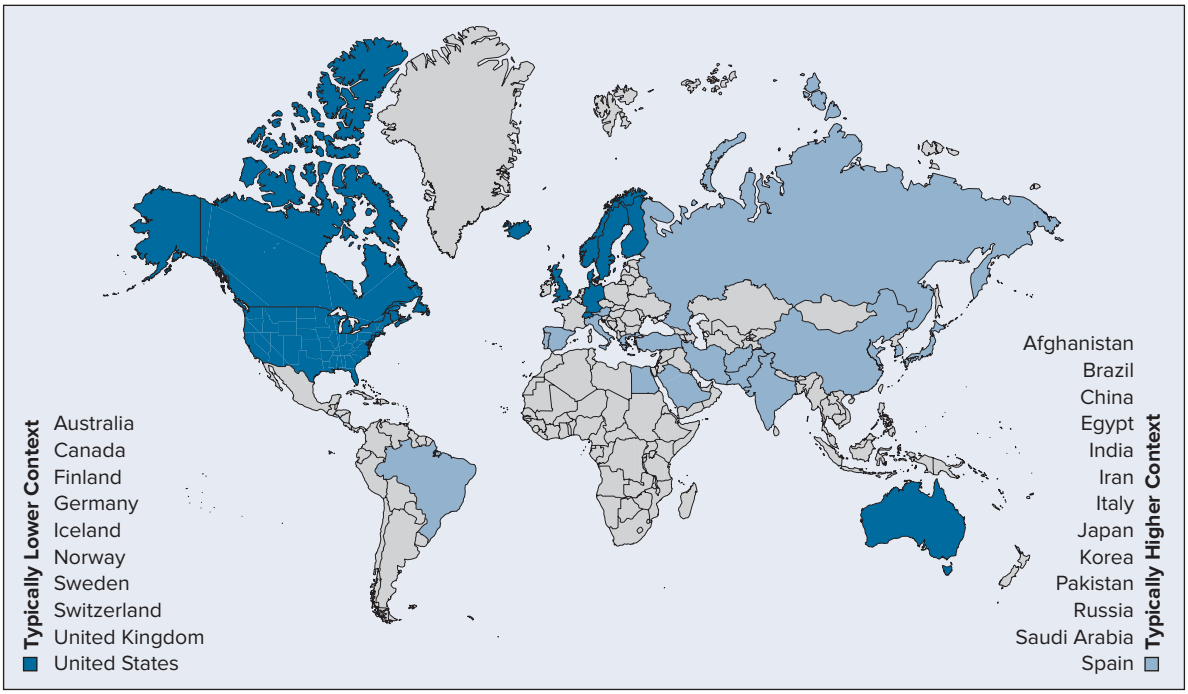
Despite these concerns, communication—verbal and otherwise—remains an important dimension of international management. In this chapter, we survey various communication styles, how communication is processed and interpreted, and how culture and language influence communication (and miscommunication).

Verbal Communication Styles

One method of examining the ways in which individuals convey information is by looking at their communication styles. In particular, as has been noted by Hall, context plays a key role in explaining many communication differences.[18] **Context** is information that surrounds a communication and helps convey the message. In high-context societies, such as Japan and many Arab countries, messages are often highly coded and implicit. As a result, the receiver's job is to interpret what a message means by correctly filtering through what is being said and the way in which the message is being conveyed. This approach is in sharp contrast to low-context societies such as the U.S. and Canada, where the message is explicit and the speaker says precisely what he or she means. These contextual factors must be considered when marketing messages are being developed in disparate societies. For example, promotions in Japan should be subtle and convey a sense of community (high context). Similar segments in the U.S., a low-context environment, should be responsive to expectations for more explicit messages. Figure 7–1 provides an international comparison of high-context and low-context societies. In addition, Table 7–1 presents some of the major characteristics of communication styles.

context
Information that surrounds a communication and helps convey the message.

Figure 7–1 High-/Low-Context Communication: An International Comparison



Source: Original graphic by Professor Jonathan Doh based on data from Brake, Terence, Danielle Medina Walker, and Thomas D. Walker. *Doing Business Internationally: The Guide to Cross-Cultural Success.* Burr Ridge, IL: Irwin, 1994, and Griffith, Sarah. "Intercultural Business Communication: High Context versus Low Context Communication." HubPages, 2011, http://hubpages.com/business/Intercultural-Business-Communication-High-Context-vs-Low-Context-Communication.

Table 7–1
Major Characteristics of Verbal Styles

Verbal Style	Major Variation	Interaction Focus and Content	Cultures in Which Characteristic Is Found
Indirect versus direct	Indirect	Implicit messages	Collective, high context
	Direct	Explicit messages	Individualistic, low context
Succinct versus elaborate	Elaborate	High quantity of talk	Moderate uncertainty avoidance, high context
	Exacting	Moderate amount of talk	Low uncertainty avoidance, low context
	Succinct	Low amount of talk	High uncertainty avoidance, high context
Contextual versus personal	Contextual	Focus on the speaker and role relationships	High power distance, collective, high context
	Personal	Focus on the speaker and personal relationships	Low power distance, individualistic, low context
Affective versus Instrumental	Affective	Process-oriented and receiver-focused language	Collective, high context
	Instrumental	Goal-oriented and sender-focused language	Individualistic, low context

Indirect and Direct Styles In high-context cultures, messages are implicit and indirect. One reason is that those who are communicating—family, friends, co-workers, and clients—tend to have both close personal relationships and large information networks. As a result, each knows a lot about others in the communication network; they do not have to rely on language alone to communicate. Voice intonation, timing, and facial expressions can all play roles in conveying information.

In low-context cultures, people often meet only to accomplish objectives. Since they do not know each other very well, they tend to be direct and focused in their communications.

One way of comparing these two kinds of culture—high-context and low-context—is by finding out what types of questions are typically asked when someone is contacted and told to attend a meeting. In a high-context culture, it is common for the person to ask, "Who will be at this meeting?" so that he or she knows how to prepare for appropriate personal interactions. In contrast, in a low-context culture, the individual is likely to ask, "What is the meeting going to be about?" so that he or she knows how to organize properly for the engagement. In the high-context society, the person focuses on the environment in which the meeting will take place. In the low-context society, the individual is most interested in the objectives that are to be accomplished at the meeting.

Elaborate to Succinct Styles There are three degrees of communication quantity—elaborate, exacting, and succinct. In high-context societies, the elaborate style is very common. There is a great deal of talking, description includes much detail, and people often repeat themselves. This elaborate style is widely used in Arabic countries.

The exacting style is more common in nations such as England, Germany, and Sweden. This style focuses on precision and the use of the right number of words to convey the message. If a person uses too many words, this is considered exaggeration; if the individual relies on too few, the result is an ambiguous message.

The succinct style is most common in Asia, where people tend to say few words and allow understatements, pauses, and silence to convey meaning. In particular, in unfamiliar situations, communicators are succinct in order to avoid risking a loss of face.

Researchers have found that the elaborating style is more popular in high-context cultures that have a moderate degree of uncertainty avoidance. The exacting style is more common in low-context, low-uncertainty-avoidance cultures. The succinct style is more common in high-context cultures with considerable uncertainty avoidance.

Contextual and Personal Styles A contextual style is one that focuses on the speaker and relationship of the parties. For example, in Asian cultures people use words that reflect the roles and hierarchical relationship of those in the conversation. As a result, in an organizational setting, speakers choose words that indicate their status relative to the status of the others. Commenting on this idea, Yoshimura and Anderson have noted that white-collar, middle-management employees in Japan, commonly known as salarymen, quickly learn how to communicate with others in the organization by understanding the context and reference group of the other party:

> A salaryman can hardly say a word to another person without implicitly defining the reference groups to which he thinks both of them belong. . . . [This is because] failing to use proper language is socially embarrassing, and the correct form of Japanese to use with someone else depends not only on the relationship between the two people, but also on the relationship between their reference groups. Juniors defer to seniors in Japan, but even this relationship is complicated when the junior person works for a much more prestigious organization (for example, a government bureau) than the senior. [As a result, it is] likely that both will use the polite form to avoid social embarrassment.[19]

A personal style focuses on the speaker and the reduction of barriers between the parties. In the U.S., for example, it is common to use first names and to address others informally and directly on an equal basis.

Researchers have found that the contextual style is often associated with high-power-distance, collective, high-context cultures. Examples include Japan, India, and Ghana. In contrast, the personal style is more popular in low-power-distance, individualistic, low-context cultures. Examples include the U.S., Australia, and Canada.

Affective and Instrumental Styles The affective style is characterized by language that requires the listener to carefully note what is being said and to observe how the sender is presenting the message. Quite often, the meaning that is being conveyed is nonverbal and requires the receiver to use his or her intuitive skills in deciphering what is being said. The part of the message that is being left out may be just as important as the part that is being included. In contrast, the instrumental style is goal oriented and focuses on the sender. The individual clearly lets the other party know what he or she wants the other party to know.

The affective style is common in collective, high-context cultures such as the Middle East, Latin America, and Asia. The instrumental style is more commonly found in individualistic, low-context cultures such as Switzerland, Denmark, and the U.S.

Table 7–2 provides a brief description of the four verbal styles that are used in select countries. A close look at the table helps explain why managers in Japan can have great difficulty communicating with their counterparts in the U.S. and vice versa: The verbal styles do not match in any context.

Interpretation of Communications

The effectiveness of communication in the international context often is determined by how closely the sender and receiver have the same meaning for the same message.[20] If their meanings are different, effective communication will not occur. A good example is a U.S. firm that wanted to increase worker output among its Japanese personnel. This firm put an individual incentive plan into effect, whereby workers would be given extra pay based on their work output. The plan, which had worked well in the U.S., was a total flop. The Japanese were accustomed to working in groups and to being rewarded as a group. In another case, a U.S. firm offered a bonus to anyone who would provide suggestions that resulted in increased productivity. The Japanese workers rejected this idea

Table 7–2
Verbal Styles Used in 10 Select Countries

Country	Indirect versus Direct	Elaborate versus Succinct	Contextual versus Personal	Affective versus Instrumental
Australia	Direct	Exacting	Personal	Instrumental
Canada	Direct	Exacting	Personal	Instrumental
Denmark	Direct	Exacting	Personal	Instrumental
Egypt	Indirect	Elaborate	Contextual	Affective
England	Direct	Exacting	Personal	Instrumental
Japan	Indirect	Succinct	Contextual	Affective
Korea	Indirect	Succinct	Contextual	Affective
Saudi Arabia	Indirect	Elaborate	Contextual	Affective
Sweden	Direct	Exacting	Personal	Instrumental
United States	Direct	Exacting	Personal	Instrumental

Source: Francesco, Anne Marie and Gold, Barry Allen. *International Organizational Behavior*: Text, Readings, Cases, and Skills. New Jersey: Prentice Hall, 1998.

because they felt that no one working alone is responsible for increased productivity; it is always a group effort. When the company changed the system and began rewarding group productivity, it was successful in gaining support for the program.

A related case occurs when both parties agree on the content of the message but one party believes it is necessary to persuade the other to accept the message. Here is an example from Motorola before it was split into two companies in 2011:

> Motorola University recently prepared carefully for a presentation in China. After considerable thought, the presenters entitled it "Relationships do not retire." The gist of the presentation was that Motorola had come to China in order to stay and help the economy to create wealth. Relationships with Chinese suppliers, subcontractors and employees would constitute a permanent commitment to building Chinese economic infrastructure and earning hard currency through exports. The Chinese audience listened politely to this presentation but was quiet when invited to ask questions. Finally one manager put up his hand and said: "Can you tell us about pay for performance?"[21]

Quite obviously, the Motorola presenter believed that it was necessary to convince the audience that the company was in China for the long run. Those in attendance, however, had already accepted this idea and wanted to move on to other issues.

■ Communication Flows

Communication flows in international organizations move both down and up. However, there are some unique differences among organizations around the world.

Downward Communication

downward communication The transmission of information from manager to subordinate.

Downward communication is the transmission of information from manager to subordinate. The primary purpose of the manager-initiated communication flow is to convey orders and information. Managers use this channel to let their people know what is to be done and how well they are doing. The channel facilitates the flow of information to those who need it for operational purposes.

Communicating with subordinates can be both challenging and difficult, especially if the manager delivering the news does not believe in the decision. Some suggest that managers should consider pushing back with superiors to gauge whether there is some flexibility. "[If you haven't fully bought into it,] your employees will be able to tell in the tone of your voice or your body language that you do not believe in what you are doing," says Ray Skiba,

director of human resources at Streck, a manufacturer of clinical laboratory products in Omaha, Nebraska. Whether or not this is successful, sending a mixed signal is never helpful.[22]

In the international context, downward communication poses special challenges. For example, in Asian countries, as noted earlier, downward communication is less direct than in the U.S. Orders tend to be implicit. Conversely, in some European countries, downward communication not only is direct but also extends beyond business matters. For example, one early study investigated matters that U.S. and French managers felt were within the purview of their authority.[23] The major differences involved work-related and non-work-related activities: The U.S. managers felt that it was within their authority to communicate or attempt to influence their people's social behavior only if it occurred on the job or it directly affected their work. For example, the U.S. managers felt that it was proper to look into matters such as how much an individual drinks at lunch, whether the person uses profanity in the workplace, and how active the individual is in recruiting others to join the company. The French managers were not as supportive of these activities. The researcher concluded that "the Americans find it as difficult [as] or more difficult than the French to accept the legitimacy of managerial authority in areas unrelated to work."[24]

Upward Communication

Upward communication is the transfer of information from subordinate to superior. The primary purpose of this subordinate-initiated, upward communication is to provide feedback, ask questions, or obtain assistance from higher-level management. In recent years, there has been a call for and a concerted effort to promote more upward communication in the U.S. In other countries, such as in Japan, Hong Kong, and Singapore, upward communication has long been a fact of life. Managers in these countries have extensively used suggestion systems and quality circles to get employee input and always are available to listen to their people's concerns.

upward communication
The transfer of meaning from subordinate to superior.

The Japanese firm Panasonic provides a good example. For nearly all of its 100-year existence, Panasonic has based its process-improvement efforts on ideas and feedback from employees. Employees are trained to think about ways to improve themselves, their individual jobs, and the company as a whole. To encourage input and ideas, Panasonic offers praise and modest monetary rewards. Additionally, the very best ideas are rewarded with companywide recognition, significant cash incentives, and other prizes.[25]

Panasonic has used the same approach wherever it has established plants worldwide, and the strategy has proved very successful. In many locations, employees begin the day by reciting Panasonic's basic principles, beliefs, and values, which are summarized in Table 7–3,

Table 7–3
Panasonic's Philosophy

Basic Management Objective

Recognizing our responsibilities as industrialists, we will devote ourselves to the progress and development of society and the well-being of people through our business activities, thereby enhancing the quality of life throughout the world.

Company Creed

Progress and development can be realized only through the combined efforts and cooperation of each employee of our company. United in spirit, we pledge to perform our corporate duties with dedication, diligence, and integrity.

The Seven Spiritual Values

1. Contribution to society
2. Fairness and honesty
3. Cooperation and team spirit
4. Untiring effort for improvement
5. Courtesy and humility
6. Adaptability
7. Gratitude

Source: The Business Philosophy of Panasonic Group. Panasonic. Accessed July 16, 2022. https://holdings.panasonic/global/corporate/about/philosophy.html.

to reinforce in all employees the reason for the company's existence and to provide a form of spiritual fabric to energize and sustain them.[26] All employees see themselves as important members of a successful team, and they are willing to do whatever is necessary to ensure the success of the group.

Outside these Asian countries, upward communication is not as popular. For example, in South America, many managers believe that employees should follow orders and not ask a lot of questions. German managers also make much less use of this form of communication. In most cases, however, evidence shows that employees prefer to have downward communication at least supplemented by upward channels. Unfortunately, such upward communication does not always occur because of a number of communication barriers, as discussed in the following section.

Communication Barriers

A number of common communication barriers are relevant to international management. The more important barriers involve language barriers, perception barriers, the impact of culture, and nonverbal communication.

Language Barriers

Knowledge of the home country's language (the language used at the headquarters of the MNC) is important for personnel placed in a foreign assignment. If managers do not understand the language that is used at headquarters, they likely will make a wide assortment of errors. Additionally, many MNCs now prescribe English as the common language for internal communication, so that managers can more easily convey information to their counterparts in other geographically dispersed locales.[27] Despite such progress, however, language training continues to lag in many areas, including the U.S., where less than 8 percent of college students study a foreign language.[28] However, in an increasing number of European countries, more and more young people are becoming multilingual.

Language education is a good beginning, but it is also important to realize that the ability to speak the language used at MNC headquarters is often not enough to ensure that the personnel are capable of doing the work.[29,30] Stout has noted that many MNCs worldwide place a great deal of attention on an applicant's ability to speak English without considering if the person has other necessary skills, such as the ability to interact well with others and the technical knowledge demanded by the job.[31] Additionally, in interviewing people for jobs, he has noted that many interviewers fail to take into account the applicant's culture. As a result, interviewers misinterpret behaviors such as quietness or shyness and use them to conclude that the applicant is not sufficiently confident or self-assured. Still another problem is that nonnative speakers may know the language but not be fully fluent, so they end up asking questions or making statements that convey the wrong message. After studying Japanese for only one year, Stout began interviewing candidates in their local language and made a number of mistakes. In one case, he reports, "a young woman admitted to having an adulterous affair—even though this was not even close to the topic I was inquiring about—because of my unskilled use of the language."[32]

Written communication has been getting increased attention because poor writing is proving to be a greater barrier than poor talking. For example, Hildebrandt has found that among U.S. subsidiaries in Germany, language was a major problem when the subsidiaries were sending written communications to the home office. The process often involved elaborate procedures associated with translating and reworking the report. Typical steps included (1) holding a staff conference to determine what was to be included in the written message, (2) writing the initial draft in German, (3) rewriting the draft in German, (4) translating the material into English, (5) consulting with bilingual staff members regarding the translation, and (6) rewriting the English draft a series of additional times until the message was judged to be acceptable for transmission. The German managers admitted that they felt uncomfortable with writing because their command of written English was poor.[33]

It is important to note, however, that recent advancements in technology are helping eliminate many of these language barriers. Applications like Google Translate and iTranslate are already able to provide intelligent speech translation in real time. Unlike translation methods of the past, which focused on translating individual words, these applications provide highly accurate translations by evaluating entire phrases and sentences. Users of these applications can speak directly into their smartphones in their native language and, with the click of a button, instantly receive both audible and written translations into just about any language. Face-to-face communication between speakers of different languages, without an interpreter, is now possible through this technology.[34]

Cultural Barriers in Language Cultural barriers have significant ramifications for international communications. For example, research by Sims and Guice compared 214 letters of inquiry written by native and nonnative speakers of English to test the assumption that cultural factors affect business communication. Among other things, the researchers found that nonnative speakers used exaggerated politeness, provided unnecessary professional and personal information, and made inappropriate requests of the other party. This study indicated that the deviations from standard U.S. business communication practices were not specific to one or more nationalities, but were spread throughout the sample of nonnative letters used for the study. Therefore, we can speculate that U.S. native speakers of English might have similar difficulties in international settings. In other words, a significant number of native speakers in the U.S. might deviate from the standard business communication practices of other cultures. Therefore, these native speakers need specific training in the business communication practices of the major cultures of the world, so that they can communicate successfully and acceptably with readers in those cultures.[35]

Research by Scott and Green has extended these findings, showing that even in English-speaking countries, there are different approaches to writing letters. In the U.S., for example, it is common practice when constructing a bad-news letter to start out "with a pleasant, relevant, neutral, and transitional buffer statement; give the reasons for the unfavorable news before presenting the bad news; present the refusal in a positive manner; imply the bad news whenever possible; explain how the refusal is in the reader's best interest; and suggest positive alternatives that build goodwill."[36] In Great Britain, however, it is common to start out by referring to the situation, discussing the reasons for the bad news, conveying the bad news (often quite bluntly), and concluding with an apology or a statement of regret (something that is frowned on by business letter experts in the U.S.) designed to keep the reader's goodwill. Here is an example:

> Lord Hanson has asked me to reply to your letter and questionnaire of February 12 which we received today.
>
> As you may imagine, we receive numerous requests to complete questionnaires or to participate in a survey, and this poses problems for us. You will appreciate that the time it would take to complete these requests would represent a full-time job, so we decided some while ago to decline such requests unless there was some obvious benefit to Hanson PLC and our stockholders. As I am sure you will understand, our prime responsibility is to look after our stockholders' interests.
>
> I apologize that this will not have been the response that you were hoping for, but I wish you success with your research study.[37]

U.S. MNC managers would seldom, if ever, send this type of letter; it would be viewed as blunt and tactless. However, the indirect approach that Americans use would be viewed by their British counterparts as overly indirect and obviously insincere.

On the other hand, when compared to Asians, many American writers are far more blunt and direct. For example, Park, Dillon, and Mitchell reported that there are pronounced differences between the ways in which Americans and Asians write business letters of complaint. In a comparative study of American and Korean managers, they found that the Americans used a direct organizational pattern and tended to state the main idea or problem first before sharing explanatory details that clearly related to the stated problem. In contrast, the standard Korean pattern was indirect and tended to delay

the reader's discovery of the main point. This led the researchers to conclude that the U.S.-generated letter might be regarded as rude by Asian readers, while American readers might regard the letter from the Korean writer as vague, emotional, and accusatory.[38]

Perceptual Barriers

perception
A person's view of reality.

Perception is a person's view of reality. How people see reality can vary and will influence their judgment and decision making.[39] Unfortunately, misperceptions can become a barrier to effective communication and thus decision making. For example, when then U.S. President-Elect Donald Trump took a congratulatory call from Taiwan President Tsai Ing-wen, the Chinese (PRC) government perceived this as a threatening gesture and issued a series of warnings to both Taiwan and the U.S.[40] In international incidents such as this, perception is critical, and misperceptions may get out of hand. The following sections provide examples of perception barriers and their results in the international business arena.

Advertising Messages One way that perception can be a problem in international management communication is the very basic misunderstandings caused when one side uses words or symbols that simply are misinterpreted by others. Many firms have found to their dismay that a failure to understand home-country perceptions can result in disastrous advertising programs, for instance. HSBC Bank, for example, experienced this with its "Assume Nothing" advertising campaign. After a successful launch of the slogan in the U.S., HSBC Bank made the decision to roll out the campaign globally. However, problems arose when, in many countries, the "Assume Nothing" slogan was translated to "Do Nothing." HSBC pulled the campaign, ultimately spending US$10 million to rebrand globally.[41]

There have been countless other such advertising blunders. Some speak to the political context, such as when Mercedes-Benz introduced its Grand Sports Tourer, or Mercedes GST, in Canada. Canadians were not very impressed because in Canada, GST is a shorthand for the goods and services tax. Other times, the advertising is simply offensive. Bacardi, for example, advertised the fruity drink Pavian in Germany, believing that it was tres chic. *Pavian* to the German population, however, meant "baboon." Needless to say, sales did not exceed expectations. The food and beverage industry may have experienced the worst string of bloopers. The Coors slogan "Turn It Loose" dismayed the Spanish, who thought it would cause intestinal problems. In Taiwan, Pepsi's "Come alive with Pepsi" frightened consumers because it literally meant "Pepsi will bring your ancestors back from the grave." Finally, even though KFC is performing better in the Chinese market than in America, its catchphrase "Finger-licking good" was originally translated as "Eat your fingers off."[42]

Managers must be very careful when they translate messages. Evidently from the many examples, errors in translation occur frequently, but MNCs can still come out on top with care and persistence, always remembering that perception may create new reality.

View of Others Perception influences how individuals "see" others. A good example is provided by the perception of foreigners who reside in the U.S. by Americans and the perception of Americans by the rest of the world. Most Americans see themselves as extremely friendly, outgoing, and kind, and they believe that others also see them in this way. At the same time, many are not aware of the negative impressions they give to others. This has become especially salient in light of the involvement of the U.S. armed forces in conflicts in Iraq, Afghanistan, and Syria, and the unplanned withdrawal of its forces from Afghanistan soon after Joe Biden taking over the U.S. presidency. Such events have at times shaken the world view of the U.S. It becomes a trying exercise to sort through truth and error in such circumstances.

An example in the business world where perception is all important and misperception may abound is the way in which people act, or should act, when initially meeting others.

International Management in Action

Doing It Right the First Time

Like other countries of the world, Japan has its own business customs and culture; someone who fails to adhere to tradition runs the risk of being perceived as ineffective or uncaring. The following addresses three areas that are important in being correctly perceived by one's Japanese counterparts.

Business Cards

The exchange of business cards is an integral part of Japanese business etiquette, and Japanese businesspeople exchange these cards when meeting someone for the first time. Additionally, those who are most likely to interface with non-Japanese are supplied with business cards printed in Japanese on one side and a foreign language, usually English, on the reverse side. This is aimed at enhancing recognition and pronunciation of Japanese names, which are often unfamiliar to foreign businesspeople. Conversely, it is advisable for foreign businesspeople to carry and exchange with their Japanese counterparts a similar type of card printed in Japanese and in their native language. These cards can often be obtained through business centers in major hotels.

When receiving a card, it is considered common courtesy to offer one in return. In fact, not returning a card might convey the impression that the manager is not committed to a meaningful business relationship in the future.

Business cards should be presented and received with both hands. When presenting one's card, the presenter's name should be facing the person who is receiving the card, so that the receiver can easily read it. When receiving a business card, it should be handled with care, and, if the receiver is sitting at a conference or other type of table, the card should be placed in front of the individual for the duration of the meeting. It is considered rude to put a prospective business partner's card in one's pocket before sitting down to discuss business matters.

Bowing

Although the handshake is increasingly common in Japan, bowing remains the most prevalent formal method of greeting, saying goodbye, expressing gratitude, and apologizing to another person. When meeting foreign businesspeople, however, the Japanese will often use the handshake or a combination of both a handshake and a bow, even though there are different forms and styles of bowing, depending on the relationship of the parties involved. Foreign businesspeople are not expected to be familiar with these intricacies, and therefore a deep nod of the head or a slight bow will suffice in most cases. Many foreign businesspeople are unsure whether to use a handshake or to bow. In these situations, it is best to wait and see if one's Japanese counterpart offers a hand or prefers to bow and then to follow suit.

Attire

Most Japanese businesspeople dress in conservative dark or navy blue suits, although slight variations in style and color have come to be accepted in recent years. As a general rule, what is acceptable business attire in virtually any industrialized country is usually regarded as good business attire in Japan as well. Although there is no need to conform precisely to the style of dress of the Japanese, good judgment should be exercised when selecting attire for a business meeting. If unsure about what constitutes appropriate attire for a particular situation, it is best to err on the conservative side.

Source: Harris, Philip R., and Robert T. Moran. *Managing Cultural Differences*, 3rd ed. Houston: Gulf, 1991, 393–406; Hodge, Shelda. *Global Smarts*. New York: Wiley, 2000, 76; Japan National Tourism Organization. https://www.jnto.go.jp; Lewis, Richard D. *When Cultures Collide*. London: Nicholas Brealey, 1999, 414–15; Rugman, Alan, and Richard M. Hodgetts. *International Business*, 2nd ed. London: Pearson, 2000, chapter 17.

The International Management in Action box "Doing It Right the First Time" provides some insight into how to conduct oneself when doing business in Japan.

Perceptions of others may play a major role in the context of international management in the effects of the ways that international managers perceive their subordinates and their peers. For example, a study examined the perceptions that German and U.S. managers had of the qualifications of their peers (those on the same level and status), managers, and subordinates in Europe and Latin America.[43] The findings showed that both the German and the U.S. respondents perceived their subordinates to be less qualified than their peers. However, although the Germans perceived their managers to have more managerial ability than their peers, the Americans felt that their South American peers in many instances had qualifications equal to or better than the qualifications of their own managers. Quite obviously, these perceptions will affect how German and U.S. expatriates communicate with their South American and other peers and subordinates, as well as how the expatriates communicate with their bosses.

Another study found Japanese managers regard women as superfluous to the effective running of their organizations and generally continue to not treat women as equals.[44] Such perceptions obviously affect the way these managers interact and communicate with their female counterparts.

The Impact of Culture

Besides language and perception, another major barrier to communication is culture, a topic that was given detailed attention in Chapter 4. Culture can affect communication in a number of ways, one of which is through the impact of cultural values.

Cultural Values One expert on Middle Eastern countries notes that people there do not relate to and communicate with each other in a loose, general way as do those in the U.S. Relationships are more intense and binding in the Middle East, and a wide variety of work-related values influence what people in the Middle East will and will not do.

In North American society, the generally professed prevalent pattern is one of non-class-consciousness, as far as work is concerned. Students, for example, make extra pocket money by taking all sorts of part-time jobs—manual and otherwise—regardless of the socio-economic stratum to which the individual belongs. The attitude is uninhibited. In the Middle East, the overruling obsession is how the money is made and via what kind of job.[45]

These types of values indirectly, and in many cases directly, affect communication between people from different cultures. For example, one would communicate differently with a "rich college student" from the U.S. than with one from Saudi Arabia. Similarly, when negotiating with managers from other cultures, knowing the way to handle the deal requires an understanding of cultural values.[46]

Another cultural value is the way that people use time. In the U.S., people believe that time is an asset and is not to be wasted. This is an idea that has limited meaning in some other cultures. Various values are reinforced and reflected in proverbs that Americans are taught from an early age. These proverbs help guide people's behavior. Table 7–4 lists some examples.

Misinterpretation Cultural differences can cause misinterpretations both in how others see expatriate managers and in how the latter see themselves. For example, U.S. managers doing business in Austria often misinterpret the fact that local businesspeople always address them in formal terms. They may view this as meaning that they are not friends or are not liked, but, in fact, this formal behavior is the way Austrians always conduct business. The informal, first-name approach used in the U.S. is not the style of the Austrians.

Culture even affects day-to-day corporate communications.[47] For example, when sending messages to international clients, American managers have to keep in mind that there are many things that are uniquely American and that overseas managers may not be aware of them. As an example, daylight saving time is known to all Americans, but many

Table 7–4
U.S. Proverbs Representing Cultural Values

Proverb	Cultural Value
A penny saved is a penny earned.	Thriftiness
Time is money.	Time thriftiness
Don't cry over spilt milk.	Practicality
Waste not, want not.	Frugality
Early to bed, early to rise makes one healthy, wealthy, and wise.	Diligence, work ethic
A stitch in time saves nine.	Timeliness of action
If at first you don't succeed, try, try again.	Persistence, work ethic
Take care of today, and tomorrow will take care of itself.	Preparation for future

Source: Kohls, L. *Robert. Survival Kit for Overseas Living: For Americans Planning to Live and Work Abroad.* Hachette, 2011.

Asian managers have no idea what the term means. Similarly, it is common for American managers to address memos to their "international office" without realizing that the managers who work in this office regard the American location as the "international" one! The following are other suggestions that can be of value to American managers who are engaged in international communications.

- Be careful not to use generalized statements about benefits, compensation, pay cycles, holidays, or policies in your worldwide communications. Work hours, vacation accrual, general business practices, and human resource issues vary widely from country to country.
- Because most of the world uses the metric system, be sure to include converted weights and measures in all internal and external communications.
- Keep in mind that even in English-speaking countries, words may have different meanings. Not everyone knows what is meant by "counterclockwise" or "quite good."
- Remember that letterhead and paper sizes differ worldwide. The 8½ × 11-inch page is a U.S. standard, but most countries use an A4 (8¼ × 11½ inch) size for their letterhead, with envelopes to match.
- Dollars are not unique to the U.S. There are Australian, Bermudian, Canadian, Hong Kong, Taiwanese, and New Zealand dollars, among others. So, when referring to American dollars, it is important to use "US$."

Many Americans also have difficulty interpreting the effect of national values on work behavior. For example, why do French and German workers drink alcoholic beverages at lunchtime? Why are many European workers unwilling to work the night shift? Why do overseas affiliates contribute to the support of the employees' work council or donate money to the support of kindergarten teachers in local schools? These types of actions are viewed by some people as wasteful, but those who know the culture of these countries realize that such actions promote the long-run good of the company. It is the outsider who is misinterpreting why these culturally specific actions are happening, and such misperceptions can become a barrier to effective communication.

Nonverbal Communication

Another major source of communication and perception problems is **nonverbal communication**, which is the transfer of meaning through means such as body language and use of physical space. Table 7–5 summarizes a number of dimensions of nonverbal communication.

nonverbal communication The transfer of meaning through means such as body language and the use of physical space.

Table 7–5
Common Forms of Nonverbal Communication

1. Facial expressions, including expressions such as a smile or a frown, which can convey a variety of emotions, including happiness, anger, fear, or sadness
2. Gestures, including waving, eye-rolling, and pointing
3. Paralinguistics, which includes non-language-based vocal factors such as tone, loudness, and inflection
4. Body language and posture, such as arm-crossing and slouching
5. Proxemics, which is the personal space between two communicating people
6. Eye gaze, which can determine interest in the conversation, openness, hostility, and even the level of honesty
7. Haptics, which is communication through touching
8. Appearance, including hairstyle, color, clothing, and hygiene
9. Artifacts, such as tools, charts, images, and other objects

Source: Cherry, Kendra. "Types of Nonverbal Communication." VeryWell, December 17, 2015. https://www.verywell.com/types-of-nonverbal-communication-2795397.

The general categories that are especially important to communication in international management are kinesics, proxemics, chronemics, and chromatics.

kinesics
The study of communication through body movement and facial expression.

oculesics
The area of communication that deals with conveying messages through the use of eye contact and gaze.

haptics
Communicating through the use of bodily contact.

Kinesics

Kinesics is the study of communication through body movement and facial expression. Primary areas of concern include eye contact, posture, and gestures. For example, when one communicates verbally with someone in the U.S., it is good manners to look the other person in the eye. This area of communicating through the use of eye contact and gaze is known as **oculesics**. In some areas of the world, oculesics is an important consideration because of what people should not do, such as stare at others or maintain continuous eye contact, because it is considered impolite to do these things.

Gestures are also widely used and take many forms. For example, Canadians shake hands, Japanese bow, and Middle Easterners of the same sex kiss on the cheek. Communicating through the use of bodily contact is known as **haptics**, and it is a widely used form of nonverbal communication.

Sometimes gestures present problems for expatriate managers because these behaviors have different meanings depending on the country. For example, in the U.S., putting the thumb and index finger together to form an "O" is the sign for "okay." In Japan, this is the sign for money; in southern France, the gesture means "zero" or "worthless"; and, in Brazil, it is regarded as a vulgar or obscene sign. In France and Belgium, snapping the fingers of both hands is considered vulgar; in Brazil, this gesture is used to indicate that something has been done for a long time. Gibson, Hodgetts, and Blackwell found that many foreign students attending school in the U.S. have trouble communicating because they are unable to interpret some of the most common nonverbal gestures.[48] A survey group of 44 Jamaican, Venezuelan, Colombian, Peruvian, Thai, Indian, and Japanese students at two major universities were given pictures of 20 universal cultural gestures, and each was asked to describe the nonverbal gestures illustrated. In 56 percent of the choices, the respondents either gave an interpretation that was markedly different from that of Americans or reported that the nonverbal gesture had no meaning in their culture. These findings help reinforce the need to teach expatriates about local nonverbal communication.

proxemics
The study of the way people use physical space to convey messages.

intimate distance
Distance between people that is used for very confidential communications.

personal distance
In communicating, the physical distance used for talking with family and close friends.

social distance
In communicating, the distance used to handle most business transactions.

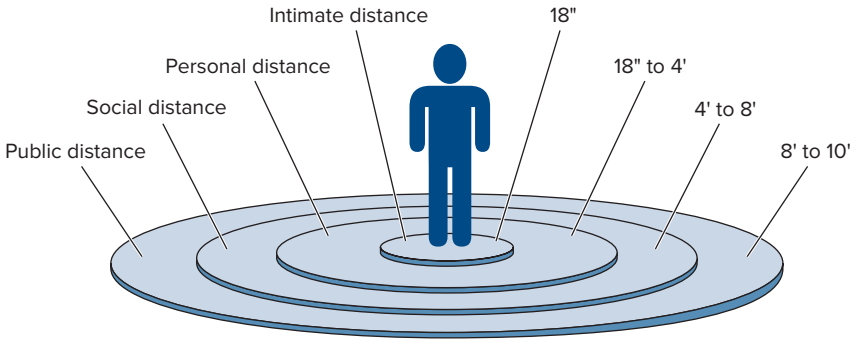
public distance
In communicating, the distance used when calling across the room or giving a talk to a group.

Proxemics

Proxemics is the study of the way that people use physical space to convey messages. For example, in the U.S., there are four "distances" people use in communicating on a face-to-face basis (see Figure 7–2). **Intimate distance** is used for very confidential communications. **Personal distance** is used for talking with family and close friends. **Social distance** is used to handle most business transactions. **Public distance** is used when calling across the room or giving a talk to a group.

One major problem for Americans communicating with people from the Middle East or South America is that the intimate or personal distance zone is violated. Americans often tend to be moving away in interpersonal communication with their Middle Eastern or Latin counterparts, while the latter are trying to physically close the gap. The American cannot understand why the other is standing so close; the latter cannot

Figure 7–2
Personal Space Categories for Those in the United States



Source: Hodgetts, Richard M., and Donald F. Kuratko. *Management.* San Diego, CA: Harcourt Brace Jovanovich, 1991, 384.

understand why the American is being so reserved and standing so far away. The result is a breakdown in communication.

Office layout is another good example of proxemics. In the U.S., the more important the manager, the larger the office, and often an assistant screens visitors and keeps away those whom the manager does not wish to see. In Japan, most managers do not have large offices, and, even if they do, they spend a great deal of time out of the office and with the employees. Thus, the Japanese have no trouble communicating directly with their superiors. A Japanese manager staying in his or her office would be viewed as a sign of distrust or anger toward the group.

Another way that office proxemics can affect communication is that in many European companies, no wall separates the space allocated to the senior-level manager from that of the subordinates. Everyone works in the same large room. These working conditions often are disconcerting to Americans, who tend to prefer more privacy.

Chronemics

Chronemics refers to the way in which time is used in a culture. When examined in terms of extremes, there are two types of time schedules: *monochronic* and *polychronic*. A **monochronic time schedule** is one in which things are done in a linear fashion. A manager will address Issue A first and then move on to Issue B. In individualistic cultures such as the U.S., Great Britain, Canada, and Australia, as well as many of the cultures in Northern Europe, managers adhere to monochronic time schedules. In these societies, time schedules are very important, and time is viewed as something that can be controlled and should be used wisely.

chronemics
The way in which time is used in a culture.

monochronic time schedule
A time schedule in which things are done in a linear fashion.

This is in sharp contrast to **polychronic time schedules**, which are characterized by people tending to do several things at the same time and placing higher value on personal involvement than on getting things done on time. In these cultures, schedules are subordinated to personal relationships. Regions of the world where polychronic time schedules are common include Latin America and the Middle East.

polychronic time schedule
A time schedule in which people tend to do several things at the same time and place higher value on personal involvement than on getting things done on time.

When doing business in countries that adhere to monochronic time schedules, it is important to be on time for meetings. Additionally, these meetings typically end at the appointed time, so that participants can be on time for their next meeting. When doing business in countries that adhere to polychronic time schedules, it is common to find business meetings starting late and finishing late.

Chromatics

Chromatics is the use of color to communicate messages. Every society uses chromatics, but in different ways. Colors that mean one thing in the United States may mean something entirely different elsewhere, such as in Asia. For example, in the U.S. it is common to wear black when in mourning, while in India people wear white when they are in mourning. In Hong Kong, red is used to signify happiness or luck, and traditional bridal dresses are red; in the U.S., it is common for the bride to wear white. In Chile, a gift of yellow roses conveys the message "I don't like you," but in the U.S. it says quite the opposite.

chromatics
The use of color to communicate messages.

Knowing the importance and specifics of chromatics in a culture can be very helpful because, among other things, such knowledge can help you avoid embarrassing situations. A good example is one American manager in Peru who, on finishing a one-week visit to a Lima subsidiary, decided to thank the assistant who was assigned to him. He sent her a dozen red roses. The lady understood the faux pas, but the American manager was somewhat embarrassed when his Peruvian counterpart smilingly told him, "It was really nice of you to buy her a present. However, red roses indicate a romantic interest!"

Achieving Communication Effectiveness

A number of steps can be taken to improve communication effectiveness in the international arena. These include improving feedback systems, providing language and cultural training, and increasing flexibility and cooperation.

Improve Feedback Systems

One of the most important ways of improving communication effectiveness in the international context is to open up feedback systems. Feedback is particularly important between parent companies and their affiliates. There are two basic types of feedback systems: personal (e.g., face-to-face meetings, videoconferencing, telephone conversations, and personalized e-mail) and impersonal (e.g., reports, budgets, and plans). Both systems help affiliates keep their home office aware of progress and, in turn, help the home office monitor and control affiliate performance as well as set goals and standards.

At present, there seem to be varying degrees of feedback between the home offices of MNCs and their affiliates. For example, one study evaluated the communication feedback between subsidiaries and home offices of 63 MNCs headquartered in Europe, Japan, and North America.[49] A marked difference was found between the way the U.S. companies communicated with their subsidiaries and the way the European and Japanese firms did. Over one-half of the U.S. subsidiaries responded that they received monthly feedback from their parent companies, in contrast to less than 10 percent for the subsidiaries of the European and Japanese firms. In addition, the Americans were much more inclined to hold regular management meetings on a regional or worldwide basis. Seventy-five percent of the U.S. companies had annual meetings for their affiliate top managers, compared with less than 50 percent for the Europeans and Japanese. These findings may help explain why many international subsidiaries and affiliates are not operating as efficiently as they should. The units may not have sufficient contact with the home office. They do not seem to be getting the continuous assistance and feedback that are critical to effective communication.

Provide Language Training

Besides improving feedback systems, another way to make communication more effective in the international arena is through language training. Many host-country managers cannot communicate well with their counterparts at headquarters. Because English has become the international language of business, those who are not native speakers of English should learn the language well enough that face-to-face conversations, videoconferencing, and e-mail are possible. If the language of the home office is not English, this other language also should be learned. As a U.S. manager working for a Japanese MNC recently said, "The official international language of this company is English. However, whenever the home-office people show up, they tend to cluster together with their countrymen and speak Japanese. That's why I'm trying to learn Japanese. Let's face it. They say all you need to know is English, but if you want to really know what's going on, you have to talk their language."

Written communication also is extremely important in achieving effectiveness. As noted earlier, when reports, letters, and e-mail messages are translated from one language to another, preventing a loss of meaning is difficult. Moreover, if the communications are not written properly, they may not be given the attention they deserve. The reader will allow poor grammar and syntax to influence his or her interpretation and subsequent actions. If readers cannot communicate in the language of those who will be receiving their comments or questions about the report, their messages also must be translated and likely will further lose meaning. Therefore, the process can continue on and on, each party failing to achieve full communication with the other. However, as discussed earlier, recent advancements in translation technology are helping prevent this negative feedback cycle. Technology-aided translation applications, like Google Translate, are now capable of providing both written and verbal translations that are more accurate than even those provided by bilingual interpreters. Although this technology will not replace some of the benefits gained through language training, it will ease many of the difficulties noted earlier.[50]

Provide Cultural Training

It is very difficult to communicate effectively with someone from another culture unless at least one party has some understanding of the other's culture.[51] Otherwise, communication likely will break down. This is particularly important for multinational companies that have operations throughout the world.[52] Although there always are important differences between countries, and even between subcultures of the same country, firms that operate in South America find that the cultures of these countries have certain commonalities. These common factors also apply to Spain and Portugal. Therefore, a basic understanding of Latin cultures can prove to be useful throughout a large region of the world. The same is true of Anglo cultures, where norms and values tend to be somewhat similar from one country to another. When a multinational has operations in South America, Europe, and Asia, however, multicultural training becomes necessary. The International Management in Action box "Communicating in Europe" provides some specific examples of cultural differences.

As Chapter 4 pointed out, it is erroneous to generalize about an international culture because the various nations and regions of the globe are so different. Training must be conducted on a regional or country-specific basis. Many corporations are investing in programs to help train their executives in international communication. Such training has become more common since it began in the 1970s as many Americans returned from the Peace Corps with increased awareness of cultural differences.

"Whether a multinational or a start-up business out of a garage, everybody is global these days," said Dean Foster, president of Dean Foster Associates, an intercultural consultancy in New York. "In today's economy, there is no room for failure. Companies have to understand the culture they are working in from Day 1." Foster recounted how an American businessman gave four antique clocks wrapped in white paper to a prospective client in China. What the man did not realize, he said, was that the words in Mandarin for "clock" and the number four are similar to the word for death, and white is a funeral color in many Asian countries. "The symbolism was so powerful," Foster said, that the man lost the deal.[53]

Chapter 14 will give considerable attention to cultural training as part of selection for overseas assignments and human resource development.

Increase Flexibility and Cooperation

Effective international communications require increased flexibility and cooperation by all parties.[54] To improve understanding and cooperation, each party must be prepared to give a little.[55] Ceridian HCM Inc., a multinational human resources company with operations across Europe, the Americas, and Australia, provides some good tips to maintaining cooperation when working on international teams:

- Acknowledge cultural differences and make them open for discussion.
- Communicate frequently and regularly.
- Ensure that all members of the team have appropriate opportunities to participate.
- Reinforce structure and be aware of power perception.
- Define core team values and establish trust.
- Promote and support diversity initiatives.
- Increase awareness of resources available to help with personal and work issues.[56]

Managing Cross-Cultural Negotiations

Closely related to communication but deserving special attention is managing negotiations.[57,58] **Negotiation** is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. It has been estimated that managers can spend 50 percent or

negotiation
Bargaining with one or more parties for the purpose of arriving at a solution acceptable to all.

Communicating in Europe

In Europe, many countries are within easy commuting distance of their neighbors, so an expatriate who does business in France on Monday may be in Germany on Tuesday, Great Britain on Wednesday, Italy on Thursday, and Spain on Friday. Each country has its own etiquette regarding how to greet others and conduct oneself during social and business meetings. The following sections examine some of the things that expatriate managers need to know to communicate effectively.

France

When one is meeting with businesspeople in France, promptness is expected, although tardiness of 5 to 10 minutes is not considered a major gaffe. The French prefer to shake hands when introduced, and it is correct to address them by title plus last name. When the meeting is over, a handshake again is proper manners.

French executives try to keep their personal and professional lives separate. As a result, most business entertaining is done at restaurants or clubs. When gifts are given to business associates, they should appeal to intellectual or aesthetic pursuits as opposed to being something that one's company produces for sale on the world market. In conversational discussions, topics such as politics and money should be avoided. Also, humor should be used carefully during business meetings.

Germany

German executives like to be greeted by their titles, and one should never refer to someone on a first-name basis unless invited to do so. When introducing yourself, do not use a title; just state your last name. Business appointments should be made well in advance, and punctuality is important. Like the French, the Germans usually do not entertain clients at home, so an invitation to a German manager's home is a special privilege and always should be followed with a thank-you note. Additionally, as is the case in France, avoid using humor during business meetings. The Germans are very serious when it comes to business, so be as prepared as possible and keep lighthearted banter to the German hosts' discretion.

Great Britain

In Britain, it is common to shake hands on the first meeting, and, to be polite, one should use last names and appropriate titles when addressing the host until invited to use his or her first name. Punctuality is important to the British, so be prepared to be on time and get down to business fairly quickly. The British are quite warm, though, and an invitation to a British home is more likely than in most other areas of Europe. You should always take a gift if invited to the host's house; flowers, chocolates, or books are acceptable.

During business meetings, suits and ties are common dress; however, striped ties should be avoided if they appear to be a copy of those worn by alumni of British universities and schools or by members of military or social clubs. Additionally, during social gatherings it is a good idea not to discuss politics or religion or to gossip about the monarchy unless the British person brings up the topic first.

Italy

In traditional companies, executives are referred to by title plus last name. It is common to shake hands when being introduced, and, if the individual is a university graduate, the professional title *dottore* should be used.

Business appointments should be made well in advance, and, if you expect to be late, call the host and explain the situation. In most cases, business is done at the office, and, when someone is invited to a restaurant, this invitation is usually done to socialize and not to continue business discussions. If an expatriate is invited to an Italian home, it is common to take a gift for the host, such as a bottle of wine or a box of chocolates. Flowers are also acceptable, but be sure to send an uneven number and avoid chrysanthemums, a symbol of death, and red roses, a sign of deep passion. Be sure to offer high-quality gifts with the wrapping done well, as the Italians are very generous when it comes to gifts. It is not a common practice to exchange them during business, but it is recommended that you be prepared. During the dinner conversation, there are a wide variety of acceptable topics, including business, family matters, and soccer.

Spain

It is common to use first names when introducing or talking to people in Spain, and close friends typically greet each other with an embrace. Appointments should be made in advance, but punctuality is not essential.

If one is invited to the home of a Spanish executive, flowers or chocolates for the host are acceptable gifts. If the invitation includes dinner, any business discussions should be delayed until after coffee is served. During the social gathering, some topics that should be avoided include religion, family, and work. Additionally, humor rarely is used during formal occasions.

Source: Gannon, Martin J. *Understanding Global Cultures*, 2nd ed. Thousand Oaks, CA: Sage, 2001, 35–56; Hodge, Shelda. *Global Smarts.* New York: Wiley, 2000, Chapter 14; Lewis, Richard D. *When Cultures Collide.* London: Nicholas Brealey, 1999, 400–15; Neale, Margaret A., and Max H. Bazerman. "Negotiating Rationally." *Academy of Management Executive*, August 1992, 42–51; Rapoport, Carla. "You Can Make Money in Japan." *Fortune*, February 12, 1990, 85–92; Tung, Rosalie J. "How to Negotiate with the Japanese." *California Management Review*, Summer 1984, 62–77.

more of their time on negotiation processes.[59] Therefore, it is a learnable skill that is imperative not only for the international manager but for the domestic manager as well because more and more domestic businesses are operating in multicultural environments (see Chapter 6). Negotiation often follows assessing political environments and is a natural approach to conflict management. Often, the MNC must negotiate with the host country to secure the best possible arrangements. The MNC and the host country will discuss the investment the MNC is prepared to make in return for certain guarantees or concessions. The initial range of topics typically includes critical areas such as hiring practices, direct financial investment, taxes, and ownership control. Negotiation is also used in creating joint ventures with local firms and in getting the operation off the ground. After the firm is operating, additional areas of negotiation include the expansion of facilities, use of more local managers, additional imports or exports of materials and finished goods, and recapture of profits.

On a more macro level of international trade are the negotiations conducted between countries. The escalating tariffs and ongoing balance-of-trade problem between the U.S. and China are one example. The new United States–Mexico–Canada Agreement (USMCA), which was renegotiated by the Trump administration in 2018 to replace the 25-year-old North American Free Trade Agreement (NAFTA) is another example of negotiations between countries.

Types of Negotiation

People enter into negotiations for a multitude of reasons, but the nature of the goal determines what kind of negotiation will take place. We will discuss two types of negotiation: distributive and integrative negotiations. **Distributive negotiations** occur when two parties with opposing goals compete over a set value.[60] Consider a person who passes a street vendor and sees an item he likes but considers the price, or set value, a bit steep. The goal of the buyer is to procure the item at the lowest price, getting more value for his money, while the goal of the seller is to collect as much as possible to maximize profits. Both are trying to get the best deal, but what translates into a gain by one side is usually experienced as a loss by the other, otherwise known as a win-lose situation. The relationship is focused on the individual and based on a short-term interaction. More often than not, the people involved are not friends, or at least their personal relationship is put aside in the matter. Information also plays an important role because you do not want to expose too much and be vulnerable to counterattack.

distributive negotiations
Bargaining that occurs when two parties with opposing goals compete over a set value.

Research has shown that first offers in a negotiation can be good predictors of outcomes, which is why it is important to have a strong initial offer.[61] This does not imply that overly greedy or aggressive behavior is acceptable; this could be off-putting to the other negotiator, causing him or her or him to walk away. In addition to limiting the amount of information you disclose, it can be advantageous to know a little about the other side.

Integrative negotiations involve cooperation between the two groups to integrate interests, create value, and invest in the agreement. Both groups work toward maximizing benefits for both sides and distributing those benefits. This method is sometimes called the win-win scenario, which does not mean that everyone receives exactly what he or she wishes for but, instead, that the compromise allows both sides to keep what is most important and still gain on the deal. The relationship in this instance tends to be more long-term, since both sides take time to get to know the other side and what motivates them. The focus is on the group, reaching for a best-case outcome where everyone benefits. This is the most useful tactic when dealing with business negotiation and so the discussion below assumes the integrative approach. Table 7-6 provides a summary of the two types of negotiation.

integrative negotiations
Bargaining that involves cooperation between two groups to integrate interests, create value, and invest in the agreement.

The Negotiation Process

Several basic steps can be used to manage the negotiation process. Regardless of the issues or personalities of the parties involved, this process typically begins with planning.

Table 7–6
Negotiation Types and Characteristics

Characteristic	Distributive Negotiations	Integrative Negotiations
Objective	Claim maximum value	Create and claim value
Motivation	Individual-selfish benefit	Group-cooperative benefit
Interests	Divergent	Overlapping
Relationship	Short-term	Long-term
Outcome	Win-lose	Win-win

Source: Harvard Business Essentials: Negotiation. Boston: Harvard Business School Press, 2003.

Planning Planning starts with the negotiators identifying the objectives they would like to attain. Then they explore the possible options for reaching these objectives. Research shows that the greater the number of options, the greater the chances for successful negotiations. While this appears to be an obvious statement, research also reveals that many negotiators do not alter their strategy when negotiating across cultures.[62,63] Next, consideration is given to areas of common ground between the parties. Other major areas include (1) the setting of limits on single-point objectives, such as deciding to pay no more than $10 million for the factory and $3 million for the land; (2) dividing issues into short- and long-term considerations and deciding how to handle each; and (3) determining the sequence in which to discuss the various issues.

Interpersonal Relationship Building The second phase of the negotiation process involves getting to know the people on the other side. This "feeling out" period is characterized by the desire to identify those who are reasonable and those who are not. In many cultures, this includes dinners, receptions, and other formalities. In contrast to negotiators in many other countries, those in the U.S. often give little attention to this phase; they want to move past the "small talk" and get down to business immediately, which often is an ineffective approach. Even if business is not directly being discussed, the interpersonal relationship building that is occurring through these ceremonies and receptions helps lay the groundwork for a successful negotiation.

Exchanging Task-Related Information In this part of the negotiation process, each group sets forth its position on the critical issues. These positions often will change later in the negotiations. At this point, the participants are trying to find out what the other party wants to attain and what it is willing to give up.

Persuasion This step of negotiations is considered by many to be the most important. No side wants to give away more than it has to, but each knows that without giving some concessions, it is unlikely to reach a final agreement. The success of the persuasion step often depends on (1) how well the parties understand each other's position, (2) the ability of each to identify areas of similarity and difference, (3) the ability to create new options, and (4) the willingness to work toward a solution that allows all parties to walk away feeling they have achieved their objectives.

Agreement The final phase of negotiations is the granting of concessions and hammering out of a final agreement. Sometimes, this phase is carried out piecemeal, and concessions and agreements are made on issues one at a time. This is the way negotiators from the United States like to operate. As each issue is resolved, it is removed from the bargaining table, and interest is focused on the next. Asians and Russians, on the other hand, tend to negotiate a final agreement on everything, and few concessions are given until the end.

Once again, as in all areas of communication, to negotiate effectively in the international arena, it is necessary to understand how cultural differences between the parties affect the process.

Cultural Differences Affecting Negotiations

In international negotiations, participants tend to orient their approach and interests around their home culture and their group's needs and aspirations. This is natural. Yet, to negotiate effectively, it is important to have a sound understanding of the other side's culture and position to better empathize and understand what they are about.[64] The cultural aspects managers should consider include communication patterns, time orientation, and social behaviors.[65] A number of useful steps can help in this process of understanding. One negotiation expert recommends the following:

1. Do not identify the counterpart's home culture too quickly. Common cues (e.g., name, physical appearance, language, accent, location) may be unreliable. The counterpart probably belongs to more than one culture.
2. Beware of the Western bias toward "doing." In Arab, Asian, and Latin groups, ways of being (e.g., comportment, smell), feeling, thinking, and talking can shape relationships more powerfully than doing.
3. Try to counteract the tendency to formulate simple, consistent, stable images.
4. Do not assume that all aspects of the culture are equally significant. In Japan, consulting all relevant parties to a decision is more important than presenting a gift.
5. Recognize that norms for interactions involving outsiders may differ from those for interactions between compatriots.
6. Do not overestimate your familiarity with your counterpart's culture. An American studying Japanese wrote New Year's wishes to Japanese contacts in basic Japanese characters but omitted one character. As a result, the message became "Dead man, congratulations."[66]

Other useful examples have been offered by Hampden-Turner and Trompenaars, who note that a society's culture often plays a major role in determining the effectiveness of a negotiating approach. This is particularly true when the negotiating groups come from decidedly different cultures, such as an ascription society and an achievement society. As noted in Chapter 4, in an ascription society, status is attributed based on birth, kinship, gender, age, and personal connections. In an achievement society, status is determined by accomplishments. As a result, each side's cultural perceptions can affect the outcome of the negotiation. Here is an example:

> Sending whiz-kids to deal with people 10–20 years their senior often insults the ascriptive culture. The reaction may be: "Do these people think that they have reached our own level of experience in half the time? That a 30-year-old American is good enough to negotiate with a 50-year-old Greek or Italian?" Achievement cultures must understand that some ascriptive cultures, the Japanese especially, spend much on training and in-house education to ensure that older people actually are wiser for the years they have spent in the corporation and for the sheer number of subordinates briefing them. It insults an ascriptive culture to do anything which prevents the self-fulfilling nature of its beliefs.[67]

U.S. negotiators have a style that often differs from that of negotiators in many other countries. Americans believe it is important to be factual and objective. In addition, they often make early concessions to show the other party that they are flexible and reasonable. Moreover, U.S. negotiators typically have authority to bind their party to an agreement, so, if the right deal is struck, the matter can be resolved quickly. This is why deadlines are so important to Americans. They have come to do business, and they want to get things resolved immediately.

A comparative example involves the Arabs, who, in contrast to the logical approach of the Americans, tend to use an emotional appeal in their negotiation style. They analyze things subjectively and treat deadlines as only general guidelines for wrapping up negotiations. They tend to open negotiations with an extreme initial position. However, Arabs believe strongly in making concessions, do so throughout the bargaining process, and almost always reciprocate an opponent's concessions. They also seek to build a long-term relationship with their bargaining partners. For these reasons, Americans typically find it easier to negotiate with Arabs than with representatives from many other regions of the world.

Another interesting comparative example is provided by the Chinese. In initial negotiation meetings, it is common for Chinese negotiators to seek agreement on the general focus of the meetings. The hammering out of specific details is postponed for later get-togethers. By achieving agreement on the general framework within which the negotiations will be conducted, the Chinese seek to limit and focus the discussions. Many Westerners misunderstand what is happening during these initial meetings and believe the dialogue consists mostly of rhetoric and general conversation. They are wrong and quite often are surprised later when the Chinese negotiators use the agreement on the framework and principles as a basis for getting agreement on goals—and then insist that all discussions on concrete arrangements be in accord with these agreed-upon goals. Simply put, what is viewed as general conversation by many Western negotiators is regarded by the Chinese as a formulation of the rules of the game that must be adhered to throughout the negotiations. So, in negotiating with the Chinese, it is important to be prepared to ensure that one's own agenda, framework, and principles are accepted by both parties.

Before beginning any negotiations, negotiators should review the negotiating style of the other parties. (Table 7–7 provides some insights into the negotiation styles of the Americans, Japanese, Arabians, and Mexicans.) This review should help answer certain questions that help prepare negotiators: What can we expect the other side to say and do? How are they likely to respond to certain offers? When should the most important matters be introduced? How quickly should concessions be made, and what type of reciprocity should be expected? In addition, the team will work on formulating negotiation tactics. The International Management in Action box "Negotiating with the Japanese" demonstrates such tactics, and the following discussion gets into some of the specifics.

Table 7–7
Negotiation Styles from a Cross-Cultural Perspective

Element	United States	Japan	Arab Countries	Mexico
Group composition	Marketing oriented	Function oriented	Committee of specialists	Friendship oriented
Number involved	2–3	4–7	4–6	2–3
Space orientation	Confrontational, competitive	Display harmonious relationship	Status	Close, friendly
Establishing rapport	Short period, direct to task	Longer period, until harmony	Long period, until trusted	Longer period, discuss family
Exchange of information	Documented, step by step, multimedia	Extensive, concentrate on receiving side	Less emphasis on technology, more on relationship	Less emphasis on technology, more on relationship
Persuasion tools	Time pressure, loss of saving/making money	Maintain relationship references, intergroup connections	Go-between, hospitality	Emphasis on family and on social concerns, goodwill measured in generations
Use of language	Open, direct, sense of urgency	Indirect, appreciative, cooperative	Flattery, emotional, religious	Respectful, gracious
First offer	Fair ±5 to 10%	±10 to 20%	±20 to 50%	Fair
Second offer	Add to package, sweeten the deal	−5%	−10%	Add an incentive
Final offer package	Total package	Makes no further concessions	−25%	Total
Decision-making process	Top management team	Collective	Team makes recommendation	Senior manager and secretary
Decision maker	Top management team	Middle line with team consensus	Senior manager	Senior manager
Risk taking	Calculated personal responsibility	Low group responsibility	Religion based	Personally responsible

Source: Chaney, Lillian H. and Martin, Jeanette S. *Intercultural Business Communication.* New Jersey: Prentice Hall Career and Technology, 1995.

International Management in Action

Negotiating with the Japanese

Some people believe that the most effective way of getting the Japanese to open up their markets to the U.S. is to use a form of strong-arm tactics, such as putting the country on a list of those to be targeted for retaliatory action. Others believe that this approach will not be effective because the interests of the U.S. and Japan are intertwined and we would be hurting ourselves as much as them. Regardless of which group is right, one thing is certain: U.S. MNCs must learn how to negotiate more effectively with the Japanese. What can they do? Researchers have found that besides patience and a little table pounding, a number of important steps warrant consideration.

First, business firms need to prepare for their negotiations by learning more about Japanese culture and the "right" ways to conduct discussions. Those companies with experience in these matters report that the two best ways of doing this are to read books on Japanese business practices and social customs and to hire experts to train the negotiators. Other steps that are helpful include putting the team through simulated negotiations and hiring Japanese to assist in the negotiations.

Second, U.S. MNCs must learn patience and sincerity. Negotiations are a two-way street that require the mutual cooperation and efforts of both parties. The U.S. negotiators must understand that many times Japanese negotiators do not have full authority to make on-the-spot decisions. Authority must be given by someone at the home office, and this failure to act quickly should not be interpreted as a lack of sincerity on the part of the Japanese negotiators.

Third, the MNC must have a unique good or service. So many things are offered for sale in Japan that unless the company has something that is truly different, persuading the other party to buy it is difficult.

Fourth, technical expertise often is viewed as a very important contribution, and this often helps win concessions with the Japanese. The Japanese know that the Americans, for example, still dominate the world when it comes to certain types of technology and that Japan is unable to compete effectively in these areas. When such technical expertise is evident, it is very influential in persuading the Japanese to do business with the company.

These four criteria are critical to effective negotiations with the Japanese. MNCs that use them report more successful experiences than those that do not.

Sometimes, simply being familiar with the culture is still falling short of being aptly informed. We discussed in Chapter 2 how the political and legal environment of a country can have an influence over an MNC's decision to open operations, and those external factors are good to bear in mind when coming to an agreement. Both parties may believe that the goals have been made clear, and on the surface a settlement may deliver positive results. However, the subsequent actions taken by either company could prove to exhibit even more barriers. Consider Pirelli, an Italian tire maker that acquired Continental Gummiwerke, its German competitor. Pirelli purchased the majority holdings of Continental's stock, a transaction that would translate into Pirelli having control of the company if it occurred in the U.S. When Pirelli attempted to make key managerial decisions for its Continental unit, it discovered that in Germany, the corporate governance in place allows German companies to block such actions, regardless of the shareholder position. Furthermore, the labor force has quite a bit of leverage with its ability to elect members of the supervisory board, which in turn chooses the management board.[68] Pirelli essentially lost on an investment-that is, unless Continental can be profitable under its current management. If Pirelli had known that this was going to happen, it probably would have reconsidered the deal. Better informed international managers could avoid such troubles before they occur.

Negotiation Tactics

A number of specific tactics are used in international negotiation. The following discussion examines some of the most common.

Location Where should negotiations take place? If the matter is very important, most businesses will choose a neutral site. For example, U.S. firms negotiating with Asian companies will meet in Hawaii, and South American companies negotiating with European firms will meet halfway, in New York City. A number of benefits are derived from using a neutral site. One is that each party has limited access to its home office for receiving a

great deal of negotiating information and advice and thus gaining an advantage over the other. A second is that the cost of staying at the site often is quite high, so both sides have an incentive to conclude their negotiations as quickly as possible. (Of course, if one side enjoys the facilities and would like to stay as long as possible, the negotiations might drag on.) A third is that most negotiators do not like to return home with nothing to show for their efforts, so they are motivated to reach some type of agreement.

Time Limits Time limits are an important negotiation tactic when one party is under a time constraint. This is particularly true when this party has agreed to meet at the home site of the other party. For example, U.S. negotiators who go to London to discuss a joint venture with a British firm often will have a scheduled return flight. Once their hosts find out how long these individuals intend to stay, the British can plan their strategy accordingly. The "real" negotiations are unlikely to begin until close to the time that the Americans must leave. The British know that their guests will be anxious to strike some type of deal before returning home, so the Americans are at a disadvantage.

Time limits can be used tactically even if the negotiators meet at a neutral site. For example, most Americans like to be home with their families for Thanksgiving, Christmas, and the New Year holiday. Negotiations held right before these dates put Americans at a disadvantage because the other party knows when the Americans would like to leave.

Buyer-Seller Relations How should buyers and sellers act? As noted earlier, the Americans believe in being objective and trading favors. When the negotiations are over, Americans walk away with what they have received from the other party, and they expect the other party to do the same. This is not the way negotiators in many other countries think, however.

The Japanese, for example, believe that the buyers should get most of what they want. On the other hand, they also believe that the seller should be taken care of through reciprocal favors. The buyer must ensure that the seller has not been "picked clean." For example, when many Japanese firms first started doing business with large U.S. firms, they were unaware of U.S. negotiating tactics. As a result, the Japanese thought the Americans were taking advantage of them, while the Americans believed they were driving a good, hard bargain.

The Brazilians are quite different from both the Americans and the Japanese. Researchers have found that Brazilians do better when they are more deceptive and self-interested and their opponents more open and honest than they are.[69] Brazilians also tend to make fewer promises and commitments than their opponents, and they are much more prone to say no. However, Brazilians are more likely to make initial concessions. Overall, Brazilians are more like Americans than Japanese in that they try to maximize their advantage, but they are unlike Americans in that they do not feel obligated to be open and forthright in their approach. Whether they are buyer or seller, they want to come out on top.

Negotiating for Mutual Benefit

When managers enter a negotiation with the intent to win and are not open to flexible compromises, it can result in a stalemate. Ongoing discussion with little progress can increase tensions between the two groups and create an impasse where groups become more frustrated and aggressive and no agreement can be reached.[70] Ultimately, too much focus on the plan with little concern for the viewpoint of the other group can lead to missed opportunities. It is important to keep objectives in mind and at the forefront, but it should not be a substitute for constructive discussions. Fisher and Ury, authors of the book *Getting to Yes*, present five general principles to help avoid such disasters: (1) Separate the people from the problem, (2) focus on interests rather than positions, (3) generate a variety of options before settling on an agreement (as mentioned earlier in this section), (4) insist that the agreement be based on objective criteria, and (5) stand your ground.[71]

Separating the People from the Problem Often, when managers spend so much time getting to know the issue, many become personally involved. Therefore, responses to a

particular position can be interpreted as a personal affront. In order to preserve the personal relationship and gain a clear perspective on the issue, it is important to distinguish the problem from the individual.

When dealing with people, one barrier to complete understanding is the negotiating parties' perspectives. Negotiators should try to put themselves in the other's shoes. Avoid blame, and keep the atmosphere positive by attempting to alter proposals to better translate the objectives. The more inclusive the process, the more willing everyone will be to find a solution that is mutually beneficial.

Emotional factors arise as well. Negotiators often experience some level of an emotional reaction during the process, but it is not seen by the other side. Recognize your own emotions and be open to hearing and accepting emotional concerns of the other party. Do not respond in a defensive manner or give in to intense impulses. Ignoring the intangible tension is not recommended; try to alleviate the situation through sympathetic gestures such as apologies.

As mentioned earlier, good communication is imperative to reaching an agreement. Talk to each other, instead of just rehashing grandiose aspects of the proposal. Listen to responses and avoid passively sitting there while formulating a response. When appropriate, summarize the key points by vocalizing your interpretation to the other side to ensure correct evaluation of intentions.

Overall, don't wait for issues to arise and react to them. Instead, go into discussion with these guidelines already in play.

Focusing on Interests over Positions The position one side takes can be expressed through a simple outline but still does not provide the most useful information. Focusing on interests gives one insight into the motivation behind why a particular position was chosen. Digging deeper into the situation by both recognizing your own interests and becoming more familiar with others' interests will put all active partners in a better position to defend their proposal. Simply stating, "This model works, and it is the best option," may not have much leverage. Discussing your motivation, such as "I believe our collaboration will enhance customer satisfaction, which is why I took on this project," will help others see the why, not just the what.

Hearing the incentive behind the project will make both sides more sympathetic and may keep things consistent. Be sure to consider the other side, but maintain focus on your own concerns.

Generating Options Managers may feel pressured to come to an agreement quickly for many reasons, especially if they hail from a country that puts a value on time. If negotiations are with a group that does not consider time constraints, there may be temptation to have only a few choices to narrow the focus and expedite decisions. It turns out, though, that it is better for everyone to have a large number of options in case some proposals prove to be unsatisfactory.

How do groups go about forming these proposals? First, they can meet to brainstorm and formulate creative solutions through a sort of invention process. This includes shifting thought focus among stating the problem, analyzing the issue, pondering general approaches, and strategizing the actions. After creating the proposals, the groups can begin evaluating the options and discuss improvements where necessary. Try to avoid the win-lose approach by accentuating the points of parity. When groups do not see eye to eye, find options that can work with both viewpoints by "look[ing] for items that are of low cost to you and high benefit to them, and vice versa."[72] By offering proposals that the other side will agree to, you can pinpoint the decision makers and tailor future suggestions toward them. Be sure to support the validity of your proposal, but not to the point of being overbearing.

Using Objective Criteria In cases where there are no common interests, avoid tension by looking for objective options. Legitimate, practical criteria could be formed by using reliable third-party data, such as legal precedent. If both parties would accept being bound to certain terms, then chances are the suggestions were derived from objective criteria.

The key is to emphasize the communal nature of the process. Inquire about why the other group chose its particular ideas. It will help you both see the other side and give you a springboard from which you can argue your views, which can be very persuasive. Overall, effective negotiations will result from being flexible but not folding to external pressures.

The preceding principles are just general guidelines to abide by to try and reach a mutual agreement. The approaches will be more effective if the group adhering to the outline is the one with more power.

Standing Ground Every discussion will have some imbalance of power, but there is something negotiators can do to defend themselves. It may be tempting to create a "bottom line," or the lowest possible set of options that one will accept, but it does not necessarily accomplish the objective. When negotiators make a definitive decision before engaging in discussion, they may soon find out that the terms never even surface. That is not to say that their bottom line is below even the lowest offer but, instead, that without working with the other negotiators, they cannot accurately predict the proposals that will be devised. So what should the "weaker" opponent do?

The reason two parties are involved in a negotiation is that they both want a situation that will leave them better off than before. Therefore, no matter how long negotiations drag on, neither side should agree to terms that will leave it worse off than its best alternative to a negotiated agreement, or BATNA. Clearly defining and understanding the BATNA will make it easier to know when it is time to leave a negotiation and empower that side. An even better scenario would be if the negotiator learned of the other side's BATNA. As Fisher and Ury say, "Developing your BATNA thus not only enables you to determine what is a minimally acceptable agreement, it will probably raise that minimum."[73]

Even the most prepared manager can walk into a battle zone. At times, negotiators will encounter rigid, irritable, caustic, and selfish opponents. A positional approach to bargaining can cause tension, but the other side can opt for a principled angle. This entails a calm demeanor and a focus on the issues. Instead of counterattacking, redirect the conversation to the problem and do not take any outbursts as personal attacks. Inquire about their reasoning and try to take any negative statements as constructive. If no common ground is reached, a neutral third party can come in to assess the desires of each side and compose an initial proposal. Each group has the right to suggest alternative approaches, but the third-party person has the last word in what the true "final draft" is. If the parties decide it is still unacceptable, then it is time to walk away from negotiations.

Bargaining Behaviors

Closely related to the discussion of negotiation tactics are the different types of bargaining behaviors, including both verbal and nonverbal behaviors. Verbal behaviors are an important part of the negotiating process because they can improve the final outcome. Research shows that the profits of the negotiators increase when they make high initial offers, ask a lot of questions, and do not make many verbal commitments until the end of the negotiating process. In short, verbal behaviors are critical to the success of negotiations.

Use of Extreme Behaviors Some negotiators begin by making extreme offers or requests. Chinese and Arabic businesspeople frequently use this approach. Other negotiators, however, begin with an initial position that is close to the one they are seeking. This tactic is often seen among Americans and Swedes.

Is one approach any more effective than the other? Research shows that extreme positions tend to produce better results. Some of the reasons relate to the fact that an extreme bargaining position (1) shows the other party that the bargainer will not be exploited, (2) extends the negotiation and gives the bargainer a better opportunity to gain information on the opponent, (3) allows more room for concessions, (4) modifies the opponent's beliefs about the bargainer's preferences, (5) shows the opponent that the bargainer is willing to play the game according to the usual norms, and (6) lets the bargainer gain more than would probably be possible if a less extreme initial position had been taken.

Although the use of extreme position bargaining is considered to be "un-American," many U.S. firms have used it successfully against foreign competitors. When Peter Ueberroth managed the Olympic Games in the U.S. in 1984, he turned a profit of well over $100 million—and that was without the participation of Soviet-bloc countries. In most other Olympiads, sponsoring countries have lost hundreds of millions of dollars. How did Ueberroth do it? One way was by using extreme position bargaining. For example, the Olympic Committee felt that the Japanese should pay $10 million for the right to televise the games in that country, so, when the Japanese offered $6 million for the rights, the Olympic Committee countered with $90 million. Eventually, the two sides agreed on $18.5 million. Through the effective use of extreme position bargaining, Ueberroth got the Japanese to pay over three times their original offer, an amount well in excess of the host committee's budget.

Promises, Threats, and Other Behaviors Another approach to bargaining is the use of promises, threats, rewards, self-disclosures, and other behaviors that are designed to influence the other party. These behaviors often are greatly influenced by the culture. Graham conducted research using Japanese, U.S., and Brazilian businesspeople and found that they employed a variety of behaviors during a buyer-seller negotiation simulation.[74] Table 7–8 presents the results.

The table shows that Americans and the Japanese make greater use of promises than do Brazilians. The Japanese also rely heavily on recommendations and commitment. The Brazilians use a discussion of rewards, commands, and self-disclosure more than

Table 7–8
Cross-Cultural Differences in Verbal Behavior of Japanese, U.S., and Brazilian Negotiators

	Number of Times Tactic Was Used in a Half-Hour Bargaining Session		
Behavior and Definition	**Japanese**	**U.S.**	**Brazilian**
Promise. A statement in which the source indicated an intention to provide the target with a reinforcing consequence that the source anticipates the target will evaluate as pleasant, positive, or rewarding.	7	8	3
Threat. Same as promise, except that the reinforcing consequences are thought to be noxious, unpleasant, or punishing.	4	4	2
Recommendation. A statement in which the source predicts that a pleasant environmental consequence will occur to the target. Its occurrence is not under the source's control.	7	4	5
Warning. Same as recommendation except that the consequences are thought to be unpleasant.	2	1	1
Reward. A statement by the source that is thought to create pleasant consequences for the target.	1	2	2
Punishment. Same as reward, except that the consequences are thought to be unpleasant.	1	3	3
Positive normative appeal. A statement in which the source indicates that the target's past, present, or future behavior was or will be in conformity with social norms.	1	1	0
Negative normative appeal. Same as positive normative appeal, except that the target's behavior is in violation of social norms.	3	1	1
Commitment. A statement by the source to the effect that its future bids will not go below or above a certain level.	15	13	8
Self-disclosure. A statement in which the source reveals information about itself.	34	36	39
Question. A statement in which the source asks the target to reveal information about itself.	20	20	22
Command. A statement in which the source suggests that the target perform a certain behavior.	8	6	14
First offer. The profit level associated with each participant's first offer.	61.5	57.3	75.2
Initial concession. The differences in profit between the first and second offer.	6.5	7.1	9.4
Number of no's. Number of times the word *no* was used by bargainers per half-hour.	5.7	9.0	83.4

Source: Graham, John L. "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study." *Journal of International Business Studies*, Spring, (1983), *Journal of International Business Studies*, Palgrave Macmillan, (March 1, 1985).

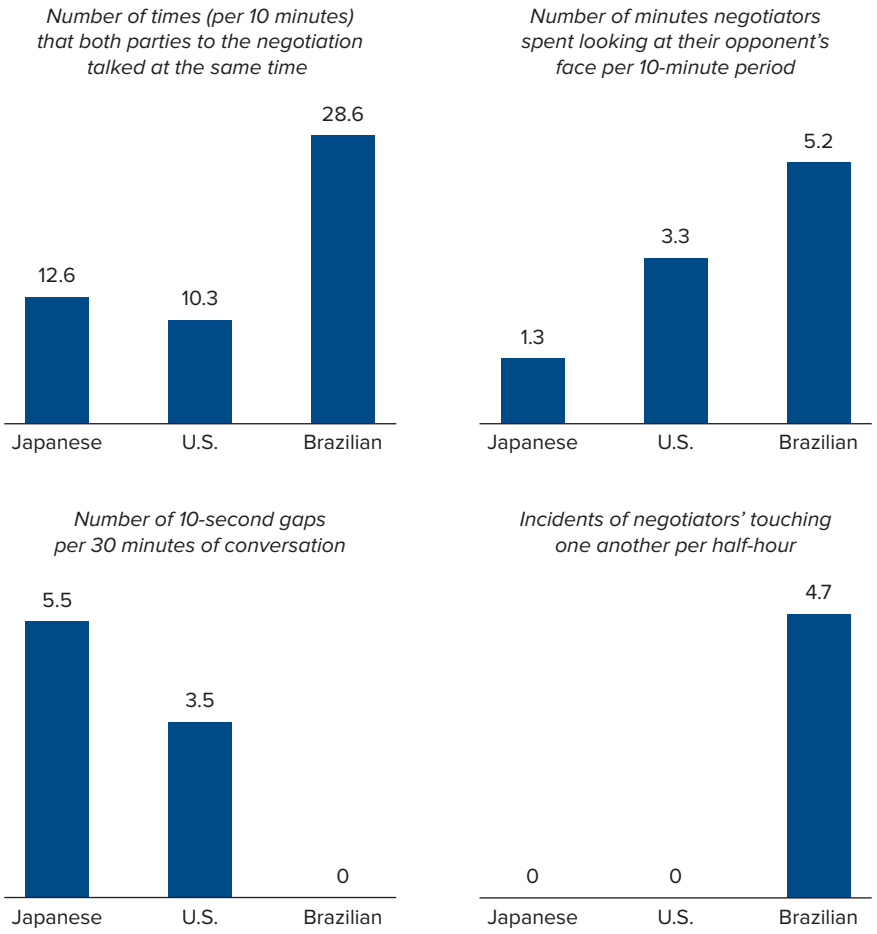
Americans and the Japanese. The Brazilians also say no a great deal more and make first offers that have higher-level profits than those of the others. Americans tend to operate between these two groups, although they do make less use of commands than either of their opponents and make first offers that have lower profit levels than their opponents'.

Nonverbal Behaviors Nonverbal behaviors, what people do rather than what they say, also are very common during negotiations. Nonverbal behaviors sometimes are called the "silent language." Typical examples include silent periods, facial gazing, touching, and conversational overlaps. As seen in Figure 7–3, the Japanese tend to use silent periods much more often than either the Americans or the Brazilians during negotiations. In fact, the Brazilians did not use them at all. The Brazilians did, however, make frequent use of other nonverbal behaviors. They employed facial gazing almost four times more often than the Japanese and almost twice as often as the Americans. In addition, although the Americans and Japanese did not touch their opponents, the Brazilians made wide use of this nonverbal tactic. They also relied heavily on conversational overlaps, employing them more than twice as often as the Japanese and almost three times as often as the Americans.

The important thing to remember is that in international negotiations, people use a wide variety of tactics, and the other side must be prepared to counter or find a way of dealing with them. The response will depend on the situation. Managers from different cultures will employ different tactics. Table 7–9 suggests some characteristics needed by effective negotiators, as exemplified by various cultures. To the extent that international managers have these characteristics, their success as negotiators should increase.

Figure 7–3

Cross-Cultural Differences in Nonverbal Behavior of Japanese, U.S., and Brazilian Negotiators



Source: Graham, John L. "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study." *Journal of International Business Studies* (Spring 1983); *Journal of International Business Studies*, Palgrave Macmillan, 1985.

Table 7–9
Culture-Specific Characteristics Needed by International Managers for Effective Negotiations

U.S. managers	Preparation and planning skill
	Ability to think under pressure
	Judgment and intelligence
	Verbal expressiveness
	Product knowledge
	Ability to perceive and exploit power
	Integrity
Japanese managers	Dedication to job
	Ability to perceive and exploit power
	Ability to win respect and confidence
	Integrity
	Listening skill
	Broad perspective
	Verbal expressiveness
Chinese managers (Taiwan)	Persistence and determination
	Ability to win respect and confidence
	Preparation and planning skill
	Product knowledge
	Interested listening
	Judgment and intelligence
Brazilian managers	Preparation and planning skill
	Ability to think under pressure
	Judgment and intelligence
	Verbal expressiveness
	Product knowledge
	Ability to perceive and exploit power
	Competitiveness

Source: Adler, Nancy J. *International Dimensions of Organizational Behavior.* Boston: PWS-Kent Publishing, 1991, and Professor John Graham, School of Business Administration, University of Southern California, 1983.



The World of International Management—Revisited

The chapter opening World of International Management explored some of the international partnership and negotiation strategies that Netflix has leveraged when expanding into China and when making deals with foreign companies. Despite an entry strategy that proved successful in markets in Europe and the Americas, Netflix encountered a longer and more complex negotiation process in China than expected. And, by strategically negotiating partnerships with cellular and cable providers, Netflix was able to expand its customer base in places like Europe, the Middle East, and Latin America. As this chapter revealed, understanding the communication styles of different cultures is a critical variable in entering foreign markets, managing relationships among employees and customers and managers and subordinates, and engaging in all business relationships.

A key to success in today's global economy is being able to communicate effectively within and across national boundaries and to engage in effective negotiations across cultures. Considering the communication challenges faced by offshoring firms, along with what you have read in this chapter, answer the following questions: (1) How is communication in India similar to that in Europe and North America? How is it different? (2) What kind of managerial relationships can you assume exist between an American financial services firm and its employees in India? (3) What kind of negotiations can help engage Indian employees and overcome some of the cultural problems encountered? How might culture play a role in the approach the Indian employees take in their negotiation with the financial firm?

SUMMARY OF KEY POINTS

1. Communication is the transfer of meaning from sender to receiver. The key to the effectiveness of communication is how accurately the receiver interprets the intended meaning.
2. Communicating in the international business context involves both downward and upward flows. Downward flows convey information from superior to subordinate; these flows vary considerably from country to country. For example, the downward system of organizational communication is much more prevalent in France than in Japan. Upward communication conveys information from subordinate to superior. In the U.S. and Japan, the upward system is more common than in South America or some European countries.
3. The international arena is characterized by a number of communication barriers. Some of the most important are intrinsic to language, perception, culture, and nonverbal communication. Language, particularly in written communications, often loses considerable meaning during interpretation. Perception and culture can result in people's seeing and interpreting things differently, and, as a result, communication can break down. Nonverbal communication such as body language, facial expressions, and the use of physical space, time, and even color varies from country to country and, if improper, often results in communication problems.
4. A number of steps can be taken to improve communication effectiveness. Some of the most important include improving feedback, providing language and cultural training, and encouraging flexibility and cooperation. These steps can be particularly helpful in overcoming communication barriers in the international context and can lead to more effective international management.
5. Negotiation is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. There are two basic types of negotiation: distributive negotiations involve bargaining over opposing goals, while integrative negotiations involve cooperation aimed at integrating interests. The negotiation process involves five basic steps: planning, interpersonal relationship building, exchange of task-related information, persuasion, and agreement. The way in which the process is carried out often varies because of cultural differences, and it is important to understand them.
6. A wide variety of tactics are used in international negotiating. These include location, time limits, buyer-seller relations, verbal behaviors, and nonverbal behaviors.
7. Negotiating for mutual benefit is enhanced by separating the people from the problem, focusing on interests rather than positions, generating a variety of options, insisting that the agreement be based on objective criteria, and standing one's ground.

KEY TERMS

chromatics, *227*
chronemics, *227*
communication, *214*
context, *215*
distributive negotiations, *231*
downward communication, *218*
haptics, *226*
integrative negotiations, *231*
intimate distance, *226*
kinesics, *226*
monochronic time schedule, *227*
negotiation, *229*
nonverbal communication, *225*
oculesics, *226*
perception, *222*
personal distance, *226*
polychronic time schedule, *227*
proxemics, *226*
public distance, *226*
social distance, *226*
upward communication, *219*

REVIEW AND DISCUSSION QUESTIONS

1. How does explicit communication differ from implicit communication? What is one culture that makes wide use of explicit communication? Implicit communication? Describe how one would go about conveying the following message in each of the two cultures you identified: "You are trying very hard, but you are still making too many mistakes."
2. One of the major reasons that foreign expatriates have difficulty doing business in the U.S. is that they do not understand American slang. A business executive recently gave the following three examples of statements that had no direct meaning for her because she was unfamiliar with slang: "He was laughing like hell." "Don't worry; it's a piece of cake." "Let's throw these

ideas up against the wall and see if any of them stick." Why did the foreign expat have trouble in understanding these statements, and what could be said instead?

3. Yamamoto Iron & Steel is considering setting up a minimill outside Atlanta, Georgia. At present, the company is planning to send a group of executives to the area to talk with local and state officials regarding this plant. In what way might misperception be a barrier to effective communication between the representatives for both sides? Identify and discuss two examples.
4. Diaz Brothers is a winery in Barcelona. The company would like to expand operations to the U.S. and begin distributing its products in the Chicago area. If things work out well, the company then will expand to both coasts. In its business dealings in the Midwest, how might culture prove to be a communication barrier for the company's representatives from Barcelona? Identify and discuss two examples.
5. Why is nonverbal communication a barrier to effective communication? Would this barrier be greater for Yamamoto Iron & Steel (question 3) or Diaz Brothers (question 4)? Defend your answer.
6. If a company new to the international arena is negotiating an agreement with a potential partner in an overseas country, what basic steps should it be prepared to implement? Identify and describe them.
7. Which elements of the negotiation process should be done with only your side of the negotiation? Which events should take place with all sides present? Why?
8. Wilsten Inc. has been approached by a Japanese firm that wants exclusive production and selling rights for one of Wilsten's new high-tech products. What does Wilsten need to know about Japanese bargaining behaviors to strike the best possible deal with this company? Identify and describe five.

INTERNET EXERCISE: WORKING EFFECTIVELY AT TOYOTA

Between 1997 and 2021, the Toyota Camry was the best-selling car in the U.S., and the firm's share of the American automobile market was solid. However, the company is not resting on its laurels. Toyota has expanded worldwide and is now doing business in scores of countries. Visit the firm's website at **http://www.toyota.com** and find out what it has been up to lately. Then take a tour of the company's products and services, including cars, air services, and sports vehicles. Next, go to the jobs section site and see what types of career opportunities are at Toyota. Finally, find out what Toyota is doing in your locale. Then, drawing on this information and the material you read in the chapter, answer these three questions:

(1) What type of communication and negotiation challenges do you think you would face if you worked for Toyota and were in constant communication with home-office personnel in Japan? (2) What type of communication training do you think the firm would need to provide to you to ensure that you were effective in dealing with senior-level Japanese managers in the hierarchy? (3) Using Table 7–1 as your guide, what conclusions can you draw regarding communicating with the Japanese managers, and what guidelines would you offer to a non-Japanese employee who had just entered the firm and is looking for advice and guidance on communicating and negotiating more effectively?

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China

In the International Spotlight

Located in the eastern part of Asia, China's main waterways are the East China Sea, Korean Bay, Yellow Sea, and South China Sea. China shares a border with many important economies in East, South, and Central Asia, including India, North Korea, Pakistan, Russia, and Vietnam. The country spans a variety of climatic zones, ranging from subarctic in the north to tropical in the south.[75]

The current population is estimated at 1.41 billion people, making China, for now, the most populous country in the world. With 56 separate ethnic groups recognized within the country, China is much more diverse than many assume. The citizens in China speak one of three main languages: Mandarin, which is the official language; Cantonese; and Shanghainese. Religion is divided among Buddhism, Christianity, and a smaller segment of "folk religions." China is a fairly average-aged nation. The largest age group is made up of those between the ages of 25 and 54 years old, which is estimated at around 50 percent of the population. The median age is 38 years old. Once a largely agricultural country, urban centers of China now account for over 60 percent of the population.[76,77]

Currently the world's second largest economy, China's GDP for 2020 was over US$14.8 trillion. After two decades of extraordinarily high growth rates, economic expansion has slowed in recent years as the economy has matured. The economy fared relatively better than that of many large emerging markets during the Covid-19 pandemic and in 2020 GDP grew at around 2.3 percent. GDP per capita dipped to US$6,822 in 2020, down from US$9,194 in 2018.[78]

China operates under a communist political system. In 2018, the Central Committee approved the first reform to the constitution in 14 years which removed presidential term limits. This, in effect, would allow President Xi Jinping to govern indefinitely. The Communist Party also passed a historical resolution elevating his status to be on par with former leaders Mao Zedong and Deng Xiaoping.[79]

The economy has experienced a "triple shock," due to the Covid-19 pandemic, a property slowdown made worse by the financial troubles of the developer Evergrande, and power cuts because of a shortage of coal. New property development, and production of cement and steel have dipped.[80] The energy crisis, in part, is due to efforts to reduce pollution by slowing down coal production. The country is the world's largest single emitter of carbon dioxide from the burning of fossil fuels and faces issues such as acid rain.[81] The zero-covid policy, meanwhile, has resulted in lockdowns of entire factory and technology hubs and ports, straining supply chains globally.

A number of other hurdles plague foreign and local businesses in China. A crackdown on billionaire corporate owners and the country's largest companies in an effort to reduce inequality and promote a campaign of "common prosperity" have raised global investors' concerns over curbed economic freedom.[82] As a result, share prices for some of the nation's largest corporations including Tencent and Alibaba have dipped dramatically. Alibaba's co-founder, Jack Ma, also faced repercussions for publicly criticizing government regulations, serving as an example of the government's intolerance for dissent. For foreign firms, human rights issues have also raised the moral costs of doing business in China, even as physical costs have been lowered over the years. The U.S. accused China of genocide against the Muslim minority Uyghurs in the Xinjiang province, imposed sanctions on imports from the province, and cautioned of legal consequences if businesses do not exit investments connected to forced labor in the province. Additionally, foreign companies in China can find it difficult to compete on an equal playing field with domestic competitors, often based on either real or perceived favoritism from the government. Culturally, Western companies often find it difficult to manage Chinese employees due to stark differences between the two countries. U.S. managers tend to be more accustomed to flexibility, while Chinese employees tend to be more comfortable in structured and hierarchical work environments.[83]

China also faces several geopolitical opportunities and challenges. Former U.S. president Donald Trump began an escalating trade and tech war with the nation. At present, China has to balance its relationship with Russia and the West given Russia's recent invasion of Ukraine and the close friendship between Xi Jinping and Vladimir Putin. The massive Belt and Road infrastructure project, as well as border disputes with countries including India and Japan have also soured some geopolitical ties. Following supply chain disruptions during the Covid-19 pandemic, many global firms are reconsidering their exposure to China.

You Be the International Management Consultant

For the past several decades, companies seeking to conduct business in China have been required to form joint ventures with Chinese partners. However, in 2018, reforms were instituted by the Chinese government that relaxed this policy

for foreign automakers. Specifically, electric vehicles were granted an exception to this rule starting in 2018, with exceptions for utility vehicles and personal automobiles starting in 2020 and 2022, respectively. These reforms significantly lowered the barrier to entry for foreign automobile manufacturers, who previously were required to spend years structuring complex relationships with domestic companies.[84]

U.S.-based electric vehicle (EV) manufacturer Tesla was one of the first foreign companies to take advantage of this new market opening. In 2018, the company constructed a Gigafactory in Shanghai to produce its Model Y, Model 3, and a variety of batteries.[85] Today, over half the company's vehicles are made in China. Tesla's presence has bolstered the overall Chinese EV market and propped up local EV manufacturers. With its close relations to the Chinese government, Tesla earned perks that other automakers have not, including tax breaks, cheap land, cheap loans, the permission to wholly own domestic operations, and assistance to quickly restart operations after interruptions during pandemic lockdowns. In addition to lockdowns, the government's big-tech crackdowns, rivals automakers' complaints about the government's favoritism of Tesla, customer complaints on vehicle quality, and data security policies that foreign firms must adhere to are among the challenges Tesla faces in China.[86]

Questions

1. If you are working as a consultant for a German-based automaker, would the policy changes by the Chinese government affect your potential investment in the country?
2. What are some of the ways that Tesla's new Gigafactory could bring positive economic development to the country?
3. Is the prospect of China's sheer volume of potential customers too good to pass up? Or do the actions of the government and the country's recent slowdown indicate a signal that investment should be reconsidered?

Design Elements: Chess Icon, Globe Icon, People Icon: McGraw-Hill Global Education Holdings, LLC; World map vector: vectorlight/Shutterstock; World map background with globe: one AND only/Shutterstock

Brief Integrative Case 2.1

The X-Culture Project: Challenges of Managing Global-Virtual Teams

As the saying goes, "Two heads are better than one." Indeed, most organizational projects cannot be completed by individual employees but require a concerted team effort. A well-managed workgroup can achieve synergetic effects where the group's output is greater than the sum of the possible outputs of each team member working alone.[1]

However, working in teams presents several challenges caused by difficulties of coordination among the team members, personality clashes, and differences in understanding the tasks and roles. In fact, not so long ago, global crowdsourcing was the buzzword in the business community, and the belief was that the larger and the more culturally diverse the team, the better solutions it could produce. Following the publications of several seminal books that praised large-scale global collaboration, such as "The Wisdom of Crowds" by Surowiecki,[2] "We Are Smarter Than Me" by Libert, Spector and Tapscott,[3] and "Cognitive Surplus" by Shirky,[4] a wave of start-ups promising to use large global teams to solve problems attracted millions in venture capital. InnoCentive raised $7M, Kaggle and TopCoder raised $11M each, and Quirky raised a whopping $180M.[5,6] However, these efforts have failed to deliver the promise of harnessing the wisdom of global, culturally diverse teams, as Quirky filed for bankruptcy, TopCoder has effectively become a freelancer marketplace, IMB's Innovation Jam website went dormant, and InnoCentive has constantly been shrinking and barely running any new competitions.

One possible reason for the limited success with global teamwork platforms could be that large, culturally diverse, and globally-dispersed teams face a host of challenges and are notoriously hard to manage.[7,8] Working in a team is inherently more complicated than working alone. However, the complexity and challenges of cooperation increase exponentially if the team members are globally dispersed and must rely on virtual communication tools; that is, work in so-called global virtual teams (GVTs).[9,10,11] X-Culture had to learn about the unique additional challenges faced by workgroups that are "global" and "virtual" challenges the hard way.

X-Culture (www.X-Culture.org) was initially launched as an experiential learning project designed to augment learning in business courses by providing students with an opportunity to practice what their professors are teaching through lectures and readings; learn international business by doing international business. By bringing together education, research, and business, X-Culture also emerged as a crowdsourcing platform for international business consulting.[12]

A cohort of 6,000 MBA and undergraduate business students from 160 universities in 50 countries on six continents participate in X-Culture every semester, two such cohorts every year. The students work in teams of seven, each team member in a different country. About a dozen corporate clients present their international business challenges, and the students spend several months developing their solutions to the presented challenges. Since its launch in 2010, about 80,000 people working in over 12,000 global virtual teams have participated in the X-Culture project.

Typically, corporate clients seek help with market research, competition analysis, product design, expansion into new countries, and development of marketing, HR, and logistics strategies. Working in GVTs, the students learn the challenges and learn the best practices of collaboration across time zones and cultures, while their corporate clients receive clever solutions and ideas presented by the thousands of bright minds scattered around the planet and thus having first-hand knowledge and understanding of local consumer tastes and business traditions.

Faced with the need to manage over 1,000 GVTs in each round of the X-Culture competition, the project administrators collect immense amounts of data and conduct hundreds of experiments to understand the challenges and develop the best practices of global virtual teamwork. More than a decade of studying GVTs provided insights into mitigating most of the problems faced by GVTs, but some challenges persist, and it appears they could never be fully resolved.

Some of these challenges, such as difficulties caused by cultural and linguistic diversity, are common in all international teams.[13,14] For example, even in collocated teams composed of people of different nationalities, cultural value differences among the team members often result in diverging views and preferences concerning team leadership, the process of decision making, dispute resolution, resource allocation, performance evaluation, and compensation. Likewise, linguistic diversity, cultural stereotypes, and perceived national status differences hinder communication and complicate coordination. These effects weaken team cohesion and interpersonal trust and often lead to

misunderstanding and conflicts, ultimately undermining team performance.[15] However, in addition to being international, the X-Culture teams are also globally dispersed and, thus, must rely on virtual communication tools. Based on X-Cuture's experience, the most challenging of these uniquely-GVT challenges are the following.

Time Zones

The GVT member dispersion across time zones is a very well-known challenge that appears to be an easy one to solve.[16] Indeed, everyone is aware of time zone differences, and numerous online tools allow accounting for such timing differences when scheduling team meetings. GVT members expect and accept that, depending on their location, some team members may have to wake up very early or stay up very late to attend team meetings. However, such awareness and acceptance provide only an illusion of simple and straightforward solutions to the problem.

Based on the X-Culture experience, the challenges caused by time-zone differences go much deeper than the difficulties of finding a meeting time that is convenient for all team members. Observations of the X-Culture teams show that GVT members who regularly have to meet at a late hour in their time zone tend to receive lower peer evaluations and are less likely to be elected team leaders. A team member who must join the team meeting at a time far outside the usual business hour winder tends to be sleepy or at a low-energy point in their circadian rhythm, which makes it harder to fully contribute to the team discussions and make a good impression on the team. This partially explains the lower peer evaluations and the lower standing in the team hierarchy. It is not uncommon that such team members are essentially excluded from team discussions, further exacerbating the problem.

Because peer evaluations are a key component in performance appraisal in X-Culture, accounting for up to 50% of the project grade at some universities, students in the "odd" time zones tend to be disadvantaged.[17] First, their experience in the project is less positive due to their inconvenient schedule and inability to participate in the team meetings at their peak energy. Second, their peer performance evaluations suffer, leading to lower grades.

Furthermore, an essential part of the X-Culture project is numerous webinars with client companies, professors, and guest speakers. With project participants on all continents, no time works for everyone, and thus the scheduling of these events is usually selected to accommodate the schedule of the largest number of students. This usually means that participants in far eastern or far western time zones, such as New Zealand or the U.S. west coast and Hawaii, must either stay up close to midnight or wake up at a very early hour to attend these webinars.

Thus, despite the full awareness of the time zone differences and numerous tools that allow for accounting for these differences when scheduling team meetings and group events, there is no solution to the problem. Some project participants must adjust their schedules to accommodate the schedule of their GVT members. However, such adjustments are not always possible due to other professional and family demands or not effective due to personal circadian rhythms.

Further complicating the matter is the fact that different countries switch to daytime saving time (summer time versus winter) at different times, some as early as March and some as late as April, and some do not turn their clocks to daytime saving time at all. For the events scheduled weeks in advance, the X-Culture students often diligently check the time zone differences before putting those events on their calendars. However, despite the ubiquity of electronic calendars that automatically adjust for these differences, many students manage their calendars manually and forget to account for the differences in when different countries switch to summer/winter time. Thus, despite their best efforts, a good portion of students miss the events in March/April and in September/October.

Calendar Differences

Another persistent timing problem stems from the differences in holiday and academic calendars. As noted earlier, students from over 160 universities in 50 countries take part in X-Culture every semester, and all these universities and countries have different academic and holiday calendars. The different dates for the semester start and end make it difficult to find a common time window when the classes at these different universities are in session. As a result, the project start must be delayed until the date when the semester starts at the "last" university and finish the project when the "first" university ends its academic session, which necessarily shortens the duration of the project.

Further scheduling inconveniences are caused by the different timing of the spring/fall breaks and national holidays. No matter the project schedule, the GVT members will always have to deal with team member absenteeism due to local national and religious holidays, reading weeks, spring breaks, vacations, and different customs around the timing of the weekends.

After numerous unsuccessful attempts to find a schedule accommodating all these national and academic calendar differences, the project organizers had to concede that once the GVT members are on several continents, finding a schedule that works for everyone is impossible. Hence, the project participants are encouraged to share with their GVT members any upcoming national holidays or academic breaks and plan the team workflow around these calendar differences. While such awareness helps, some team members still must make sacrifices and adjust their travel plans or work while on a spring break to ensure that the team submits a deliverable on time.

Institutional Differences

The dispersion of the X-Culture participants around the globe also means that they operate in different institutional environments. The economic and political conditions, organizational policies and rules, performance expectations and evaluation standards, quality of instruction and teaching styles differ across countries, universities, and professors.

Tensions and even conflicts in X-Culture GVTs are common due to the different team members may be operating under a different set of incentives and motivations and have different resources are their disposal. Some professors provide their students with more active support and guidance, while others may leave their students largely on their own. Some professors are extremely strict and expect the highest quality output, while others are lenient in their evaluation and give the highest grades for minimal efforts. Some universities have strict anti-plagiarism policies, while others have very lax academic integrity rules.

Additionally, the expectations about the availability of work differ across national and organizational cultures. In some countries or in some organizations, it is common for employees, or students for that matter, to be fully "off the grid" outside the usual business hours. Suggesting a GVT meeting or expecting the team members to do any work after 5 pm or on the weekend is considered a major encroachment on the person's work-life balance. In other institutional environments being always online is the expectation, and if the project requires working past business hours, the workgroup members would be expected to be available.

As a result of these institutional differences, some X-Culture GVT members are under tremendous pressure to show the highest performance, while others can afford to approach the project merely as a relaxing opportunity to meet people from other countries and have fun. Naturally, these institutional differences lead to conflicts in the GVTs as some team members are trying to mobilize all resources and expect the highest level of effort and dedication, while others take it easy and are just trying to have some fun. The X-Culture administrators set strict standards concerning the required engagement level, academic integrity, and performance evaluations, but the institutional differences still play a major role, making it impossible to harmonize the incentives and expectations across all GVT members fully.

Challenges of Online/Virtual Communication

A 2018 survey revealed that up to 87 percent of white-collar workers in OECD countries at least occasionally completed projects as members of virtual teams.[18] The COVID-19 pandemic likely further accelerated this trend. While everyone seems familiar with Zoom these days, shifting from face-to-face communication to electronic communication changes group dynamics in significant ways, creating additional challenges for teams.[19,20]

X-Culture encourages the GVT members to use the publicly-available online teamwork tools such as email, Zoom, Skype, MS Teams, Dropbox, Google Docs, Slack, and the like. Most of these tools are either free or offer affordable subscription plans, and their functionality and usability are constantly improving. However, despite the wide variety and availability of such tools, online communication remains less personal, slow, and does not transmit the full spectrum of information, such as non-verbal cues, compared to in-person communication.

X-Culture research has shown that compared to collocated teams where team members communicate face-to-face, GVT members tend to focus on the task in their communication, while casual conversations about personal interests, hobbies, and other non-work-related issues are rare. Meeting only online and almost exclusively for work, GVT members miss out on the spontaneous conversations by the proverbial watercooler over a cup of coffee during lunch or a beer after work. GVT members do not attend each other's birthday parties and celebrations, do not meet each other's families, do not engage in gossip and other bonding activities.[21]

As a result, GVT members tend to develop less interest in one another, display lower team trust and cohesion, and generally report a lower level of satisfaction of their social needs by the interactions with their GVT peers. Additionally, X-Culture research shows that the lack of unstructured, informal interactions among GVT members reduces the team's meta-knowledge; that is, the knowledge about what each team member knows and is good at, including knowledge and skills outside the project at hand, which reduces team effectiveness.[22] To aid meta-knowledge development, X-Culture prompts GVT members to attend various social online events, such as game nights and virtual picnics, requires that the students prepare for and take an acquaintanceship test, and encourages frequent video meetings. Still, the GVTs display lower meta-knowledge than collocated teams that also occasionally take part in X-Culture.

Perhaps the biggest negative consequence of reduced team cohesion, trust, and weaker inter-member social ties caused by low-richness online communication in GVTs is the increased occurrence of free-loading. Common in any team, free-loading is a particularly acute problem in GVTs, and it is a major disturbance for the X-Culture project. In an academic project like X-Culture, where a positive learning experience for the students is a major goal, one free-loader spoils the experience for the entire team. Hence, even a very small number of free-loaders can negatively affect a large number of project participants, which in turn can negatively reflect on the learning in the courses and, as a result, the professors' teaching evaluations. Following a series of experiments with selection, team composition, and coaching, X-Culture was able to reduce the frequency of free-loading drastically, but it appears the problem cannot be fully eliminated in GVTs.

Questions for Review

1. How can temporal asynchronies in GVTs caused by the dispersion of team members across time-zone be mitigated?
2. How could the challenges caused by the dispersion of GVT members across time zones and the calendar differences (e.g., the timing of the national holidays) in different countries be turned from a problem into an opportunity?
3. What tools can aid online/virtual communication and coordination in GVTs? Are online communication tools that involve live video/audio communication and mimic face-to-face interaction always superior, or could asynchronous text-only communication tools be preferred under certain circumstances in GVTs?
4. What kinds of training would you offer to organizational employees shifting from collaboration in traditional face-to-face workgroups to GVTs?
5. What advice would you give to GVT members and team leaders to minimize the challenges and maximize the opportunities of global virtual collaboration?

Source: This case was prepared by the Professor Vasyl Taras of University of North Carolina – Greensboro as the basis for class discussion. Professor Taras is also the founder and coordinator of the X-culture project. The case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge.

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Brief Integrative Case 2.2

Danone's Wrangle with Wahaha

In 1996, Danone Group and Wahaha Group combined forces in a joint venture (JV) to form the largest beverage company in China. A longstanding trademark dispute between the JV members, embedded within a broader clash of national and organizational cultures, came to a head. Valuable lessons can be learned from this dispute for investors considering joint ventures in China.

The Wahaha Joint Venture was established in 1996 by Hangzhou Wahaha Food Group Co. Ltd., Danone Group, and Bai Fu Qin Ltd. In 1997, Danone bought the interests of Bai Fu Qin and gained legal control of the JV with 51 percent of the shares. While members of the JV are entitled to use the JV's Wahaha trademark, in 2000, the Wahaha Group developed companies outside of the JV that sold products similar to those of the JV and used the JV's trademark. The Danone Group objected and sought to purchase those non-JV companies.[1]

In April 2007, Danone offered RMB4 billion to acquire 51 percent of the shares of Wahaha's five non-JV companies. Wahaha Group rejected the offer. Subsequently, Danone filed more than 30 lawsuits against Wahaha for violating the contract and illegally using the JV's Wahaha trademark in countries such as France, Italy, the U.S., and China.[2]

Danone's Background

Danone traces its roots to Europe in the early 20th century. In 1919, Isaac Carasso opened a small yogurt stand in Spain. He named it "Danone," meaning "Little Daniel," after his son. Carasso was aware of new methods of milk fermentation conducted at the Pasteur Institute in Paris. He decided to merge these new techniques with traditional practices for making yogurt. The first industrial manufacturer of yogurt was started.[3]

Following his success in Europe, Carasso immigrated to the U.S. to expand his market. He changed the Danone name to Dannon Milk products, Inc., and founded the first American yogurt company in 1942 in New York. Distribution began on a small scale. When Dannon introduced the "fruit on the bottom" line in 1947, sales soared. The following year, he sold his company's interest and returned to Spain to manage his family's original business.[4]

By 1950, Dannon had expanded to other U.S. states in the Northeast. It also broadened the line by introducing low-fat yogurt that targeted the health-conscious consumer. Sales continued to rise. In 1979, Dannon became the first company to sell perishable dairy products coast to coast in the U.S.[5]

In 1967, Danone merged with leading French fresh cheese producer Gervais to become Gervais Danone. In 1973, Gervais Danone merged with Boussois-Souchon-Neuvesel (BSN), a company that had also acquired the Alsacian brewer Kronenbourg and Evian mineral water.[6] In 1987, Gervais Danone acquired European biscuit manufacturer Général Biscuit, owners of the LU brand, and in 1989, it bought out the European biscuit operations of Nabisco.

In 1994, BSN changed its name to Groupe Danone, adopting the name of the Group's best-known international brand. Under its former CEO, Franck Riboud, the company has pursued its focus on three product groups: dairy, beverages, and cereals.[7] Today, Danone's mission is to produce healthy, nutritious, and affordable food and beverage products for as many people as possible.

Danone's Global Growth

Danone, with 190 production sites and over 100,000 employees, has a presence in all five continents and over 120 countries. In 2020, Danone recorded €24.28 billion in sales, a 60 percent increase from its €15.2 billion in sales in 2008. Danone enjoys leading positions in healthy food:[8]

- No. 1 worldwide in fresh dairy products
- No. 1 worldwide in plant-based products
- No. 2 worldwide in early life nutrition
- No. 2 worldwide in packaged waters
- No. 1 in Europe in medical nutrition

Its portfolio of brands and products includes Activia, a probiotic dairy product line; Danette, a brand of cream desserts; Nutricia, an infant product line; Danonino, a brand of yogurts; and Evian, a brand of bottled water.[9]

Listed on Euronext Paris, Danone is also ranked among the top companies for social responsibility in the Dow Jones Sustainability Indices, and the company received a AAA rating from MSCI ESG Research for its performance in the area of Environmental, Social & Governance (ESG) issues.[10] Danone was ranked number 65 in the top 100 international brands according to Interbrand 2021 Best Global Brand valuation, with a brand value of $9.8 billion.[11]

In 2021, Danoneís sales grew by 3.4 percent. The group's performance is the result of a balanced strategy that builds on international expansion, a growing commitment to innovation, and the strengthening of health-oriented brands.[12]

As of 2021, Danone is the world's fourth largest producer of bottled water.[13] Danone owns three of the world's top-selling brands of packaged water (Mizone, Aqua, and Evian). Its revenue from water products amounted to 3.9 billion in 2021: Growth is strongest in China, Indonesia, and Argentina, with emerging markets accounting for 70 percent of all of Danoneís bottled water sales.[14]

In the mid-1990s, Danone did 80 percent of its business in Western Europe. Until 1996, the company was present in about a dozen markets including pasta, confectionery, biscuits, ready-to-serve meals, and beer. The company realized that it is difficult to achieve simultaneous growth in all these markets. Therefore, they decided to concentrate on the few markets that showed the most growth potential and were consistent with Danone's focus on health. Starting in 1997, the Group decided to focus on three business lines worldwide (Fresh Dairy Products, Beverages, as well as Biscuits and Cereal Products), and the rest of the business lines were divested. This freed the company's financial and human resources and allowed for quick expansion into new markets in Asia, Africa, Eastern Europe, and Latin America. In 2021, Europe and North America contributed 57% of the sales with the US, China and France being the top three nations by sales.[15]

Danone is now centered on three business lines:

1. Essential Dairy and Plant-Based Products, representing approximately 54 percent of consolidated sales for 2021.
2. Waters, representing approximately 16 percent of consolidated sales for 2021.
3. Specialized Nutrition, representing 30 percent of consolidated sales for 2021.

Danone Strategy in China

Danone entered the Chinese market in the late 1980s. Since then, it has invested heavily in China, building factories and expanding production. Today, Danone has 70 factories in China, including Danone Biscuits, Robust, Wahaha, and Health. Ten percent of Danone's workforce is located in China. Danone sells primarily yogurt, biscuits, and beverages in the Chinese market.[16] By 2021, Danone's Asia-Pacific and Greater China regions employed 30,000 people, which was almost 30 percent of Danone's total employees.[17]

In the early 2000s, Danone's Wahaha was China's largest beverage company. In 2008, 57 percent of Danone's Asian sales were in China. Two billion liters of Wahaha were sold in 2004, making it the market leader in China with a 30 percent market share.[18] In Asia, in 2007, Danone Group was the market leader with a 20 percent share of a 34-billion-liter market. In comparison, rivals Coca-Cola and Nestlé had a 7 percent and 2 percent share, respectively. Evian, its global brand, was sold alongside of local brands such as China's Wahaha.

In the late 1990s and early 2000s, Danone purchased shares of many of the top beverage companies in China: 51 percent of the shares of the companies owned by Wahaha Group, 98 percent of Robust Group, 50 percent of Shanghai Maling Aquarius Co., Ltd., 54.2 percent of Shenzhen Yili Mineral Water Company, 22.18 percent of China Huiyuan Group, 50 percent of Mengniu, and 20.01 percent of Bright dairy. These companies, leaders in their industry, all own trademarks that are well-known in China.[19]

However, while expanding into the Chinese market, Danone faced challenges due to a lack of market knowledge. In 2000, Danone purchased Robust, the then-second-largest company in the Chinese beverage industry. Sales of Robust had reached RMB2 billion in 1999. After the purchase, Danone dismissed the original management and managed Robust directly. Because its new management was not familiar with the Chinese beverage market, Robust struggled. Its tea and milk products almost disappeared from the market. During 2005–2006, the company lost RMB 150 million.[20]

Wahaha Company

The Wahaha company was established in 1987 by a retired teacher, Mr. Zong Qinghou. In 1989, the enterprise opened its first plant, Wahaha Nutritional Food Factory, to produce "Wahaha Oral Liquid for Children," a nutritional drink for kids. The name Wahaha was meant to evoke a laughing child, combining the character for baby (wa) with the sound of laughter.[21] After its launch, Wahaha won rapid public acceptance. By 1991, the company's sales revenue grew beyond 100 million renminbi (¥).[22]

In 1991, with the support of the Hangzhou local district government, Wahaha Nutritional Food Factory merged with Hangzhou Canning Food Factory, a state-owned enterprise, to form the Hangzhou Wahaha Group Corporation. After mergers with three more companies, Wahaha became the biggest corporation in its district.[23]

In 1996, the Hangzhou Wahaha Group Corporation began a joint venture with Danone Group and formed five new subsidiaries, which attracted a $45 million foreign investment and then added another $26.2 million investment. With the investment funds, Wahaha brought world-class advanced production lines from Germany, America, Italy, Japan, and Canada into its sites. The terms of the Danone-Wahaha joint venture allowed Wahaha to retain all managerial and operating rights as well as the brand name Wahaha. In the next eight years, the company established 40 subsidiaries in China, and in 1998 launched its own brand, "Future Cola," to compete against Coke and Pepsi.[24]

In 2000, the company produced 2.24 million tons of beverages with sales revenue of $5.4 billion. The production accounted for 15 percent of the Chinese output of beverages.

The group became the biggest company in the beverage industry of China with total assets of $4.4 billion.[25]

Back in 2007, it produced 6.89 million tons of beverages with a sales revenue of $25.8 billion. Today, Hangzhou Wahaha Group Co., Ltd., is still a leading beverage producer in China with over 60,000 employees and 150 subsidiaries, though sales have dropped nearly in half since 2013 due to the shrinking carbonated beverage market. The company product category contains more than 100 varieties, such as milk drinks, drinking water, carbonated drinks, tea drinks, canned food, and health care products.[26]

Danone-Wahaha Joint Venture Conflict

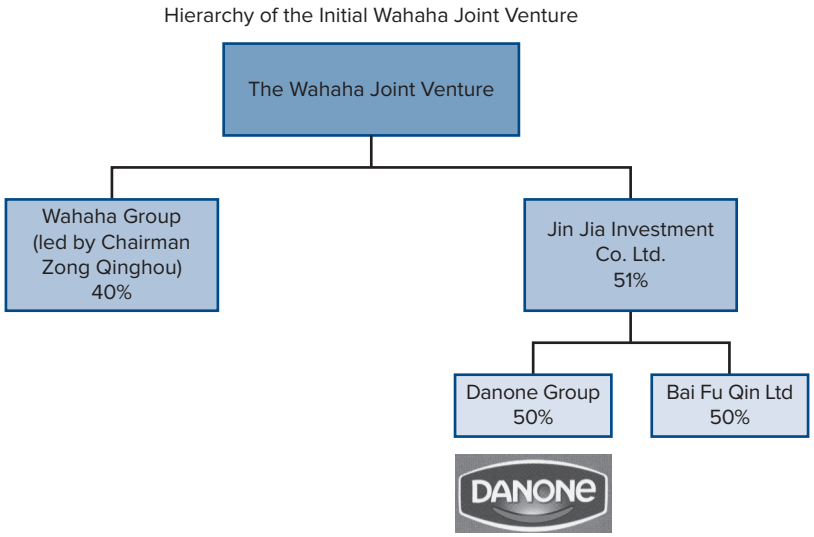
The Wahaha joint venture (JV) was formed in 1996 with three participants: Hangzhou Wahaha Food Group (Wahaha Group); Danone Group, a French corporation (Danone); and Bai Fu Qin, a Hong Kong corporation (Baifu). Danone and Baifu did not invest directly in the JV. Instead, Danone and Baifu formed Jin Jia Investment, a Singapore corporation (Jinjia). Upon the formation of the JV, Wahaha Group owned 49 percent of the shares of the JV and Jinjia owned 51 percent of the shares of the JV. This structure led to immediate misunderstandings between the participants. From Wahaha Group's point of view—with the division of ownership at 49 percent Wahaha Group, 25.5 percent Danone, and 25.5 percent Baifu—it was the majority shareholder in the JV. Figure 1 shows the initial structure of the JV. Since Wahaha Group felt it controlled the JV, it was relatively unconcerned when it transferred its trademark to the JV.[27]

In 1998, Danone bought out the interest of Baifu in Jinjia, becoming 100 percent owner of Jinjia and effectively the 51 percent owner of the JV. This gave it legal control over the JV because of its right to elect the board of directors. For the first time, the Wahaha Group and Zong realized two things: (1) They had given complete control over their trademark to the JV and (2) a foreign company was now in control of the JV.[28] From a legal standpoint, this result was implied by the structure of the JV from the very beginning. However, it is clear from public statements that the Wahaha Group did not understand the implications when they entered into the venture. The Danone "takeover" in 1998, therefore, produced significant resentment on the part of Wahaha Group. Rightly or not, Wahaha felt that Danone misled them from the very beginning.[29]

When the JV was formed, Wahaha Group was a state-owned enterprise owned by the Hangzhou city government. After the formation of the JV, it was converted into a private corporation, effectively controlled by Zong. This set the stage for Wahaha Group's decision to take back control of the trademark it felt had been unfairly transferred to Danone. Zong and his employees now viewed the transferred trademark as their personal property.[30]

When the JV was formed, Wahaha Group obtained an appraisal of its trademark valuing it at RMB100 million (US$13.2 million). The trademark was its sole contribution to the JV, while Jinjia contributed RMB500 million (US$66.1 million) in cash. Wahaha Group also agreed not to use the trademark for any independent business activity or allow it to be used by any other entity. However, the trademark transfer was rejected by China's Trademark Office. It took the position that, as the well-known mark of a state-owned enterprise, the trademark belonged to the state and Wahaha Group did not have the right to transfer it to a private company.[31]

Figure 1 **Structure of Initial Wahaha Joint Venture**



Chrisdorney/Shutterstock

Rather than terminate the JV, the shareholders (now Danone and Wahaha Group) decided to work around the approval issue by entering into an exclusive license agreement for the trademark in 1999. Because the license agreement was intended to be the functional equivalent of a sale of the trademark, they were concerned the Trademark Office would refuse to register the license. Therefore, they only registered an abbreviated license. This was accepted by the Trademark Office, which never saw the full license. As a result, Wahaha Group never transferred ownership of the Wahaha trademark to the JV, just the exclusive license.[32]

Although Danone was the majority shareholder and maintained a majority interest on the board of directors, day-to-day management of the JV was delegated entirely to Zong. He filled management positions with his family members and employees of the Wahaha Group. Under Zong's management, the JV became the largest Chinese bottled water and beverage company.[33]

Beginning in 2000, the Wahaha Group created a series of companies that sold the same products as the JV and used the Wahaha trademark. The non-JV companies appear to have been owned in part by Wahaha Group and in part by an offshore British Virgin Islands company controlled by Zong's daughter and wife. Neither Danone nor Wahaha Group receives any benefits from the profits of these non-JV companies. According to press reports in China, products from the non-JV companies and the JV were sold by the same sales staff working for the same sales company, all ultimately managed by Zong.[34]

In 2005, Danone realized the situation and insisted it be given a 51 percent ownership interest in the non-JV companies. Wahaha Group and Zong, who by this time was one of the richest men in China, refused.[35]

In April 2006, after 10 years of JV relationship, Danone Informed Wahaha that it had breached the contract by establishing nonjoint ventures that had infringed upon the interests of Danone. In May 2007, Danone formally initiated a proceeding, claiming that Wahaha's establishment of nonjoint ventures, as well as the illegal use of the "Wahaha" trademark, had seriously violated the contractual agreements between the two parties.[36]

Details of the Dispute

The disputes between Danone and Wahaha are also linked to their approach to market expansion. Several years ago, as Wahaha sought to expand its market, Wahaha suggested adding online new production lines by increasing investment, while Danone requested Wahaha outsource to product processing suppliers for its joint ventures. Wahaha saw the shortcomings in using product processing suppliers, so it set up nonjoint ventures to meet production needs. Wahaha believed that the existence and operation of the nonjoint ventures did not adversely affect the interest of Danone.[37]

During the 11 years that followed 1996, Danone invested less than RMB1.4 billion in Wahahaís joint ventures but received a profit of RMB3.554 billion as of 2007. On the other hand, Danone acquired several strong competitors of Wahaha including Robust, Huiyuan, and Shanghai Maling Aquariust. Wahaha saw Robust as its biggest rival. Wahaha was disappointed that Danone failed to hold up its end of the bargain of jointly exploring markets in and out of China listed in the JV contract.[38]

On February 3, 2009, a California court in the United States dismissed Danone's accusation against the wife and daughter of Zong Qinghou and ruled that the dispute between Danone and Wahaha should be settled in China. In addition, Danone's lawsuits against Wahaha were rejected by courts in Italy and France; and a series of lawsuits brought by Danone in China against Zong Qinghou and Wahaha's nonjoint ventures all ended in failure.[39]

The rationality of the existence of the nonjoint ventures, the ownership of the "Wahaha" trademark, and the noncompete clause issue were the key points of the Danone-Wahaha dispute.[40] In 1998, when Danone took full control of Jinja Investments, it gained a majority (51%) control over the joint ventures with Wahaha. However, Danone and Wahaha operated the joint ventures in the spirit of cooperation, rather than majority ownership by Danone. As a result, Wahaha was always independent, and its nonjoint ventures have existed and developed since 1996. Relevant transactions of Wahaha's nonjoint ventures and joint ventures were disclosed fully and frankly by the auditing reports of PricewaterhouseCoopers, an accounting firm appointed by Danone. Meanwhile, during the 11-year cooperation, Danone assigned a finance director to locate in the headquarters of Wahaha Group to audit the latter's financial information.[41]

Danone and Wahaha had signed in succession three relevant agreements concerning the ownership of the "Wahaha" brand name. In 1997, the two parties signed a trademark transfer agreement, with an intention to transfer the "Wahaha" trademark to the joint ventures. The move, however, was not approved by the State Trademark Office. For this reason, the two parties signed in 1999 the trademark licensing contract. According to law, the same subject cannot be synchronously transferred and licensed for use to others by the same host. Therefore, the signing and fulfillment of the trademark licensing contract showed that the two parties had agreed to the invalidation of the transfer agreement. The "Wahaha" brand should belong to the Wahaha Group, while the joint ventures only have the right to use the Wahaha brand name.[42]

In October 2005, the two parties signed the No. 1 amendment agreement to the trademark licensing contract. This amendment confirmed Wahaha Group as the owner of the trademark. In addition, the second provision of the amendment agreement clearly stated that the several Wahaha

subsidiaries established by the Wahaha group or its affiliates also have the right to use the Wahaha trademark. The Wahaha brand is among the most famous in China. It ranked No. 16 among domestic brands and is worth US$2.2 billion, according to a recent report by Shanghai research firm Hurun Report.[43]

Conflict Resolution

Through the influence of the Chinese and French governments, Danone and Wahaha reached settlement in late 2007. However, Danone's proposal to sell its shares in the joint ventures to Wahaha for RMB50 billion (finally reduced to approximately RMB20 billion) was rejected by Wahaha.[44] As the negotiations did not yield satisfactory outcomes, the two parties again turned to legal action However all the ruled cases, both in China and abroad, have been against Danone.[45]

In late September 2009, France's Groupe Danone SA agreed to accept a cash settlement to relinquish claims to the name Wahaha. In a joint statement issued September 30, 2009, Danone announced a settlement with China's Hangzhou Wahaha Group Co. by saying its 51 percent share in joint ventures that make soft drinks and related products will be sold to the businesses' Chinese partners. "The completion of this settlement put an end to all legal proceedings related to the disputes between the two parties," the statement said.[46]

The feud over control of the Wahaha empire offers a glimpse into the breakup of a major Asian–foreign joint venture. Danone's strategy to publicly confront its partner and Wahaha's strategy to respond with its own accusations marked a break with prevailing business practice in China, where problems have usually been settled with face-saving, private negotiations.[47]

The conflict between Danone and Wahaha showed how difficult it is to operate a partnership in China. "That's a key lesson: To build a [brand] business in China you need to build from the ground up," said Jonathan Chajet, China managing director for consultancy Interbrand.[48] Foreign firms such as Procter & Gamble, Starbucks, and General Motors have operated wholly or in part through joint ventures in China. But executives involved say the expectations of foreign and local parties can conflict in a JV; for instance, when an international company is striving for efficiencies and profits that match its global goals while the local partner—sometimes an arm of the Chinese government—strives to maximize employment or improve technology. At other times, partners have stolen corporate secrets or cheated and otherwise sabotaged a venture, while legal avenues have had little effect on disputes over operations.[49]

Danone, which reported the Wahaha business generated about 10 percent of its global revenue in 2006 but has since adjusted how it accounted for Wahaha, said it expects no impact on its income statement from the settlement. In China, it will be left with a much smaller footprint and is essentially starting over.[50] Danone's CEO Franck Riboud stated: "Danone has a long-standing commitment to China, where it has been present since 1987, and we are keen to accelerate the success of our Chinese activities." In 2021, China accounted for 10% of Danone's global sales and was Danone's second-largest market after the U.S. and ahead of France.

Lessons Learned

What can potential foreign investors learn from this dispute? Although JVs in China can be quite difficult, with proper planning and management, they can be successful. In the case of the Wahaha–Danone JV, many basic rules of JV operations in China were violated, virtually guaranteeing the JV's destruction. According to Steve Dickinson, a lawyer at Harris Moure PLC, the primary rules violated are as follows:[51]

1. Don't use technical legal techniques to assert or gain control in a JV.
2. Do not expect that a 51 percent ownership interest in a JV will necessarily provide effective control.
3. Do not proceed with a JV formed on a weak or uncertain legal basis.
4. The foreign party must actively supervise or participate in the day-to-day management of the JV.

Questions for Review

1. When and how did Danone expand into the Chinese market? What problems did Danone Group encounter while operating in China?
2. How was the Danone and Wahaha JV formed? What was its structure? Why did Danone decide to form a joint venture rather than establish a 100 percent-owned subsidiary?
3. What was the problem of the Danone-Wahaha joint venture that triggered the conflict between the companies? What were the differences in Danone's and Wahaha's understanding of their own respective roles and responsibilities in this venture? What aspects of national and organizational culture affected this perspective?
4. How was the conflict between Danone and Wahaha resolved? What were the key lessons for Danone about doing business in China?
5. Did Danone follow the advice regarding JVs in China mentioned in the list just above? Which aspects did it follow and which did it not?

Source: This case was prepared by Tetyana Azarova of Villanova University under the supervision of Professor Jonathan Doh. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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Euro Disneyland

On January 18, 1993, Euro Disneyland chair Robert Fitzpatrick announced he would leave that post on April 12 to begin his own consulting company. Quitting his position exactly one year after the grand opening of Euro Disneyland, Fitzpatrick with his resignation removed U.S. management from the helm of the French theme park and resort.

Fitzpatrick's position was taken by a Frenchman, Philippe Bourguignon, who had been Euro Disneyland's senior vice president for real estate. Bourguignon, 45 years old, faced a net loss of FFr 188 million for Euro Disneyland's fiscal year, which ended September 1992. Also, between April and September 1992, only 29 percent of the park's total visitors were French. Expectations were that closer to half of all visitors would be French.

It was hoped that the promotion of Philippe Bourguignon would have a public relations benefit for Euro Disneyland—a project that had been a publicist's nightmare from the beginning. One of the low points was at a news conference prior to the park's opening when protesters pelted Michael Eisner, CEO of the Walt Disney Company, with rotten eggs. Within the first year of operation, Disney had to compromise its "squeaky clean" image and lift the alcohol ban at the park. Wine is now served at all major restaurants.

Euro Disneyland, 49 percent owned by Walt Disney Company, Burbank, California, originally forecasted 11 million visitors in the first year of operation. In January 1993 it appeared attendance would be closer to 10 million. In response, management temporarily slashed prices at the park for local residents to FFr 150 ($27.27) from FFr 225 ($40.91) for adults and to FFr 100 from FFr 150 for children in order to lure more French during the slow, wet winter months. The company also reduced prices at its restaurants and hotels, which registered occupancy rates of just 37 percent.

Bourguignon also faced other problems, such as the second phase of development at Euro Disneyland, which was expected to start in September 1993. It was unclear how the company planned to finance its FFr 8–10 billion cost. The company had steadily drained its cash reserves (FFr 1.9 billion in May 1993) while piling up debt (FFr 21 billion in May 1993). Euro Disneyland admitted that it and the Walt Disney Company were "exploring potential sources of financing for Euro Disneyland." The company was also talking to banks about restructuring its debts.

Despite the frustrations, Eisner was tirelessly upbeat about the project. "Instant hits are things that go away quickly, and things that grow slowly and are part of the culture are what we look for," he said. "What we created in France is the biggest private investment in a foreign country by an American company ever. And it's gonna pay off."

In the Beginning

Disney's story is the classic American rags-to-riches story, which started in a small Kansas City advertising office where Mickey was a real mouse prowling the unknown Walt Disney floor. Originally, Mickey was named Mortimer, until a dissenting Mrs. Disney stepped in. How close Mickey was to Walt Disney is evidenced by the fact that when filming, Disney himself dubbed the mouse's voice. Only in later films did Mickey get a different voice. Disney made many sacrifices to promote his hero-mascot, including selling his first car, a beloved Moon Cabriolet, and humiliating himself in front of Louis B. Mayer. "Get that mouse off the screen!" was the movie mogul's reported response to the cartoon character. Then, in 1955, Disney had the brainstorm of sending his movie characters out into the "real" world to mix with their fans, and he battled skeptics to build the very first Disneyland in Anaheim, California.

When Disney died in 1966, the company went into virtual suspended animation. Its last big hit of that era was 1969's *The Love Bug*, about a Volkswagen named Herbie. Today, Disney executives trace the problem to a tyrannical CEO named E. Cardon Walker, who ruled the company from 1976 to 1983, and to his successor, Ronald W. Miller. Walker was quick to ridicule underlings in public and impervious to any point of view but his own. He made decisions according to what he thought Walt would have done. Executives clinched arguments by quoting Walt like the Scriptures or Marx, and the company eventually supplied a little book of the founder's sayings. Making the wholesome family movies Walt would have wanted formed a key article of Walker's creed. For example, a poster advertising the unremarkable Condorman featured actress Barbara Carrera in a slit skirt. Walker had the slit painted over. With this as the context, studio producers ground out a thin stream of tired, formulaic movies that fewer and fewer customers would pay to see. In mid-1983, a similar low-horsepower approach to television production led to CBS's cancellation of the hour-long program *The Wonderful World of Disney*, leaving the company without a regular network show for the first time in 29 years. Like a reclusive hermit, the company lost touch with the contemporary world.

Ron Miller's brief reign was by contrast a model of decentralization and delegation. Many attributed Miller's ascent to his marrying the boss's daughter rather than to any special gift. To shore Miller up, the board installed Raymond L. Watson, former head of the Irvine Co., as part-time chair. He quickly became full time.

Miller sensed the studio needed rejuvenation, and he managed to produce the hit film *Splash*, featuring an apparently (but not actually) bare-breasted mermaid, under the newly devised Touchstone label. However, the reluctance of freelance Hollywood talent to accommodate Disney's narrow range and stingy compensation often kept his sound instincts from bearing fruit. "Card [Cardon Walker] would listen but not hear," said a former executive. "Ron [Ron Miller] would listen but not act."

Too many box office bombs contributed to a steady erosion of profit. Profits of $135 million on revenues of $915 million in 1980 dwindled to $93 million on revenues of $1.3 billion in 1983. More alarmingly, revenues from the company's theme parks, about three-quarters of the company's total revenues, were showing signs of leveling off. Disney's stock slid from $84.375 a share to $48.75 between April 1983 and February 1984.

Through these years, Roy Disney Jr. simmered while he watched the downfall of the national institution that his uncle, Walt, and his father, Roy Disney Sr., had built. He had long argued that the company's constituent parts all worked together to enhance each other. If movie and television production weren't revitalized, not only would that source of revenue disappear, but the company and its activities would also grow dim in the public eye. At the same time, the stream of new ideas and characters that kept people pouring into the parks and buying toys, books, and records would dry up. Now his dire predictions were coming true. His own personal shareholding had already dropped from $96 million to $54 million. Walker's treatment of Ron Miller as the shining heir apparent and Roy Disney as the idiot nephew helped drive Roy to quit as Disney vice president in 1977 and to set up Shamrock Holdings, a broadcasting and investment company.

In 1984, Roy teamed up with Stanley Gold, a tough-talking lawyer and a brilliant strategist. Gold saw that the falling stock price was bound to flush out a raider and afford Roy Disney a chance to restore the company's fortunes. They asked Frank Wells, vice chair of Warner Bros., if he would take a top job in the company in the event they offered it. Wells, a lawyer and a Rhodes scholar, said yes. With that, Roy knew that what he would hear in Disney's boardroom would limit his freedom to trade in its stock, so he quit the board on March 9, 1984. "I knew that would hang a 'For Sale' sign over the company," said Gold.

By resigning, Roy pushed over the first of a train of dominoes that ultimately led to the result he most desired. The company was raided, almost dismantled, greenmailed, raided again, and sued left and right. But it miraculously emerged with a skilled new top management with big plans for a bright future. Roy Disney proposed Michael Eisner as the CEO, but the board came close to rejecting Eisner in favor of an older, more buttoned-down candidate. Gold stepped in and made an impassioned speech to the directors. "You see guys like Eisner as a little crazy . . . but every studio in this country has been run by crazies. What do you think Walt Disney was? The guy was off the goddamned wall. This is a creative institution. It needs to be run by crazies again."

Meanwhile Eisner and Wells staged an all-out lobbying campaign, calling on every board member except two, who were abroad, to explain their views about the company's future. "What was most important," said Eisner, "was that they saw I did not come in a tutu, and that I was a serious person, and I understood a P&L, and I knew the investment analysts, and I read *Fortune*."

In September 1984, Michael Eisner was appointed CEO and Frank Wells became president. Jeffrey Katzenberg, the 33-year-old, maniacal production chief, followed Fisher from Paramount Pictures. He took over Disney's movie and television studios. "The key," said Eisner, "is to start off with a great idea."

Disneyland in Anaheim, California

For a long time, Walt Disney had been concerned about the lack of family-type entertainment available for his two daughters. The amusement parks he saw around him were mostly filthy traveling carnivals. They were often unsafe and allowed unruly conduct on the premises. Disney envisioned a place where people from all over the world would be able to go for clean and safe fun. His dream came true on July 17, 1955, when the gates first opened at Disneyland in Anaheim, California.

Disneyland strives to generate the perfect fantasy. But magic does not simply happen. The place is a marvel of modern technology. Literally dozens of computers, huge banks of tape machines, film projectors, and electronic controls lie behind the walls, beneath the floors, and above the ceilings of dozens of rides and attractions. The philosophy is that "Disneyland is the world's biggest stage, and the audience is right here on the stage," said Dick Hollinger, chief industrial engineer at Disneyland. "It takes a tremendous amount of work to keep the stage clean and working properly."

Cleanliness is a primary concern. Before the park opens at 8 a.m., the cleaning crew will have mopped, hosed, and dried every sidewalk, street, floor, and counter. More than 350 of the park's 7,400 employees come on duty at 1 a.m. to begin the daily cleanup routine. The thousands of feet that walk through the park each day and chewing gum do not mix; gum has always presented major cleanup problems. The park's janitors found long ago that fire hoses with

Figure 1 **How the Theme Parks Grew**

1955	Disneyland
1966	Walt Disney's death
1971	Walt Disney World in Orlando
1982	Epcot Center
1983	Tokyo Disneyland
1992	Euro Disneyland

Source: Koepp, Stephen. Do You Believe in Magic? *Time*, April 25, 1988, 66–73.

90 pounds of water pressure would not do the job. Now they use steam machines, razor scrapers, and mops towed by Cushman scooters to literally scour the streets and sidewalks daily.

It takes one person working a full eight-hour shift to polish the brass on the Fantasyland merry-go-round. The scrupulously manicured plantings throughout the park are treated with growth-retarding hormones to keep the trees and bushes from spreading beyond their assigned spaces and destroying the carefully maintained five-eighths scale modeling that is utilized in the park. The maintenance supervisor of the Matterhorn bobsled ride personally walks every foot of track and inspects every link of tow chain every night, thus trusting his or her own eyes more than the $2 million in safety equipment that is built into the ride.

Eisner himself pays obsessive attention to detail. Walking through Disneyland one Sunday afternoon, he peered at the plastic leaves on the Swiss Family Robinson tree house, noting that they periodically wear out and need to be replaced leaf by leaf at a cost of $500,000. As his family strolled through the park, he and his eldest son Breck stooped to pick up the rare piece of litter that the cleanup crew had somehow missed. This old-fashioned dedication has paid off. Since opening day in 1955, Disneyland has been a consistent moneymaker. Figure 1 provides a timeline of the Disney theme parks.

Disney World in Orlando, Florida

By the time Eisner arrived, Disney World in Orlando was already on its way to becoming what it is today—the most popular vacation destination in the United States. But the company had neglected a rich niche in its business: hotels. Disney's three existing hotels, probably the most profitable in the United States, registered unheard-of occupancy rates of 92 percent to 96 percent versus 66 percent for the industry. Eisner promptly embarked on an ambitious $1 billion hotel expansion plan. Two major hotels, Disney's Grand Floridian Beach Resort and Disney's Caribbean Beach Resort, were opened during 1987–89. Disney's Yacht Club and Beach Resort along with the Dolphin and Swan Hotels, owned and operated by Tishman Realty & Construction, Metropolitan Life Insurance, and Aoki Corporation, opened during 1989–90. Adding 3,400 hotel rooms and 250,000 square feet of convention space made it the largest convention center east of the Mississippi.

In October 1982, Disney made a new addition to the theme park—the Experimental Prototype Community of Tomorrow, or EPCOT Center. E. Cardon Walker, then president of the company, announced that EPCOT would be a "permanent showcase, industrial park, and experimental housing center." This new park consists of two large complexes: Future World, a series of pavilions designed to show the technological advances of the next 25 years, and World Showcase, a collection of foreign "villages."

Tokyo Disneyland

It was Tokyo's nastiest winter day in four years. Arctic winds and 8 inches of snow lashed the city. Roads were clogged and trains slowed down. But the bad weather didn't keep 13,200 hardy souls from Tokyo Disneyland. Mikki Mausu, better known outside Japan as Mickey Mouse, had taken the country by storm.

Located on a fringe of reclaimed shoreline in Urayasu City on the outskirts of Tokyo, the park opened to the public on April 15, 1983. In less than one year, over 10 million people had passed through its gates, an attendance figure that has been bettered every single year. On August 13, 1983, 93,000 people helped set a one-day attendance record that easily eclipsed the old records established at the two parent U.S. parks. Four years later, records again toppled as the turnstiles clicked. The total this time: 111,500. By 1988, approximately 50 million people, or nearly half of Japan's population, had visited Tokyo Disneyland since its opening. The steady cash flow pushed revenues for fiscal year 1989 to $768 million, up 17 percent from 1988. Figure 2 provides a brief summary of Disney's financial situation at the end of 1989.

The 204-acre Tokyo Disneyland is owned and operated by Oriental Land under license from the Walt Disney Co. The 45-year contract gives Disney 10 percent of admissions and 5 percent of food and merchandise sales, plus licensing fees. Disney opted to take no equity in the project and put no money down for construction. "I never had the slightest doubt about the success of Disneyland in Japan," said Masatomo Takahashi, president of Oriental Land Company. Oriental Land was so confident of the success of

Figure 2 **Investor's Snapshot: The Walt Disney Company (December 1989)**

Sales (latest four quarters)	$4.6 billion
Change from year earlier	Up 33.6%
Net profit	$703.3 million
Change	Up 34.7%
Return on common stockholders' equity	23.4%
Five-year average	20.3%
Stock price average (last 12 months)	$60.50–$136.25
Recent share price	$122.75
Price/earnings multiple	27
Total return to investor (12 months to 11/3/89)	90.6%

Source: Fortune, December 4, 1989.

Disney in Japan that it financed the park entirely with debt, borrowing ¥180 billion ($1.5 billion at February 1988 exchange rates). Takahashi added, "The debt means nothing to me," and with good reason. According to Fusahao Awata, who co-authored a book on Tokyo Disneyland: "The Japanese yearn for [American culture]."

Soon after Tokyo Disneyland opened in April 1983, five Shinto priests held a solemn dedication ceremony near Cinderella's castle. It is the only overtly Japanese ritual seen so far in this sprawling theme park. What visitors see is pure Americana. All signs are in English, with only small katakana (a phonetic Japanese alphabet) translations. Most of the food is American style, and the attractions are cloned from Disney's U.S. parks. Disney also held firm on two fundamentals that strike the Japanese as strange—no alcohol is allowed and no food may be brought in from outside the park.

However, in Disney's enthusiasm to make Tokyo a brick-by-brick copy of Anaheim's Magic Kingdom, there were a few glitches. On opening day, the Tokyo park discovered that almost 100 public telephones were placed too high for Japanese guests to reach them comfortably. And many hungry customers found countertops above their reach at the park's snack stands.

"Everything we imported that worked in the United States works here," said Ronald D. Pogue, managing director of Walt Disney Attractions Japan Ltd. "American things like McDonald's hamburgers and Kentucky Fried Chicken are popular here with young people. We also wanted visitors from Japan and Southeast Asia to feel they were getting the real thing," said Toshiharu Akiba, a staff member of the Oriental Land publicity department.

Still, local sensibilities dictated a few changes. A Japanese restaurant was added to please older patrons. The Nautilus submarine is missing. More areas are covered to protect against rain and snow. Lines for attractions had to be redesigned so that people walking through the park did not cross in front of patrons waiting to ride an attraction. "It's very discourteous in Japan to have people cross in front of somebody else," explained James B. Cora, managing director of operations for the Tokyo project. The biggest differences between Japan and America have come in slogans and ad copy. Although English is often used, it's "Japanized" English—the sort that would have native speakers shaking their heads while the Japanese nod happily in recognition. "Let's Spring" was the motto for one of their highly successful ad campaigns.

Pogue, visiting frequently from his base in California, supervised seven resident American Disney managers who work side by side with Japanese counterparts from Oriental Land Co. to keep the park in tune with the Disney doctrine. American it may be, but Tokyo Disneyland appeals to such deep-seated Japanese passions as cleanliness, order, outstanding service, and technological wizardry. Japanese executives are impressed by Disney's detailed training manuals, which teach employees how to make visitors feel like VIPs. Most worth emulating, say the Japanese, is Disney's ability to make even the lowliest job seem glamorous. "They have changed the image of dirty work," said Hakuhodo Institute's Sekizawa.

Disney Company did encounter a few unique cultural problems when developing Tokyo Disneyland:

> *The problem:* how to dispose of some 250 tons of trash that would be generated weekly by Tokyo Disneyland visitors?
> *The standard Disney solution:* trash compactors.
> *The Japanese proposal:* pigs to eat the trash and be slaughtered and sold at a profit.

James B. Cora and his team of some 150 operations experts did a little calculating and pointed out that it would take 100,000 pigs to do the job. And then there would be the smell . . .

The Japanese relented.

The Japanese were also uneasy about a rustic-looking Westernland, Tokyo's version of Frontierland. "The Japanese like everything fresh and new when they put it in," said Cora. "They kept painting the wood and we kept saying, 'No, it's got to look old.'" Finally the Disney crew took the Japanese to Anaheim to give them a firsthand look at the Old West.

Tokyo Disneyland opened just as the yen escalated in value against the dollar, and the income level of the Japanese registered a phenomenal improvement. During this era of affluence, Tokyo Disneyland triggered an interest in leisure. Its great success spurred the construction of "leisurelands" throughout the country. This created an increase in the Japanese people's orientation toward leisure. But demographics are the real key to Tokyo Disneyland's success. Thirty million Japanese live within 30 miles of the park. There are three times more than the number of people in the same proximity to Anaheim's Disneyland. With the park proven such an unqualified hit, and nearing capacity, Oriental Land and Disney mapped out plans for a version of the Disney-MGM studio tour next door. This time, Disney talked about taking a 50 percent stake in the project.

Building Euro Disneyland

On March 24, 1987, Michael Eisner and Jacques Chirac, the French prime minister, signed a contract for the building of a Disney theme park at Marne-la-Vallee. Talks between Disney and the French government had dragged on for more than a year. At the signing, Robert Fitzpatrick, fluent in French, married to the former Sylvie Blondet, and the recipient of two awards from the French government, was introduced as the president of Euro Disneyland. He was expected to be a key player in wooing support from the French establishment for the theme park. As one analyst put it, Disney selected him to set up the park because he is "more French than the French."

Disney had been courted extensively by Spain and France. The prime ministers of both countries ordered their governments to lend Disney a hand in its quest for a site. France set up a five-person team headed by Special Advisor to Foreign Trade and Tourism Minister Edith Cresson, and Spain's negotiators included Ignacio Vasallo, Director-General for the Promotion of Tourism. Disney pummeled both governments with requests for detailed information. "The only thing they haven't asked us for is the color of the tourists' eyes," moaned Vasallo.

The governments tried other enticements too. Spain offered tax and labor incentives and possibly as much as 20,000 acres of land. The French package, although less generous, included spending of $53 million to improve highway access to the proposed site and perhaps speeding up a $75 million subway project. For a long time, all that smiling Disney officials would say was that Spain had better weather while France had a better population base.

Officials explained that they picked France over Spain because Marne-la-Vallee is advantageously close to one of the world's tourism capitals, while also being situated within a day's drive or train ride of some 30 million people in France, Belgium, England, and Germany. Another advantage mentioned was the availability of good transportation. A train line that serves as part of the Paris Metro subway system ran to Torcy, in the center of Marne-la-Vallee, and the French government promised to extend the line to the actual site of the park. The park would also be served by A-4, a modern highway that runs from Paris to the German border, as well as a freeway that runs to Charles de Gaulle airport.

Once a letter of intent had been signed, sensing that the French government was keen to not let the plan fail, Disney held out for one concession after another. For example, Disney negotiated for VAT (value-added tax) on ticket sales to be cut from a normal 18.6 percent to 7 percent. A quarter of the investment in building the park would come from subsidized loans. Additionally, any disputes arising from the contract would be settled not in French courts but by a special international panel of arbitrators. But Disney did have to agree to a clause in the contract that would require it to respect and utilize French culture in its themes.

The park was built on 4,460 acres of farmland in Marne-la-Vallee, a rural corner of France 20 miles east of Paris known mostly for sugar beets and Brie cheese. Opening was planned for early 1992, and planners hoped to attract some 10 million visitors a year. Approximately $2.5 billion was needed to build the park, making it the largest single foreign investment ever in France. A French "pivot" company was formed to build the park with starting capital of FFr 3 billion, split 60 percent French and 40 percent foreign, with Disney taking 16.67 percent. Euro Disneyland was expected to bring $600 million in foreign investment into France each year.

As soon as the contract had been signed, individuals and businesses began scurrying to somehow plug into the Mickey Mouse money machine—all were hoping to benefit from the American dream without leaving France. In fact, one Paris daily, *Liberation*, actually sprouted mouse ears over its front-page flag.

The $1.5 to $2 billion first-phase investment would involve an amusement complex including hotels and restaurants, golf courses, and an aquatic park in addition to a European version of the Magic Kingdom. The second phase, scheduled to start after the gates opened in 1992, called for the construction of a community around the park, including a sports complex, technology park, conference center, theater, shopping mall, university campus, villas, and condominiums. No price tag had been put on the second phase, although it was expected to rival, if not surpass, the first-phase investment. In November 1989, Fitzpatrick announced that the Disney–MGM Studios, Europe, would also open at Euro Disneyland in 1996, resembling the enormously successful Disney–MGM Studios theme park at Disney World in Orlando. The new studios would greatly enhance the Walt Disney Company's strategy of increasing its production of live action and animated filmed entertainment in Europe for both the European and world markets.

"The phone's been ringing here ever since the announcement," said Marc Berthod of EpaMarne, the government body that oversees the Marne-la-Vallee region. "We've gotten calls from big companies as well as small—everything from hotel chains to language interpreters all asking for details on Euro Disneyland. And the individual mayors of the villages around here have been swamped with calls from people looking for jobs," he added.

Euro Disneyland was expected to generate up to 28,000 jobs, providing a measure of relief for an area that had suffered a 10 percent–plus unemployment rate for the previous year. It was also expected to light a fire under France's construction industry, which had been particularly hard hit by France's economic problems over the previous year. Moreover, Euro Disneyland was expected to attract many other investors to the depressed outskirts of Paris. International Business Machines (IBM) and Banque National de Paris were among those already building in the area. In addition one of the new buildings going up was a factory that would employ 400 outside workers to wash the 50 tons of laundry expected to be generated per day by Euro Disneyland's 14,000 employees.

The impact of Euro Disneyland was also felt in the real estate market. "Everyone who owns land around here is holding on to it for the time being, at least until they know what's going to happen," said Danny Theveno, a spokesperson for the town of Villiers on the western edge of Marne-la-Vallee. Disney expected 11 million visitors in the first year. The break-even point was estimated to be between 7 and 8 million. One worry was that Euro Disneyland would cannibalize the flow of European visitors to Walt Disney World

in Florida, but European travel agents said that their customers were still eagerly signing up for Florida, lured by the cheap dollar and the promise of sunshine.

Protests of Cultural Imperialism

Disney faced French communists and intellectuals who protested the building of Euro Disneyland. Ariane Mnouchkine, a theater director, described it as a "cultural Chernobyl." "I wish with all my heart that the rebels would set fire to Disneyland," thundered a French intellectual in the newspaper *La Figaro*. "Mickey Mouse," sniffed another, "is stifling individualism and transforming children into consumers." The theme park was damned as an example of American "neoprovincialism."

Farmers in the Marne-la-Vallee region posted protest signs along the roadside featuring a mean-looking Mickey Mouse and touting sentiments such as "Disney go home," "Stop the massacre," and "Don't gnaw away our national wealth." Farmers were upset partly because under the terms of the contract, the French government would expropriate the necessary land and sell it without profit to the Euro Disneyland development company.

While local officials were sympathetic to the farmers' position, they were unwilling to let their predicament interfere with what some called "the deal of the century." "For many years these farmers have had the fortune to cultivate what is considered some of the richest land in France," said Berthod. "Now they'll have to find another occupation."

Also less than enchanted about the prospect of a magic kingdom rising among its midst was the communist-dominated labor federation, the Confédération Générale du Travail (CGT). Despite the job-creating potential of Euro Disney, the CGT doubted its members would benefit. The union had been fighting hard to stop the passage of a bill that would give managers the right to establish flexible hours for their workers. Flexible hours were believed to be a prerequisite to the profitable operation of Euro Disneyland, especially considering seasonal variations.

However, Disney proved to be relatively immune to the anti-U.S. virus. In early 1985, one of the three state-owned television networks signed a contract to broadcast two hours of dubbed Disney programming every Saturday evening. Soon after, *Disney Channel* became one of the top-rated programs in France.

In 1987, the company launched an aggressive community relations program to calm the fears of politicians, farmers, villagers, and even bankers that the project would bring traffic congestion, noise, pollution, and other problems to their countryside. Such a public relations program was a rarity in France, where businesses make little effort to establish good relations with local residents. Disney invited 400 local children to a birthday party for Mickey Mouse, sent Mickey to area hospitals, and hosted free trips to Disney World in Florida for dozens of local officials and children.

"They're experts at seduction, and they don't hide the fact that they're trying to seduce you," said Vincent Guardiola, an official with Banque Indosuez, one of the 17 banks wined and dined at Orlando and subsequently one of the venture's financial participants. "The French aren't used to this kind of public relations—it was unbelievable." Observers said that the goodwill efforts helped dissipate initial objections to the project.

Financial Structuring at Euro Disneyland

Eisner was so keen on Euro Disneyland that Disney kept a 49 percent stake in the project, while the remaining 51 percent of stock was distributed through the London, Paris, and Brussels stock exchanges. Half the stock under the offer was going to the French, 25 percent to the English, and the remainder distributed in the rest of the European community. The initial offer price of FFr 72 was considerably higher than the pathfinder prospectus estimate because the capacity of the park had been slightly extended. Scarcity of stock was likely to push up the price, which was expected to reach FFr 166 by opening day in 1992. This would give a compound return of 21 percent.

Walt Disney Company maintained management control of the company. The U.S. company put up $160 million of its own capital to fund the project, an investment that soared in value to $2.4 billion after the popular stock offering in Europe. French national and local authorities, by comparison, were providing about $800 million in low-interest loans and poured at least that much again into infrastructure.

Other sources of funding were the park's 12 corporate sponsors, and Disney would pay them back in kind. The "autopolis" ride, where kids ride cars, features coupes emblazoned with the "Hot Wheels" logo. Mattel Inc., sponsor of the ride, was grateful for the boost to one of its biggest toy lines.

The real payoff would begin once the park opened. The Walt Disney Company would receive 10 percent of admission fees and 5 percent of food and merchandise revenue, the same arrangement as in Japan. But in France, it would also receive management fees, incentive fees, and 49 percent of the profits.

A Salomon Brothers analyst estimated that the park would pull in 3 to 4 million more visitors than the 11 million the company expected in the first year. Other Wall Street analysts cautioned that stock prices of both Walt Disney Company and Euro Disney already contained all the Euro optimism they could absorb. "Europeans visit Disney World in Florida as part of an 'American experience,'" said Patrick P. Roper, marketing director of Alton Towers, a successful British theme park near Manchester. He doubted they would seek the suburbs of Paris as eagerly as America and predicted attendance would trail Disney projections. Figure 3 summarizes the history and major milestones of Euro Disneyland.

Figure 3 **Chronology of the Euro Disneyland Deal**

1984–85	Disney negotiates with Spain and France to create a European theme park. Chooses France as the site.
1987	Disney signs letter of intent with the French government.
1988	Selects lead commercial bank lenders for the senior portion of the project. Forms the Société en Nom Collectif (SNC). Begins planning for the equity offering of 51% of Euro Disneyland as required in the letter of intent.
1989	European press and stock analysts visit Walt Disney World in Orlando. Begin extensive news and television campaign. Stock starts trading at 20–25 percent premium from the issue price.

Source: Willigan, Geraldine E. "The Value-Adding CFO: An Interview with Disney's Gary Wilson." *Harvard Business Review* (January–February 1990).

The Layout of Euro Disneyland

Euro Disneyland is determinedly American in its theme. There was an alcohol ban in the park despite the attitude among the French that wine with a meal is a God-given right. Designers presented a plan for a Main Street USA based on scenes of America in the 1920s because research indicated that Europeans loved the Prohibition era. Eisner decreed that images of gangsters and speakeasies were too negative. Though made more ornate and Victorian than Walt Disney's idealized Midwestern small town, Main Street remained Main Street. Steamships leave from Main Street through the Grand Canyon Diorama en route to Frontierland.

The familiar Disney Tomorrowland, with its dated images of the space age, was jettisoned entirely. It was replaced by a gleaming brass and wood complex called Discoverland, which was based on themes of Jules Verne and Leonardo da Vinci. Eisner ordered $8 or $10 million in extras to the "Visionarium" exhibit, a 360-degree movie about French culture that was required by the French in their original contract. French and English are the official languages at the park, and multilingual guides are available to help Dutch, German, Spanish, and Italian visitors.

With the American Wild West being so frequently captured on film, Europeans have their own idea of what life was like back then. Frontierland reinforces those images. A runaway mine train takes guests through the canyons and mines of Gold Rush country. There is a paddle-wheel steamboat reminiscent of Mark Twain, Indian explorer canoes, and a phantom manor from the Gold Rush days.

In Fantasyland, designers strived to avoid competing with the nearby European reality of actual medieval towns, cathedrals, and chateaux. While Disneyland's castle is based on Germany's Neuschwanstein and Disney World's is based on a Loire Valley chateau, Euro Disney's *Le Château de la Belle au Bois Dormant*, as the French insisted Sleeping Beauty be called, is more cartoonlike with stained glass windows built by English craftspeople and depicting Disney characters. Fanciful trees grow inside as well as a beanstalk.

The park is criss-crossed with covered walkways. Eisner personally ordered the installation of 35 fireplaces in hotels and restaurants. "People walk around Disney World in Florida with humidity and temperatures in the 90s and they walk into an air-conditioned ride and say, 'This is the greatest,'" said Eisner. "When it's raining and miserable, I hope they will walk into one of these lobbies with the fireplace going and say the same thing."

Children all over Europe were primed to consume. Even one of the intellectuals who contributed to *Le Figaro*'s Disney-bashing broadsheet was forced to admit with resignation that his 10-year-old son "swears by Michael Jackson." At Euro Disneyland, under the name "Captain EO," Disney just so happened to have a Michael Jackson attraction awaiting him.

Food Service and Accommodations at Euro Disneyland

Disney expected to serve 15,000 to 17,000 meals per hour, excluding snacks. Menus and service systems were developed so that they varied in both style and price. There is a 400-seat buffeteria, 6 table service restaurants, 12 counter service units, 10 snack bars, 1 Discovery food court seating 850, 9 popcorn wagons, 15 ice-cream carts, 14 specialty food carts, and 2 employee cafeterias. Restaurants were, in fact, to be a showcase for American foods. The only exception to this is Fantasyland, which recreates European fables. Here, food service will reflect the fable's country of origin: Pinocchio's facility having German food; Cinderella's, French; Bella Notte's, Italian; and so on.

Of course recipes were adapted for European tastes. Because many Europeans don't care much for very spicy food, Tex-Mex recipes were toned down. A special coffee blend had to be developed that would have universal appeal. Hot dog carts would reflect the regionalism of American tastes. There would be a ball park hot dog (mild, steamed, a mixture of beef and pork), a New York hot dog (all beef, and spicy), and a Chicago hot dog (Vienna-style, similar to bratwurst).

Euro Disneyland has six theme hotels, which would offer nearly 5,200 rooms on opening day; a campground (444 rental trailers and 181 camping sites); and single-family homes on the periphery of the 27-hole golf course. Figure 4 provides an overview of the size, and main features of Euro Disneyland. Figure 5 compares daily pass and accommodation prices of Euro Disneyland with Disney World Orlando.

Disney's Strict Appearance Code

Antoine Guervil stood at his post in front of the 1,000-room Cheyenne Hotel at Euro Disneyland, practicing his "Howdy!" When Guervil, a political refugee from Haiti, said the word, it sounded more like "Audi." Native French speakers have

Figure 4 **The Euro Disneyland Resort**

5,000 acres in size
30 attractions
12,000 employees
6 hotels (with 5,184 rooms)
10 theme restaurants
414 cabins
181 camping sites

Source: Cohen, Roger. "Threat of Strikes in Euro Disney Debut." *The New York Times*, April 10, 1992.

trouble with the aspirated "h" sound in words like "hay" and "Hank" and "howdy." Guervil had been given the job of wearing a cowboy costume and booming a happy, welcoming howdy to guests as they entered the Cheyenne, styled after a Western movie set.

"Audi," said Guervil, the strain of linguistic effort showing on his face. This was clearly a struggle. Unless things got better, it was not hard to imagine objections from Renault, the French car company that was one of the corporate sponsors of the park. Picture the rage of a French auto executive arriving with his or her family at the Renault-sponsored Euro Disneyland, only to hear the doorman of a Disney hotel advertising a German car.

Such were the problems Disney faced while hiring some 12,000 people to maintain and populate its Euro Disneyland theme park. A handbook of detailed rules on acceptable clothing, hairstyles, and jewelry, among other things, embroiled the company in a legal and cultural dispute. Critics asked how the brash Americans could be so insensitive to French culture, individualism, and privacy. Disney officials insisted that a ruling that barred them from imposing a squeaky-clean employment standard could threaten the image and long-term success of the park.

"For us, the appearance code has a real effect from a product identification standpoint," said Thor Degelmann, vice president for human resources for Euro Disneyland. "Without it we wouldn't be presenting the Disney product that people would be expecting."

The rules, spelled out in a video presentation and detailed in a guide handbook, went beyond height and weight standards. They required men's hair to be cut above the collar and ears with no beards or mustaches. Any tattoos must be covered. Women must keep their hair in one "natural color" with no frosting or streaking, and they may make only limited use of makeup like mascara. False eyelashes, eyeliners, and eye pencil were completely off limits. Fingernails can't pass the end of the fingers. As for jewelry, women can wear only one earring in each ear, with the earring's diameter no more than three-quarters of an inch. Neither men nor women can wear more than one ring on each hand. Further, women were required to wear appropriate undergarments and only transparent panty hose, not black or anything with fancy designs. Though a daily bath was not specified in the rules, the applicant's video depicted a shower scene and informed applicants that they were expected to show up for work "fresh and clean each day." Similar rules are in force at Disney's three other theme parks in the United States and Japan.

In the United States, some labor unions representing Disney employees have occasionally protested the company's strict appearance code, but with little success. French labor unions began protesting when Disneyland opened its "casting center" and invited applicants to "play the role of [their lives]" and to take a "unique opportunity to marry work and magic." The CGT handed out leaflets in front of the center to warn applicants of the appearance code, which they believed represented "an attack on individual liberty." A more mainstream union, the Confédération Française Démocratique du Travail (CFDT), appealed to the Labor Ministry to halt Disney's violation of "human dignity." French law prohibits employers from restricting individual and collective liberties unless the restrictions can be justified by the nature of the task to be accomplished and are proportional to that end.

Degelmann, however, said that the company was "well aware of the cultural differences" between the United States and France and as a result had "toned down" the wording in the original American version of the guidebook. He pointed out that many companies, particularly airlines, maintained appearance codes just as strict.

Figure 5 **What Price Mickey?**

	Euro Disneyland	Disney World, Orlando
	Peak Season Hotel Rates	
4-person room	$97–$345	$104–$455
	Campground Space	
	$48	$30–$49
	One-Day Pass	
Children	$26	$26
Adults	$40	$33

BusinessWeek, March 30, 1992.

"We happened to put ours in writing," he added. In any case, he said that he knew of no one who had refused to take the job because of the rules and that no more than 5 percent of the people showing up for interviews had decided not to proceed after watching the video, which also detailed transportation and salary.

Fitzpatrick also defended the dress code, although he conceded that Disney might have been a little naive in presenting things so directly. He added, "Only in France is there still a communist party. There is not even one in Russia any more. The ironic thing is that I could fill the park with CGT requests for tickets."

Another big challenge lay in getting the mostly French "cast members," as Disney calls its employees, to break their ancient cultural aversions to smiling and being consistently polite to park guests. The individualistic French had to be molded into the squeaky-clean Disney image. Rival theme parks in the area, loosely modeled on the Disney system, had already encountered trouble keeping smiles on the faces of the staff, who sometimes took on the demeanor of subway ticket clerks.

The delicate matter of hiring French citizens as opposed to other nationals was examined in the more than two-year-long preagreement negotiations between the French government and Disney. The final agreement called for Disney to make a maximum effort to tap into the local labor market. At the same time, it was understood that for Euro Disneyland to work, its staff must mirror the multicountry makeup of its guests. "Casting centers" were set up in Paris, London, Amsterdam, and Frankfurt. "We are concentrating on the local labor market, but we are also looking for workers who are German, English, Italian, Spanish, or other nationalities and who have good communication skills, are outgoing, speak two European languages—French plus one other—and like being around people," said Degelmann.

Stephane Baudet, a 28-year-old trumpet player from Paris, refused to audition for a job in a Disney brass band when he learned he would have to cut his ponytail. "Some people will turn themselves into a pumpkin to work at Euro Disneyland," he said. "But not me."

Opening Day at Euro Disneyland

A few days before the grand opening of Euro Disneyland, hundreds of French visitors were invited to a preopening party. They gazed perplexed at what was placed before them. It was a heaping plate of spare ribs. The visitors were at the Buffalo Bill Wild West Show, a cavernous theater featuring a panoply of "Le Far West," including 20 imported buffaloes. And Disney deliberately didn't provide silverware. "There was a moment of consternation," recalls Fitzpatrick. "Then they just kind of said, 'The hell with it,' and dug in." There was one problem. The guests couldn't master the art of gnawing ribs and applauding at the same time. So Disney planned to provide more napkins and teach visitors to stamp with their feet.

On April 12, 1992, the opening day of Euro Disneyland, *France-Soir* enthusiastically predicted Disney dementia. "Mickey! It's Madness" read its front-page headline, warning of chaos on the roads and suggesting that people might have to be turned away. A French government survey indicated that half a million might turn up with 90,000 cars trying to get in. French radio warned traffic to avoid the area.

By lunchtime on opening day, the Euro Disneyland car park was less than half full, suggesting an attendance of below 25,000, less than half the park's capacity and way below expectations. Many people may have heeded the advice to stay home or, more likely, were deterred by a one-day strike that cut the direct rail link to Euro Disneyland from the center of Paris. Queues for the main rides, such as Pirates of the Caribbean and Big Thunder Mountain railroad, were averaging around 15 minutes less than on an ordinary day at Disney World, Florida.

Disney executives put on a brave face, claiming that attendance was better than at first days for other Disney theme parks in Florida, California, and Japan. However, there was no disguising the fact that after spending thousands of dollars on the preopening celebrations, Euro Disney would have appreciated some impressively long traffic jams on the auto route.

Other Operating Problems

When the French government changed hands in 1986, work ground to a halt, as the negotiator appointed by the Conservative government threw out much of the groundwork prepared by his Socialist predecessor. The legalistic approach taken by the Americans also bogged down talks, as it meant planning ahead for every conceivable contingency. At the same time, right-wing groups who saw the park as an invasion of "chewing-gum jobs" and U.S. pop culture also fought hard for a greater "local cultural context."

On opening day, English visitors found the French reluctant to play the game of queuing. "The French seem to think that if God had meant them to queue, He wouldn't have given them elbows," they commented. Different cultures have different definitions of personal space, and Disney guests faced problems of people getting too close or pressing around those who left too much space between themselves and the person in front.

Disney placed its first ads for work bids in English, leaving small- and medium-sized French firms feeling like foreigners in their own land. Eventually, Disney set up a data bank with information on over 20,000 French and European firms looking for work, and the local Chamber of Commerce developed a video text information bank with Disney that small- and medium-sized companies through

A Further Look at Euro Disneyland in Recent Years

As discussed in In-Depth Integrative Case 2.1a, Euro Disneyland faced major hurdles in its early years. In May 1992, roughly 25 percent of Euro Disney's workforce (approximately 3,000 people) resigned from their jobs, citing unacceptable working conditions. As a result, the Euro Disney Company stock price declined and Euro Disney announced an expected net loss in its first year of operation of approximately 300 million French francs in July of 1992.[1] Since then, Euro Disneyland has enacted some major changes—many with great success.

In an effort to improve attendance, Disney began serving alcoholic beverages with meals inside the Euro Disneyland Park in June of 1993.[2] In March of 1994, Disney offered the banks a deal: Disney would provide additional capital to ensure that it continues to operate if the banks agreed to restructure the US$1 billion of debt. If the banks did not agree, Disney was prepared to close the park and default on the loans. Disney put additional pressure on the banks by publicly announcing the possible closure of the park unless the debt was restructured. The banks agreed to Disney's demands and wrote off the next two years of interest payments along with a three-year period where loan repayments would be postponed. In return, The Walt Disney Company agreed to restructure its own loan arrangements at the new park valued at US$210 million.[3]

A turnaround began to blossom shortly after restructuring. In 1995, Disney reported that attendance had increased 21 percent from 8.8 million to 10.7 million year over year with hotel occupancy also increasing from 60 percent to 68.5 percent.[4] The Euro Disney Resort was renamed to Disneyland Paris in 1994 and, in July of 1995, the company reported its first quarterly profit of US$35.3 million. Disneyland Paris ended 1995 with a profit of US$22.8 million. Disney opened a second theme park in France, Walt Disney Studios Park, in March of 2002.[5] The two combined parks had a total attendance in 2017 of over 15 million, making it Europe's most visited themed attraction.[6]

In 2017, the Walt Disney Company (previously a minority shareholder) purchased controlling interest in Disneyland Paris's parent company, Euro Disney S.C.A. The goal is to improve the long-term cash position of Disneyland Paris, putting an end to the reoccurring debt crises that have plagued Euro Disney S.C.A. over its two-decade history. Per the terms of the deal, the existing debt held by Walt Disney Company will be converted to equity, further increasing the American company's investment in the European operations. In 2018, the Walt Disney Company announced a €2 billion investment plan for the park, including three new "lands" and a new central lake, set to open in 2021.[7]

France and Europe would be able to tap into. "The work will come, but many local companies have got to learn that they don't simply have the right to a chunk of work without competing," said a chamber official.

Efforts were made to ensure that sooner, rather than later, European nationals take over the day-to-day running of the park. Although there were only 23 U.S. expatriates among the employees, they controlled the show and held most of the top jobs. Each senior manager had the task of choosing his or her European successor.

Disney was also forced to bail out 40 subcontractors who were working for the Gabot-Eremco construction contracting group, which had been unable to honor all of its commitments. Some of the subcontractors said they faced bankruptcy if they were not paid for their work on Euro Disneyland. A Disney spokesperson said that the payments would be less than $20.3 million and the company had already paid Gabot-Eremco for work on the park. Gabot-Eremco and 15 other main contractors demanded $157 million in additional fees from Disney for work that they said was added to the project after the initial contracts were signed. Disney rejected the claim and sought government intervention. Disney said that under no circumstances would it pay Gabot-Eremco and accused its officers of incompetence. As Bourguignon thought about these and other problems, the previous year's losses and the prospect of losses again in the current year, with their negative impact on the company's stock price, weighed heavily on his mind.

Questions for Review

1. Using Hofstede's four cultural dimensions as a point of reference, what are some of the main cultural differences between the United States and France?
2. In what way has Trompenaars's research helped explain cultural differences between the United States and France?
3. In managing its Euro Disneyland operations, what are three mistakes that the company made? Explain.
4. Based on its experience, what are three lessons the company should have learned about how to deal with diversity? Describe each.

Source: This case was prepared by Research Assistant Sonali Krishna under the direction of Professors J. Stewart Black and Hal B. Gregersen as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capa

ENDNOTES

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In-Depth Integrative Case 2.1b

Disney in Asia

After its success with Tokyo Disneyland in the 1980s, Disney began to realize the vast potential of the Asian market. The theme park industry throughout Asia has been very successful in recent years, with a range of regional and international companies all trying to enter the market. Disney has been one of the major participants, opening Hong Kong Disneyland in 2005 and Shanghai Disney Resort in 2016, and discussing future operations in other Asian cities.

Disney's Push into China

After Disney's success in Tokyo, China became a serious option for its next theme park venture considering the country's impressive population and economic growth throughout the 1990s and 2000s. Successful sales associated with the Disney movie *The Lion King*, in 1996, also convinced Disney officials that China was a promising location. However, consumer enthusiasm for theme parks in China was at a low in the late 1990s. "Between 1993 and 1998, more than 2,000 theme parks had been opened in China," and "many projects were swamped by excessive competition, poor market projections, high costs, and relentless interference from local officials," forcing several hundred to be closed.[1] Nevertheless, Disney continued to pursue plans for two parks in China, focusing efforts on both Hong Kong and Shanghai.

Hong Kong Disneyland

Plans in Hong Kong, which culminated in the opening of Hong Kong Disneyland in September 2005, began after the 1997–1998 Asian financial crisis. Despite the poor economic condition of Hong Kong in the late 1990s, Disney was still optimistic about prospects for a theme park in the "city of life." Hong Kong, already an international tourist destination, would draw Disneyland patrons primarily from China, Taiwan, and Southeast Asia.

The official park plans were announced in November 1999 as a joint venture between the Walt Disney Company and the Hong Kong SAR Government. Unlike its experience in Tokyo, where Disney handed the reins over completely to a foreign company (the Oriental Land Company), Disney decided to take more direct control over this new park. The park was built on Lantau Island at Penny's Bay, within the six-mile stretch separating the international airport and downtown. Hong Kong Disneyland was estimated to create 18,000 jobs upon opening and ultimately 36,000 jobs. The first phase of the park was to include a 10-million-annual-visitor Disneyland-based theme park; 2,100 hotel rooms; and 300,000-square-foot retail, dining, and entertainment complex.[2]

In order to make the park "culturally sensitive," Jay Rasulo, president of Walt Disney Parks & Resorts, announced that Hong Kong Disneyland would be trilingual in English, Cantonese, and Mandarin. The park would also include a fantasy garden for taking pictures with the Disney characters (popular among Asian tourists), as well as more covered and rainproof spaces to accommodate the "drizzly" climate.[3]

Unfortunately, Disney soon realized that its attempts at cultural sensitivity had not gone far enough. For instance, the decision to serve shark fin soup, a local favorite, greatly angered environmentalists. The park ultimately had to remove the dish from its menus. Park executives also failed to plan for the large influx of visitors around the Chinese New Year in early 2006, forcing them to turn away numerous patrons who had valid tickets. Unsurprisingly, this led to customer outrage and negative media coverage of the relatively new theme park.

Other criticisms of the park have included its small scale and slow pace of expansion. Hong Kong Disneyland opened with only 16 attractions and "one classic Disney thrill ride, Space Mountain, compared to 52 at Disneyland Resort Paris [formerly Euro Disneyland]."[4] Likely due to its small size and fewer attractions, Hong Kong Disneyland pulled in only 5.2 million guests during its first 12 months, less than the estimated 5.6 million.[5] In the years since, additional attractions have been added to the existing park, helping to increase attendance. Before the coronavirus pandemic, the theme park received about 6 million visits per year. However, the anti-government protests in 2019, followed by the COVID-19 pandemic have caused severe disruption to the park operations. In 2019, the Hong Kong economy contracted by 1.2 percent with a significant reduction in tourists from mainland China. In the fiscal year 2021, inbound tourism into Hong Kong was essentially brought to a halt due to travel restrictions imposed because of the COVID-19 pandemic. In 2020, the attendance dropped to 1.7 million and Hong Kong Disneyland reported a net loss of $300 million - it's seventh in a row without profit. The theme park said it did not operate for about 40 percent of the calendar days in the 2020–2021 financial year due to mandatory closures from the government's Covid-19-related social-distancing policies. Despite the adverse business and operating conditions, the park's attendance rebounded to

2.8 million in 2021, up 64% versus the prior year.[6] The Hong Kong Tourism Board forecast that visitor numbers could reach 9.8 million in 2022 as compared to fewer than 92,000 in 2021.[7] In fiscal 2022, Hong Kong Disneyland is cautiously optimistic about the outlook for a gradual resumption of inbound tourism and visit to the park.

Battle over Hong Kong Park Expansion

Expanding the size of the theme park in Hong Kong by about 30 percent has always been a part of Disney's long-term plan. In 2007, Disney began the process of trying to obtain the local government's financial support for these plans. At that time, however, the park had been performing well below its projected sales number, and the government, which is a 57 percent stockholder in this business, questioned the need to fund further expansion. Hong Kong Disneyland attracted about 15 million visitors total in its first three and a half years, or about 4.3 million a year. That figure fell short of the original projection of more than 5 million a year. Although Disney did not release financial figures to the public, Euromonitor estimated the park had an operating loss of US$46 million in its first year and lost US$162 million the following year.[8]

By 2008, Disney's officials were publicly stressing the importance of park expansion for the overall viability of the project. At that time, the park occupied 126 hectares and had only four "lands"—Fantasyland, Tomorrowland, Adventureland, and Main Street USA—and two hotels. Hong Kong Disneyland Managing Director Andrew Kam emphasized that expansion would be vital to the park's success. In a September 2008 release, Kam said the park had plenty of room to grow because it was only using half of the land available: "Expansion is part of the strategy to make this park work for Hong Kong."[9] At the time, an expansion was estimated to cost as much as 3 billion Hong Kong dollars, or US$387 million. In December 2008, the *Sing Tao Daily* newspaper in Hong Kong reported that Disney, in what was deemed an unusual concession, might give the government a greater share in the project in repayment of a cash loan of nearly $800 million that the city had extended previously to the theme park.[10]

In 2009, unable to come to an agreement with the Hong Kong government, Disney put on hold its long-awaited plans to expand the park. In a statement from Disney's Burbank (Calif.) office, the company said it was laying off employees in Hong Kong after failing to reach an agreement with the Hong Kong government to fund a much-needed expansion. According to Disney, "The uncertainty of the outcome requires us to immediately suspend all creative and design work on the project." Thirty Hong Kong-based Disney "Imagineers," who helped to plan and design new parks, would be losing their jobs.[11] Business news sources at the time noted that one reason Disney might be willing to end negotiations with the Hong Kong government was the company's progress in negotiations with Shanghai officials to open a theme park there that would be much larger and arguably more exciting China project. A Shanghai park would be easier for many Chinese families to visit. However, the possible shift of mainland Chinese visitors away from Hong Kong in favor of Shanghai could mean a drop of as much as 60 percent in visitor numbers to Hong Kong Park, according to Euromonitor's estimates.[12]

In June of 2009 Disney and Hong Kong's government finally reached a deal to modestly expand the territories of the Disneyland theme park at a cost of about $465 million. Under the terms of the deal, the entertainment giant contributed all the necessary new capital for construction as well as sustaining the park's operation during the building phases. It also converted about $350 million in loans into equity to help with funding and agreed to keep open a credit facility of about US$40 million. Hong Kong, which shouldered much of the $3.5 billion original construction cost, did not add any new capital. "Disney is making a substantial investment in this important project," Leslie Goodman, a Disney vice president, said in a statement.[13] Groundbreaking on three new "lands" for the park commenced later that year, with "Toy Story Land" opening in 2011, "Grizzly Gulch" opening in 2012, "Mystic Point" opening in 2013, Disney the Night Parade in 2014, and Fairy Tale Forest in 2015. The three new lands increased the overall size of Hong Kong Disneyland by 25 percent, and there are now more than 100 attractions within the park.[14] In addition to opening a third hotel, Disney Explorers Lodge opened in 2017 to accommodate more guests onsite.

A few years later, facing increasing competition in the theme park industry in Asia, Disney sought to again expand the park's offerings. With the Hong Kong government's approval in May of 2017, Disney began construction on a new US$1.4 billion expansion. When completed, the park will include two new "lands" and a revamped central castle. The proposed expansion includes a Frozen-themed area, a Marvel-themed area, multiple new attractions, and live entertainment. The plan, which was expected to be completed around 2023, was halted by the Hong Kong city government in 2020 as the city government decided not to extend the option to Hong Kong Disneyland due to current economic conditions. The COVID-19 pandemic has put a halt on Hong Kong Disneyland's growth plans and the viability of turning profitable.[15]

Uncertainty in Mainland China

Shanghai, known as the "Paris of the Orient," was an attractive site for a second Chinese park to Disney officials because of its growing commercialization and industrialization and its already extant transportation access. A Disney theme park in Shanghai would be mutually beneficial for the company and the nation of China. From Disney's

perspective, it would gain access to one of the world's largest potential markets (and also compete with Universal Studios' new theme park). From the perspective of Chinese government officials, Disney's mainland Shanghai park would be a long-awaited mark of international success for a communist nation.[16]

Initially, planners hoped to have a Disneyland operating in Shanghai prior to the World Expo in 2010. However, a series of delays plagued the Shanghai park's progress. The Chinese government, fearing that a Shanghai park would damper the success of the newly opened Hong Kong park, intentionally delayed the park's construction in the mid-2000s.[17] Additionally, in the wake of a corruption scandal within the Communist Party in Beijing in 2005, the necessary government approvals for the project stalled to a halt. For a time, it appeared as though the plans for the Shanghai park would not come to fruition, leaving Disney to consider other options for the construction of its new park.[18]

Disney Gets Green Light for Shanghai Park

After a few years, Walt Disney Co. revisited its plans to build a park in Shanghai, China. In January 2009, Disney presented a $3.59 billion proposal to the Chinese central government, outlining plans for a jointly owned park, hotel, and shopping development.[19] The timing could not have been better for Disney to seek approval; in the wake of the global economic crisis, the prospective creation of 50,000 new jobs amid a cooling Chinese economy was especially attractive to the Chinese government.[20]

The preliminary agreement was signed in January 2009. According to the proposal, Disney would take a 43 percent equity stake in Shanghai Disneyland, with 57 percent owned by the Shanghai government, forming a joint-venture company.[21] The preliminary agreement outlined a six-year construction period for the first phase, with the projected opening of the park scheduled for 2014. Disney would pay $300 million to $600 million in capital expenses for the park in exchange for 5 percent of the ticket sales and 10 percent of the concessions.[22] According to the preliminary agreement, Shanghai Disneyland, the first park at the resort, would incorporate Chinese cultural features as well as attractions built around traditional Disney characters and themes. Additionally, the ownership structure would contain some aspects of Disney's Hong Kong joint venture agreement. According to *The Wall Street Journal*, a newly formed Shanghai company named Shendi would hold the local government's interest in the park. Shendi is owned by two business entities under district governments in Shanghai, as well as a third company owned by the municipal government's propaganda bureau.[23] After almost a year of negotiation, in November 2009, Disney finally received approval from the Chinese government to proceed with its Shanghai park plan.[24]

Disney acted quickly to gather all other necessary approvals and documents that were needed for the park construction. In April 2010, the land needed for the park was approved. In 2010, over 2,000 households and nearly 300 companies were relocated to clear the way for the first phase of construction. In an effort to keep the public informed, the head of Pudong New District, where the park is sited, announced that the first phase of the project will span four square kilometers, with the theme park itself covering a square kilometer (which equates to roughly triple the size of Hong Kong Disneyland).[25] Construction on the first phase, which includes the Shanghai Disneyland Park and two hotels, broke ground in 2011.[26] Despite the initial difficulties that Disney faced throughout the early 2000s in gaining approval for the Shanghai park, the five-year construction phase proceeded relatively smoothly.

As the 2016 opening neared, public excitement for the park grew. More than five million people flooded the park's official website following its March 2016 launch. Tickets for the park's opening two weeks sold out months in advance, and, on a single weekend in May, more than 100,000 people traveled to the still-unopened park just to peer through the gates and shop at stores on the perimeter.[27] The park officially opened to the public on June 16, 2016.

Analysts see the move as an important step forward for Disney and other Western media firms to make inroads into the vast and untapped Chinese media and entertainment market. "They've been laying the groundwork for a park for many years by exposing the population to Disney properties, film, TV, and merchandising," said Christopher Marangi, senior analyst with Gabelli and Co. in New York.[28]

Disney has implemented unique approaches to ticket pricing at its Shanghai park in an effort to maximize attendance and profit. Unlike other theme parks, where the cost of entry remains the same regardless of the day, Shanghai Disneyland features "demand pricing." On days that are more crowded, such as weekends and during the summer, "peak" prices are enacted. Though ticket prices start much lower at the Shanghai park than at the Hong Kong park, the peak pricing structure results in admission price increases of over 25 percent on certain days.[29]

Unlike the Hong Kong park, Shanghai Disneyland has found nearly instant success. In 2017, its first full year of operation, the park hosted 11 million guests, making it the eighth most-visited theme park globally.[30,31] Despite expert predictions that the park would take years to achieve profitability, Shanghai Disneyland was able to break even in its first year of operation.[32] Future expansions of the park are expected to further increase its popularity. The first expansion, "Toy Story Land," opened in 2018.[33]

There are certain public concerns that the new Shanghai park, which is Disney's sixth, will inevitably affect the Hong Kong park. The main concern is that the Hong Kong park's revenue may be cannibalized, worsening the financial perspectives of the already underperforming Hong Kong

park.[34] However, Disney thinks that both parks will ultimately complement each other rather than be competitors. Disney's main points are that Shanghai is close to several other major cities within easy driving distance, including Nanjing, Suzhou, and Hangzhou, and that Shanghai's own population of over 20 million, combined with tens of millions more within a three-hour driving radius, would provide a more-than-ample base of local users for the park. There are analysts, like Paul Tang, chief economist at Bank of East Asia, who share this optimism, projecting that "visitors from Guangdong and southern China will still find Hong Kong more convenient, while Shanghai will attract visitors from northern and eastern China."[35]

The critics of the Shanghai park, on the other hand, are convinced that this project is a bigger threat to the Hong Kong park than anybody can imagine. According to Parita Chitakasem, research manager at Euromonitor International in Singapore, who specializes in theme parks, "Disneyland Shanghai will have two big features which will make it more attractive than its Hong Kong counterpart: Although it is still early days, Disneyland in Shanghai will probably offer a much better experience for your money than Disneyland in Hong Kong—Shanghai's Disneyland is three times bigger than Hong Kong Disneyland. Also, for visitors from mainland China, it will be much easier to travel to Disneyland in Shanghai, as there are no visa/cross border concerns to take care of."[36] Though only one phase of Shanghai Disneyland has opened, its true impact on Hong Kong Disneyland will not be known for several years; stagnant growth in attendance and increasing financial losses at the Hong Kong park validate the concerns that many have expressed.[37]

Other Asian Ventures

The Walt Disney Company has also looked into building other theme parks and resorts in Asia. Based on its successful operation of two theme parks in the United States (Anaheim and Orlando), Disney believes that it can have more than one park per region. Another strategically located park in Asia, officials agreed, would not compete with Tokyo Disneyland, Hong Kong Disneyland, or Shanghai Disneyland, but rather bring in a new set of customers.

One such strategic location is the state of Johor in Malaysia. Malaysian officials wanted to develop Johor in order to rival its neighbor, Singapore, as a tourist attraction. (Two large casinos were built in Singapore in 2006.) However, Disney claimed to have no existing plans or discussions for building a park in Malaysia. Alannah Goss, a spokeswoman for Disney's Asian operations based in Hong Kong, said, "We are constantly evaluating strategic markets in the world to grow our park and resort business and the Disney brand. We continue to evaluate markets, but at this time, we have no plans to announce regarding a park in Malaysia."[38]

Singapore, in its effort to expand its tourism industry, had also expressed interest in being host to the next Disneyland theme park. Although rumors of a Singapore Disneyland were quickly dismissed, some reports suggested there were exploratory discussions of locations at either Marina East or Seletar. Residents of Singapore expressed concern that the park would not be competitive, even against the smaller-scale Hong Kong Disneyland. Their primary fears included limited attractions (based on size and local regulations), hot weather, and high ticket prices.

Disney's Future in Asia

Although Disney is wise to enter the Asian market with its new theme parks, it still faces many obstacles. One is finding the right location. Lee Hoon, professor of tourism management at Yanyang University in Seoul, noted, "Often, more important than content is whether a venue is located in a metropolis, whether it's easily accessible by public transportation." Often tied to issues of location is the additional threat of competition, both from local attractions and from those of other international corporations. It seems that Asian travelers are loyal to their local attractions, evidenced by the success of South Korea's Everland theme park and Hong Kong's own Ocean Park (which brought in more visitors than Hong Kong Disneyland in 2006).[39] The stiff competition in the theme park industry in Asia will center on not only which park can create a surge of interest in its first year but also which can build a loyal base of repeat customers.

Despite its already large size, the Asian theme park industry is still developing. Disney officials will need to be innovative and strategic in order to maintain sales. Existing theme parks in the region have proven that a carefully crafted strategy can lead to increased sales; after a 20 percent drop in attendance in the early 2000s, Universal Studios in Japan was able to rebound to record growth in 2015 by introducing new innovative attractions, including a Harry Potter-themed area within the park and a multiple-month-long Anime event. By 2018, the park's annual attendance grew to nearly 15 million, making it the fifth most-visited theme park globally.[40] Despite the COVID-19 related challenges, universal Studios Japan kept its 5th most-visited theme park position in both 2019 and 2020, though the attendance fell from 14.5 million in 2019 to 4.9 million in 2020.

In spite of the underperformance of some theme parks, Asia is still viewed by many as the most attractive region for the entertainment industry. Attendance may be stagnating in some parts of the world, but a growing middle class with disposable incomes to match is making the Asia-Pacific region a prime target for investors and theme park owners. "China will lead the way," said Kelven Tan, Southeast Asia's representative for the International Association of Amusement Parks and Attractions, an industry group. "The critical mass really came about with the resurgence of China. You need a good source of people; you also need labor and you need cheap land."[41]

That's what the people behind Universal Studios, who are developing parks in Singapore, China, and South Korea, are betting. Opening in the spring of 2010, Universal Studios Singapore became the island nation's first bona fide amusement park. Developers aim to tap the wallets of Singapore's 4.6 million residents and 9.7 million tourists a year, as well as its proximity to populous areas of Indonesia and southern Malaysia. Universal Studios Beijing, opening in September 2021, is located within close proximity to over 20 million residents. Outside this and other foreign brands like Legoland, which opened parks in Johor, Malaysia in 2012, in Dubai, UAE in 2016, in Nagoya, Japan in 2017, and in Chuncheon, South Korea in 2019, home-grown companies like Genting in Malaysia and OTC Enterprise Corp. in China are aggressively looking to take advantage of the burgeoning market in their backyards.[42]

Emerging new variants of the COVID-19 virus are bringing fresh challenges to the tourism and park business in Asia. In the Asia-Pacific region, the top 20 theme parks saw attendance numbers drop from 141.3m in 2019 to 59.5m in 2020, which represents a drop of 58%. This is in line with the drop in global attraction attendance from 50% to 90% in 2020, one of the steepest annual drops the industry has ever faced.[43]

Even though the Shanghai park's future expansions are on track, the expansion plans for Hong Kong Disney have been put on a hold. Companies in the theme park industry need to carefully assess the shifting consumer preferences as they make future expansion plans. Disney does have the experience and ability to further penetrate the Asian region if it so desires and if the ground situation in Asia improves.

Questions for Review

1. What cultural challenges are posed by Disney's expansion into Asia? How are these different from those in Europe?
2. How do cultural variables influence the location choice of theme parks around the world?
3. Why was Disney's Shanghai theme park so controversial? What are the risks and benefits of this project? What do you think is the likelihood that it will "cannibalize" the Hong Kong park?
4. What location would you recommend for Disney's next theme park in Asia? Why?

Source: This case was prepared by Courtney Asher under the supervision of Professor Jonathan Doh with additional inputs from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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In-Depth Integrative Case 2.2

Walmart's Global Strategies

Introduction

In 1991, Walmart became an international company when it opened a Sam's Club near Mexico City. Just two years later, Walmart International was created. Since venturing into Mexico in 1991, Walmart International has grown somewhat erratically. During the 1990s, the retailer exported its big-box, low-price model, an approach the company expected to be as successful in foreign markets as it was in the United States. Although Walmart has had success in several overseas markets, this success has been far from universal. For example, in Mexico, China, and the U.K., the company's efforts to offer the lowest price to customers backfired because of resistance from established retailers. And in Germany, Walmart could not seem to fit its model to local tastes and preferences. In Japan, its joint venture had a series of setbacks, many related to buying habits for which the Walmart model did not respond well. In Mexico, three of the largest domestic retailers constructed a joint buying and operational alliance solely to compete with Walmart.[1] Its presence in Hong Kong ended after only two years during the 1990s, and it shuttered operations in Indonesia in the mid-1990s after rioting incidents in Jakarta. Walmart also owned approximately 16 stores in South Korea and 85 in Germany; however, it sold off these operations in 2006 after merchandise failed to match consumer tastes, distribution and re-bagging problems arose, and strong loyalties to other brands made attracting customers difficult and expensive.[2]

In addition, labor advocates and environmentalists have created headaches for the U.S. behemoth, making continued expansion both cumbersome and expensive. For instance, in 2006, Walmart faced a strong public relations campaign from the All-China Federation of Trade Unions (ACFTU) over Walmart's refusal to let its workers in China unionize. Walmart was eventually forced to concede, perhaps because the Chinese government also lent its weight to the ACFTU's campaign in its effort to establish unions in all foreign-funded enterprises throughout the country.[3] Despite its public battle with the ACFTU, Walmart China received the ChinaHR.com award for "Best Employer for the FMCG and Retail Industry" just ten years later, in 2016.[4] As Walmart heads into the 2020 decade and continues to expand its global operations, analysts are curious to see how the company is received and whether consumers' opinions in fragmented market settings are a match with Walmart's low-price model.

Table 1 Walmart International Operations, January 2022

Market	Retail Units (January 2022)	Date of Entry
Mexico	2,755	November 1991
Canada	408	November 1994
China	397	August 1996
United Kingdom	633	July 1999 (reduced to minority stake in 2020)
Costa Rica	286	September 2005
El Salvador	102	September 2005
Guatemala	263	September 2005
Honduras	111	September 2005
Nicaragua	102	September 2005
Chile	384	January 2009
India	29	May 2009

Source: "Where in the World Is Walmart?" *Walmart*. http://corporate.walmart.com/our-story/our-locations (last visited May 15, 2022).

Notwithstanding these challenges, today Walmart International is a fast-growing part of Walmart's overall operations, with 5,250 stores in 23 countries outside the continental U.S.[5] (See Table 1.) In two decades, Walmart International has become a US$112 billion business.[6] Walmart International's business represents a solid chunk of Walmart's overall US$538 billion in revenue for the fiscal year 2021.[7]

With a market capitalization of close to US$394 billion in 2022, Walmart is worth as much as the gross domestic product of Norway. Three of America's 15 richest individuals are from Walmart's low-profile Walton family, which still owns a 51 percent controlling stake. The company's portfolio ranges from superstores in the U.S. to bodegas in Mexico, a controlling stake in South African retailer Massmart and Brazillian retailer Grupo BIG.

Walmart Early Internationalization

In venturing beyond its large domestic market, Walmart had a number of regional options, including entering Europe, Asia, or other countries in the Western hemisphere. (See Tables 2 and 3.) At the time, however, Walmart lacked the requisite financial, organizational, and managerial resources to pursue multiple countries simultaneously. Instead, it opted for a logically sequenced approach to market entry that would allow it to apply the learning gained from its initial entries to subsequent ones. In the end, during the first five years of its globalization (1991 to 1995), Walmart decided to concentrate heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina, and Canada.

Table 2 Walmart International Retail Unit Count (2001–2010)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Argentina	11	11	11	11	11	11	13	21	28	43
Brazil	20	22	22	25	149	295	299	313	345	434
Canada	174	196	213	235	262	278	289	305	318	317
Chile	0	0	0	0	0	0	0	0	197	252
China	11	19	26	34	43	56	73	202	243	279
Costa Rica	0	0	0	0	0	0	137	149	164	170
El Salvador	0	0	0	0	0	0	63	70	77	77
Germany	94	95	94	92	91	88	0	0	0	0
Guatemala	0	0	0	0	0	0	132	145	160	164
Honduras	0	0	0	0	0	0	41	47	50	53
Japan	0	0	0	0	0	398	392	394	371	371
Mexico	499	551	597	623	679	774	889	1023	1197	1469
Nicaragua	0	0	0	0	0	0	40	46	51	55
Puerto Rico	15	17	52	53	54	54	54	54	56	56
UK	241	250	258	267	282	315	335	352	358	371
South Korea	6	9	15	15	16	16	0	0	0	0
Total	1071	1170	1288	1355	1587	2285	2757	3121	3615	4111

Sources: Walmart Annual Reports for fiscal years 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2010.

Obviously, Canada had the business environment closest to the U.S. and appeared to be the easiest entry destination. The other countries that Walmart chose as its first global points of entry—Mexico (1991), Brazil (1994), and Argentina (1995)—were those with the three largest populations in Latin America.[8]

The European market had certain characteristics that made it less attractive to Walmart as a first point of entry. The European retail industry was mature, implying that a new entrant would have to take market share away from an existing player—a very difficult task. Additionally, there were well-entrenched competitors on the scene

Table 3 Walmart International Retail Unit Count (2011–2020)

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Argentina	63	88	94	104	105	108	107	106	92	92
Botswana	0	0	12	11	11	11	11	11	11	11
Brazil	479	512	558	556	557	499	498	465	465	465
Canada	325	333	379	389	394	400	410	410	363	408
Chile	279	316	329	380	404	395	363	378	420	367
China	328	370	393	405	411	432	439	443	397	438
Costa Rica	180	200	205	214	217	225	234	247	256	256
El Salvador	78	79	80	83	89	91	90	95	97	97
Ghana	0	0	1	1	1	1	1	2	4	4
Guatemala	175	200	206	209	217	223	220	238	250	250
Honduras	56	70	72	75	81	82	95	103	105	105
India	5	15	20	20	20	21	20	20	22	29
Japan	414	419	438	438	431	346	341	336	332	332
Kenya	0	0	0	0	0	1	1	1	2	4
Lesotho	0	0	3	3	3	3	3	3	3	3
Malawi	0	0	2	2	2	2	2	2	2	2
Mexico	1730	2088	2353	2199	2290	2360	2411	2358	2279	2571
Mozambique	0	0	17	7	5	6	5	5	6	6
Namibia	0	0	3	3	4	4	4	4	4	5
Nicaragua	55	60	73	79	80	86	88	92	95	102
Nigeria	0	0	2	2	6	8	5	5	5	5
Puerto Rico	55	56	55	56	55	48	48	42	37	37
South Africa	0	305	333	346	360	366	373	382	389	364
Swaziland	0	0	1	1	1	1	1	1	1	1
Tanzania	0	0	1	1	1	1	1	1	1	1
Uganda	0	0	1	1	1	1	1	1	1	1
UK	385	541	565	576	592	621	631	642	615	633
Zambia	0	0	1	1	1	3	4	6	7	7
Total	4612	5665	6203	6163	6345	6347	6411	6402	5669	6596

Sources: Walmart Annual Reports for fiscal years 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020.

(e.g., Carrefour in France and Metro A.G. in Germany) that would likely retaliate vigorously against any new player. Further, as with most newcomers, Walmart's relatively small size and lack of strong local customer relationships would be severe handicaps in the European arena. In addition, the higher growth rates of Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities. In contrast, the opportunity costs of delaying acquisition-based entries into European markets appeared to be relatively small.[9]

While the Asian markets had huge potential when Walmart launched its globalization effort in 1991, they were the most distant geographically and different culturally and logistically from the U.S. market. It would have taken considerable financial and managerial resources to establish a presence in Asia.[10] However, by 1996, Walmart felt ready to take on the Asian challenge and it targeted China. This choice made sense in that the lower purchasing power of the Chinese consumer offered huge potential to a low-price retailer like Walmart. Still, China's cultural, linguistic, and geographical distance from the United States presented relatively high entry barriers, so Walmart decided to use two beachheads as learning vehicles for establishing an Asian presence.[11]

During 1992–93, Walmart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia, and the Philippines. Then, in 1994, Walmart entered Hong Kong through a joint venture with the C.P. Pokphand Company, a Thailand-based conglomerate, to open three Value Club membership discount stores in Hong Kong.[12]

Success in Mexico and China

Overall, Walmart has had a very successful experience in Mexico. In 1991 Walmart entered into a joint venture with retail conglomerate Cifra and opened Sam's Club in Mexico City. In 1997 it gained a majority position in the company and changed the store name to Walmart de Mexico, or, more commonly, "Walmex." In addition to its 256 Walmart Supercenters and 161 Sam's Club warehouses, Walmex also operates Bodega food and general merchandise discount stores, Superama supermarkets, and Suburbia apparel stores. The majority of its stores are located in and around Mexico City; however, it does business in over 145 cities throughout Mexico. As of 2022, Walmex operated over 2,700 stores in Mexico.[13]

The rapid growth of Walmex over the last decade has not been problem-free. A 2012 report by the *New York Times* uncovered widespread bribery occurring at the Walmex executive level, resulting in a five-year-long corruption investigation by the U.S. Justice Department. The investigators found overwhelming evidence of bribery and hundreds of suspect payments totaling more than US$24 million. The investigation also found that Walmart de Mexico's top executives had taken steps to conceal the evidence from Walmart's headquarters.[14] Shares dropped by 5 percent in April 2012, representing approximately US$10 billion in value. Walmart noted that inquiries from media and law enforcement could affect the "perception among certain audiences of its role as a corporate citizen."[15] Between 2012 and 2017, roughly two dozen representatives from the U.S. Justice Department, FBI, SEC, and IRS became involved in the investigation. In 2017, Walmart finally reached a US$300 million settlement agreement with the U.S. government, and in late 2018, Walmart agreed to a US$160 million class-action settlement with its shareholders.[16,17] In the wake of the investigation and bribery charges, Walmart has created a new executive position to ensure that all Walmart employees are complying with the U.S. Foreign Corrupt Practices Act.[18]

In late 2006 the company was also approved by Mexico's Finance Ministry to open its own bank. In a country where 75 percent of citizens have never had a bank account due to high fees, "Banco Walmart de Mexico Adelante" added much-needed competition to the financial services industry and offered consumers lower fees than traditional banks.[19] After operating the banking business successfully for about eight years, Walmex cashed in on the successes of Banco Walmart by selling the business to Inbursa for US$250 million in 2014.[20]

Though not as easy as its experience in Mexico, Walmart has also found decent success in China. Walmart entered the Chinese market in 1996 when it opened a Supercenter and Sam's Club in Shenzen. As of 2022, the company had around 400 stores with over 100,000 employees. To cater to its Chinese shoppers, Walmart has introduced "retailtainment" and attempted to create a more hands-on shopping experience.[21] China's Tourism Bureau even named one underground Walmart store a tourist destination.[22]

In addition to its own stores, Walmart has had a stake in the Taiwanese Bounteous Company Ltd., which owned the popular chain of Trust-Mart stores.[23] In late 2006, *The Wall Street Journal* publicized a US$1 billion deal between Walmart and Bounteous, in which Walmart would acquire Trust-Mart's 100 stores over the course of three years. In light of Walmart's slowing U.S. sales and the termination of its operations in Germany and South Korea, the company's expansion in China is quite timely. Like its operations in Mexico, Walmart has also entered the Chinese financial service industry, by introducing a credit card with Bank of Communications Ltd.[24]

Walmart's expansion has not gone unnoticed. Domestic Chinese rivals have also built up their businesses in order

to compete. Shanghai Bailian Group purchased four rival supermarkets and department stores a decade ago, now employing over 200,000 and operating over 6,000 stores.[25] China Resources Enterprise has hired away managers from foreign chains and cut staff in order to increase its profitability.[26] While these efforts signal greater competition for Walmart in particular, they are necessary for domestic companies to survive in China's US$5 trillion retail market, which has been increasingly competitive ever since the country joined the WTO and dropped restrictions on foreign retailers.

Mixed Results in Europe and Japan

In 1998 Walmart entered the European market through Germany by acquiring 21 Wertkauf hypermarkets, one-stop shopping centers that offered a broad assortment of high-quality general merchandise and food. Germany was seen as the largest single base for retailing in Europe. Wertkauf's annual sales were about US$1.4 billion, and its stores operated similar to the popular Walmart Supercenter format in the U.S. Walmart's executives considered Wertkauf as an "excellent fit" for Walmart and hoped that it would provide the company with an ideal entry into a new market.[27]

However, Walmart's operations in Germany quickly turned into a costly struggle. There were a number of critical factors that the company underestimated when it entered the new market. First of all, the stores of the acquired German retail chain were geographically dispersed and often in poor locations. Also, Walmart had faced some serious cultural differences, which it tried to resolve by making one error after another. For example, the company initially installed American managers, who made some well-intentioned cultural gaffes, like offering to bag groceries for customers (Germans prefer to bag their own groceries) or instructing clerks to smile at customers (Germans, used to brusque service, were put off).[28]

Other problems, however, were largely outside Walmart's control. Two German discounters, Aldi and Lidl, dominated the grocery business, with smaller shops that featured cut-rate, though still good-quality, food. Aldi also heavily promoted one-week sales, featuring deeply discounted merchandise, ranging from wine to garden hoses, that draw customers back. While Walmart's vast size gave it enormous leverage in purchasing clothing and other goods, it had to buy much of the food for its German stores locally. And there, it lacked the muscle of Aldi, which had 4,100 shops and a presence in nearly every town in the country.[29]

"Germany is the home of the discounter," said Mark Josefson, a retail analyst at Kepler Securities in Frankfurt. "Walmart is not competing on price, and that is one of its main attributes in its home market." Beyond these competitive pressures, there was another serious factor to consider, namely that the German consumer was one of the most parsimonious and price-conscious in Europe. Profit margins in German retailing were the lowest in Europe.[30]

Walmart struggled in Germany for almost 8 years. Analysts said that Walmart Germany was losing about €200 million (£137 million) a year on a turnover of about €2 billion, despite several attempts to turn around the business. In 2006 it finally made the decision to withdraw from the German market, by selling its 85 German stores to the rival supermarket chain Metro and taking a pre-tax loss of about US$1 billion (£536 million) on the failed venture.[31] The decision to sell out to the Metro Group came two months after Walmart sold its 16 stores in South Korea and it appeared a rare retreat by the world's largest retailer from its breakneck global expansion.[32]

In contrast, Walmart's second retail destination in Europe, the United Kingdom, brought the company some success, at least in the early years. Walmart entered the U.K. market in June 1999 by acquiring ASDA Group PLC, Britain's third-largest food retailer. Walmart offered £6.7 billion (US$10.8 billion). The cash deal, which topped a rival bid from the British retail group Kingfisher PLC, was predicted to double Walmart's international business at a stroke and put it in a position to expand its retailing expertise throughout Europe.[33]

Walmart executives said they hoped to draw upon ASDA's management talent and experience. ASDA's stores are a little less than half the size of Walmart's supercenters of more than 200,000 square feet (18,000 square meters) in the United States, but the lack of space in much of Europe for new out-of-town shopping developments could make ASDA's formula more relevant as a platform for expansion.[34]

However, while the chain has been only a moderate success, delivering consistent results, Walmart has been frustrated in its efforts to expand, though competing in Britain's feverishly competitive supermarket industry has taught Walmart a good deal. In October 2020, Walmart announced an agreement to sell ASDA to entrepreneurs Mahsin and Zuber Issa backed by private equity firm TDR capital. Under the new ownership structure, Walmart retained an equity investment in the business, with an ongoing commercial relationship and a seat on the board.

The third major strategic step in Walmart's early 2000s global expansion was entering the Japanese market. In 2002 Walmart set foot in Japan with the purchase of a 6 percent stake in the 371-store Seiyu chain. Despite continued losses, Walmart gradually raised its stake, making Seiyu a wholly owned subsidiary in June 2008. Walmart has had to confront numerous issues in Japan, from

longtime Seiyu managers resisting its initiatives to a tendency among Japanese shoppers to equate low prices with inferior products. Also, bulk deals did not play well in a country where many lived in small urban apartments, and the country's grocery distribution system was populated with wholesalers who brokered deals between suppliers and retailers, skimming profits. Even rival Carrefour abandoned this market.[35]

Edward J. Kolodzieski was the man in charge of turning Seiyu around. As then-CEO of Walmart Japan, Kolodzieski slashed expenses, closed 20 stores, and cut 29 percent of corporate staff. After spending 100 billion yen (roughly US$1.2 billion), Walmart's situation in Japan had stabilized by 2010, with two years of consistent profits.[36] However, Walmart continued to struggle against ever-rising local competition. In November 2020, Walmart announced a new ownership structure for the group. Under this new structure, KKR purchased a majority stake (65%), and new Rakuten acquired a 15% stake with the idea to work with KKR and Rakuten to build an even stronger local business. As of 2020, Seiyu had more than 300 retail unit stores across Japan.

Refocusing on Latin America

The year 2005 became another turning point in Walmart's strategy. Somewhat frustrated by strategic failure in Germany, and very slow expansion ie developed countries like Canada and the U.K., the company turned its focus toward Latin America. Walmart decided to leverage its positive experience in Mexico toward other South American countries. In 2005 Walmart successfully entered this market with the purchase of a 51 percent interest in Central American Retail Holding Company (CARHCO) from the Dutch retailer Royal Ahold NV. Rebranded as Walmart Central America, the company operates 864 supermarkets and other stores as of 2022 in the following five countries: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.[37] Walmart Central America has approximately 37,500 associates.[38] During the fiscal year 2022, the net sales for Mexico and Central America were over US$35 billion.[39]

Since first entering the Brazilian market in 1995, Walmart has struggled to achieve long-term stability. Initially, Walmart relied on acquisitions to expand its operations across Brazil; in March 2004, Walmart bought the 118-store supermarket chain Bompreco in northeastern Brazil for US$300 million, and in 2006, the company made another successful deal with Portugal-based Sonae by purchasing its 140 Brazilian stores for US$757 million.[40] Frustrated by lackluster operating profit margins, Walmart focused on opening new locations, doubling the number of its stores in Brazil between 2007 and 2013. In 2017, Walmart announced plans to invest a further US$320 million to upgrade stores, hoping that the improved store experience would boost sales. Despite these changes, sales growth continued to stall. After years of losses, in 2018 Walmart ultimately sold 80 percent of its Brazilian operations to Advent International Corp., a private equity firm. The transaction resulted in a US$4.5 billion loss for Walmart.[41]

Another step in the sequence of its strategic moves in Latin America was Walmart's expansion into Chile. In 2009, Walmart acquired a majority stake of D&S's (short for Distribución y Servicio) 224-store chain for US$1.6 billion. In acquiring D&S, the nation's leading grocer and third-largest retailer, Walmart hoped to cement its dominance in Latin America, where it is by far the biggest retailer with 50,000 employees and more than 380 stores as of 2019.[42] In Chile, Walmart entered a market that has long been inhospitable to foreign retailers. Home Depot, Carrefour, and JCPenney are among the companies that have tried and failed, to make it in Chile, a nation of 17 million with the sixth-largest retail market in Latin America.[43]

Walmart's Plans for the Post-Covid-19 World

When asked about the future of Walmart, Walmart president and CEO Doung McMilon said "*Social commerce, wearables, AR, and mixed reality will be a part of the future.*" In the midst of a pandemic, in pursuing its business model for the future with a focus on supply chain, automation, customer-facing initiatives and technology, Walmart has divested itself of some of its operations while refocusing its expansion efforts on specific high-growth markets. The Indian, Chinese, Canadian, and African markets are key to Walmart's future international growth under this new international strategy, while Walmart's from Brazil in 2018, Argentina in 2021, and the UK and Japan in early 2022, represent examples of the company refocusing its resources.[44,45,46]

China

Walmart operated in China with two business models: the hypermarket format and the high-end membership store Sam's club. Since the opening of its first store in China's Shenzhen, Walmart struggled to dominate the Chinese market. However, the growth of Sam's Club provided a silver lining for Walmart in China, Walmart's revenue from international operations declined by 13.9 percent in 2021, however, Sam's club's revenue increased by 11.3 percent.[47] While these growth plans were slowed down due to the COVID-19 pandemic by 2021, Sam's Club China registered more than 4 million paid members, operating 36 stores in 23 cities nationwide and an active eCommerce platform. Walmart hopes to strengthen its presence in China through the expansion of Sam's Club stores to 100 by 2028.[48]

Rather than being the "largest" retailer in China, Walmart is aiming to be the most trusted. This long-term goal includes improving the perceived quality of the goods it sells. Between 2016 and 2020, Walmart closed down 80 of its hypermarket stores but made up for this loss with the growth of its Sam's Club stores and online reach. Though online retailer Alibaba still holds a dominant lead in online market share, Walmart has invested in companies and digital infrastructure over the past few years to ensure that it will be a market leader in the booming Chinese e-commerce sector. In 2012, the company acquired Yihaodian, an online retailer that sells perishable goods, and in 2015, Walmart released a cell phone app to provide consumers with the ability to order products for either home or in-store delivery. In 2018, Walmart, along with Chinese e-retailer JD.com, invested a further US$500 million in Dada-JD Daojia, an online delivery grocery service.[49,50] These investments seem to be paying off as the e-commerce for Walmart in China grew by more than 100% on annual basis in 2021.[51] Walmart's desire to gain a foothold in world's largest eCommerce market is further challenged by the new resistance from Chinese regulators and citizens. Walmart has been increasingly attacked for its decision to stop sourcing and selling products made in the Chinese region of Xinjiang. Chinese citizens influenced by the nationalistic rhetoric called for a boycott of Walmart and threatened to cancel their Sam's Club membership. Similarly, Walmart saw an increase in regulatory actions against it in recent years. For instance, the Chinese Bureau of Market Regulation launched an investigation against Sam's Club over food safety issues.[52]

India

The other attractive growing market from the BRIC group that also drew Walmart's attention in India. India is widely regarded as one of the world's fastest-growing retail markets—and one of the most frustrating for foreign retailers. Despite the liberalization of the Indian economy, foreign companies are still prohibited from owning a majority stake in grocery stores. Due to the legal and logistical difficulties of entering the Indian marketplace, Walmart has adopted a strategy of partnering with local companies. Walmart originally joined with the Bharti Group, an Indian conglomerate, to form a joint venture intended to open stores under the Best Price Modern Wholesale brand name. During their five-year partnership, Walmart and the Bharti Group opened 20 stores in urban centers across India. Though the partnership was amicably dissolved in 2013, Walmart remains open to using the joint-venture approach as it expands across the country.[53]

Walmart's long-term India strategy, however, revolves around online sales. In the summer of 2018, Walmart announced that it had purchased a majority share in Flipkart, the largest e-commerce website in India. The US$16 billion deal gave Walmart a nearly 80 percent share in Flipkart. By leveraging Flipkart's digital and logistical infrastructure, Walmart hopes to be able to compete with Amazon and Snapdeal, another Indian e-commerce platform. Although bureaucratic red tape continues to complicate Walmart's brick-and-mortar and e-commerce sales within India, the company is banking on its revised strategy to ensure that it maintains its status as a major retailer within the country.[54]

Along with Flipkart, Walmart acquired PhonePe - an online UPI payment platform. In March 2022, PhonePe became the first UPI payment platform to cross one billion transactions surpassing Google's promoted Google Pay. With PhonePe, Walmart hopes to gain access to the large Indian consumer base, especially located in tier 2 and 3 cities and rural areas. Of the over 280 million PhonePe customers, 80 percent came from tier 2 cities and beyond.[55] Walmart's strategy in India evolved to strengthen its online presence and was not keen on expanding its physical brick-and-mortar presence. Walmart hopes to further strengthen its competitive edge in the Indian retail market through a Flipkart-backed partnership with local retailers.

Canada

Established in 1994 and headquartered in Mississauga, Ontario, Walmart Canada currently operates 408 stores and serves more than 1.5 million customers each day across Canada. Walmart's online store Walmart.ca is visited by more than 1.5 million customers daily. Walmart is Canada's third-largest employer with more than 100,000 associates and was recently recognized as Canada's top 10 most influential brands and LinkedIn's Top Company of 2021.[56]

In 2020, Walmart Canada announced an investment of $3.5 billion over the next five years to make the online and in-store shopping experience simpler, faster, and more convenient for its customers.[57] With the share of eCommerce customers continuously increasing, Walmart decided to devote significant focus towards strengthening its distribution network and automating-store pick-up and delivery. Walmart is investing $1.1 billion to develop two distribution centers and renovate the existing ones to streamline its omnichannel presence.[58]

Walmart Canada is betting high on online grocery and is ramping up the layout of its stores, improving the pickup spaces, and automating its fulfilment centers for online orders. Explaining Walmart's omnichannel strategy, Sam Wankowski, Walmart Canada's Chief Operations Officer explains *"We are making a lot of improvements, including digitizing the experience to be more contemporary and creating a more efficient store to serve our customers regardless of how they choose to shop with us."*[59] As part of the new online push, Walmart stores across Canada were being converted to fulfilment centers with a section of the stores getting converted into an automated warehouse.

Some stores are being developed with pick-up areas where customers who have placed online orders can drive in, scan their code and collect their orders.[60] COVID-19 pandemic provided Walmart's the push to effectuate its online modernization plan.

South Africa

Walmart first emerged in South Africa through its US$2.4 billion purchase of 51 percent of Massmart, the country's third-largest retailer, in 2010. Since then, Walmart has been slow to expand. A lack of infrastructure has caused headaches; at the current time, distribution networks across the country are inconsistent, increasing the amount of time that it takes products to reach consumers. Additionally, there are not enough shopping centers and malls to accommodate stores as large as Massmart. In response, Walmart is moving toward building standalone stores. Between 2019 and 2021, Walmart planned to construct 47 new ground-up stores.[61,62] Walmart also views South Africa as a bridge to the rapidly emerging African marketplace.

COVID-19 pandemic and internal political crisis in South Africa adversely impacted the firm's growth plans with the closure of 43 stores and lost sales of $175.8 million in 2021.[63] However, despite the revenue losses in overall sales, eCommerce sales provided a new growth avenue with 47 percent jump in online sales in 2021.[64] E-commerce participation in South Africa currently at 2.2 percent, although relatively low, is rapidly increasing and Walmart is expected to leverage its global eCommerce technology stack to fuel its growth in the South African market. Walmart decided to expand beyond the South African market to exploit the growth opportunity emerging from Africa. In 2017, African Development Bank reported Africa to be the second fastest economy and described changing demographics and improving business environments to be driving household consumption, which is expected to reach $2.5 trillion by 2030.[65]

Recently it was seen that Sub-Sharan and Eastern African regions have shifted toward organized retail due to the expanding services sector.[66] Taking cue from the changing economic reality of the continent, Walmart's expansion started with the Sub-Saharan region. Walmart entered Nigeria in 2015, and the company maintains 5 locations within the country as of 2019. In 2019 Massmart announced its Africa expansion vision with the initial plan to build 47 new stores between 2019 and 2021, mostly in Kenya and Zambia.[67]

COVID-19 Pandemic and Walmart's Global .com Challenge to Amazon.com

Sensing the shift towards digital sales in both developed and developing economies, Walmart has heavily invested in building its e-commerce infrastructure. The company has spent tens of billions since its first big investments back in 2015. In 2021 alone, Walmart targeted $14 billion in capital expenditure toward supply chain transformation, automation, and improvements in customer experience.[68]

With more commerce being conducted on smartphones, Walmart introduced a new mobile app to improve the user interface. Unlike Amazon, which has no physical stores, Walmart sees digital ordering with in-store pickup as a unique niche with potentially high growth. Grocery items, with the need to be refrigerated, are not able to be easily fulfilled by other online retailers, like Amazon, but are well-suited for in-store pickup at a Walmart. Using the Walmart app, customers can order groceries and other fresh food items and quickly pick up their merchandise in person.

Walmart is also developing and modernizing its delivery and fulfillment systems. Walmart is betting high on its 5000 physical stores in the United States as leverage against its arch-rival Amazon and is making strategic investments in upgrading fulfillment capacity, supply chain, automation, and technology to streamline its omnichannel presence. Walmart's strategy is to develop its infrastructure to expand eCommerce assortments while reducing both shipping time and costs. It is making investments in warehouse and store automation and also expanding its pickup and delivery capacity. To a large degree, this means emulating Amazon's strategy. To compete with Amazon's "Prime" shipping services, Walmart has begun offering free two-day shipping. Amazon Prime has led to increased consumer loyalty, a benefit Walmart also hopes to gain. Walmart also acquired a host of eCommerce players including Jet.com for $3 billion in 2016, Bonobos for $310 million in 2017, and Eloquii for $100 million in 2018 to further strengthen its online presence.[69]

The COVID-19 pandemic accelerated the shift towards online shopping. With 90 percent of the US population living within 10 miles of a Walmart store, the physical stores proved to be a major advantage for Walmart against Amazon in fulfilling online orders. Walmart's extensive store network allows decentralization of inventory close to the end customer to expedite delivery. In 2020, Walmart's e-commerce sales grew 97 percent compared to sales in 2019. Walmart today is the second-largest e-commerce retailer in the United States with 13 percent of its sales coming from the online channel.[70] Walmart's strategy is to blur the boundary between in-person and online shopping both within the United States as well as in its international locations by including smartphone apps and self-checkout interventions.

Walmart is also strengthening its supply chain and logistics capabilities. Walmart+ is Walmart's answer to Amazon Prime. The new service includes unlimited free grocery delivery, Scan and Go in-store shopping, and gas discounts to name a few.[71] In the first five months of 2022 itself, Walmart+ had 8 million-plus subscribers. Walmart further introduced Walmart Express which utilizes its extensive

network of stores to deliver groceries to customers' doorstep within two hours. Walmart+ and Express delivery are important initiatives by Walmart to solve the challenges brought by the COVID-19 pandemic. Walmart is partnering with smaller retailers by offering them its proprietary eCommerce technology. This has allowed sellers to easily list their products on Walmart's online marketplace. Further, Walmart has partnered with Adobe to offer cloud-based services to sellers, and to develop their eCommerce sites with search, navigation, and product recommendation capabilities.

During the pandemic, there was a near-weekly shift in product demand. In just the first five weeks, Walmart observed a five-year predicted increase in pickup and delivery. Walmart Marketplace rose to 70,000 vendors in 2020 because of a series of technological and vendor relationship investments. Walmart has established a reputation for being a safer and less congested marketplace than competitors such as Amazon. Walmart allows international merchants to sell on its website, leaving them less subject to consumer protection rules in the United States. According to Marketplace Pulse, Walmart in the US is estimated to have more than 3 million sellers, third-party stores at the end of 2022, and 7.5 million globally. Many vendors, however, are drawn to Walmart's approximately 5,000 stores and clubs, which are becoming increasingly crucial as pick-up and delivery centers become more popular as a result of the pandemic. Despite the progress, Walmart's online sales still lag far behind Amazon's. While Walmart's product line consists of nearly 1 million items, Amazon boasts over 500 million. Will Walmart ever pose a serious challenge to Amazon and other online retailers internationally (e.g., Alibaba) remains to be seen.

Questions for Review

1. What was Walmart's early global expansion strategy? Why did it choose to first enter Mexico and Canada rather than expand into Europe and Asia?
2. What cultural problems did Walmart face in some of the international markets it entered? Which early strategies succeeded and which failed? Why? What lessons did Walmart learn from its experience in Germany and Japan?
3. How would you characterize Walmart's Latin America strategy? What countries were targeted as part of this strategy? What potential does this region bring to Walmart's future global expansion? What cultural challenges and opportunities has Walmart faced in Latin America?
4. What group of countries will be targeted for Walmart's future growth? What are the attractiveness and risk profiles of these countries? What regions of the world do you think will be vital for Walmart's future global expansion?
5. How would you characterize Walmart's response to the changing consumer preferences in the post-COVID-19 world? Are its responses appropriate and adequate?

Exercise

You are part of Walmart's global strategic planning group and have been asked to explore the benefits and challenges of expansion into the following regions. Divide your group into six teams, each representing a country or region of the world other than North America.

Team	Country/Region
1	Latin America
2	Western Europe
3	Central/Eastern Europe
4	Japan
5	China
6	Russia

Describe the opportunities and challenges of expansion in your assigned country or region. Be sure to summarize the cultural environment, how it differs from the U.S., and what challenges that might pose for the company.

Source: This case was prepared by Tetyana Azarova under the supervision of Professor Jonathan Doh with additional input from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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PART THREE

INTERNATIONAL STRATEGIC MANAGEMENT

Chapter 8

STRATEGY FORMULATION AND IMPLEMENTATION

OBJECTIVES OF THE CHAPTER

All major MNCs formulate and implement strategies that result from a careful analysis of both external and internal environments. In this process, an MNC will identify the market environment for its goods and services and then evaluate its ability and competitive advantage to capture the market. The success of this strategic planning effort will largely depend on accurate forecasting of the external environment and a realistic appraisal of internal company strengths and weaknesses. In recent years, MNCs have relied on their strategic plans to help refocus their efforts by abandoning old domestic markets and entering new global markets. This strategic global planning process has been critical in their drive to gain market share, increase profitability, and, in some cases, survive. Strategies can be formulated from any level of management, but middle management plays a key role in ensuring that decisions are put into subsequent action.

Chapter 5 addressed overall management across cultures. This chapter focuses on strategic management in the international context, and the basic steps by which a strategic plan is formulated and implemented are examined. The specific objectives of this chapter are

1. **DISCUSS** the meaning, needs, benefits, and approaches of the strategic planning process for today's MNCs.
2. **UNDERSTAND** the tension between pressures for global integration and national responsiveness and the four basic options for international strategies.
3. **IDENTIFY** the basic steps in strategic planning, including environmental scanning, internal resource analysis of the MNC's strengths and weaknesses, and goal formulation.
4. **DESCRIBE** how an MNC implements the strategic plan, such as how it chooses a site for overseas operations.
5. **REVIEW** the three major functions of marketing, production, and finance that are used in implementing a strategic plan.
6. **EXPLAIN** specialized strategies appropriate for emerging markets and international new ventures.

The World of International Management

Starbucks' Caffeinated Push for Global Growth

Since the introduction of the first coffeehouse in downtown Seattle, Starbucks, the world's most recognizable coffee brand, has aggressively expanded around the globe. By January 2022, the company was operating in 84 markets, with more than 33,500 retail stores and 400,000 employees worldwide. Stagnant growth in the U.S. coffee market means that international expansion will continue to be a key driver for Starbucks in the coming years. This is partially due to the greater profit margins internationally, where on average, operating expenses are 6% lower. In an effort to expand internationally, Starbucks hopes to add over 2,000 new locations during the fiscal year of 2022, which is a 70% increase from the previous year's growth. In particular, Starbucks is targeting China, where it hopes to dramatically increase its retail presence, and Italy, where the inspiration for the Starbucks coffeehouse concept originated.[1,2]

Success in both markets will depend heavily on Starbucks's formulation of a strong expansion strategy. In China, political challenges make entering the market so difficult that many international companies have been discouraged from even attempting entry. In Italy, Starbucks' difficulties will stem from the preferences of Italian consumers, who are notorious for being painstakingly particular with their cup of espresso. Will Starbucks be able to overcome these two very different sets of challenges to achieve strong growth in both markets? Has Starbucks' expansion strategy ever let it down?

Starbucks in China

Since opening its first store in Beijing over two decades ago, Starbucks has swelled to 5,360 stores across more than 150 cities in China. The company's aggressive expansion goals include increasing its presence in the country by 2022, and it has been successful thus far; just during the third quarter of 2021, Starbucks opened 162 new stores.[3] Expansion into China is important to Starbucks, given its popularity in the country. Starbucks has 17.9 million active rewards members in China based on 5,360 stores, compared to 24.8 million active rewards members in the U.S. based on 15,450 stores.[4]

Gaining the trust of Chinese customers, employees, and government officials has been a central element of Starbucks' strategy in China. Starbucks pays much higher wages than its rivals and provides additional benefits, such as an employee stock ownership plan. Health care plans are offered to employees and critical illness insurance is available for workers' parents. These benefits not only positively impact employees but also build goodwill for the Starbucks brand as a whole. Like most successful foreign companies operating in China, Starbucks also maintains a strategically close relationship with the political leaders of the country. To cement its standing with China's government, Starbucks appointed a Chinese CEO, Leo Tsoi, rather than an American, to run the company autonomously.[5,6]

These initiatives have not been cheap. Large losses in the early years raised concerns over future profitability and growth. However, as the Chinese economy soared during the early 2000s, Starbucks reaped enormous dividends. Starbucks is now a preferred employer among Chinese workers, and local Chinese government officials have praised Starbucks for creating hundreds of jobs in their region. Moreover, to support the operations of its thousands of stores, Starbucks maintains strategic partnerships with more than 50,000 local suppliers in China.[7,8]

Perhaps Starbucks' most significant partner is Chinese tech giant Alibaba. Together, the companies launched a first-of-its-kind mobile application that functions as a virtual store, integrating and enhancing the digital customer experience. The virtual store unifies Starbucks' mobile application with Alibaba's customer-facing applications, including Taobao, Tmall, and Alipay. In addition to providing an alternative method to buying and paying for coffee, the application functions as a marketplace for Starbucks-branded products and gift cards. Through this partnership, Starbucks now has access to more than 600 million monthly active users on Alibaba's digital marketplace.[9] Starbucks additionally collaborated with social media giant WeChat to encourage interactions of young consumers through the creation of a "Starbucks status" on the application. Because of this digital push, mobile sales have increased to make up over 34 percent of sales in China.[10]

Despite all of this success in the Chinese marketplace, Starbucks must continue to evolve to maintain its momentum. Slowing economic growth in China may force Starbucks to redesign its expansion strategy within the country. The competitive landscape has also been changing greatly. Chinese competitors Costa Coffee and Luckin Coffee, which opened stores at blinding paces that rivaled Starbucks, have been experiencing many setbacks. Costa Coffee closed more than 10 percent of its stores during the year 2020 due to decreases in demand.[11] More devastatingly, Luckin Coffee experienced a decline in its stock price of over 75 percent when it was revealed that many of its sales had been faked.[12] Meanwhile, Starbucks has seen an increase in new competitors, including local companies, Hey Tea and Nayuki, which are each valued at over $2 billion, and foreign companies illycaffe and Tim Hortons.[13] Starbucks must continue to adjust its strategies to overcome changes in demand and changes in key competitors. Whether or not Starbucks' goal of over 6,000 stores by 2022 is achievable is yet to be seen. However, if the company can continue to adapt its strategy to changing market conditions, find new ways to enhance the customer experience, and maintain its position as a market leader despite increased competition, Starbucks will likely find financial success in the Chinese marketplace for many years to come.

Starbucks in Italy

Italy, the birthplace of espresso, had long been considered a market that was out of reach for Starbucks. Although the Starbucks coffeehouse concept was inspired by local espresso bars in Italy, many Italians were not receptive to an American corporation attempting to emulate their long-established coffee culture. Competing with local coffee establishments would be difficult, if not impossible. Starbucks spent years investigating the market, and in 2018, 32 years after its first international expansion in Canada, the company decided to open a store in Milan, Italy.[14]

Starbucks developed a few key strategies for entering the Italian market. First, the company knew that it could not give the impression that the Starbucks brand was superior to locally brewed brands. Second, Starbucks realized that it would need to embrace the true Italian coffee culture, in which conversations and time spent with people are just as important as the coffee itself. Third, to ensure that the coffee was acceptable to Italian expectations, the coffee would need to be of the highest quality, pure, and affordable.[15]

With this strategy established, Starbucks opted to open a flagship "Reserve Roastery" location, right in the heart of Milan, as its first Italian location. The Roastery functions more as an upscale store, where customers can have a premium experience, than as a traditional, Italian-inspired espresso bar. Customers can relax in the café-like setting while they enjoy a cup of espresso, engage in conversation, or watch coffee beans being roasted. This preference for small cubs of espresso contrasts with the popular frappuccinos, lattes, and famously large paper

cups of coffee that are ever present in the U.S. Starbucks also developed unique, local products for its Milan Roastery to appeal to regional consumers. Partnering with a famed Milanese baker, Princi, the Roastery serves authentic Italian pastries. Furthermore, the menu includes wood-fired brick oven pizzas, cocktails, and gelatos—all of which differentiate the Roastery from traditional Italian espresso bars.[16]

Despite the success of the Milan Reserve Roastery, Starbucks still faces challenges to any future expansion in the Italian market. Many Italians still believe that the quality of a typical cup of espresso or cappuccino at Starbucks lags far behind traditional espresso bar brews. Starbucks' price point remains high compared to local competitors, and imitators have opened similar upscale coffee cafés in close proximity to the Reserve Roastery.[17] While Starbucks plans on adding an additional 26 stores to Italy by 2023, which can provide as many as 300 new jobs to the Italian economy, it is still strategically testing the waters before a larger expansion into Italy. As perhaps said best by former Starbucks CEO Howard Shultz, "We are not coming here to teach Italians how to make coffee, we're coming here with humility and respect, to show what we've learned."[18]

Starbucks in Australia

Unlike Starbucks' expansion into China and Italy, which were largely seen as a success, its expansion into Australia has not been smooth. The first Starbucks in Australia opened in 2000 in Sydney. There was already a thriving coffee industry on the continent because of the number of Italian and Greek immigrants that came during the mid-1900s. The industry in Australia has grown to produce over $6 billion in revenue per year, as of 2018. Motivated by the size of the market, Starbucks increased its reach rapidly, adding 90 stores within 8 years. However, that expansion was too fast, and Starbucks faced repercussions. In 2008, it shut over 70% of its existing stores, leaving 23 stores left on the entire continent and facing a $105 million loss. This is largely blamed on the fact that it charged high prices for coffee that was much sweeter and lower quality than local preferences. Because Starbucks was entering a mature market, it needed a more innovative strategy to win over its customers. However, it is criticized for expanding much faster than its popularity grew.[19]

The expansion into Australia represents the downfall of a multinational corporation's one-size fits all strategy. Starbucks succeeded in China by adapting its decisions to the specific marketplace, while it failed to consider the market conditions and customer preferences in Australia. Starbucks learned that even in westernized countries, applying the American strategy can come off as impersonal; rather, it must listen to the local customers and provide the best, personalized experience it can.[20]

Strategic management—the formulation and implementation of a strategy—is a critical function in today's global business environment. Starbucks and other large companies are increasingly drawn to the international markets because of their growth prospects and potential. At the same time, slow growth of the U.S. and European retail markets is exerting pressure on traditional companies to seek alternative income streams while reshaping their basic business models.

In this chapter, we examine how multinational corporations use strategic management in their global operations. When formulated and implemented wisely, strategic management sets the course for a company's future. It should answer two simple questions: "Where are we going?" and "How are we going to get there?" Some strategies are consistent across markets, while others must be adapted to regional situations. In either case, a firm's global strategy should support decision making in all major operations.

As you read this chapter, think of yourself as a manager in a large, multinational firm. How might you go about developing a strategic plan to capture greater market share and expand the types of products you are selling? There are some basic steps involved in creating a strategy, but, first, let us take a look at what strategic management is and why it is so important.

Strategic Management

strategic management
The process of determining an organization's basic mission and long-term objectives, then implementing a plan of action for attaining these goals.

Strategic management is the process of determining an organization's basic mission and long-term objectives and then implementing a plan of action for pursuing this mission and attaining these objectives. For most companies, regardless of how decentralized, the top management team is responsible for setting the strategy. Middle management has sometimes been viewed as primarily responsible for the strategic implementation process, but now companies are realizing how imperative all levels of management are to the entire process.

As companies go international, strategic processes take on added dimensions. A good example is provided by Citibank (a unit of Citicorp), which opened offices in China in 1902 and continued to do business there until 1949 when communists took power. However, in 1984 Citibank quietly returned, and tried to expand its operations in China by opening new branches, expanding the employee base, and increasing stakes in local companies such as Shanghai Pudong Development Bank Co.[21] Despite its commitment to grow in emerging markets such as China and India, Citybank realized the difficulties of doing business in uncertain economic environments. In 2007, Citibank was one of the

first foreign banks to incorporate locally within China, but, in 2019, Citibank China could expand to only 47 branches in 13 Chinese cities, earning a meager US$800 million in revenue annually.[22] As Citybank failed to reach the desired scale to compete in the local market, in 2022, it decided to exit the retail and consumer banking business in China and 12 other countries in Asia.[23]

Citybank's experience in China and other Asian countries highlights the importance of strategic planning during different phases of international expansion. While this chapter focuses on the larger picture of strategic planning, it is important to remember that all stages of organizational change incorporate levels of strategy from planning to implementation. This includes innovative ways to improve a product to expand to international operations and deciding on the exit strategy when things do not go as planned.

The Growing Need for Strategic Management

One of the primary reasons that MNCs such as Citibank need strategic management is to keep track of their increasingly diversified operations in a continuously changing international environment. This need is particularly obvious when one considers the amount of foreign direct investment (FDI) that has occurred in recent years. These developments are resulting in a need to coordinate and integrate diverse operations with a unified and agreed-on focus. There are many examples of firms that are doing just this.

One is Ford Motor, which has re-entered the market in Thailand and has built a strong sales force to garner market share. The firm's strategic plan there is based on offering the right combination of price and financing to a carefully identified market segment. In particular, Ford is working to keep down the monthly payments, so that customers can afford a new vehicle. Manufacturing in the country is also a key element of Ford's strategic plan. In 2015, the company committed US$186 million to expand its existing Rayong automotive assembly plant. First opened three years prior, the Rayong plant quickly outgrew its original capacity of 180,000 automobiles per year. The new expansion aims to increase production to meet consumer demand for the new Ford Ranger.[24] In December 2021, Ford made another announcement to invest US$900 million to modernize its plans and operations in Thailand.[25] While Ford continues to expand its operations in Thailand, it has closed down three plants in Brazil and pulled out of the Indian market in 2021 after accumulating about US$2 billion of losses in 10 years.[26,27] Ford's strategic moves in Thailand seem to be paying off. In 2021, Ford produced about 270,000 vehicles in Thailand, about 60% of which are exported to Asia-Pacific markets such as Australia, New Zealand, and the Philippines.[28] Other car manufacturers are following a similar model in Thailand; Toyota, Honda Motor Co., and General Motors Co. have also built plants in Thailand, Southeast Asia's second-biggest economy, lured by tax incentives and demand amid a domestic population of 70 million and lucrative export markets in the vicinity.

General Electric provides another example that reflects the challenge managers face in shedding unprofitable businesses in order to generate capital for expansion into higher-growth product and/or geographic markets. In 2018 alone, General Electric Co. sold its distributed power business to private-equity firm Advent International for US$3.25 billion, a majority of its locomotive business to Wabtech for US$11 billion, and its LED company Current to private-equity firm American Industrial Partners.[29] In place of these businesses, GE is aggressively expanding its infrastructure, health care, and environmental technologies businesses, which it sees as providing better growth opportunities in emerging markets.

Benefits of Strategic Planning

Now that we have explored the needs for strategic planning, what are some of the benefits? Many MNCs are convinced that strategic planning is critical to their success, and these efforts are being conducted both at the home office and in the subsidiaries. For example, one study found that 70 percent of the 56 U.S. MNC subsidiaries in Asia and Latin America had comprehensive 5- to 10-year plans.[30]

Do these strategic planning efforts really pay off? To date, the evidence is mixed. Certainly, strategic planning helps an MNC coordinate and monitor its far-flung operations and deal with political risk (see Chapter 10), competition, and currency instability.

Despite some obvious benefits, there is no definitive evidence that strategic planning in the international arena always results in higher profitability, especially when MNCs try to use home strategies across different cultures (see Chapter 6). For example, one study found that when decisions were made mainly at the home office and close coordination between the subsidiary and the home office was required, return on investment was negatively affected.[31] Simply put, the home office ends up interfering with the subsidiary, and profitability suffers.

Another study found that planning intensity (the degree to which a firm carries out strategic planning) was an important variable in determining performance.[32] Drawing on results from 22 German MNCs representing 71 percent of Germany's multinational enterprises, the study found that companies with only a few foreign affiliates performed best with medium planning intensity. Those firms with high planning intensity tended to exaggerate the emphasis, and profitability suffered. Companies that earned a high percentage of their total sales in overseas markets, however, did best with a high-intensity planning process and poorly with a low-intensity process. Therefore, although strategic planning usually seems to pay off, as with most other aspects of international management, the specifics of the situation will dictate the success of the process.

Approaches to Formulating and Implementing Strategy

Four common approaches to formulating and implementing strategy are (1) focusing on the economic imperative, (2) addressing the political imperative, (3) emphasizing the quality imperative, and (4) implementing an administrative coordination strategy.

economic imperative
A worldwide strategy based on cost leadership, differentiation, and segmentation.

Economic Imperative MNCs that focus on the **economic imperative** employ a worldwide strategy based on cost leadership, differentiation, and segmentation. Many of these companies typically sell products for which a large portion of value is added in the upstream activities of the industry's value chain. By the time the product is ready to be sold, much of its value has already been created through research and development, manufacturing, and distribution. Some of the industries in this group are automobiles, chemicals, heavy electrical systems, motorcycles, and steel. Because the product is basically homogeneous and requires no alteration to fit the needs of the specific country, management uses a worldwide strategy that is consistent on a country-to-country basis.

The strategy is also used when the product is regarded as a generic good and therefore does not have to be sold based on name brand or support service. A good example is the European computer market. Initially, this market was dominated by such well-known companies as IBM, Apple, and Compaq. However, more recently, clone manufacturers have begun to gain market share. This is because the most influential reasons for buying a computer have changed. A few years ago, the main reasons were brand name, service, and support. Today, the price for a given configuration has emerged as a major input in the purchasing decision. Customers now are much more computer literate, and they realize that many computers offer identical quality performance. Therefore, it does not pay to purchase a high-priced name brand when a lower-priced clone will do the same things. As a result, the economic imperative dominates the strategic plans of computer manufacturers. This process has repeated in many industries as those products have become commoditized.

Another economic imperative concept that has gained prominence in recent years is global sourcing, which is proving very useful in formulating and implementing strategy.[33] A good example is provided by the way in which manufacturers are reaching into the supply chain and shortening the buying circle. Li & Fung, Hong Kong's largest export trading company, is one of the world's leading innovators in the development of supply chain management, and the company has managed to use its expertise to whittle

costs to the bone. Instead of buying fabric and yarn from one company and letting that firm work on keeping its costs as low as possible, Li & Fung gets actively involved in managing the entire process. How does it keep costs down for orders it receives from The Limited? The chairman of the company explained the firm's economic imperative strategy this way:

> We come in and look at the whole supply chain. We know The Limited is going to order 100,000 garments, but we don't know the style or the colors yet. The buyer will tell us that five weeks before delivery. The trust between us and our supply network means that we can reserve undyed yarn from the yarn supplier. I can lock up capacity at the mills for the weaving and dying with the promise that they'll get an order of a specified size; five weeks before delivery, we will let them know what colors we want. Then I say the same thing to the factories, "I don't know the product specs yet, but I have organized the colors and the fabric and the trim for you, and they'll be delivered to you on this date and you'll have three weeks to produce so many garments."
>
> I've certainly made life harder for myself now. It would be easier to let the factories worry about securing their own fabric and trim. But then the order would take three months, not five weeks. So to shrink the delivery cycle, I go upstream to organize production. And the shorter production time lets the retailer hold off before having to commit to a fashion trend. It's all about flexibility, response time, small production runs, small minimum-order quantities, and the ability to shift direction as the trends move.[34]

Political Imperative MNCs using the **political imperative** approach to strategic planning are country-responsive; their approach is designed to protect local market niches. The products sold by MNCs often have a large portion of their value added in the downstream activities of the value chain. Industries such as insurance and consumer packaged goods are examples—the success of the product or service generally depends heavily on marketing, sales, and service. Typically, these industries use a country-centered or multi-domestic strategy.

political imperative
Strategic formulation and implementation utilizing strategies that are country-responsive and designed to protect local market niches.

A good example of a country-centered strategy is provided by Thums Up, a local drink that Coca-Cola bought from an Indian bottler in 1993. This drink was created back in the 1970s, shortly after Coca-Cola pulled up stakes and left India. In the ensuing two decades, the drink, which is similar in taste to Coke, made major inroads in the Indian market. But when Coca-Cola returned and bought the company, it decided to put Thums Up on the back burner and began pushing its own soft drink. However, local buyers were not interested. They continued to buy Thums Up, and Coca-Cola finally relented. Today Thums Up is the firm's second-biggest seller in India, just behind Coca-Cola's Sprite, and holds an overall 15 percent market share in the carbonated beverage market.[35] Recently, Coke has encountered some challenges in India, as described in Brief Integrative Case 1.1 in Part One, but the acknowledgment that the local brand, Thums Up was the best vehicle for expansion appears to have been validated: In 2018, the company leveraged the popularity of the brand to launch an energy drink variant called Thums Up Charged, leading to strong sales growth.[36] Another local drink of Coca-Cola, the mango flavored drink sold by the name Mazza has emerged as the fastest growing brand for the company in 2022.[37]

Quality Imperative A **quality imperative** takes two interdependent paths: (1) a change in attitudes and a raising of expectation for service quality and (2) the implementation of management practices that are designed to make quality improvement an ongoing process.[38] Commonly called total quality management, or simply TQM, the approach takes many forms, including cross-training personnel to do the jobs of all members in their work group, process re-engineering designed to help identify and eliminate redundant tasks and wasteful effort, and reward systems designed to reinforce quality performance.

quality imperative
Strategic formulation and implementation utilizing strategies of total quality management to meet or exceed customers' expectations and continuously improve products or services.

Many MNCs make quality a major part of their overall strategy because they have learned that this is the way to increase market share and profitability. Consider the auto industry. While the U.S. automakers have dramatically increased their overall quality in recent years to close the gap with Japanese auto quality, Japanese firms continued to have

China's Move into Africa

With limited commodities inside its own borders, China's biggest industries have turned their focus outward to acquire the resources necessary to fuel growth. Africa, in particular, has held a key strategic position for many Chinese companies. Over a million Chinese citizens have moved to various African countries in the last few years, and Chinese-African trade now totals more than US$170 billion in goods every year. In 2018, the Chinese government pledged an additional US$60 billion in loans and other financial assistance to African countries.

China has built a strategy for dealing in Africa that attempts to eliminate political uncertainty and risk. First, China makes it clear that it has no political agenda for the continent. The Chinese government has worked with various African governments, from democracies to dictatorships, and has intentionally steered clear of any involvement in wars and other African foreign affairs. Second, Chinese aid to African countries is not free money but, rather, loans and lines of credit that target infrastructure and other capital improvements. In essence, this aid is really an investment; the money is utilized in ways that best suit China's immediate needs on the continent, rather than Africa's needs. Third, China maintains open communication with the governments of the countries where it does business. This is accomplished both on an individual basis, through various cooperation agreements, and on a continentwide basis, through the Forum on China-Africa Cooperation (FOCAC). The forum, which meets every three years, involves representatives from China and more than 50 African countries. Chinese President Xi Jinping personally attended the 2018 summit, which gave him the chance to network with the various country leaders on an individual level. In 2021, he attended this event via a video link due to the COVID-19 pandemic.

China's approach to Africa is not without controversy within the international community. In many African countries where China has invested, dictators with various human rights violations still rule. Corruption from these governments has led to extreme poverty and suffering, and some have argued that China's involvement with these dictatorial governments condones their actions. China also faces allegations of trying to "colonize" Africa. While China has portrayed its investments in Africa as a "win-win" situation for the local communities and the Chinese consumers, and Chinese investors have provided many social projects, some have voiced concern that, in realty, China is exploiting Africa's potential future wealth by taking raw materials, manufacturing products from those resources, and then selling finished products back to Africans without transferring the knowledge or skill set required to do the same. As loans from infrastructure projects become due, African governments are also concerned by the consequences of not being able to service these loans; for example, Uganda signed a US$200 million airport building loan over six years ago in 2015, which puts its Entebbe International Airport at risk of seizure. Chinese government officials, however, have denied allegations of such malicious intentions.

Source: Fifield, Anna. "China Pledges $60 Billion in Aid and Loans to Africa, No 'Political Conditions Attached'." *Washington Post*, September 3, 2018, https://www.washingtonpost.com/world/china-pledges-60-billion-in-aid-and-loans-to-africa-no-strings-attached/2018/09/03/a446af2a-af88-11e8-a810-4d6b627c3d5d_story.html?utm_term=.78e0c79e487b; Liubing, Chen. "China, Africa Trade Volume Rises 14% to $170b." *China Daily*, August 29, 2018, http://www.chinadaily.com.cn/a/201808/29/WS5b86536ea310add14f388762.html. "Uganda Finds China's Leverage is in the Fine Print of Its Lending", *The Wall Street Journal,* December 27, 2021, https://www.wsj.com/articles/uganda-finds-chinas-leverage-is-in-the-fine-print-of-its-lending-11640601003

fewer safety recalls. Despite recent recalls, Toyota and Honda continue to be ranked very high by American consumers, and Nissan's and Subaru's recent performances were also strong. However, in light of continued improvements by U.S.-based producers, North American–based manufacturers have topped many Japanese brands in recent years in the J.D. Power and Associates' Automotive Dependability Study. In 2022, General Motors received the most model-level awards with ten of its models ranked as the highest quality vehicles in their respective segments.[39]

Apple Inc. has experienced rave quality reviews from customers and electronics analysts for its line of Mac products, iPod, iPhone, and iPad. These devices have demonstrated global appeal as Apple's stock soared. Apple introduced the iPhone 13 concurrently in over 30 countries, including the U.S., the U.K., France, Germany, Canada, China, Hong Kong, and Japan, and made it available in over 10 additional countries within the first three weeks of its launch.[40] In line with its strategy of continual quality improvement, Apple introduced several new features such as an advanced camera system, super retina XDR display, longer battery life and the fastest chip in a smartphone on its iPhone 13 model, making it another highly successful launch of a new version of iPhone.

A growing number of MNCs are finding that they must continually revise their strategies and make a renewed commitment to the quality imperative because they are being bested by emerging market forces. Motorola, for example, found that its failure to anticipate the industry's switch to digital cell technology was a costly one.[41] In 1998 the company dominated the U.S. handset market, and its StarTAC was popular worldwide. Five years later, the firm's share of the then $160 billion global market for handsets shrank from 22 percent to 10 percent and was continuing to fall.[42] Motorola's wireless network business also suffered, and, in 2011, Motorola partitioned its wireless company from its primary operations. Later that year, Google acquired the new Motorola Mobility wireless division for US$12.5 billion.[43] The quality imperative is never-ending, and MNCs such as Motorola must meet this strategic challenge or pay the price.

Administrative Coordination An **administrative coordination** approach to formulation and implementation is one in which the MNC makes strategic decisions based on the merits of the individual situation rather than using a predetermined economic or political strategy. A good example is provided by Walmart, which has expanded rapidly into Latin America in recent years. While many of the ideas that worked well in the North American market served as the basis for operations in the Southern Hemisphere, the company soon realized that it was doing business in a market where local tastes were different and competition was strong.

administrative coordination Strategic formulation and implementation in which the MNC makes strategic decisions based on the merits of the individual situation rather than using a predetermined economically or politically driven strategy.

Walmart is counting on its international operations to grow 25–30 percent annually, and Latin American operations are critical to this objective. Despite this objective, the company has faced losses in several of its Latin American businesses as it strives to adapt to the local markets. The firm is learning, for example, that the timely delivery of merchandise in places such as São Paulo, where there are continual traffic snarls and the company uses contract truckers for delivery, is often far from ideal. Another challenge is finding suppliers who can produce products to Walmart's specification for easy-to-handle packaging and quality control. A third challenge is learning to adapt to the culture. This was especially true in Brazil, where Walmart brought in stock-handling equipment that did not work with standardized local pallets and installed a computerized bookkeeping system that failed to take into account Brazil's wildly complicated tax system. These missteps contributed, in part, to Walmart's divestment of its Brazilian operations in 2018. In-Depth Integrative Case 2.2 at the end of Part Two provides more detail on Walmart's successes and challenges in the international marketplace, including those related to administrative coordination.

Many large MNCs work to combine the economic, political, quality, and administrative approaches to strategic planning. For example, IBM relies on the economic imperative when it has strong market power (especially in less developed countries), the political and quality imperatives when the market requires a calculated response (European countries), and an administrative coordination strategy when rapid, flexible decision making is needed to close the sale. Of the four, however, the first three approaches are much more common because of the firm's desire to coordinate its strategy both regionally and globally.

Global and Regional Strategies

A fundamental tension in international strategic management is the question of when to pursue global or regional (or local) strategies. This is commonly referred to as the globalization versus national responsiveness conflict. As used here, **global integration** is the production and distribution of products and services of a homogeneous type and quality on a worldwide basis.[44] To a growing extent, the customers of MNCs have homogenized tastes, and this has helped spread international consumerism. For example, throughout North America, the EU, and Japan, there has been a growing acceptance of standardized yet increasingly personally customized goods such as automobiles and computers. This goal of efficient economic performance through a globalization and mass customization strategy, however, has left MNCs open to the charge that they are overlooking the need to address national responsiveness through Internet and intranet technology.

global integration The production and distribution of products and services of a homogeneous type and quality on a worldwide basis.

national responsiveness
The need to understand the different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies.

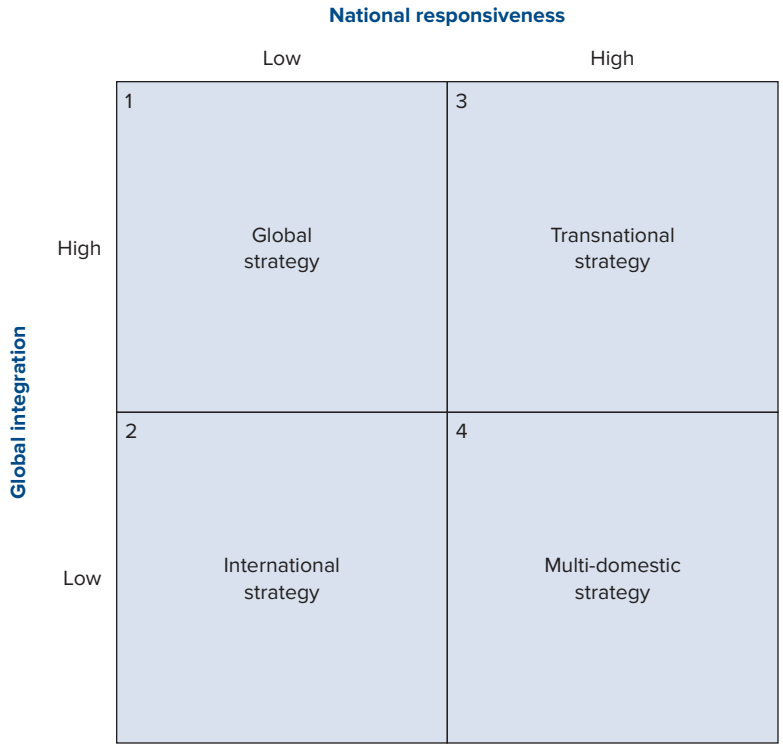
National responsiveness is the need to understand the different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies.[45] For example, in designing and building cars, international manufacturers now carefully tailor their offerings in the American market. Toyota's "full-size" T100 pickup proved much too small to attract U.S. buyers. So the firm went back to the drawing board and created a full-size Tundra pickup that is powered by a V-8 engine and has a cabin designed to "accommodate a passenger wearing a 10-gallon cowboy hat."[46] In 2020, 22 years after its initial launch, the Tundra was still selling over 100,000 units every year in the U.S. The sale dipped a bit in 2021 to 82,000 units due to the COVID-19 pandemic, but it is expected to bounce back in 2022.[47]

National responsiveness also relates to the need to adapt tools and techniques for managing the local workforce. Sometimes what works well in one country does not work in another, as seen in the following example:

> An American computer company introduced pay-for-performance in both the USA and the Middle East. It worked well in the USA and increased sales briefly in the Middle East before a serious slump occurred. Inquiries showed that indeed the winners among salesmen in the Middle East had done better, but the vast majority had done worse. The wish for their fellows to succeed had been seriously eroded by the contest. Overall morale and sales were down. Ill-will was contagious. When the bosses discovered that certain salespeople were earning more than they did, high individual performances also ceased. But the principal reason for eventually abandoning the system was the discovery that customers were being loaded up with products they could not sell. As A tried to beat B to the bonus, the care of customers began to slip, with serious, if delayed, results.[48]

Global Integration versus National Responsiveness Matrix The issue of global integration versus national responsiveness can be further analyzed conceptually via a two-dimensional matrix. Figure 8–1 provides an example.

Figure 8–1
Global Integration versus National Responsiveness



Source: Bartlett, Christopher A., and Sumantra Ghoshal. *Managing Across Borders: The Transnational Solution.* Cambridge, MA: Harvard Business School Press, 1998.

The vertical axis in the figure measures the need for global integration. Movement up the axis results in a greater degree of economic integration. Global integration generates economies of scale (takes advantage of large size) and capitalizes on further lowering unit costs (through experience curve benefits) as a firm moves into worldwide markets selling its products or services. These economies are captured through centralizing specific activities in the value-added chain. They also occur by reaping the benefits of increased coordination and control of geographically dispersed activities.

The horizontal axis measures the need for multinationals to respond to national responsiveness or differentiation. This suggests that MNCs must address local tastes and government regulations. The result may be a geographic dispersion of activities or a decentralization of coordination and control for individual MNCs.

Figure 8–1 depicts four basic situations in relation to the degrees of global integration versus national responsiveness. Quadrants 1 and 4 are the simplest cases. In quadrant 1, the need for integration is high and awareness of differentiation is low. In terms of economies of scale, this situation leads to **global strategy** based on price competition. A good example of this is Sony, which has standardized many aspects of its operations and marketing over the years. A few years ago, Sony, along with Hitachi, Panasonic, Philip, and Samsung, among others, worked to standardize the high-definition optical disc industry under the Blu-ray format. Sony's strong distribution network, coupled with its globally popular Playstation series gaming console, allowed the company to push the use of the Blu-ray format across markets all over the world. As a result, sales of Blu-ray format discs were able to outpace those of competitor HD-DVD, giving Sony a major advantage in the high-definition disc industry.[49] In this quadrant-1 type of environment, mergers and acquisitions often occur as companies try to consolidate and achieve higher economies of scale.

global strategy
Integrated strategy based primarily on price competition.

The opposite situation is represented by quadrant 4, where the need for differentiation is high but the concern for integration low. This quadrant is referred to as **multi-domestic strategy**. In this case, niche companies adapt products to satisfy the high demands of differentiation and ignore economies of scale because integration is not very important. An example of this is Philips, which provides medical equipment to doctors worldwide. As diagnoses become more complex, Philips has to find new, innovative ways to simplify the machines used by doctors, so that they can spend more time with patients. Yet the medical systems of each country are so different that products must be adapted to the particular medical environment. Philips recently sought out opinions from board members, and even asked for the participation of fashion designers, to better understand different strategic methods. By using this multidimensional information pool, Philips is moving toward offering even more differentiated products.[50]

multi-domestic strategy
Differentiated strategy emphasizing local adaptation.

Quadrants 2 and 3 reflect more complex environmental situations. Quadrant 2 incorporates those cases in which both the need for integration and the awareness of differentiation are low. Both the potential to obtain economies of scale and the benefits of being sensitive to differentiation are of little value. Typical strategies in quadrant 2 are characterized by increased international standardization of products and services. This mixed approach is often referred to as **international strategy**.

This situation can lead to lower needs for centralized quality control and centralized strategic decision making while eliminating requirements to adapt activities to individual countries. This strategy is decreasingly employed as most industries and products face one or both pressures for global integration and local responsiveness. Nonetheless, companies may experience a very temporary phase in this quadrant, but the standards lie in the other three.

international strategy
Mixed strategy combining low demand for integration and responsiveness.

In quadrant 3, the needs for integration and differentiation are high. There is a strong need for integration in production along with higher requirements for regional differentiation in marketing. MNCs trying to simultaneously achieve these objectives often refer to them as **transnational strategy**. Quadrant 3 is the most challenging quadrant and the one where successful MNCs seek to operate. The problem for many MNCs, however, is the cultural challenges associated with "localizing" a global focus. One good example of a transnational company is Bayer's agricultural business (formerly known as Monsanto). Bayer offers a very diverse line of hybrid seeds to the agricultural industry. Hybrid seeds

transnational strategy
Integrated strategy emphasizing both global integration and local responsiveness.

are genetically modified seeds that are sterile and must be purchased at the beginning of each season for the specified crop. Bayer's operations include finding new ways to differentiate its product to best fit the surrounding market. The company offers products that can withstand the various environments and climates of its global customers, from herbicide- and insect-resistant strains to drought tolerance.[51]

Summary and Implications of the Four Basic Strategies MNCs can be characterized as using one of four basic international strategies: an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy. The appropriateness of each strategy depends on pressures for cost reduction and local responsiveness in each country served. Firms that pursue an international strategy have valuable core competencies that host-country competitors do not possess and face minimal pressures for local responsiveness and cost reductions. Organizations pursuing a multi-domestic strategy should do so when there is high pressure for local responsiveness and low pressures for cost reductions. Changing offerings on a localized level increases a firm's overall cost structure but increases the likelihood that its products and services will be responsive to local needs and therefore be successful.

A global strategy is a low-cost strategy. Firms that experience high-cost pressures should use a global strategy in an attempt to benefit from scale economies in production, distribution, and marketing. By offering a standardized product worldwide, firms can leverage their experience and use aggressive pricing schemes. This strategy makes most sense where there are high cost pressures and low demand for localized product offerings. A transnational strategy should be pursued when there are high cost pressures and high demands for local responsiveness. However, a transnational strategy is very difficult to pursue effectively. Pressures for cost reduction and local responsiveness put contradictory demands on a company because localized product offerings increase cost. Organizations that can find appropriate synergies in global corporate functions are the ones that can leverage a transnational strategy effectively.

The Basic Steps in Formulating Strategy

The needs, benefits, approaches, and predispositions of strategic planning serve as a point of departure for the basic steps in formulating strategy. In international management, strategic planning can be broken into the following steps: (1) scanning the external environment for opportunities and threats, (2) conducting an internal resource analysis of company strengths and weaknesses, and (3) formulating goals in light of the external scanning and internal analysis. The following sections discuss each step in detail.

Environmental Scanning

environmental scanning The process of providing management with accurate forecasts of trends related to external changes in geographic areas where the firm currently is doing business or is considering setting up operations.

Environmental scanning attempts to provide management with accurate forecasts of trends that relate to external changes in geographic areas where the firm is currently doing business or considering setting up operations. These changes relate to environmental factors that can affect the company and include the industry or market, technology, and regulatory, economic, social, and political aspects.

MNCs observe and evaluate an exorbitant amount of information, and, while data are usually collected for all forms of environmental factors, the order in which they approach each factor and the extent to which they are studied depend on the industry and the goals of the MNC.[52] For example, industry or market scanning includes analyzing the role of all potential competitors and the relationships surrounding those competitors, such as affiliation with one another or the connection between the company and its customers and suppliers. Monitoring changes in technology will also help keep the company modern and innovative. Some technological options managers may wish to follow are those that influence business efficiencies or changes in production. From a competitor standpoint, it is good to familiarize oneself with the rise of new products or services and the existing infrastructure.

The regulatory environment can also change at any time, shifting laws or regulatory guidelines. Managers should be aware of ownership or property rights within an area and the kind of employment practices exhibited in a region. Minimum wage laws and tax rates should also be considered because they can affect the hiring process and company finances. This is different from the economic environment, which mainly highlights rates—rates of employment, exchange rates, inflation rates, and the level of GNP for a country.[53]

Appropriate observation of the social environment can help the company. Awareness of demographic shifts, including age, education, and income, coupled with in-depth knowledge of consumer attitudes, is imperative for a company to assess whether its services would be welcomed within a region. Finally, the political environment can impact how a company runs operations. We discussed in Chapter 2 the different political systems that exist across the world, and an understanding of those systems, along with the current state of affairs, can alert MNCs to any warnings that may impede expansion.

After obtaining the information, MNCs then go through an analyzing process that gives rise to the relevant features of the external environment. This process helps the company discover the risks and opportunities involved in expanding to that region. However, the external environment is not the only aspect to consider, and more information must be reviewed before the decision to enter a market can be taken.

Environmental scanning is central to discovering if an MNC can survive in a particular region; however, it is only effective if it is done consistently. The environment changes very rapidly, and, in order for firms to continually adapt, they must assess the external dynamics that could bolster or hinder future productivity. Netflix's push into Europe provides an example of how this environmental scanning process works. The company analyzed the wireless streaming environment in Europe and concluded that the mobile market was ideal for penetration. As a result, it made a number of strategic positioning moves. First, it signed a deal with Vodafone UK in 2014 to provide new customers with a free six-month subscription to Netflix. The deal included free 4G streaming for customers over their Vodafone devices, encouraging U.K. customers to use Netflix while on the move. Later in 2014, Netflix rolled out to six mainland European countries, including France, Germany, and Belgium, to compete directly against existing streaming providers for the more than 100 million potential customers in countries with the highest existing Internet penetration.[54] The following year, Netflix began to roll out its subscriptions to other untapped European regions, with lower levels of penetration by both streaming competitors and high-speed Internet providers. In 2019, Netflix also announced plans to drastically increase the European-produced content on its platform, in an effort to attract more subscribers across the continent. In the short term, these investments have resulted in losses for Netflix; however, as Internet connectivity and mobile streaming continue to increase in places like Spain, Italy, and Eastern Europe, the hope is that the number of subscribers will continue to expand, resulting in large profits (see The World of International Management at the beginning of Chapter 7).[55]

Another example is Cisco Systems, the world's largest maker of networking equipment, which continues to grow rapidly through acquisitions. For more than 20 years, acquisitions have comprised nearly half of its business activity, with start-up companies key to its strategy. In February 2021, Cisco completed the acquisition of IMImobile, the UK provider of cloud communications software for USD730 million, and in March 2021 the company completed the acquisition of Acacia Communications, for US$4.5 billion.[56] Since 2020, Cisco has completed 16 acquisitions.[57] Cisco's China strategy has resulted from careful scanning of the broad macro political-economic environment as well as of the competitor landscape. Already the world's largest Internet and mobile phone market, China is likely to become even more crucial to the network equipment maker's growth as the country's burgeoning middle class gains access to new technology. Similar to its strategy in the US and elsewhere, Cisco has relied on

joint ventures and acquisitions to grow its business in China. For example, in 2015, Cisco joined with Chinese start-up Inspur Group to produce computer servers to compete against Huawei Technologies Co. Ltd. and ZTE Corp., two large Chinese rivals. By relying on acquisitions and JVs, Cisco is in a stronger position to work around difficult regulations and government policies, even if overall trade tensions between the U.S. and China continue.[58,59]

Internal Resource Analysis

When formulating strategy, some firms wait until they have completed their environmental scanning before conducting an internal resource analysis, which is a microeconomic aspect of the activity. Others perform these two steps simultaneously. Internal resource analysis helps the firm evaluate its current managerial, technical, material, and financial resources and capabilities to better assess its strengths and weaknesses. The MNC then uses this assessment to determine its ability to take advantage of both domestic and international market opportunities.[60] The primary thrust of this analysis is to match external opportunities (gained through the environmental scan) with internal capabilities (gained through the internal resource analysis). In other words, these evaluations should not be viewed as how the environment creates a barrier to entry but, rather, how companies can utilize their resources and capabilities to best take advantage of environmental opportunities.

key success factor (KSF) A factor necessary for a firm to effectively compete in a market niche.

An internal analysis identifies the key factors for success that will dictate how well the firm is likely to do. A **key success factor (KSF)** is a factor that is necessary for a firm to compete effectively in a market niche. For example, a KSF for an international airline is price. An airline that discounts its prices will gain market share vis-à-vis competitors that do not. A second KSF for the airline is safety, and a third is quality of service in terms of on-time departures and arrivals; convenient schedules; and friendly, helpful personnel. In the automobile industry, quality of products has emerged as the number-one KSF in world markets. Japanese firms have been able to invade the U.S. auto market successfully because they have been able to prove that the quality of their cars is better than that of the average domestically built U.S. car. Toyota and Honda have had a quality edge over the competition in recent years in the eyes of U.S. car buyers. A second KSF is styling. For example, the redesigned Mini-Cooper has been successful, in part, because customers like its unique look.

The key question for the management of an MNC is, Do we have the people and resources that can help us develop and sustain the necessary KSFs, or can we acquire them? If the answer is yes, the recommendation is to proceed. If the answer is no, management will begin looking at other markets where it has, or can develop, the necessary KSFs.

The balance between environmental scanning and internal resource analysis can be quite delicate. Managers do not want to spend too much time looking inward; otherwise, they could miss changes in the environment that would alter the company's strengths and weaknesses based on that market. Conversely, managers do not want to appraise the outward view for too long, as they could take time away from improving internal systems and taking advantage of opportunities.

Goal Setting for Strategy Formulation

In practice, goal formulation often precedes the first two steps of environmental scanning and internal resource analysis. As used here, however, the more specific goals for the strategic plan come out of external scanning and internal analysis. MNCs pursue a variety of such goals; Table 8–1 provides a list of the most common ones. These goals typically serve as an umbrella beneath which the subsidiaries and other international groups operate.

Table 8–1
Areas for Formulation of MNC Goals

Profitability
Level of profits
Return on assets, investment, equity, sales
Yearly profit growth
Yearly earnings per share growth
Marketing
Total sales volume
Market share—worldwide, region, country
Growth in sales volume
Growth in market share
Integration of country markets for marketing efficiency and effectiveness
Operations
Ratio of foreign to domestic production volume
Economies of scale via international production integration
Quality and cost control
Introduction of cost-efficient production methods
Finance
Financing of foreign affiliates—retained earnings or local borrowing
Taxation—minimizing tax burden globally
Optimum capital structure
Foreign exchange management—minimizing losses from foreign fluctuations
Human Resources
Recruitment and selection
Development of managers with global orientation
Management development of host-country nationals
Compensation and benefits

Profitability and marketing goals almost always dominate the strategic plans of today's MNCs. Profitability, as shown in Table 8–1, is so important because MNCs generally need higher profitability from their overseas operations than they do from their domestic operations. The reason is quite simple: Setting up overseas operations involves greater risk and effort. In addition, a firm that has done well domestically with a product or service usually has done so because the competition is minimal or ineffective. Firms with this advantage often find additional lucrative opportunities outside their borders. Moreover, the more successful a firm is domestically, the more difficult it is to increase market share without strong competitive response. International markets, however, offer an ideal alternative to the desire for increased growth and profitability.

Another reason that profitability and marketing top the list is that these tend to be more externally environmentally responsive, while production, finance, and personnel functions tend to be more internally controlled. Thus, for strategic planning, profitability and marketing goals are given higher importance and warrant closer attention. Ford's recent efforts in the EU offer an example. In response to decreasing market share, Ford instituted major overhauls of its European operations in 2012, 2016, and 2019. Each restructuring aimed to streamline processes and increase profitability. In 2012, Ford unloaded the Land Rover and Jaguar to Tata of India and its share of Volvo to China's Geely. The company also began selling its more global models within Europe (rather than European-centric models) and began shipping more cars to Europe from its factory in

Thailand to save on costs and increase margins. In 2016, Ford restructured its European labor force to save on administrative costs, and, in 2019, the company announced plans to eliminate additional overhead jobs and further streamline the car models that it offers. The continual, responsive restructuring has seemed to pay off for the company; after years of losses in the European market, Ford posted large profits from 2015 to 2019. Like many other automakers, Ford suffered some losses during the COVID-19 pandemic but has returned to profitability for its European operations in the first quarter of 2022.[61,62,63]

Once the strategic goals are set, the MNC will develop specific operational goals and controls, usually through a two-way process at the subsidiary or affiliate level. Home-office management will set certain parameters, and the overseas group will operate within these guidelines. For example, the MNC headquarters may require periodic financial reports, restrict on-site decisions to matters involving less than $100,000, and require that all client contracts be cleared through the home office. These guidelines are designed to ensure that the overseas group's activities support the goals in the strategic plan and that all units operate in a coordinated effort.

Strategy Implementation

strategy implementation
The process of providing goods and services in accord with a plan of action.

Once formulated, the strategic plan next must be implemented. **Strategy implementation** provides goods and services in accord with a plan of action. Quite often, this plan will have an overall philosophy or series of guidelines that direct the process. In the case of Japanese electronics manufacturing firms entering the U.S. market, Chang has found a common approach:

> To reduce the risk of failure, these firms are entering their core businesses and those in which they have stronger competitive advantages over local firms first. The learning from early entry enables firms to launch further entry into areas in which they have the next strongest competitive advantages. As learning accumulates, firms may overcome the disadvantages intrinsic to foreignness. Although primary learning takes place within firms through learning by doing, they may also learn from other firms through the transfer or diffusion of experience. This process is not automatic, however, and it may be enhanced by membership in a corporate network: in firms associated with either horizontal or vertical business, groups were more likely to initiate entries than independent firms. By learning from their own sequential entry experience as well as from other firms in corporate networks, firms build capabilities in foreign entry.[64]

International management must consider three general areas in strategy implementation. First, the MNC must decide where to locate operations. Second, the MNC must carry out entry and ownership strategies (discussed in Chapter 9). Finally, management must implement functional strategies in areas such as marketing, production, and finance.

Location Considerations for Implementation

In choosing a location, an MNC has two primary considerations: the country and the specific locale within the chosen country. Quite often, the first choice is easier than the second because there are many more alternatives from which to choose a specific locale.

The Country Traditionally, MNCs have invested in highly industrialized countries, and research reveals that annual investments have been increasing substantially.

MNCs often invest in advanced industrialized countries because they offer the largest markets for goods and services. In addition, the established country or geographic locale may have legal restrictions related to imports, encouraging a local presence. Japanese firms, for example, in complying with their voluntary export quotas of cars to the U.S. as well as responding to dissatisfaction in Washington regarding the continuing trade imbalance with the U.S., have established U.S.-based assembly plants. In Europe, because of EU regulations for outsiders, most U.S. and Japanese MNCs have operations in at least one European country, thus ensuring access to the European community at large.

Another consideration in choosing a country is the amount of government control, the institutional environment for investment and restrictions on foreign investment.[65] Traditionally, MNCs from around the world resisted anything but very limited business in Eastern European countries with central planning economies. The recent relaxing of the trade rules and move toward free-market economies in the republics of the former Soviet Union and the other Eastern European nations, however, have encouraged MNCs to rethink their positions; more and more are making moves into this largely untapped part of the global market. The same is true in India, although the political climate can be volatile and MNCs must carefully weigh the risks of investing there. Restrictions on foreign investment also play a factor. Countries such as China and India have required that control of the operation be in the hands of local partners. MNCs that are reluctant to accept such conditions will not establish operations there.

In addition to these considerations, MNCs examine the specific benefits offered by host countries, including low tax rates, rent-free land and buildings, low-interest or no-interest loans, subsidized energy and transportation rates, and a well-developed infrastructure that provides many of the services found back home (good roads, communication systems, schools, health care, entertainment, and housing). These benefits will be weighed against any disincentives or performance requirements that must be met by the MNC, such as job-creation quotas, export minimums for generating foreign currency, limits on local market growth, labor regulations, wage and price controls, restrictions on profit repatriation, and controls on the transfer of technology.

Local Issues Once an MNC has selected the country in which to locate, the firm must choose the specific locale. A number of factors influence this choice. Common considerations include access to markets, proximity to competitors, availability of transportation and electric power, and desirability of the location for employees coming in from the outside.

One study found that in selecting U.S. sites, both German and Japanese firms place more importance on accessibility and desirability and less importance on financial considerations.[66] However, financial matters remain important: Many countries attempt to lure MNCs to specific locales by offering special financial packages.

Another common consideration is the nature of the workforce. MNCs prefer to locate near sources of available labor that can be readily trained to do the work. A complementary consideration that often is unspoken is the presence and strength of organized labor. Japanese firms, in particular, tend to avoid heavily unionized areas.

Still another consideration is the cost of doing business. Manufacturers often set up operations in rural areas, commonly called "greenfield locations," which are much less expensive and do not have the problems of urban areas. Conversely, banks often choose metropolitan areas because they feel they must have a presence in the business district. In recent years, MNCs have also started paying attention to the general perception that is held by the local communities about foreign firms. A high level of skepticism against globalization may deter MNCs from making investments in specific locations.[67]

Some MNCs opt for locales where the cost of running a small enterprise is significantly lower than that of running a large one. In this way, they spread their risk, setting up many small locations throughout the world rather than one or two large ones. Manufacturing firms are a good example. Some production firms feel that the economies of scale associated with a large-scale plant are more than offset by potential problems that can result, should economic or political difficulties develop in the country. These firms' strategy is to spread the risk by opting for a series of small plants throughout a wide geographic region.[68] This location strategy can also be beneficial for stockholders. Research has found that MNCs with a presence in developing countries have significantly higher market valuation than MNCs that operate only in advanced economies.[69]

Frontier Markets Sometimes referred to as pre-emerging, frontier markets are a unique subset of emerging economies. While most traditional emerging markets are financially linked to the economies of their more developed counterparts, frontier markets are less

correlated to the ups and downs of the global economy. From an investment point of view, these markets offer potentially high rewards, but with high risk. The most commonly cited frontier markets are located in Africa and Asia.

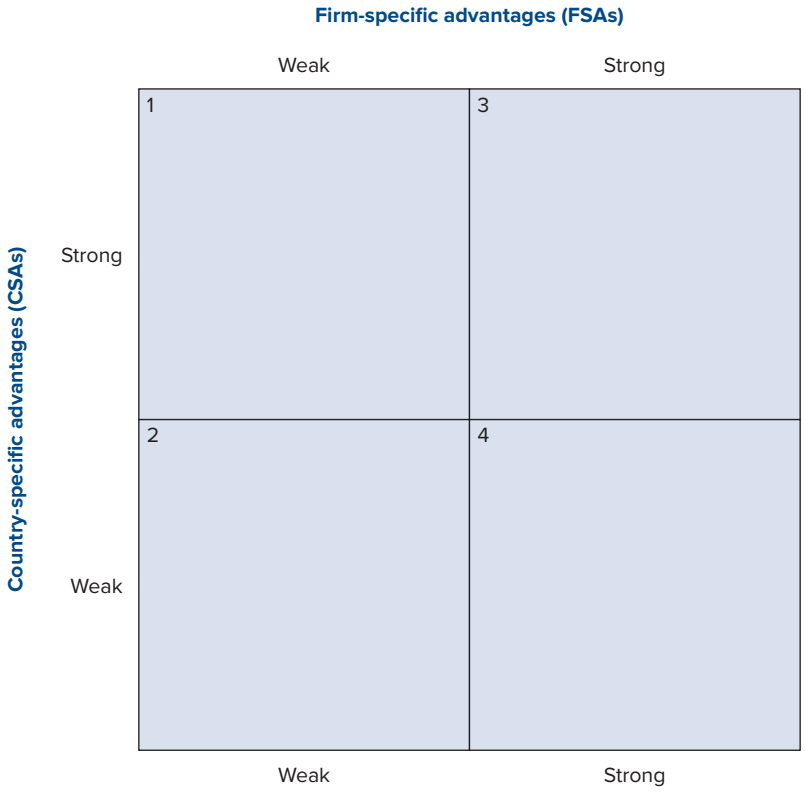
Business initiatives in frontier markets require careful strategic considerations. One potential approach is to joint-venture with a local company that specializes in the cultural knowledge of the marketplace. The Mara Group, for example, is an African conglomerate that conducts business in a variety of unrelated ventures across the continent. Rather than focus on the financial and technical aspects of the business, the Mara Group provides the marketing, logistical, and bureaucratic assistance to its international partners. The Mara Group also provides a trusted, recognizable brand name to foreign products. Utilizing an office in Dubai, the Mara Group is able to stay well connected with foreign companies as well as with the African market. IBM is an example of an MNC that has conducted business in frontier markets using a partnership with the Mara Group.[70]

Combining Country and Firm-Specific Factors in International Strategy

International management scholars have developed a simple framework that builds upon the integration-responsiveness framework to help managers understand the interaction between the relative attractiveness of different country locations for a given activity and the firm-level attributes or strengths that can be leveraged in that location.[71] The first set of factors is referred to as country-specific advantages (CSAs), while the second is referred to as firm-specific advantages (FSAs). CSAs can be based on natural resource endowments (minerals, energy, forests), the labor force, or less tangible factors that include education and skills, institutional protections of intellectual property, entrepreneurial dynamism, or other factors unique to a given market. FSAs are unique capabilities, proprietary to the organization, that may be based on product or process technology, marketing or distributional skills, or managerial know-how.

Managers of MNCs use strategies that build upon the interactions of CSAs and FSAs. Figure 8–2 provides a graphical depiction of this framework. The "strength" or

Figure 8–2
The CSA-FSA Matrix



Source: Rugman, Alan M., and Jonathan P. Doh. *Multinationals and Development*. New Haven, CT: Yale University Press, 2008.

"weakness" of FSAs and CSAs is a relative notion that depends on the relevant market and the CSAs and FSAs of potential competitors.

MNCs in quadrants 1, 2, and 3 would be expected to pursue different strategies. Quadrant 1 firms tend to emphasize cost leadership; they are likely to be resource-based and/or mature, internationally oriented firms producing a commodity-type product. Given these factors, FSAs tend to be less important compared to the CSAs of location and energy costs, which are the main sources of the firm's competitive advantage.

Quadrant 2 firms represent less efficient firms with few intrinsic CSAs or FSAs. Quadrant 2 also represent domestically based small and medium-sized firms with little global exposure. Firms in quadrant 4 are generally differentiated firms with strong FSAs in marketing and customization. These firms usually have strong brands. In quadrant 4 the FSAs dominate, so in world markets the home-country CSAs are not essential in the long run. Quadrant 3 firms generally can choose either the cost or differentiation strategies, or perhaps combine them because of the strength of both their CSAs and FSAs.

In terms of business strategy, firms in quadrants 2 and 3 can benefit from strategies of both low cost and differentiation. Such a firm is constantly evaluating its production mix. Quadrants 4 and 1 require specific strategies for different types of firms. For instance, a quadrant 4 firm that has strong FSAs in marketing (customization) can operate internationally without reliance on its home-market CSA, or the CSAs of the host nation. For such a firm, in quadrant 4, the CSA is not relevant. In contrast, quadrant 1 has mature multinationals or product divisions determined more by CSAs than by FSAs. By improving potential FSAs in marketing or product innovation and increasing value added through vertical integration, a quadrant 1 firm can move to quadrant 3.

The Role of the Functional Areas in Implementation

To implement strategies, MNCs must tap the primary functional areas of marketing, production, and finance. The following sections examine the roles of these functions in international strategy implementation.

Marketing The implementation of strategy from a marketing perspective must be determined on a country-by-country basis. What works from the standpoint of marketing in one locale may not necessarily succeed in another. In addition, the specific steps of a marketing approach often are dictated by the overall strategic plan, which in turn is based heavily on market analysis.

German auto firms in Japan are a good example of using marketing analysis to meet customer needs. While automakers from Detriot have been boycotting Japanese auto shows for over a decade, the Germans have spent millions of dollars to build dealer, supplier, and service support networks in Japan, in addition to adapting their cars to Japanese customers' tastes. Volkswagen Audi Nippon has built a $320 million import facility on a deepwater port. This operation, which includes an inspection center and a parts warehouse, processes over 100,000 cars annually.[72] Daimler and BMW both have introduced lower-priced cars to attract a larger market segment. At the same time, German manufacturers work hard to offer first-class service in their dealerships. As a result, German automakers in recent years have sold almost three times as many cars in Japan as their U.S. competitors do.[73]

The Japanese also provide an excellent example of how the marketing process works. In many cases, Japanese firms have followed a strategy of first building up their market share at home and driving out imported goods. Then, the firms move into newly developed countries, honing their marketing skills as they go along. Finally, the firms move into fully developed countries, ready to compete with the best available. This pattern of implementing strategy has been used in marketing autos, cameras, consumer electronics, home appliances, petrochemicals, steel, and watches. For some products, however, such as computers, the Japanese have moved from their home market directly into fully developed countries and then on to the newly developing nations. Finally, the Japanese have gone

directly to developed countries to market products in some cases because the market in Japan was too small. Such products include color TVs, Blu-ray players, and sewing machines. In general, once a firm agrees on the goods it wants to sell in the international marketplace, a specific marketing strategy is implemented.

The implementation of marketing strategy in the international arena is built around the well-known "four Ps" of marketing—product, price, promotion, and place. As noted in the example of the Japanese, firms often develop and sell a product in local or peripheral markets before expanding to major overseas targets. If the product is designed specifically to meet overseas demand, however, the process is more direct. Price largely is a function of market demand.[74] For example, the Japanese have found that the U.S. microcomputer market is price-sensitive; by introducing lower-priced clones, the Japanese have been able to make headway, especially in the portable laptop market. The last two Ps, promotion and place, are dictated by local conditions and often left in the hands of those running the subsidiary or affiliate. Local management may implement customer sales incentives, for example, or make arrangements with dealers and salespeople who are helping move the product locally.

Production Although marketing usually dominates strategy implementation, the production function also plays a role. If a company is going to export goods to a foreign market, the production process traditionally has been handled through domestic operations. In recent years, however, MNCs have found that whether they are exporting or producing the goods locally in the host country, consideration of worldwide production is important. For example, goods may be produced in foreign countries for export to other nations. Sometimes, a plant will specialize in a particular product and export it to all the MNC's markets; other times, a plant will produce goods only for a specific locale, such as Western Europe or South America. Still other facilities will produce one or more components that are shipped to a larger network of assembly plants. That last option has been widely adopted by pharmaceutical firms, electronics firms and automakers such as Volkswagen and Honda.

As mentioned in the first part of the chapter, if the firm operates production plants in different countries but makes no attempt to integrate its overall operations, the company is known as a multi-domestic. A recent trend has been away from this scattered approach and toward global coordination of operations.

Finally, if the product is labor-intensive, as in the case of microcomputers, then the trend is to farm the product out to low-cost sites such as Mexico or Brazil, where the cost of labor is relatively low and the infrastructure (electric power, communications systems, transportation systems) is sufficient to support production. Sometimes, multiple sources of individual components are used; in other cases, one or two sources are sufficient. In any event, careful coordination of the production function is needed when implementing the strategy, and the result is a product that is truly global in nature.

Finance Use of the finance function to implement strategy normally is developed at the home office and carried out by the overseas affiliate or branch. When a firm went international in the past, the overseas operation commonly relied on the local area for funds, but the rise of global financing has ended this practice. MNCs have learned that transferring funds from one place in the world to another, or borrowing funds in the international money markets, often is less expensive than relying on local sources. Unfortunately, there are problems with these transfers.

Such a problem is representative of those faced by MNCs using the finance function to implement their strategies. One of an MNC's biggest recent headaches when implementing strategies in the financial dimension has been the revaluation of currencies. For example, in the late 1990s, the U.S. dollar increased in value against the Japanese yen. American overseas subsidiaries that held yen found their profits (in terms of dollars) declining. More recently, in 2022, the U.S. dollar has been gaining again most other currencies, with the Euro being valued at about equal to the U.S. dollar in July 2022. Subsidiaries of the U.S. MNCs operating in the European Union should expect to have lower profits in 2022 if this trend continues.

Specialized Strategies

In addition to the basic steps in strategy formulation, the analysis of which strategies may be appropriate based on the globalization versus national responsiveness framework, and the specific processes in strategy implementation, some circumstances require specialized strategies. Two that have received considerable attention in recent years are strategies for developing and emerging markets and strategies for international entrepreneurship and new ventures.

Strategies for Emerging Markets

Emerging economies have assumed an increasingly important role in the global economy and are predicted to compose more than half of global economic output by midcentury. Partly in response to this growth, MNCs are directing increasing attention to those markets. Foreign direct investment (FDI) flows into developing countries—one measure of increased integration and business activity between developed and emerging economies—grew from $23.7 billion in 1990 to an estimated $870 billion in 2021. This level of FDI is impressive given the significant declines during the COVID-19 pandemic. The recovery has been somewhat uneven though, with the developed economies experiencing a 200 percent increase over the 2020 levels while the developing and less developed economies experiencing more modest growth of 30 percent and 20 percent, respectively.[75]

At the same time, emerging economies pose exceptional risks due to their political and economic volatility and their relatively underdeveloped institutional systems. These risks show up in corruption, failure to enforce contracts, red tape and bureaucratic costs, and general uncertainty in the legal and political environment.[76,77] MNCs must adjust their strategy to respond to these risks. For example, in these risky markets, it may be wise to engage in arm's-length or limited equity investments or to maintain greater control of operations by avoiding joint ventures or other shared ownership structures. In other circumstances, it may be wiser to collaborate with a local partner that can help buffer risks through its political connections. Some of the factors relating to these conditions will be discussed in Chapters 9 and 10. However, two unique types of strategies for emerging markets deserve particular attention here.

First-Mover Strategies Recent research has suggested that entry order into developing countries may be particularly important, given the transitional nature of these markets. In general, in particular industries and economic environments, significant economies are associated with first-mover or early-entry positioning—being the first or one of the first to enter a market. These include capturing learning effects important for increasing market share, achieving scale economies that accrue from opportunities for capturing that greater share, and developing alliances with the most attractive (or, in some cases, the only) local partner. In emerging economies that are undergoing rapid changes such as privatization and market liberalization, there may be a narrow window of time within which these opportunities can be best exploited. In these conditions, first-mover strategies allow entrants to preempt competition, establish beachhead positions, and influence the evolving competitive environment in a manner conducive to their long-term interests and market position.

One study analyzed these benefits in the case of China, concluding that early entrants reaped substantial rewards for their efforts, especially when collaborations with governments provided credible commitments that the deals struck in those early years of liberalization would not later be undone. First-mover advantages in some other transitional markets, such as those in Eastern Europe, are not so clear. Moreover, there may be substantial risks to premature entry—that is, entry before the basic legal, institutional, and political frameworks for doing business have been established.[78]

Privatization presents a particularly powerful case supporting the competitive effects of first-mover positioning. First movers who succeed in taking over newly privatized state-owned enterprises, such as telecom and energy firms, possess a significant advantage over later entrants, especially when market liberalization is delayed and the host government

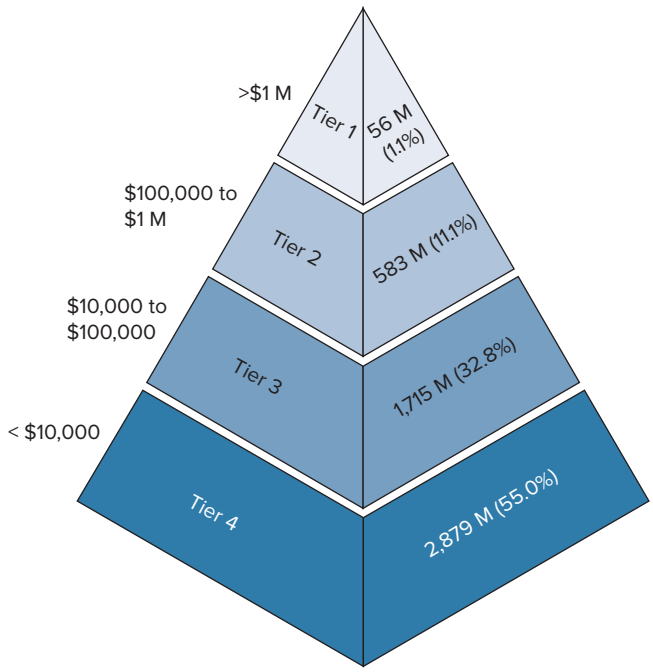
provides protection to the newly privatized incumbent firms. This was the case in 1998 when the Mexican government accepted a $1.757 billion bid for a minority (20.4 percent) but controlling interest in Telefonos de Mexico (Telmex) from an international consortium composed of Grupo Carso, Southwestern Bell, and France Cable et Radio, an affiliate of France Telecom. Although the Mexican market subsequently opened to competition, Telmex and its foreign partners (the first movers) maintained monopoly control over local networks and were able to bundle local and long-distance service, cross-market, and cross-subsidize, giving Telmex a strong advantage. Moreover, the Mexican government was responsive to providing the Telmex consortium protection and financial support for infrastructure investment, and it did so partly by charging new carriers to help Telmex pay for improvements needed for the long-distance network. In addition, Telmex was able to charge relatively high fees to connect to its network, and the long delay between the initial privatization and market opening allowed these advantages to persist.[79] In 2021, Telmex still held a 64 percent share of the wireless market in Mexico.[80]

Base of the Pyramid Strategy

Another area of increasing focus for MNCs is the 7 billion or more potential customers around the world who have heretofore been mostly ignored by international business, even within emerging economies, where most MNCs target only the wealthiest consumers. Although FDI in emerging economies has grown rapidly, most has been directed at the big emerging markets previously mentioned—China, India, and Brazil—and, even there, most MNC emerging-market strategies have focused exclusively on the elite and emerging middle-class markets, ignoring the vast majority of people considered too poor to be viable customers.[81,82] Because of this focus, MNC strategies aimed at tailoring existing practices and products to better fit the needs of emerging-market customers have not succeeded in making products and services available to the mass markets in the developing world—the 3 billion adults at the bottom of the economic pyramid who represent over half of the world's adult population. Figure 8–3 shows the distribution of the global adult population and wealth around the world.

Figure 8–3

The World Adult Population and Wealth Pyramid in 2018



Source: Original graphic by Professor Ajai Gaur based on data from James Davies, Rodrigo Lluberas, and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2021.

Researchers have found that incremental adaptation of existing technologies and products is not effective to penetrate the **base of the pyramid (BOP)** markets and that the BOP forces MNCs to fundamentally rethink their strategies. Companies must consider smaller-scale strategies and build relationships with local governments, small entrepreneurs, and nonprofits rather than depend on established partners such as federal governments and large local companies. Building relationships directly and at the local level contributes to the reputation and fosters the trust necessary to overcome the lack of formal institutions such as intellectual property rights and the rule of law.[83,84] The BOP may also be an ideal environment for incubating new, leapfrog technologies, including "disruptive" technologies that reduce environmental impacts and increase social benefit such as renewable energy and wireless telecom. Finally, business models forged successfully at the base of the pyramid have the potential to travel profitably to higher-income markets because adding cost and features to a low-cost model may be easier than removing cost and features from high-cost models.[85] This has significant implications for the globalization–national responsiveness framework introduced at the beginning of the chapter and for the potential for MNCs to achieve a truly transnational strategy.

base of the pyramid strategy (BOP)
Strategies to identify, target, adapt, and respond to needs among the lowest income consumer segments.

Some researchers have proposed that collaboration and alliances with nonprofit nongovernmental organizations (NGOs) can be a means to jump-start market entry in BOP markets. Dahan, Doh, Oetzel, and Yaziji documented how collaborating with NGOs can contribute complementary capabilities—both intangible assets such as knowledge, reputation, and brand and tangible resources such as human capital, production capabilities, and market access—along each stage of the value chain, affecting many aspects of the business model. These initiatives enable participating firms to create and deliver value in novel ways while minimizing costs and risks. They highlight, in particular, the competencies and resources that NGOs can bring to such partnerships, including market expertise (needs identification, knowledge of certain market segments); the value of NGO brands to customers; customer relationships; legitimacy with civil society players and governments; and ownership of—or access to—local distribution systems and local sourcing ability.[86] Among the cross-sectoral initiatives they profile is Nestlé's cocoa initiatives in Africa. Together with a dozen other major chocolate manufacturers, Nestlé has partnered with NGOs and local governments in setting up programs to improve labor conditions and promote sustainable farming practices in West Africa. Nestlé is at the forefront of the latter objective, with its sponsorship of "farmer field schools" on the Ivory Coast,[87] which support both the production of higher-quality cocoa (thus ensuring Nestlé has access to that labor and production) and the social benefits of that production. Table 8–2 summarizes the findings of this research by presenting how NGOs and MNCs can build a business model that creates both economic and social value.

Danone is another company that has targeted poor consumers through innovative strategy and marketing. It is marketing a single-serving yogurt drink in many developing country markets around the world, some living on dollar-a-day food budgets, selling the drinkable yogurts for as little as 10 cents. Today, more than half of Danone's sales come from emerging markets—up from just 6 percent in 2000.[88] Danone has leveraged this strategy in multiple markets with various products. In China, the company is focusing on the growing baby food market, and, in Senegal, where consumers typically have three or four snacks during a day and only one main meal, Danone is pushing its on-the-go yogurt snacks. The company's yogurt products have also been a hit in Indonesia, where the average per capita income is about $11 a day. In just the first three months on the market, Danone sold more than 10 million yogurt bottles to Indonesians.[89]

In Bangladesh, Danone partnered with Muhammad Yunus, who later won the Nobel Peace Prize for pioneering work in microfinance, to set up a joint venture called Grameen Danone Foods Ltd. The goal was to sell a seven-cent yogurt product called Shokti Doi—which means "strong yogurt." Rich with vitamins and minerals, it was to be sold through local women, who would peddle it door to door on commission.[90] The Danone venture with Grameen faced some setbacks: Milk prices soared, factory openings were delayed, and the saleswomen couldn't earn a living selling yogurt alone. The Danone venture shifted strategies and now sells the bulk of Shokti Doi in urban stores, not rural villages. But the knowledge

Table 8–2
Contributions by Nongovernmental Organizations to Business Models in Developing Markets

Business Activity and Example	Market Constraint and NGO Contribution	Relation of New Model to Prior Corporate or NGO Business Model	Potential Benefit(s) to Business Model	Distribution of Social and Economic Benefits
Market research: Ashoka/FEC project to provide irrigation to small farmers in Latin America	*Market constraint:* Lack of knowledge; overcoming information asymmetries *NGO contribution:* Identifying innovative technologies developed for unique local environment and market conditions; identification and aggregation of customer base	New co-created business model that enabled the provision of irrigation service to farmers, resulting in a doubling or tripling of their incomes; enabled private sector firm to reach new customers that would otherwise be inaccessible	Generation of novel business model	Social and economic
R&D: Cemex's Patrimonio Hoy program	*Market constraint:* Lack of appropriately priced and designed construction materials for self-construction of housing and financing *NGO contribution:* Market testing of products; incorporation of customer feedback; use of internal microcredit system to facilitate purchase of newly developed materials	New co-created business model that enabled Cemex to expand its market through reconfiguration of its business model and made it possible for Patrimonio Hoy to expand housing opportunities for low-income families	Generation of novel business model; value creation; cost minimization	Social and economic
Procurement and Production: Nestlé's cocoa farming initiatives	*Market constraint:* Underdeveloped human capital; need access to local networks and supply chains *NGO contribution:* Established relations with local communities and host-country governments	Extends Nestlé's existing business model (supply chain) and enables local NGOs to increase employment and other social benefits for residents	Value creation; value delivery; cost minimization	Primarily economic
Marketing: P&G/PSI and the Safe Drinking Water Alliance	*Market constraint:* Lack of knowledge surrounding distribution and use of water in developing countries *NGO contribution:* Input in product development, co-branding, customer education	Extends P&G's and PSI's existing business models by expanding the market for and the affordable availability of water-purification products (P&G product development; PSI's distribution networks)	Value creation	Social and economic
Distribution: HSBC Amah and Islamic Relief	*Market constraint:* Access to local networks and supply chains *NGO contribution:* May take on the provision of some services itself	Extends HSBC Amah's existing business model	Value creation; value delivery; cost minimization	Primarily economic
Comprehensive: A to Z Mosquito Net Venture	*Market constraint:* No single organization able to develop and distribute affordable mosquito nets *NGO contribution:* Holistic and fundamental rethinking of product/process and construction of new model tailored to specific context	Creation of new product based on shared technology and expertise; WHO participation makes product accessible to many people in Africa; Substantial financial and social value created		Social and economic

Source: Dahan, Nicolas M., Doh, Jonathan P., Oetzel, Jennifer and Yaziji, Michael. "Corporate-NGO Collaboration: Co-creating New Business Models for Developing Markets." *Long Range Planning* 43, no. 2 (2010): 337–338.

gained through these experiences can be essential for MNCs: Danone maintained the project in Bangladesh, which it says provided useful insights for other parts of its business, and subsequently built a factory in Thailand modeled on the Bangladesh facility.

The BOP strategy is challenging to implement. Companies have to offer affordable goods to a community that is willing to accept the product. Most importantly, however, is that the company must bring awareness of the product to the general populace. Balancing these is not a simple task because advertising and efficient distribution networks, for example, cost a significant amount, yet the companies cannot add a high price tag. Furthermore, the illiteracy issues, poor infrastructure, corruption, and nonexistent distribution channels often associated with poverty-stricken societies deter companies from wanting to invest. Despite the many barriers, companies can be successful. In the early years of cell phone usage, Smart Communications Inc. saw that there was a great opportunity to expand in the Philippines, where about half the population lived in poverty. In 2002, the market forecasted that approximately 30 percent of the population would be using mobile phones by 2008. Smart offered pay-as-you-go phones that could be recharged using a microchip that was already in the cell phones, making it possible to recharge "over the air." The company then began to offer pricing plans that consisted of extremely small increments, so even the low-income consumer could take advantage of the opportunity. It worked in Smart's favor, as more and more people began using the service daily, and the cellular industry reached a 30 percent margin in 2004, changing forecasts to a shocking 70 percent mobile phone usage rate by 2008.[91] Mobile service providers adopted similar models in India, offering basic mobile services for as little as a less than 25 cents a month as an entry point to the BOP segment. These strategies resulted in a mobile phone penetration rate of 96 percent in 2021, with an estimated 820 million smartphone users by the end of 2022.[92] To learn more about how mobile technology is reaching impoverished countries, see the accompanying International Management in Action box.

Entrepreneurial Strategy and New Ventures

In addition to strategies that must be tailored for the particular needs and circumstances in emerging economies, specialized strategies are also required for the international management activities of entrepreneurial and new-venture firms. Most international management activities take place within the context of medium-large MNCs, but, increasingly, small and medium companies, often in the form of new ventures, are getting involved in international management. This has been made possible by advances in telecommunication and Internet technologies and by greater efficiencies and lower costs in shipping, allowing firms that were previously limited to local or national markets to access international customers. These new access channels, however, suggest particular strategies that must be customized and tailored to the unique situations and resource limitations of small, entrepreneurial firms.

International Entrepreneurship

International entrepreneurship has been defined as "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations."[93] The internationalization of the marketplace and the increasing number of entrepreneurial firms in the global economy have created new opportunities for small and new-venture firms to accelerate internationalization.[94] This international entrepreneurial activity is being observed in even the smallest and newest organizations. Indeed, one study among 57 privately held Finnish electronics firms during the mid-1990s showed that firms that internationalize after they are established domestically must overcome a number of barriers to that international expansion, such as their domestic orientation, internal domestic political ties, and domestic decision-making inertia. In contrast, firms that internationalize earlier face fewer barriers to learning about the international environment.[95] Thus, the earlier in its existence that an innovative firm internationalizes, the faster it is likely to grow, both overall and in foreign markets.

international entrepreneurship
A combination of innovative, proactive, and risk-seeking behavior that crosses national boundaries and is intended to create value for organizations.

However, despite this new access, there remain limitations to international entrepreneurial activities. In another study, researchers show that deploying a technological learning advantage internationally is no simple process. They studied more than 300 private

Can Internet and Mobile Access Transform Poor Economies at the Base of the Pyramid?

Developed countries have experienced dramatic advances in information and communications technology (ICT)—notably, sharp increases in penetration of both Internet and wireless phone networks. Developing countries, especially the poorest countries of South Asia and Africa, have not benefited from these trends. Some entrepreneurs, however, see great potential in reaching these "bottom of the pyramid markets," although these efforts have, to date, been challenging. Low literacy rates, poor infrastructure, corruption and other political interference, and incomplete business models have all contributed to stillborn efforts, yet these entrepreneurs have persevered.

In terms of wireless and Internet services, many view Africa as the next great frontier, despite the fact that more than 85 percent of the population lives on less than $5.5 a day. From 2000 to 2018, Internet penetration in Africa grew more than 10,000 percent, from just over 4 million in 2000 to 465 million in 2018 (see Table 2–2 in Chapter 2). The total number of mobile subscribers in Sub-Saharan Africa stood at 444 million in 2017, representing 44 percent of the population. Nearly 90 percent of the continent's population lives in an area that is covered by cellular service.

The increase in the number of mobile cellular subscriptions over the last decade has defied all predictions and Africa remains the region with the highest mobile growth rate. The continent has a high ratio of mobile cellular subscriptions to fixed telephone lines, and the high mobile cellular growth rate suggests that Africa has taken the lead in the shift from fixed to mobile telephony, a trend that can be observed worldwide. The number of Internet users has also grown faster than in other regions, though smartphones, which are the primary method of Internet access for Africans, still remain financially out of reach for many. Data plans are too expensive for the average African consumer, and, at several hundred dollars each, the phones themselves are too expensive to purchase.

African countries are facing a number of challenges in increasing ICT levels. These include the lack of full liberalization of markets and the limited availability of infrastructure, such as a shortage of international Internet bandwidth. According to a recent report by the U.N.'s ITU agency, the cost of information technology and communication services still far exceeds the average salary. On the question of infrastructure, the report noted few cable networks and many countries facing a shortage of international Internet bandwidth. According to the ITU, the figures highlight the acceleration of growth in African mobile and Internet markets outside South Africa in less than a decade. Growth in Nigeria has been very strong. Kenya, Ghana, Tanzania, and Cote d'Ivoire have also accounted for the change in the distribution of mobile connections.

European companies were among the first to aggressively pursue African cellular markets. Swedish telecom giant Ericsson has pushed into the region, and England's Vodafone Group PLC and France's Orange S.A. have set up operations around the region. But other entrepreneurs have identified mobile service and Internet services as a way to make money and empower individuals.

Terracom, an Internet venture started by Greg Wyler, an American tech entrepreneur, entered Rwanda and was granted a contract to connect 300 schools to the Internet. Later, the company bought 99 percent of the shares in Rwandatel, the country's national telecommunications company, for $20 million. The internet cable system, which was supposed to provide cheaper and faster web access, did not deliver, and many of the satellites serving Africa were launched decades ago and were ageing or going out of commission. Power has also been an issue, as intermittent power failures in Rwanda have hampered efforts to provide a steady electricity source. Meanwhile, Terracom's venture has been plagued by repeated setbacks, with both sides accusing the other of failing to deliver on its promise. "The bottom line is that he promised many things and didn't deliver," said Albert Butare, the country's telecommunications minister.

Africa Online, another venture, was the first Internet service provider in Kenya (1995) and Cote d'Ivoire (1996). It grew to span eight countries across Africa. The company was founded in 1994 by three Kenyans who met each other while students at MIT and Harvard. The idea began as an online news service for Kenyans, which developed from an online community hosted at MIT called KenyaNet, one of several online communities that were among the most fervent virtual communities in the early pre-web 1990s. With the commercialization of the Internet, Africa Online moved its focus away from providing news to connecting Africans on the continent to the Internet. In 1995, the company was bought by International Wireless of Boston, which ultimately became Prodigy. During this period, Africa Online expanded rapidly from its original operation in Kenya to Ghana, Cote d'Ivoire, Tanzania, Uganda, Zambia, Zimbabwe, and Swaziland, with the three Kenyans continuing to manage the operation. Africa Online was the first commercial Internet provider in Kenya and Cote d'Ivoire. In 2007, Africa Online was purchased by South Africa's Telkom.

Many large tech companies have taken it upon themselves to build Africa's internet infrastructure. Facebook and Google are investing millions of dollars to bring Africa online, and both companies have faced failures as well as more promising ventures. Facebook halted its Aquila drone project in 2018 after structural failure, and Google halted its Loon helium balloon project in 2021 as the business model was not viable. Facebook launched the 2Africa Internet Project, formerly known as Simba, aiming to build the longest sub-sea internet cable system in the world with partners from China, Saudi Arabia, and Europe with a goal of doubling the continent's internet capacity. Google, also aiming to double internet speed in the region, built the Equiano sub-sea cable that stretches from Portugal.

However, political challenges persist. Facebook and Google are facing backlash from governments, concerned about the power vested in social media that could potentially oust them from the rule, as exemplified by the Arab Spring. Sub-Saharan African governments are ordering internet service providers to shut gateways and choke data traffic when threatened by electoral defeat or dissent. Facebook and Google have condemned intentional internet disruptions, but many authoritarian governments have responded by banning the platforms.

What makes Africa's mobile and Internet revolution significant is its potential economic impact. The World Bank has been a strong supporter of deploying wireless and Internet communication to improve food production and other development. To some, mobile has become a means to economic empowerment. For example, farmers in Senegal now use their one mobile phone to find eggplant buyers in Dakar willing to pay three times the rate offered by local middlemen. These and other examples suggest the information and communication technology revolution may reap benefits for multinational and local companies, as well as others who may improve their economic situation by exploiting these new communication opportunities.

Source: Powell, Mike. "Culture and the Internet in Africa, a Challenge for Political Economists." *Review of African Political Economy*, June 2001, 241; "Reasons to Cut Off Mr. Mugabe." *Economist*, April 13, 1996, 339; "The Digital Gap." *Economist*, October 20, 2007, 64; "The Mobile Economy Sub-Saharan Africa 2018." GSMA, 2018, https://www.gsma.com/r/mobileeconomy/sub-saharan-africa; "The Mobile Revolution in Africa." *Global Finance*, December 2009, 49. "85 Percent of Africans Live on Less Than $5.5 per day", *World Bank Blogs*, October 3, 2019, https://blogs.worldbank.org/opendata/85-africans-live-less-550-day. "Tech Giants' Dreams of Free Internet Wither in African Backlash", *Bloomberg*, March 11, 2021. "Google Internet Cable Lands in Africa, Promising Fast Connection", *Reuters*, March 19, 2022, https://www.reuters.com/technology/google-internet-cable-lands-africa-promising-fast-connection-2022-03-18/ Isobel Asher Hamilton, "The Facebook-Backed 2Africa Subsea Communications Cable is Set to Become the World's Longest, Stretching About 28,000 Miles", *Business Insider,* September 28, 2021, https://www.businessinsider.com/facebook-subsea-internet-communications-cable-worlds-longest-2africa-extension-pearls-2021-9

independent and corporate new ventures based in the U.S. Building on past research about the advantages of large, established multinational enterprises, their results from 12 high-technology industries show that greater diversity of national environments is associated with increased technological learning opportunities even for new ventures, whose internationalization is usually thought to be limited.[96] In addition, the breadth, depth, and speed of technological learning from varied international environments are significantly enhanced by formal organizational efforts to integrate knowledge throughout a firm such as cross-functional teams and formal analysis of both successful and failed projects. Further, the research shows that venture performance (growth and return on equity) is improved by technological learning gained from international environments.

International New Ventures and "Born-Global" Firms Another dimension of the growth of international entrepreneurial activities is the increasing incidence of international new ventures, or **born-global firms**—firms that engage in significant international activity shortly after being established. Research has shown that born global firms typically have advanced technologies and high global orientation on part of their entrepreneurs, and rely on the Internet and personal networks to expand internationally.[97]

born-global firms
Firms that engage in significant international activities shortly after being established.

Another study highlighted the critical role of innovative culture, as well as knowledge and capabilities, in this unique breed of international, entrepreneurial firms. An analysis of case studies and surveys revealed key strategies that engender international success among these innovative firms.[98] Successful born-global firms leverage a distinctive mix of orientations and strategies that allow them to succeed in diverse international markets. Their possession of the foundational capabilities of international entrepreneurial orientation and international marketing orientation engender the development of a specific collection of organizational strategies. The most important business strategies employed by born-global firms are global technological competence, unique-products development, quality focus, and leveraging of foreign distributor competences.[99]

One clear example of a born-global firm is California-based Amazon. Like most U.S. Internet firms, Amazon has been able to distribute its products and services on an international scale from the outset. Although differing levels of cultural similarities and technological sophistication impact Amazon's potential for success internationally, the Internet as a medium has removed certain entry barriers that have historically restricted quick

market entry.[100] Another example is New York-based online trading and investing services E*Trade. The company was able to bring in revenues from 33 countries in only three years, clearly making it a global brand. Allowing customers to actively participate in their investments while offering multilingual technical and professional customer support allowed E*Trade to integrate its services in many countries. The simplified website does not bombard consumers with extraneous information and allows each person to trade as much or as little as desired, making it inherently customized. It has not been a success story for its entire existence, however. The company was in danger of being left behind when it could not get out of the red, but, in 2005, the company was able to become profitable due to the low cost of Internet business and its extremely diverse customer base. Although it had its ups and downs in the following years, it survived the financial crisis with fewer problems than many "bricks and mortar" brokerages.

The Internet clearly provides one of the easiest and most efficient methods of becoming global quickly, but it is important that awareness be brought to the business, or it, too, can be lost in the digital maze. Now more than ever, born-global as a corporate strategy is becoming more attractive and less risky. The chapter opening World of International Management box of Chapter 11 provides a discussion of the globalization and strategy of two online retailers.



The World of International Management—Revisited

Recall the World of International Management's discussion of Starbucks that opened this chapter. It is easy to see why Starbucks is looking to expand globally and reshaping its business strategy accordingly. Slowing domestic growth, coupled with increased competition, makes expansion into new markets an attractive gamble. As discussed in the chapter opening, Starbucks must adapt its customer experience and product offerings to appeal to the local markets; the demands of the Italian espresso drinker differ greatly from those of the Chinese tea drinker.

Drawing on your understanding of the need for and the benefits of strategic management, answer these questions: (1) Which imperative is likely to be relatively most important to MNCs in the coming decade: economic, political, or quality? (2) When MNCs scan the environment, what are two key areas for consideration that they must address? (3) Referring to the chapter's opening discussion, how would you characterize Starbucks' strategy within the globalization–national responsiveness framework? (4) Which FSAs and CSAs does it primarily rely upon? To what extent does Starbucks use a base of the pyramid strategy? How would it affect the company if low-income markets turned out to be a bust?

SUMMARY OF KEY POINTS

1. There is a growing need for strategic management among MNCs. Some of the primary reasons are that foreign direct investment is increasing; planning is needed to coordinate and integrate increasingly diverse operations via an overall focus; and emerging international challenges require strategic planning.
2. A strategic plan can take on an economic focus, a political focus, a quality focus, an administrative coordination focus, or some variation of the four. The global integration–national responsiveness framework defines the four basic strategies employed by MNCs: international, global, multi-domestic, and transnational. Although transnational is often the preferred strategy, it is also the most difficult to implement.
3. Strategy formulation consists of several steps. First, the MNC carries out external environmental scanning to identify opportunities and threats. Next, the firm conducts an internal resource analysis of company strengths and weaknesses. Strategic goals then are formulated in light of the results of these external and internal analyses.
4. Strategy implementation is the process of providing goods and services in accord with the predetermined plan of action. This implementation typically involves such considerations as deciding where to locate operations, carrying out an entry and ownership strategy, and using functional strategies to implement the plan. Functional strategies focus on marketing, production, and finance.
5. Strategies for emerging markets and international entrepreneurship/new ventures may require specialized approaches targeted to these unique circumstances.

KEY TERMS

administrative coordination, *295*
base of the pyramid strategy (BOP), *309*
born-global firms, *313*
economic imperative, *292*
environmental scanning, *298*
global integration, *295*
global strategy, *297*
international entrepreneurship, *311*
international strategy, *297*
key success factor (KSF), *300*
multi-domestic strategy, *297*
national responsiveness, *296*
political imperative, *293*
quality imperative, *293*
strategic management, *290*
strategy implementation, *302*
transnational strategy, *297*

REVIEW AND DISCUSSION QUESTIONS

1. Of the four imperatives discussed in this chapter—economic, political, quality, and administration—which would be most important to IBM in its efforts to make inroads in the African market? Would this emphasis be the same as that in the U.S., or would IBM be giving primary attention to one of the other imperatives? Explain.
2. Define global integration as used in the context of strategic international management. In what way might globalization be a problem for a successful national organization that is intent on going international? In your answer, provide an example of the problem.
3. Some international management experts contend that globalization and national responsiveness are diametrically opposed forces and that to accommodate one, a multinational must relax its efforts in the other. In what way is this an accurate statement? In what way is it incomplete or inaccurate?
4. Consider that both a retail chain and a manufacturing company want to expand overseas. What environmental factors would have the most impact on these companies? What ratio of environmental scanning to internal analysis should each employ? What key factors of success differentiate the two?
5. AB InBev is attempting to expand in India, where beer is not widely consumed and liquor dominates the market. What areas should be targeted for strategic goals? What could be some marketing implications in the Indian market?
6. What particular conditions that MNCs face in emerging markets may require specialized strategies? What strategies might be most appropriate in response? How might a company identify opportunities at the base of the pyramid (i.e., low-income markets)?
7. What conditions have allowed some firms to be born global? What are some examples of born-global companies?
8. Mercedes changed its U.S. strategy by announcing that it is developing cars for the $30,000 to $45,000 price range (as well as its typical upper-end cars). What might have accounted for this change in strategy? In your answer, include a discussion of the implications from the standpoints of marketing, production, and finance.

INTERNET EXERCISE: INFOSYS' GLOBAL STRATEGY

Infosys is one of the world's largest IT service providers. It started in India but has rapidly expanded around the world. It offers consulting services, outsourcing, data storage, and other informational management services to all industries. Go to Infosys' website at **https://www.infosys.com** and review the various services it offers. Then answer these questions: How do you think international strategic management is reflected in what you see on the website? What major strategic planning steps would Infosys need to carry out in order to remain a world leader with such diverse offerings? What potential threat, if it occurred, would prove most disastrous for Infosys, and what could the company do to deal with the possibility of this negative development?

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In the International Spotlight

United Arab Emirates

The United Arab Emirates (UAE) is located on the Arabian Peninsula, bordering both the Gulf of Oman and the Persian Gulf, with an area about the size of Austria. The country, first established in 1971, is a loosely connected federation of seven emirates, which include Abu Dhabi, Ajman, Sharjah, Dubai, Fujairah, Ras Al Khaimah, and Umm Al Quwain. Each emirate is run as an independent, hereditary monarchy. Most of the population resides in urban areas close to the Persian Gulf coastline, and a large portion of the country's interior is uninhabitable desert. By leveraging its valuable oil reserves, the country has radically modernized in just a few decades.[101]

The UAE has an open economy with a large per capita GDP. The current prosperity in the UAE is largely due to its oil reserves, although significant efforts are under way to diversify the economy. As of 2019, the gas and oil sector accounted for only 30 percent of GDP. Following years of rapid development in the early 2000s, the UAE was hit particularly hard by the global recession in 2009. In the decade since, economic growth has averaged about 4 percent per year. GDP stood at US$359 billion in 2020, with a per capita GDP of US$38,661.[102]

The UAE is a country of immigrants; of the 9.9 million people living in the country in 2020, nearly 88 percent were foreign-born. Today, ethnic Emeratis constitute only 11 percent of the population. Most of the migration stems from the ongoing construction boom and high demand for labor in Dubai and Abu Dhabi. Indians and Bangladeshis, seeking these higher-paying jobs, now constitute approximately 38 and 10 percent of the population, respectively. Islam is the official religion of the country, and Arabic is the official language. English is also widely spoken. The legal system combines both Islamic and civil law.[103]

Most domestic power resides with each emirate's emir (monarch), while foreign affairs and budgeting are decided by the Federal Supreme Council. The Federal Supreme Council consists of the seven emirs, with the emir of Abu Dhabi serving as president and the emir of Dubai serving as prime minister and vice president. An additional legislative body, called the Federal National Council, consists of 40 emirates that function in a largely advisory role. Half of the Federal National Council is chosen by the emirs, while the other half is elected by a limited number of chosen citizens. Both women and men serve on the council.[104]

Sheikh Khlifa, as he is commonly referred to, succeeded his father as Emir of Abu Dhabi and President of the UAE in 2004. As president, he holds the role of Supreme Commander of the UAE Armed Forces. Often referred to by former U.S. Defense Secretary James Mattis as "Little Sparta," the UAE Armed Forces play a major role in maintaining stability in the region and combating Islamic terror groups. Sheikh Khalifa also controls the Abu Dhabi Investment Authority, the UAE's sovereign wealth fund with approximately US$686 billion in total assets. It is estimated that Sheikh Khalifa has a personal net worth of US$15 billion.[105,106,107]

Today, the UAE provides nearly universal access to electricity and water to its citizens. The country has invested in modern technological infrastructure and large, state-of-the-art airports to attract foreign investment. Both Dubai and Abu Dhabi have become international destinations for luxury shopping, lively nightlife, and exotic attractions. Despite these advancements, human rights issues still remain a concern for many in the international community. Women are subject to discriminatory laws in both employment and their personal lives, and apostasy from Islam and homosexuality remain punishable by law.[108]

You Be the International Management Consultant

To many travelers, the UAE may be most known for its luxury airline, Emirates. The airline is a subsidiary of The Emirates Group, which is wholly owned by the Investment Corporation of Dubai, a state-owned holding company. Emirates has had great success for several years and expanded its aviation crew. In 2014, Dubai International Airport was the world's busiest for international travel, as Emirates drew in tourists.[109] However, the airline has faced difficulties during the Covid-19 pandemic. Qatar Airways, for the first time, replaced Emirates as the world's biggest long-haul carrier by capacity. Strained by lower passenger traffic due to lockdowns ad travel restrictions, Emirates Group undertook its first major downsizing in 2020, cutting over 100,000 jobs. The firm reported a US$6 billion loss. Businesses that relied on Emirates Group staff as customers, including restaurants and schools, have felt the impact as expatriates in the firm started to leave.

The increase in fuel prices and the Russia–Ukraine war are additional hurdles hindering the airline's recovery as of 2022.[110,111] Marketing for the airline entails a variety of high-profile sponsors of European football, rugby, and cricket clubs. In 2018, Arsenal FC, based in London, agreed to a new jersey sponsorship deal with Emirates of more than £20 million per year, lasting until 2024. The airline also attained the naming rights for Arsenal's relatively new stadium. These sponsorships, while providing important funds in a competitive sport, are interpreted by many as an attempt by the Emirati government to enhance its image abroad.[112]

Questions

1. Given that the country is actively seeking foreign investors and appears to be creating a pro-business atmosphere, what nonoil businesses do you think would be best suited for expanding into the UAE?
2. If you were a foreign investor, what concerns would you have about the country? Would you make an investment in the country?
3. If you were recommending a sponsorship deal for a team, would you advise choosing Emirates over a domestic or nongovernmental bid that may not be as large?

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Chapter 9

ENTRY STRATEGIES AND ORGANIZATIONAL STRUCTURES

OBJECTIVES OF THE CHAPTER

The success of an international firm can be greatly influenced by how it enters and operates in new markets and by the overall structure and design of its operations. There are a wide variety of entry strategies and organizational structures and designs from which to choose. Selecting the most appropriate strategy and structure depends on a number of factors, such as the desire of the home office for control over its foreign operations and the demands placed on the overseas unit by both the local market and the personnel who work there.

This chapter first discusses some entry strategies and systems of ownership that MNCs may have to choose from when deciding to expand abroad. With regard to the organization itself, the chapter presents and analyzes traditional organizational structures for effective international operations. Then it explores some of the new, nontraditional organizational arrangements stemming from mergers, joint ventures, and the Japanese concept of keiretsu. The specific objectives of this chapter are

1. **DESCRIBE** how an MNC develops and implements entry strategies and ownership structures.
2. **EXAMINE** the major types of entry strategies and organizational structures used in handling international operations.
3. **ANALYZE** the advantages and disadvantages of each type of organizational structure, including the conditions that make one preferable to others.
4. **DESCRIBE** the recent, nontraditional organizational arrangements coming out of mergers, joint ventures, keiretsus, and other new designs, including electronic networks and product development structures.
5. **EXPLAIN** how organizational characteristics such as formalization, specialization, and centralization influence how the organization is structured and functions.

The World of International Management

Airbnb

Companies that offer physical goods, like appliance manufacturer Haier, beverage conglomerate Keurig Dr. Pepper, and consumer goods company Unilever, utilize long-established strategies when expanding into foreign markets. Typically, these companies make a substantial initial investment to position themselves in the host country, whether through forming alliances with domestic companies, acquiring competitors, establishing infrastructure to allow the direct exporting of goods or franchising. For start-up companies, these strategies can be cost-prohibitive and technically complex, limiting their ability to expand beyond their domestic market.

Technology companies, however, have disrupted the standard market entry process in recent years. Using a computer or smartphone with an Internet connection, small start-ups can now easily sell services directly to consumers overseas, bypassing much of the bureaucratic red tape that other companies must navigate. Airbnb, a digital platform that allows individuals to rent out their spare rooms, apartments, and houses, provides a good example. The company does not own or manage any of the properties it lists on its platform, and it does not sell any physical goods. Rather, it simply provides a digital space to connect users and enable them to make a transaction.[1]

As Airbnb has gained more traction in the market, the demand for affordable and experiential lodging services has grown exponentially, especially among international travelers. Today, Airbnb hosts more than 6 million unique property listings on its platform, spanning more than 100,000 cities across 200 regions and countries.[2] Although navigating the international regulatory process is somewhat less complex for tech companies, they still face unique challenges and opportunities as they expand globally. Airbnb's entry strategies for the Cuban, Chinese, Indian, and Thai markets provide good examples.

Cuba

Ever since the implementation of the U.S. embargo that prohibits U.S. companies from owning hotels and hiring employees in Cuba, homestays with local Cubans, better known as a "casa particular," have been a popular alternative for tourists and educational visitors. When staying at a casa particular, guests are

treated to an authentic experience in a real Cuban neighborhood. Hosts often cook meals for their guests, share stories of their life in Cuba, and recommend sightseeing destinations. For the increasing number of Americans visiting Cuba every year, homestays are an integral part of their trip.[3]

Airbnb, which specializes in similar types of housing arraignments, recognized a large opportunity in the Cuban market. First, despite the embargo, Airbnb is uniquely positioned to legally operate in the growing Cuban travel industry. As a technology company, Airbnb functions more as a "matching" service than a hotelier. Unlike traditional U.S.-based hotel operators, Airbnb does not rely on owning properties or employing full-time staff to operate. With brands like Marriott and Hilton excluded from the market, Airbnb can operate in Cuba without any major competition. Second, Airbnb's established platform and brand image, which are already used and trusted by a large contingent of travelers, could accommodate new Cuban properties without much investment or effort. While many tourists might find the process of searching and paying for a casa particularly difficult, Airbnb's familiar platform gives users choices and simplifies payment.[4]

Airbnb's entry strategy for Cuba focused on addressing a few logistical challenges. Airbnb customers are used to seeing accurate photos, detailed lodging information, and past reviews in its property listings on the digital platform. To help traditional casa particular operators enhance their Cuba listings, Airbnb partnered with local photographers to help hosts better depict their residences on the website.[5] Additionally, because of the embargo, it can be difficult, if not impossible, for Americans to provide legal payment to Cuban merchants. To navigate the somewhat complicated transaction process and legal issues, Airbnb partnered with local collection agencies to administer financial transactions.

The strategy seems to have worked, though with some hiccups. In 2022, Airbnb Payments, a subsidiary of Airbnb was fined US$ 91,200 for failing to monitor how its platform was being used in Cuba.[6] Despite this, Cuba is emerging as one of the fastest growing markets for Airbnb. In a short period, Cuban Airbnb hosts have listed more than 36,000 homes across 70 different cities and towns, earning nearly $47 million annually.[7]

China

With increasing disposable income and an interest in travel, China seemed to be an obvious growth market for Airbnb. However, ever since its entry in 2016, Airbnb struggled to find a solid foothold in China.

The company has found it difficult to increase its number of property listings in the country, and local competitors, such as Tujia and Xiaozhu, continue to dominate the market. By 2021 Airbnb had only about 150,000 listings available in China. Airbnb quickly realized that it would need a unique strategy to build a customer base in China, or risk falling further behind in one of the world's most lucrative travel markets.[8]

First, rather than focusing on building a network of "hosts," Airbnb decided that it would target outbound Chinese tourists as "guests." The annual number of international travelers from China has more than doubled in the last decade; becoming the go-to platform for those travelers would give Airbnb a strong brand image within China. Second, Airbnb aims to differentiate itself from its local competitors by providing a higher-quality experience for its Chinese travelers. To achieve this, Airbnb has invested in local offices in multiple Chinese cities, virtual training sessions for "hosts," and improved customer service centers. Third, to maintain its loyal customer base from the Americas and Europe, the company tried to leverage its existing platform to connect foreign guests with information and tickets to China's local attractions and experiences.[9]

These efforts, however, did not yield much success for Airbnb. Even before the COVID-19 outbreak, China accounted for only about 1 percent of global revenue for Airbnb. The zero-Covid policy of China and the constant lockdowns made further contributed to the loss of market attractiveness of China for Airbnb. Airbnb decided to close down all China-based services starting July 30, 2022.[10]

India

Airbnb currently has 70,000 locations across 120 cities in India and the country is considered to be one of the major growth markets for the company. Between 2015 and 2019, the number of guests of Airbnb India grew 83.4 percent per year. These figures represent Airbnb's successful entrance into the Indian market, which is largely related to Airbnb's ability to connect to the culture of the country.[11]

Airbnb has benefitted from its ability to create successful partnerships in India such as its collaboration with the Department of Tourism in the state of Andhra Pradesh. Airbnb promotes the country's culture, art, and craft traditions. It even has indirectly partnered with Bollywood celebrities to expand its image. Bollywood is a connector of many demographics in India, and associating Bollywood celebrities with Airbnb stays improves its marketability.[12]

Airbnb is also able to succeed in promoting the homestay side of its model and encouraging visits to underserved and less popular destinations. Airbnb has benefitted from a recent boom in longer homestays, with some as long as over 28 days in length.[13] Airbnb is catering to the youth market for both hosts and guests, with over half of all new hosts in the first half of 2021 represented by millennials.[14]

Airbnb's commitment to staying true to the Indian culture on all fronts and articulating that to customers has helped allowed Airbnb to succeed in India thus far. In the end, Airbnb's success in India would depend on how well it connects with the emerging segment of youth travelers.

Thailand

As of 2020, Airbnb Thailand offered around 99,000 listings on its site and successfully attracted around 2.5 million guests per year at its many locations. Airbnb claims that it contributes around $1.3 billion USD to the country's GDP in the form of tourism related spending by its millions of guests. Around 92 percent of Airbnb Thailand's guests come from overseas. The Thai experience, however, has not all been positive for Airbnb as it faces legal battles and local criticism.[15]

The primary debate sounds like Thailand's Hotel Act requires a special hotel license to operate a hotel that rents out space to customers on anything less than a monthly basis. Airbnb offerings fall under the definition and, as a result, Airbnb has recently come under fire from hotel groups that accuse it of skirting local regulations. Thai business mogul, Bill Heinecke, directed a complaint to the Minister of the Interior, raising concerns about not adhering to the Hotel Act, non-compliance with Thailand's safety standards, and failure to comply with tax requirements.[16]

Airbnb responded to Heinecke's complaint by outlining its efforts in working with the government to clearly regulate its model. Airbnb has also been lobbying the government to allow its new business model of short-term rentals to exist without being burdensome on its hosts.It seems the biggest problem for Airbnb in Thailand is not related to attracting hosts and guests. Rather, the difficulty is in gaining the trust of locals and successfully lobbying the government. Until Airbnb is able to change Thailand's regulations in a way that adapts to its model, it will continue to face these constant criticisms from many directions that will inhibit its future penetration into Thailand's market.[17]

This discussion of Airbnb provides a good example of the entry and organizational challenges and options companies face as they do business around the world. In Cuba, Airbnb leverages its ability to offer the familiar casa particular concept and strategically uses its platform to operate legally despite the U.S. embargo. In China, the company tried targeting outbound Chinese travelers while strategically differentiating itself from local competitors by offering a higher-quality product, but failed. In India, Airbnb leverages strategic partnerships to connect with the local culture. And, in Thailand, Airbnb is still struggling to get off the ground in the face of many legal battles. In this chapter, we review the basic entry strategies and organizational structures available to firms as they expand their global reach.

Entry Strategies and Ownership Structures

There are a number of common entry strategies and ownership structures in international operations. The most common entry approaches are basic export and import operations, wholly owned subsidiaries, mergers and acquisitions, alliances and joint ventures, licensing agreements, and franchising. Depending on the situation, any one of these can be a very effective way to implement an MNC's strategy. We first look at exporting and importing because it is not only one of the oldest approaches but also one that requires the least investment by the MNC.

Export/Import

As noted in the discussion in Chapter 8 on international entrepreneurship and new ventures, exporting and importing often are the only available choices for small and new firms wanting to go international.[18] These choices also provide an avenue for larger firms that want to begin their international expansion with minimum investment and risk. The paperwork associated with documentation and foreign-currency exchange can be turned over to an export management company to handle, or the firm can handle things itself by creating its own export department. Additionally, the firm can turn to major banks or other specialists that, for a fee, will provide a variety of services, including letters of credit, currency conversion, and related financial assistance.

A number of potential problems face firms that plan to export. For example, if a foreign distributor does not work out well, some countries have strict rules about dropping that distributor. So an MNC with a contractual agreement with a distributor could be

stuck with that distributor. On the other hand, if the firm decides to get more actively involved, it may make direct investments in marketing facilities, such as warehouses, sales offices, and transportation equipment, without making a direct investment in manufacturing facilities overseas.

When importing goods, many MNCs source products from a wide range of suppliers from all over the world. It is common to find U.S. firms purchasing supplies and components from China, India, Korea, Taiwan, and Hong Kong. In Europe, there is so much trade between EU countries that the entire process seldom is regarded as "international" in focus by the MNCs that are involved.

Exporting and importing can provide easy access to overseas markets; however, the strategy usually is transitional in nature. If the firm wishes to continue doing business internationally, it will need to get more actively involved in terms of investment and take on new risks.

Wholly Owned Subsidiaries

Increasing in risk and involvement, a **wholly owned subsidiary** is an overseas operation that is totally owned and controlled by an MNC. MNCs that rely on global strategy often pursue this option to exercise tighter control over subsidiary operations. Wholly owned subsidiaries are also preferred if transaction costs, such as the cost of negotiating and transferring information, are high.[19,20] When MNCs make an initial investment in the form of a wholly owned subsidiary in a foreign country, it is sometimes referred to as "greenfield" or de novo (new) investment.

wholly owned subsidiary
An overseas operation that is totally owned and controlled by an MNC.

The primary reason for the use of wholly owned subsidiaries is a desire by the MNC for total control and the belief that managerial efficiency will be better without outside partners. Due to the sole ownership, it has been found that both the profitability and survival of wholly owned subsidiaries can be higher and that there are clearer communications and shared visions.[21] However, there are some drawbacks. Typically, wholly owned subsidiaries face a high risk with such a large investment in one area and are not very efficient with entering multiple countries or markets. Furthermore, host countries often feel that the MNC is trying to gain economic control by setting up local operations but refusing to include local partners.[22] Some countries are concerned that the MNC will drive out local enterprises as opposed to helping develop them. In dealing with these concerns, many newly developing countries prohibit wholly owned subsidiaries. MNCs also need more lead time to set up wholly-owned subsidiaries, which may result in a loss of the first mover advantage As a result, today, many multinationals opt for a merger, an alliance, or a joint venture rather than a wholly owned subsidiary.[23,24]

Mergers/Acquisitions

In recent years, a growing number of multinationals have acquired (fully or in part) their subsidiaries through **mergers/acquisitions**. MNCs may choose this route in order to quickly expand resources or construct high-profit products in a new market.[25] Purchasing a majority interest in another company is an expedient way to expand. A recent example of a sizable cross-border acquisition was the 2021 purchase of the U.S.-headquartered transportation holding company, Kansas City Southern, by Canadian Pacific Railway for US$31 billion. This deal is notable for its size as it will create the first railroad connecting the U.S., Canada, and Mexico, an important transportation corridor in the aftermath of the new USMCA agreement, which substitutes the NAFTA agreement (see Chapter 1 for details).[26] In 2021, the value of cross-border deals reached an all-time high of US$2.1 trillion, which is up by 69 percent from the Covid-hit 2020. The number of cross-border deals also rose by 38 percent from the 2020 figures to an all-time high of 17.859 in 2021.[27]

merger/acquisition
The cross-border purchase or exchange of equity involving two or more companies.

Cultural differences (see Chapter 6) and time constraints are the two most pervasive barriers to conducting cross-border mergers and acquisitions.[28,29] Even before agreements are reached, time is of great concern. While managers do not want to force negotiations or rush a potential subsidiary's decision, waiting too long could result in missed

opportunities due to bids from competitors or a rapid change in the market.[30] Once a merger or an acquisition occurs, managers may find it difficult to clearly communicate new operational goals to the foreign subsidiary, which not only highlights cultural differences but also adds time and risk to a company's activities.

Transition costs also pose a problem in the postmerger environment.[31] U.S.-based Microsoft's acquisition of Finnish-based Nokia's Devices and Services Division provides a good example. Microsoft had long lagged behind its competitors in the mobile phone market. At the time, the US$7 billion deal, which included 10 years of exclusive use of Nokia's mobile device patents, was called a "win-win for employees, shareholders, and consumers of both companies" by then–Microsoft CEO Steve Ballmer.[32,33] However, integrating the new companies proved to be incredibly difficult. In 2015, Microsoft was forced to take an impairment adjustment of US$7.6 billion to write down its Nokia assets, and, later that year, the company announced plans to restructure its entire phone hardware division, costing an additional US$800 million. In the first two years after the deal, more than 20,000 jobs were eliminated.[34] In late 2017, after years of losses and minimal penetration in the market, Microsoft pulled out of the mobile device business altogether.[35]

Many companies are finding that M&As do not work out or they involve a considerable financial risk because of the high sales price. Joint ventures and strategic alliances are good alternatives. They provide MNCs with the opportunity to access a wide variety of competencies, thus reducing their own costs while ensuring that they have a reliable provider, as we discuss next.

Alliances and Joint Venture

alliance
Any type of cooperative relationship among different firms.

joint venture (JV)
An agreement under which two or more partners own or control a business.

An **alliance** is any type of cooperative relationship between two or more different firms. An international alliance is composed of two or more firms from different countries. Some alliances are temporary; others are more permanent. A **joint venture (JV)** can be considered a specific type of alliance agreement, under which two or more partners own or control a business. An international joint venture (IJV) is a JV composed of two or more firms from different countries. Alliances and joint ventures can take a number of different forms, including cross-marketing arrangements, technology-sharing agreements, production-contracting deals, and equity agreements. In some instances, two parties may create a third, independent entity expressly for the purpose of developing a collaborative relationship outside their core operations. Just like mergers and acquisitions, alliances and joint ventures can pose substantial managerial challenges. We discuss some of these here and again in Chapter 10.

There are two types of alliances and joint ventures. The first type is the nonequity venture, which is characterized by one group merely providing a service for another. The group providing the service is typically more active than the other. Examples include a consulting firm that is hired to provide analysis and evaluation and then make its recommendations, an engineering or construction firm that contracts to design or build a dam or series of apartment complexes in an undeveloped area of a partner's country and a mining firm that has an agreement to extract a natural resource in the other party's country.

The second type is the equity joint venture, which involves a financial investment by the MNC parties involved. Many variations of this arrangement adjust the degree of control that each of the parties will have and the amount of money, technological expertise, and managerial expertise each will contribute to the JV.[36]

The degree of control in the joint venture and sharing of profits is often a highly contested issue between the MNC and its local partner. Nevertheless, alliances and joint ventures have become very popular in recent years because of the significant operational benefits they offer to both parties. Some of the most commonly cited advantages include

1. *Improvement of efficiency.* The creation of an alliance or a JV can help the partners achieve economies of scale and scope that would be difficult for one firm operating alone to accomplish. Additionally, the partners can spread the risks among themselves and profit from the synergies that arise from the complementary resources.

2. *Access to knowledge.* In alliances and JVs, each partner has access to the knowledge and skills of the others. So one partner may bring financial and technological resources to the venture, while another brings knowledge of the customer and market channels.
3. *Mitigating political factors.* A local partner can be very helpful in dealing with political risk factors such as a hostile government or restrictive legislation.
4. *Overcoming collusion or restriction in competition.* Alliances and JVs can help partners overcome the effects of local collusion or limits being put on foreign competition by becoming part of an "insider" group.[37]

As previously noted, alliance and JV partners often complement each other and can thus reduce the risks associated with their operations and entering a foreign market. A good example is the global automotive industry. Firms in the truck manufacturing and auto component industries have found that the high cost of developing and building their products can be offset through joint ventures. The International Management in Action box "Alliances, JVs, and M&As: The case of the Automotive Industry" illustrates how automotive firms have used different types of alliances to increase their global presence.

Another industry that has been very active in cross-border alliances is airlines. These alliances have been prompted by slow growth in some markets, increased global competition, and the competitive dynamics among domestic and global carriers. In 2018, British Airways of the U.K. and American Airlines of the U.S. announced the expansion of their existing Oneworld alliance with the addition of Royal Air Maroc, the national carrier of Morocco. The move gives the Oneworld alliance its first Africa-based member and adds 34 unique destinations in 21 countries to the existing alliance.[38] In general, airlines are discouraged from formal alliances because of concerns about collusion and price-fixing, but many airlines have been granted waivers because of a recognition by regulatory authorities that their very survival may depend on consolidation. More broadly, the structure of the global airline industry has evolved into three large alliances in which member firms agree to code-sharing and reciprocity in their frequent flyer programs. Table 9–1 shows the major alliances, their current members, and some performance metrics.

Table 9–1
Membership and Market Data for the Largest Airline Alliances (as of April 2021)

	Star Alliance (27 members, founded 1997)	Sky Team (20 members, founded 2000)	Oneworld (13 members, founded 1999)	Rest of Industry (selected major nonaligned carriers)
Passengers per year	642 million	665 million	557.4 million	
Destinations	1,360	1,062	1,016	
Revenue (billion US$)	179.1	141.0	130.9	
Major airlines	Air Canada (founder)	Aeroflot (2006)	American Airlines (founder)	JetBlue
	Air China (2007)	Aeroméxico (founder)	British Airways (founder)	Southwest
	Air New Zealand (1999)	Air France (founder)	Cathay Pacific (founder)	Aer Lingus
	Air India (2014)	Alitalia (2001)	Iberia (1999)	Icelandair
	ANA (1999)	China Airlines (2011)	Japan Airlines (2007)	Virgin Atlantic
	Avianca (2012)	Delta (founder)	LATAM Chile (2000)	Emirates
	Copa Airlines (2012)	KLM (2004)	Qantas (founder)	Gulf Air
	Lufthansa (founder)	Korean Air (founder)	Qatar (2013)	Jet Airways
	SAS (founder)	Middle East Airlines (2014)	LATAM Brazil (2014)	
	Singapore Airlines (2000)	Saudia (2012)		
	United Airlines (founder)			

Source: Adapted from Wikipedia, based on airline websites, https://en.wikipedia.org/wiki/Airline_alliance.

International Management in Action

Alliances, JVs, and M&A: The Case of the Automotive Industry

One industry that has been actively engaging in both alliances/JVs and mergers and acquisitions is the global automotive industry. Indeed, often alliances and joint ventures are the first steps toward a merger or an acquisition. In the 1970s, as domestic producers in the U.S. and Europe began to face competition from abroad, alliances and joint ventures were fueled in part by auto companies desire to adapt and adjust to the changing global dynamics, especially the interest in smaller, high-quality cars built by Japanese manufacturers. With periods of contraction during the recessions of the early 1990s, late 1990s, and late 2000s, producers were pressured to consolidate as a way to streamline production and cut costs. More recently, alliances, JVs, and M&As have been stimulated by a range of factors, including continued overcapacity, emerging-markets expansion, and demand for new types of vehicles, including hybrid and electric.

The rising power of China and India in the global automotive industry has been made clear by the growth of brands such as Cherry and Tata, and by major acquisitions over the last decade. In 2018, Chinese auto company Geely purchased a 10 percent stake in German automaker Daimler for US$9 billion. Previously, in 2017, Geely had bought 51 percent of British sports car maker Lotus Cars. GM has long maintained a successful joint venture with China's Shanghai Automotive Industries Corporation (SAIC). Fiatís joint venture with GAC (Guangzhou AutomobileGroup), called GAC Fiat Automobiles Co., Ltd., and headquartered in Changsha, China, opened a Jeep production facility to meet the growing demand for SUVs in China in 2015. Indian auto company Tata Motors bought Fordís Land Rover and Jaguar brands. Land Rover and Jaguar are both European brands that Ford had previously purchased.

Finally, the development of hybrid and electric vehicles has often taken the form of joint ventures because (1) the technologies often do not exist in traditional automotive companies and (2) the market prospect and regulatory uncertainties are high, prompting companies to want to share risks with partners. Tesla (see Brief Integrative Case 3.2) has taken a more bold approach by making its innovation open source, thus reducing the need to establish joint ventures for technological knowledge. Partly because of this strategy, Tesla became the first auto company that could enter China without a local joint venture partner.

Source: Alan Ohnsman, "Hyundai Leads Asian Brands, U.S. Gains as Sales Slow," Bloomberg BusinessWeek, July 1, 2010; Robert Ferris, "Chinaís Geely Buys a $9 Billion Stake in Daimler, reports Bloomberg," CNBC, February 23, 2018, https://www.cnbc.com/2018/02/23/chinas-geely-buys-a-9-billion-stake-in-daimler-reports-bloomberg.html; Mark Milner, "Indian Firm Buys Jaguar and Land Rover," The Guardian, March 26, 2008, https://www.guardian.co.uk/business/2008/mar/26/automotive.mergersandacquisitions.

Alliances and JVs are proving to be particularly popular as a means for doing business in emerging-market countries. For example, in the early 1990s, foreigners signed more than 3,000 joint-venture agreements in Eastern Europe and the former republics of the Soviet Union, and such interest remains high today. However, careful analysis must be undertaken to ensure that the market for the desired goods and services is sufficiently large, that all parties understand their responsibilities, and that all are in agreement regarding the overall operation of the venture. If these issues can be resolved, the venture stands a good chance of success. Some suggestions that have been offered by researchers regarding participation in joint ventures and strategic alliances include

1. Know your partners well before an alliance is formed.
2. Expect differences in alliance objectives among potential partners headquartered in different countries.
3. Realize that having the desired resource profiles does not guarantee that they are complementary to your firm's resources.
4. Be sensitive to your alliance partner's needs.
5. After identifying the best partner, work on developing a relationship that is built on trust, an especially important variable in some cultures.[39]

license
An agreement that allows one party to use an industrial property right in exchange for payment to the owning party.

Licensing

Another way to gain market entry, which also may be considered a form of alliance, is to acquire the right to a particular product by getting an exclusive license to make or sell the good in a particular geographic locale. A **license** is an agreement that allows one party to use an industrial property right in exchange for payment to the owning party. In a typical arrangement, the party giving the license (the licensor) will allow the other

(the licensee) to use a patent, a trademark, or proprietary information in exchange for a fee. The fee usually is based on sales, such as 10 percent of all revenues earned from an industrial motor sold in Asia. The licensor typically restricts licensee sales to a particular geographic locale and limits the time period covered by the arrangement. The firm in this example may have an exclusive right to sell this patented motor in Asia for the next five years. This allows the licensor to seek licensees for other major geographic locales, such as Europe, South America, and Australia.

Licensing is used under a number of common conditions. For example, the product is typically in the mature stage of the product life cycle, competition is strong, and profit margins are declining. Under these conditions, the licensor is unlikely to want to spend money to enter foreign markets. However, if the company can find an MNC that is already there and willing to add the product to its own current offerings, both sides can benefit from the arrangement. A second common instance of licensing is evident when foreign governments require newly entering firms to make a substantial direct investment in the country. By licensing to a firm already there, the licensee avoids these high entry costs. A third common condition is that the licensor usually is a small firm that lacks financial and managerial resources. Finally, companies that spend a relatively large share of their revenues on research and development (R&D) are likely to be licensors, and those that spend very little on R&D are more likely to be licensees. In fact, some small R&D firms make a handsome profit every year by developing and licensing new products to large firms with diversified product lines.

Some licensors use their industrial property rights to develop and sell goods in certain areas of the world and license others to handle other geographic locales. This provides the licensor with a source of additional revenues, but the license usually is not good for much more than a decade. This is a major disadvantage of licensing. In particular, if the product is very good, the competition will develop improvement patents that allow it to sell similar goods or even new patents that make the current product obsolete. Nevertheless, for the period during which the agreement is in effect, a license can be a very low-cost way of gaining and exploiting foreign markets.

Licenses are also common among large firms seeking to acquire technology to bolster an existing product. For example, Apple, which relies on technology developed by Qualcomm, Nokia, Ericsson, and others to run its products, is expected to pay more than US$21 per device in licensing agreements when it begins producing 5G-capable iPhones.[40]

Franchising

Closely related to licensing is franchising. A **franchise** is a business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee. Franchising is widely used in the fast-food and hotel-motel industries. The concept is very adaptable to the international arena, and, with some minor adjustments for the local market, it can result in a highly profitable business. In fast foods, McDonald's, Burger King, and KFC have used franchise arrangements to expand into new markets. In the hotel business, Holiday Inn, among others, has been very successful in gaining a worldwide presence through the effective use of franchisees.

franchise
A business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee.

Franchise agreements typically require payment of a fee upfront and then a percentage of the revenues. In return, the franchisor provides assistance and, in some instances, may require the purchase of goods or supplies to ensure the same quality of goods or services worldwide. Franchising can be beneficial to both groups: It provides the franchisor with a new stream of income and the franchisee with a time-proven concept and products or services that can be quickly brought to market.

The Organization Challenge

A natural outgrowth of general international strategy formulation and implementation and specific decisions about how best to enter international markets is the question of how

best to structure the organization for international operations. A number of MNCs have recently been rethinking their organizational approaches to international operations.

An excellent illustration of worldwide reorganizing is provided by Coca-Cola, which now delegates a great deal of authority for operations to the local level. This move is designed to increase the ability of the worldwide divisions to respond to their local markets while growing revenue internationally. As a result, decisions related to advertising, products, and packaging are handled by international division managers for their own geographic regions. In 2018 alone, over 500 new localized beverage products were introduced by Coke's regional divisions. Examples include a sesame and walnut-flavored beverage that was developed for the Chinese market, a cucumber-flavored Sprite that was introduced in Russia, a mango drink that was designed to imitate the traditional way that mango juice is consumed in India, and a variety of whey-protein shakes that were introduced in Brazil. By decentralizing the research and development, Coke's regional divisions are able to introduce new products quickly. For example, in India, it used to take about a year for new variants to reach the retail environment; today, it takes only four months. Additionally, the regional divisions are better positioned to tweak the new products quickly and respond to consumer preferences. For example, after Coca-Cola Plus Coffee was introduced in the Australian market, the company tweaked the smell of the product and the bottle shape based on customer reception. With international operations now accounting for more than half of Coke's sales, empowering regional divisions will remain a key part of Coke's strategy.[41]

A second example of how firms are meeting international challenges through reorganization is provided by Li & Fung, Hong Kong's largest export trading company and an innovator in the development of supply chain management. The company has global suppliers worldwide that are responsible for providing the firm with a wide range of consumer goods ranging from toys to fashion accessories to luggage. In recent years, Li & Fung reorganized and now manages its day-to-day operations through a group of product managers who are responsible for their individual areas. This new organizational arrangement emerged in a series of steps. In the late 1970s, the company was a regional sourcing agent. Big international buyers would come to Li & Fung for assistance in getting materials and products because the MNC was familiar with the producers throughout Asia and it knew the complex government regulations and how to successfully work through them. The MNC then moved into a more sophisticated stage in which it began developing the entire process for the buyer from concept to prototype to delivery of the goods. By the late 1980s, however, Hong Kong had become a very expensive place to manufacture products, and Li & Fung changed its approach and began organizing around a new concept called "dispersed manufacturing," which draws heavily on dissecting the value chain and coordinating the operations of many suppliers in different geographic locations. For example, when the MNC receives an order from a European retailer to produce a large number of dresses, it has to decide where to buy the yarn in the world market, which companies should get the orders to weave and dye the cloth, where supplemental purchases such as buttons and zippers should be made, and how final shipment must be made to the customer. Commenting on this overall process, the company president noted,

> This is a new type of value added, a truly global product that has never been seen before. The label may say "Made in Thailand," but it's not a Thai product. We dissect the manufacturing process and look for the best solution at each step. We're not asking which country can do the best job overall. Instead, we're pulling apart the value chain and optimizing each step—and we're doing it globally. Not only do the benefits outweigh the costs of logistics and transportation, but the higher value added also lets us charge more for our services. We deliver a sophisticated product and we deliver it fast. If you talk to the big global consumer products companies, they are all moving in this direction—toward being best on a global scale.[42]

Basic Organizational Structures

The preceding examples of Coca-Cola and Li & Fung suggest how MNCs are dramatically reorganizing their operations to compete more effectively in the international arena. For all

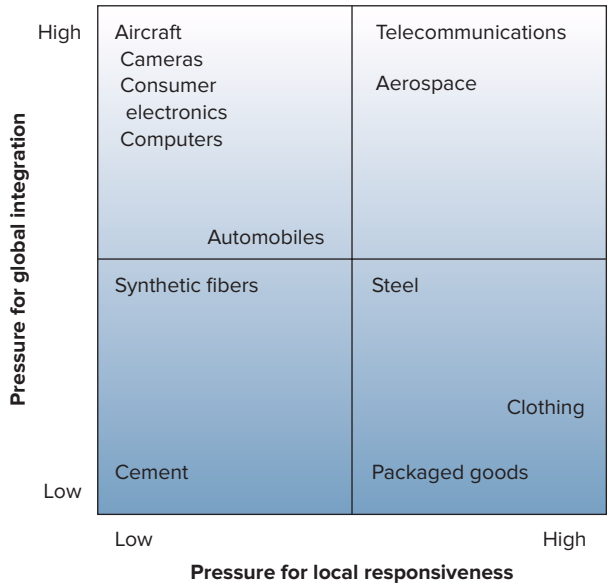


Figure 9–1
Organizational Expectations of Internationalization

Source: Beamish, Paul W., J. Peter Killing, Donald J. LeCraw, and Harold Crookell. *International Management: Text and Cases.* Homewood, IL: Irwin, 1991: 99.

MNCs following this strategic route, a number of basic organizational structures need to be considered. In many cases, the designs are similar to those used domestically; however, significant differences may arise depending on the nature and scope of the overseas businesses and the home office's approach to controlling the foreign operation. Ideally, an overseas affiliate or subsidiary will be designed to respond to specific concerns, such as production technology or the need for specialized personnel. The overall goal, however, is to meet the needs of both the local market and the home-office strategy of globalization.

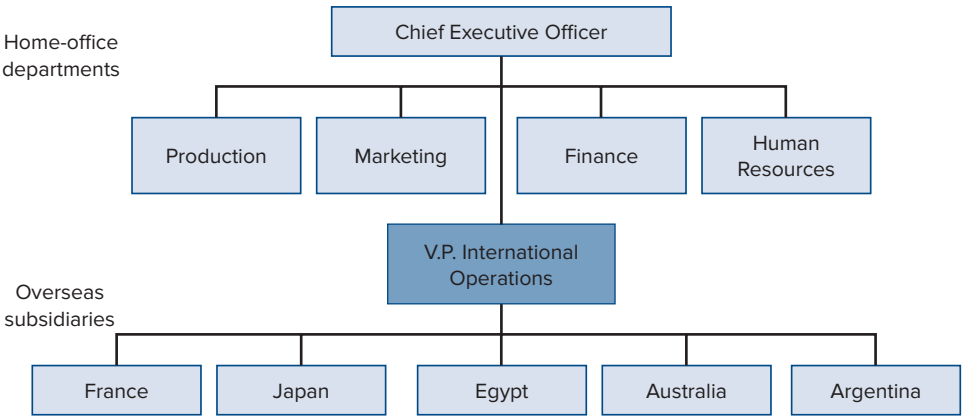
Figure 9–1 illustrates how the pressures for global integration and local responsiveness play out in a host of industries. As an MNC tries to balance these factors, an if-then contingency approach can be used. If the strategy needed to respond quickly to the local market changes, then there will be accompanying change in the organizational structure. Despite the need for such a flexible, fast-changing, contingency-based approach, most MNCs still slowly evolve through certain basic structural arrangements in international operations. The following sections examine these structures, beginning with initial, pre-international patterns.[43]

Initial Division Structure

Many firms make their initial entry into international markets by setting up a subsidiary or by exporting locally produced goods or services. A subsidiary is a common organizational arrangement for handling finance-related businesses or other operations that require an on-site presence from the start. In recent years, many service organizations have begun exporting their expertise. Examples include architectural services, legal services, advertising, public relations, accounting, and management consulting.

An export arrangement is a common first choice among manufacturing firms, especially those with technologically advanced products. Because there is little, if any, competition, the firm can charge a premium price and handle sales through an export manager. If the company has a narrow product line, the export manager usually reports directly to the head of marketing, and international operations are coordinated by this department. If the firm has a broad product line and intends to export a number of different products into the international market, the export manager will head a separate department and often report directly to the president. These two arrangements work well as long as the company has little competition and is using international sales only to supplement domestic efforts. Furthermore, an export arrangement allows the firm to reduce the risk and

Figure 9–2
Use of Subsidiaries during the Early Stage of Internationalization



size of investment in establishing significant international operations while testing the size of international markets.

If overseas sales continue to increase, local governments often exert pressure in these growing markets to set up on-site manufacturing operations. A good example is the General Motors–Shanghai Automotive Industry Group (SAIC) joint venture in China mentioned earlier, in which a large percentage of all parts are made locally.[44] Additionally, many firms find themselves facing increased competition in the foreign market. Establishing foreign manufacturing subsidiaries can help the MNC deal with both of these pressures. The overseas plants show the government that the firm wants to be a good local citizen. At the same time, these plants help the MNC greatly reduce transportation costs, thus making the product more competitive. This new structural arrangement often takes a form similar to that shown in Figure 9–2. Each foreign subsidiary is responsible for operations within its own geographic area, and the head of the subsidiary reports either to a senior executive who is coordinating international operations or directly to the home-office CEO, depending on the size of the international operations.

International Division Structure

international division structure
A structural arrangement that handles all international operations out of a division created for this purpose.

If international operations continue to grow and require more control, subsidiaries commonly are grouped into an **international division structure**, which handles all international operations out of a division that is created for this purpose. In other words, a unit is added on simply to deal with international issues, while the original organizational structure is left intact. This structural arrangement is useful, as it takes a great deal of the burden off the CEO for monitoring the operations of a series of overseas subsidiaries as well as domestic operations. Instead, the new head of the international division coordinates and monitors overseas activities and reports directly to the CEO on these matters. Figure 9–3 provides an example. PepsiCo reorganized its corporate structure into six such global divisions covering the nearly 200 countries in which Pepsi does business. These divisions are split geographically, with three North American units (North American Beverages, Frito-Lay North America, and Quaker Foods North America) and three international units (Latin America; Europe; Sub-Saharan Africa; and Asia, Middle East & North Africa). Each global division has self-sufficient operations and broad local authority.

Companies still in the developmental stages of international business involvement are most likely to adopt the international division structure. Others that use this structural arrangement include those with small international sales, limited geographic diversity, or few executives with international expertise.

A number of advantages are associated with use of an international division structure. The grouping of international activities under one senior executive ensures that the international focus receives top management's attention. This structural arrangement also allows the company to develop an overall, unified approach to international operations, as well as a cadre of internationally experienced managers.

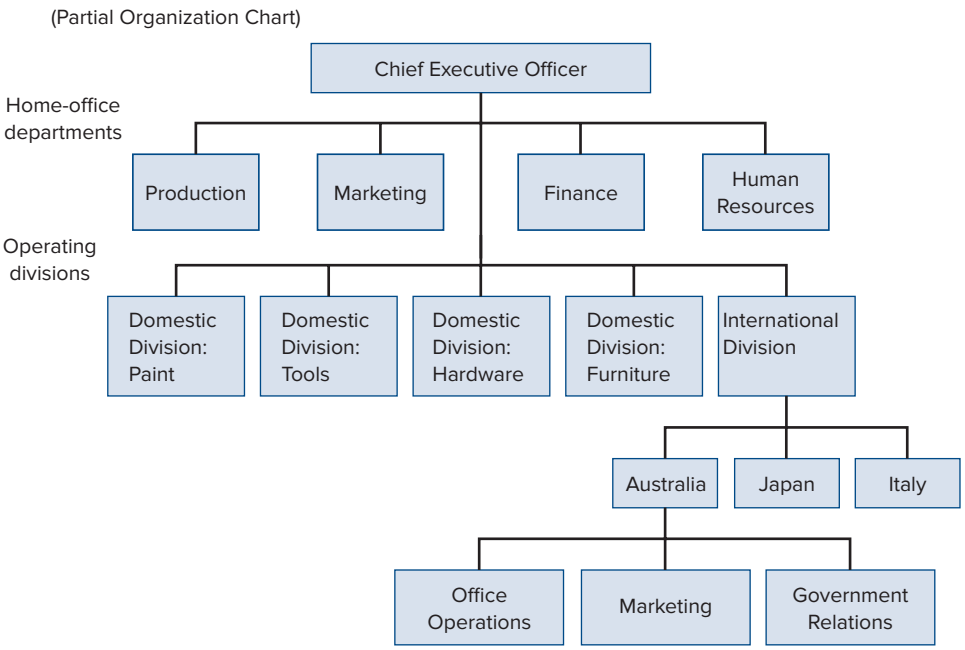


Figure 9–3
An International Division Structure

At the same time, the use of this structure does have a number of drawbacks. The structure separates the domestic and international managers, which can result in two different camps with divergent objectives. Also, as the international operation grows larger, the home office may find it difficult to think and act strategically and allocate resources on a global basis; thus, the international division may be penalized. Finally, most R&D efforts are domestically oriented, so ideas for new products or processes in the international market often are given low priority.

Global Structural Arrangements

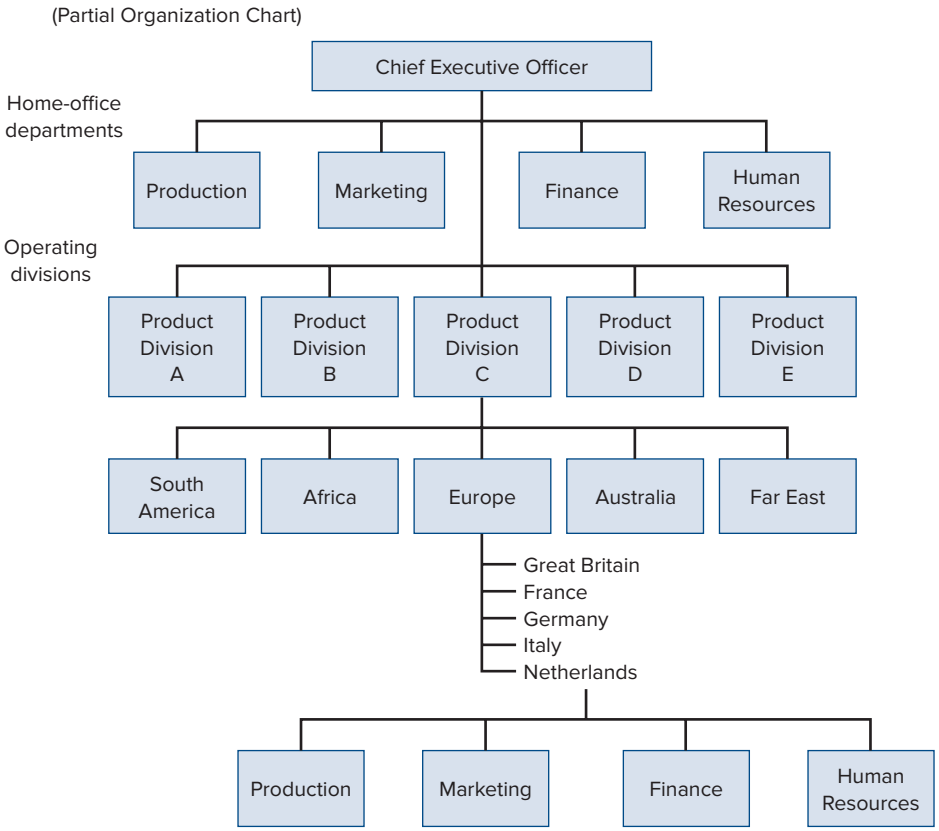
MNCs typically turn to global structural arrangements when they begin acquiring and allocating their resources based on international opportunities and threats. The global structural arrangement differs from the international division structure in that, while both have an international scope, the former focuses on greater expansion and integration among international operations. This international perspective signifies a major change in management strategy, and it is supported by the requisite changes in organizational structure. It is important to remember that a structural framework is chosen only after the basic strategy is formulated, not vice versa. Global structures come in three common types: product, area, and functional.

Global Product Division A **global product division** is a structural arrangement in which domestic divisions are given worldwide responsibility for product groups. Figure 9–4 provides an illustration. As shown, the manager who is in charge of Product Division C has authority for this product line on a global basis. This manager also has internal functional support related to the product line. For example, all marketing, production, and finance activities associated with Product Division C are under the control of this manager.

global product division
A structural arrangement in which domestic divisions are given worldwide responsibility for product groups.

The global product divisions operate as profit centers. The products are generally in the growth stage of the product life cycle, so they need to be promoted and marketed carefully. In doing so, global product division managers generally run the operation with considerable autonomy; they have the authority to make many important decisions regarding the product. However, corporate headquarters usually will maintain control in terms of budgetary constraints, home-office approval for certain decisions, and mainly bottom-line (i.e., profit) results.

Figure 9–4
A Global Product Division Structure



A global product structure provides the most benefits when the need for product standardization and scale economies is high. Creating divisions that specialize in each product set results in efficient alterations, especially because marketing, production, and finance can be coordinated on a product-by-product basis. Furthermore, if a product is in a different life cycle (mature versus growth stage) across regions, global product divisions can ensure that each location responds appropriately.

Unfortunately, the approach also has some drawbacks. One is the need to duplicate facilities and staff personnel within each division. A second is that division managers may pursue currently attractive geographic prospects for their products and neglect other areas with better long-term potential. A third is that many division managers spend too much time trying to tap the local rather than the international market because it is more convenient and they are more experienced in domestic operations.

Global Area Division Instead of a global product division, some MNCs prefer to use a **global area division**. In this structure, illustrated in Figure 9–5, global operations are organized based on a geographic rather than a product orientation. This approach often signals a major change in company strategy because now international operations are put on the same level as domestic operations. In other words, European or Asian operations are just as important to the company as North American operations. For example, when British Petroleum purchased Standard Oil of Ohio, the firm revised its overall structure and adopted a global area division structure. Under this arrangement, global division managers are responsible for all business operations in their designated geographic area. The CEO and other members of top management are charged with formulating the overall strategy that ensures that the global divisions all work in harmony.

global area division
A structure under which global operations are organized on a geographic rather than a product basis.

A global area division structure most often is used by companies that are in mature businesses and have narrow product lines that are differentiated by geographic area. For example, the product has a strong demand in Europe but not in South America, or the type of product that is offered in France differs from that sold in England.

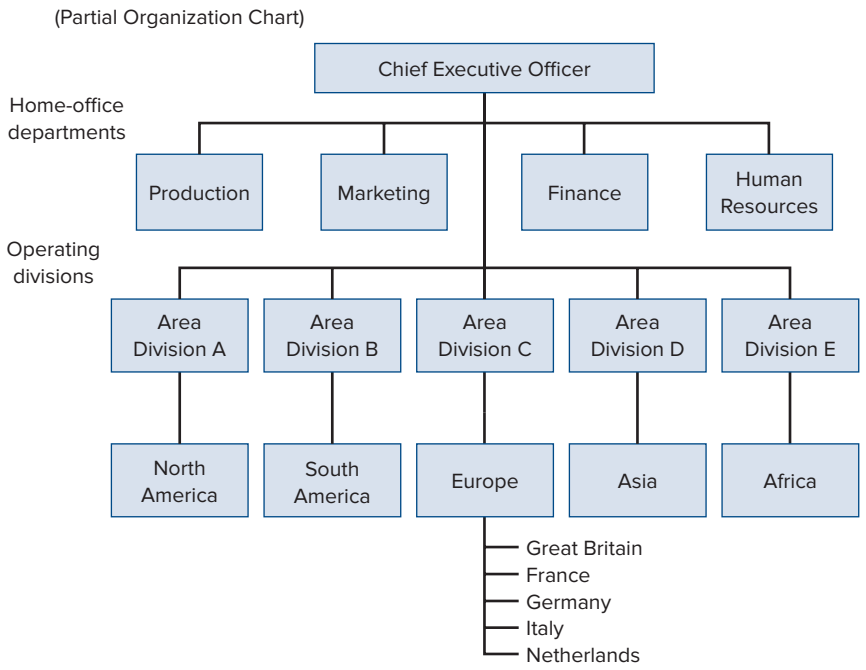


Figure 9–5
A Global Area Division Structure

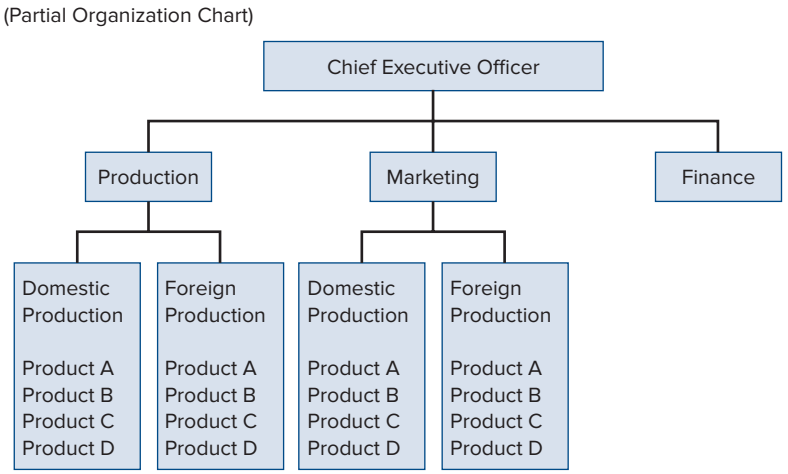
This is different from the global product division structure in that each division focuses on regional tastes and offers specialized products for and within that area, as opposed to focusing on a product set and discovering where it can survive and subsequently distributing it to that region. In addition, the MNC usually seeks high economies of scale for production, marketing, and resource-purchase integration in a particular area. Thus, by manufacturing in this region rather than bringing the product in from somewhere else, the firm is able to reduce cost per unit and offer a very competitive price. The geographic structure also allows the division manager to cater to the tastes of the local market and make rapid decisions to accommodate environmental changes. A good example is food products. In the U.S., soft drinks have less sugar than in South America, so the manufacturing process must be slightly different in these two locales. Similarly, in England, people prefer bland soups, but, in France, the preference is for mildly spicy. Starbucks adopted global area structure in 2011 as it became difficult to respond to the local needs in each of the 70 countries in which it operated (see In-Depth Integrative Case 3.1 in Part 3). The company gave up the Starbucks US and Starbucks Coffee International to create three new regional divisions—the Americas, China and Asia-Pacific, and Europe, Middle East, Russia, and Africa.[45] A global area structure allows the geographic unit in a food company to accommodate local tastes and preferences.

The primary disadvantage of the global area division structure is the difficulty encountered in reconciling a product emphasis with a geographic orientation. For example, if a product is sold worldwide, a number of different divisions are responsible for sales. This lack of centralized management and control can result in increased costs and duplication of effort on a region-by-region basis. A second drawback is that new R&D efforts often are ignored by division groups because they are selling goods that have reached the maturity stage. Their focus is not on the latest technologically superior goods that will win in the market in the long run but on those that are proven winners and now are being marketed conveniently worldwide.

Global Functional Division A **global functional division** organizes worldwide operations based primarily on function and secondarily on product. This approach is not widely used other than by extractive companies, such as oil and mining firms. Figure 9–6 provides an example.

global functional division
A structure that organizes worldwide operations primarily based on function and secondarily on product.

Figure 9–6
A Global Functional Structure

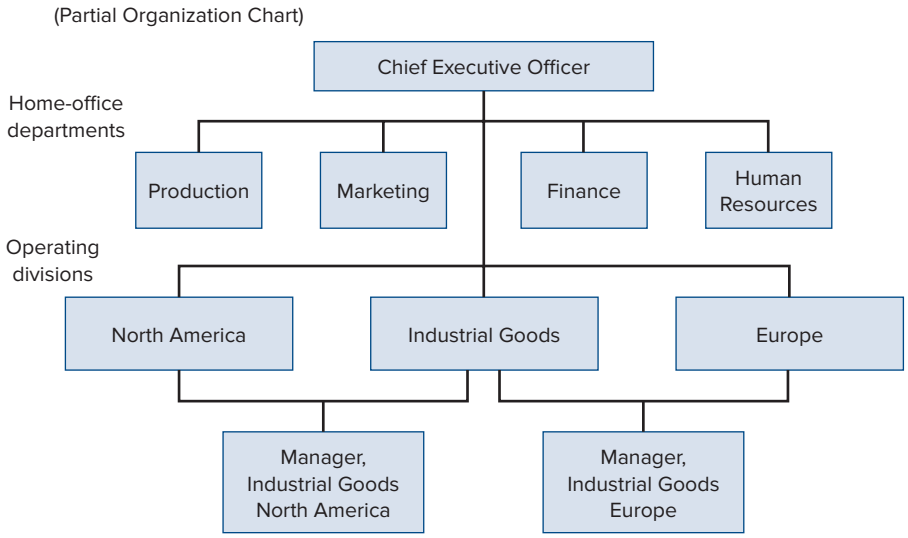


A number of important advantages are associated with the global functional division structure. These include (1) an emphasis on functional expertise, (2) tight, centralized control, and (3) a relatively lean managerial staff. There also are some important disadvantages: (1) Coordination of manufacturing and marketing often is difficult, (2) managing multiple product lines can be very challenging because of the separation of production and marketing into different departments, and (3) only the chief executive officer can be held accountable for the profits. As a result, the global functional process structure is typically favored only by firms that need tight, centralized coordination and control of integrated production processes and firms that are involved in transporting products and raw materials from one geographic area to another.

mixed organizational structure
A structure that is a combination of a global product, area, or functional arrangement.

Mixed Organizational Structures Many companies find that neither a global product, an area, nor a functional arrangement is satisfactory. Instead, they opt for a **mixed organizational structure**, which combines all three into an MNC that supplements its primary structure with a secondary one and, perhaps, a tertiary one. For example, if a company uses a global area approach, committees of functional managers may provide assistance and support to the various geographic divisions. Conversely, if the firm uses a global functional approach, product committees may be responsible for coordinating transactions that cut across functional lines. In other cases, the organization will opt for a matrix structure that results in managers' having two or more bosses. Figure 9–7 illustrates this structure. In this arrangement, the MNC coordinates geographic and product lines through use of a matrix design.

Figure 9–7
A Multinational Matrix Structure



In recent years, mixed organizational structures have become increasingly popular. In the 2010s, Sony's electronic businesses, including personal computers, mobile phones, and cable-television set-top boxes, were unified under a new management structure called "One Sony." Under this plan, electronic products and services are organized under one of three core pillars: gaming, mobile, and digital imaging. The new management structure is designed to decentralize the design-making process and empower individual business groups to make quick decisions.[46] Quite clearly, the company feels that it needs a mixed structure in order to juggle all its worldwide holdings. Many advantages can be gleaned from a mixed organizational structure. In particular, it allows the organization to create the specific type of design that best meets its needs. However, there are shortcomings associated with matrix structures. The most important is that as the matrix design's complexity increases, coordinating the personnel and getting everyone to work toward common goals often become difficult; too many groups go their own way. Thus, many MNCs have not opted for a matrix structure; they have found that simple, lean structures are the best design for them.

Transnational Network Structures

Besides matrix structures, another alternative international organizational design to emerge is the **transnational network structure**. This is designed to help MNCs take advantage of global economies of scale while being responsive to local customer demands. The design combines elements of classic functional, product, and geographic structures while relying on a network arrangement to link the various worldwide subsidiaries. This configuration may appear very similar to the matrix, but it is much more complex. While the matrix may use more than one strategy to supplement inefficient operations, it is still fairly centralized in the sense that decisions are balanced between the main headquarters and international subsidiaries. Transnational networks, however, are convoluted integrations of business functions and communications where decisions are made at the local level, but each grouping informs headquarters and sometimes each other. At the center of the transnational network structure are nodes, which are units charged with coordinating product, functional, and geographic information. Different product line units and geographic area units have different structures depending on what is best for their particular operations. A good example of how the transnational network structure works is provided by Philips, which has more than 80,000 employees and operations in more than 100 countries.[47] Philips produces a diverse product line ranging from lightbulbs to defense systems. In 2016, the company split itself into two distinct companies—Royal Philips, focused on the health/tech segment, and Signify, focused on LED and lighting solutions—still comprised of three product divisions with a varying number of subsidiaries in each. Since then, Phillips has positioned itself as a leader in health technology innovation with an aim to improve 2.5 billion lives every year by 2030.[48]

transnational network structure
A multinational structural arrangement that combines elements of function, product, and geographic designs while relying on a network arrangement to link worldwide subsidiaries.

The basic structural framework of the transnational network consists of three components: dispersed subunits, specialized operations, and interdependent relationships. Dispersed subunits are subsidiaries that are located anywhere in the world where they can benefit the organization. Some are designed to take advantage of low factor costs, while others are responsible for providing information on new technologies or consumer trends. Specialized operations are activities carried out by subunits that focus on particular product lines, research areas, and marketing areas and are designed to tap specialized expertise or other resources in the company's worldwide subsidiaries. Interdependent relationships are used to share information and resources throughout the dispersed and specialized subunits.

The transnational network structure is difficult to draw in the form of an organization chart because it is complex and continually changing. However, these complex networks can be compared to some of those examined earlier in this chapter by looking at the ways in which the enterprise attempts to exercise control. Table 9–2 provides such a comparison.

Table 9–2
Control Mechanisms Used in Select Multinational Organizational Structures

Type of Multinational Structure	Output Control	Bureaucratic Control	Decision-Making Control	Cultural Control
International division structure	Profit control	Have to follow company policies	Typically, some centralization	Treated like all other divisions
Global area division	Use of profit centers	Some policies and procedures necessary	Local units given autonomy	Local subsidiary culture often the most important
Global product division	Unit output for supply; sales volume for sales	Tight process controls used to maintain product quality and consistency	Centralized at the product-division headquarters level	Possible for some companies but not always necessary
Matrix structure	Profit responsibility shared with product and geographic units	Not very important	Balanced between the global area and product units	Culture must support the shared decision making.
Transnational network structure	Used for supplier units and for some independent profit centers	Not very important	Few decisions centralized at headquarters; most centralized in the key network nodes	Organization culture transcends national cultures, supports sharing and learning, and is the most important control mechanism.

Nontraditional Organizational Arrangements

In recent years, MNCs have increasingly expanded their operations in ways that differ from those used in the past. These include acquisitions, joint ventures, keiretsus, business groups, and strategic alliances. These organizational arrangements do not use traditional hierarchical structures and therefore cannot be shown graphically. The following sections describe how they work.

Organizational Arrangements from Mergers, Acquisitions, Joint Ventures, and Alliances

A recent development affecting the way that MNCs are organized is the increased use of mergers and acquisitions. The annual value of worldwide M&As has reached as high as US$46 trillion in 2021.[49]

Among the larger cross-border M&A deals in recent years was Essilor's purchase of Luxottica for US$58.5 billion in 2018. The deal between Essilor, a French eye-wear company, and Luxottica, the Italian manufacturer of Ray-Ban and Oakley, intended to be a merger of equals. The corporate structure of the combined company, EssilorLuxottica, was reorganized to reflect this philosophy. Essilor's CEO, Hubert Sagnières, was named executive vice chairman of the new company, and Luxottica's founder, Leonardo Del Vecchio, was named executive chairman. Despite the difference in titles, both positions share equal power in the new corporate structure, and decision making requires the agreement of both Sagnières and Del Vecchio. Additionally, Essilor and Luxottica are retaining their separate boards of directors. When appointing new executives for the combined company, both boards will need to grant consent. This unique corporate structure has caused some challenges for EssilorLuxottica. In 2019, the company's share price fell more than 6 percent when Del Vecchio publicly accused Sagnières of making decisions without his approval. The appointment of a CEO has also been difficult, as Del Vecchio wants to appoint Luxottica's CEO, while Sagnières wants to hire an independent search firm to find an alternative candidate.[50]

Other examples of recent organizational arrangements include joint-venture and strategic alliance agreements in which each party contributes to the undertaking and

coordinates its efforts for the overall benefit of the venture.[51] These arrangements can take a variety of forms, although the steps that are followed in creating and operating them often have a fair amount of similarity.

One recent example of such an initiative was when U.S.-based Lockheed Martin and its subsidy, Sikorsky, began a joint venture with UAE-based Emirates Defence Industries Company, owned by the oil-rich sheikdom's Mubadala Development, to service military aircraft in the Middle East. The JV, called Advanced Military Maintenance Repair and Overhaul Center LLC (AMMROC), was designed, in part, to help support the emirate's efforts to develop a domestic aircraft and avionics industry. AMMROC has provided upgrades to the UAE's Black Hawk helicopters while helping Sikorsky build a foothold in the Middle East. Sikorsky maintains an office in Abu Dhabi to serve as a base for its continued joint ventures in the region with Mubadala. The company hopes to capitalize on the increasing economic growth in the region for years to come.[52]

Another example is the longstanding joint venture between General Motors and Shanghai Automotive Industry Corporation (S.A.I.C.), which produces the Wuling line of trucks and vans targeted to rural areas of China. In the 2010s, these JV partners introduced a new passenger-car brand called Baojun, which means "treasured horse." This basic car line targets buyers outside China's major metropolitan areas. Today, Baojun boasts a wide variety of vehicles, including a minivan model. In 2021, the joint venture sold 2.9 million automobiles, despite the global chip shortage and the lingering effect of the COVID-19 pandemic in China.[53]

These joint ventures require carefully formulated structures that allow each partner to contribute what it does best and to coordinate their efforts efficiently. This calls for clearly spelling out the responsibilities of all parties and identifying the authority that each will have for meeting specific targets.

One of the main objectives in developing the structure for joint ventures is to help the partners address and effectively meld their different values, management styles, action orientations, and organization preferences. Table 9–3 shows how Western and Asian firms differ in these four areas; the table also is useful for illustrating the types of considerations that need to be addressed by MNCs from the same area of the world. Consider, for

Table 9–3
A Comparison of Asian and Western Management Features

	Western	Asian
Basic values	Individual	Group
	Legal	Trust
	Confrontational	Compromising
	Analytic	Fluid
Organization	Formal	Informal
	Fragmented	Generalist
	Hierarchical	Integrated
	Competitive	Cooperative
Action	Short-term	Long-term
	Control	Human resource
	Conflict	Collaborative
	Service-focused	Customer-focused
Management style	Rational	Relationships
	Structured	Flexible
	Directive	Adaptive
	Doing	Understanding

Source: Swierczek, Frederic and Hirsch, Georges. "Joint Ventures in Asia and Multicultural Management." *European Management Journal* 12, no. 2 (1994): 197–209.

example, Infosys, Panasonic, and Hitachi Ltd. The three companies joined forces in 2018 to develop new, high-value, more efficient procurement technology.[54] The firms need to structure their organizational interface carefully to ensure effective interaction, coordination, and cooperation.

In each of these examples, the purchasing MNC fashioned a structural arrangement that attempts to promote synergy while encouraging local initiative by the acquired firm. The result is an organization design that draws on the more traditional structures that have been examined here but still has a unique structure specifically addressing the needs of the two firms.

Organizing for Product Integration

Another recent organizing development is the emergence of designs that are tailored toward helping multinationals integrate product development into their worldwide operations. In the recent past, the use of cross-functional coordination was helpful in achieving this goal. However, MNCs have found that this arrangement results in people spending less time within their functions and thus becoming less knowledgeable regarding developments that are occurring in their specialized areas. A second shortcoming of the cross-functional approach is that it often leads to product teams becoming autonomous and thus failing to integrate their overall efforts with the organization at large.

Toyota created a structure that combines a highly formalized system with new structural innovations that ensure that projects are flexibly managed and, at the same time, able to benefit from the learning and experiences of other projects. In accomplishing this, Toyota employs six organizational mechanisms. One of these is called mutual adjustment. In most companies, this is achieved by assigning people to a specific project and having them meet face to face and work out a plan of action for designing the new product. At Toyota, however, design engineers are not assigned to specific projects; rather, they remain in their functional area and typically communicate through written messages. This approach ensures that all members remain dedicated to their primary functional area and that they communicate succinctly and directly with each other—thus saving time.

A second mechanism employed by Toyota is the use of direct, technically skilled supervisors. In a typical arrangement, design engineers are led by individuals who are no longer doing engineering work; they are primarily responsible for seeing that others do this work. However, at Toyota, supervisors remain highly skilled in the technical side of the work and are responsible for mentoring, training, and developing their engineers. So, if anyone has a design-related problem, the supervisor is technically skilled and can provide this assistance.

A third mechanism is the use of integrative leadership. In typical product design structures, the manager in charge has full authority and relies on the engineering personnel to get the work done within time, cost, and quality parameters. At Toyota, however, these managers are responsible for coordinating the work of the functional specialists and serving less as a manager than as a lead designer on the entire project. In this way, they serve as the glue that binds together the whole process.

In typical design operations, engineers are hired from universities or from other companies where they have gained experience, and they remain in their engineering position indefinitely. At Toyota most of the technical training is provided in-house, and people are rotated within only one function, such as body engineers who work on auto-body subsystems for most, if not all, of their careers. As a result, they are able to get more work done faster because they do not have to communicate and coordinate continually with their counterparts regarding what needs to be done. They are so familiar with their jobs that they know what needs to be done.

Another organizational difference is that in typical design work, each new product calls for a new development process, and there are complex forms and bureaucratic procedures for ensuring that everything is done correctly. At Toyota, standard milestones are created by the project leader, and simple forms and procedures are employed, so that the work can be done simply and efficiently.

A final difference is that in many organizations design standards are obsolete and rigid. At Toyota, these standards are maintained by the people who are doing the work and are continually changed to meet new design demands.

The organizational approach used at Toyota is being carefully studied by other world-class auto manufacturers, who are coming to realize that the old way of organizing for product design is not sufficiently effective for dealing with the competitive challenges of the new millennium. In particular, a new organizational emphasis has to be placed on better blending the personnel and the work.

■ Organizational Characteristics of MNCs

Although MNCs have similar organizational structures, they do not all operate in the same way. A variety of factors that help explain the differences have been identified.[55] These include overall strategy, employee attitudes, and local conditions. Of particular significance to this discussion are the organizational characteristics of formalization, specialization, and centralization.

Formalization

formalization
The use of defined structures and systems in decision making, communicating, and controlling.

Formalization is the use of defined structures and systems in decision-making, communicating, and controlling. Some countries make greater use of formalization than others; in turn, this affects the day-to-day organizational functioning. One large research study of Korean firms found that, unlike employees in the U.S., Korean workers perceive more positive work environments when expectations for their jobs are set forth more strictly and formally. In short, Koreans respond very favorably to formalization.[56] Korean firms tend to be quite formal, but this may not hold throughout Asia. For example, a study that investigated whether Japanese organizations are more formalized than U.S. organizations found that although Japanese firms tend to use more labor-intensive approaches to areas such as bookkeeping and office-related work than their U.S. counterparts, no statistical data support the contention that Japanese firms are more formalized.[57]

Another study of U.S. and Japanese firms in Taiwan divided formalization into two categories: objective and subjective.[58] Objective formalization was measured by things such as the number of different documents given to employees, organizational charts, information booklets, operating instructions, written job descriptions, procedure manuals, written policies, and workflow schedules and programs. Subjective formalization was measured by the extent to which goals were left vague and unspecified, informal controls were used, and culturally induced values facilitated getting things done.

Commenting on differences in the use of formalization, the researchers concluded that American and Japanese firms appear to have almost the same level of written goals or objectives for subordinates; written standards of performance appraisals; written schedules, programs, and work specifications; and written duties, authority, and accountability. However, managers in Japanese firms perceive less formalization than do managers in American firms. Less reliance on formal rules and structure in Japanese firms is also revealed by the emphasis on a face-to-face or behavioral mode of control indicated by the ratio of foreign expatriates to total employees in subsidiaries.[59]

The study also found that U.S. MNCs tend to rely heavily on budgets, financial data, and other formalized tools in controlling their subsidiary operations. This contrasts with Japanese MNCs, in which wider use is made of face-to-face, informal controls. These findings reveal that although the outward structural design of overseas subsidiaries may appear to be similar, the internal functioning in characteristics such as formalization may be quite different.

In recent years, this formal-informal characteristic of organizations has become the focal point of increased scrutiny. One reason is that MNCs now realize there are two dimensions of formality-informality that must be considered: internal and external.

Table 9–4
Internal versus External Networks

Managerial Dimensions	Internal Network	External Network
Shared vision	Yes	No
Animating mindset	Cooperation	Cooperation and competition
Organizational mandates	Clear	Ambiguous
Organizational objective	Global optimization	Develop win-win approaches
Emphasis on systems	More	Less
Emphasis on people	Less	More
Lines of authority	Clear	Ambiguous at best

Source: Yoshino, Michael Y., and Rangan, U. Srinivasa. *Strategic Alliances: An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995.

Moreover, to a large degree, these formal-informal relationships require different types of networking. As Yoshino and Rangan noted, there are two approaches that firms that must compete globally—and that includes most major firms—employ to achieve the layering of competitive advantages: (1) developing extensive internal networks of international subsidiaries in major national or regional markets and (2) forging external networks of strategic alliances with firms around the world. These approaches are not mutually exclusive, and increasingly firms are striving to build both types of networks.[60]

What is particularly interesting about these networking relationships is that each places a different set of demands on the MNC. In particular, external networking with joint-venture partners often involves ambiguous organizational mandates, less emphasis on systems and more on people, and ambiguous lines of authority. This is a marked difference from internal networking characteristics, where formality is much stronger than informality and the enterprise can rely on a shared vision, clear organizational mandates, and well-developed systems and lines of authority. Table 9–4 summarizes the characteristics of these internal and external networks.

Specialization

specialization
An organizational characteristic that assigns individuals to specific, well-defined tasks.

horizontal specialization
The assignment of jobs so that individuals are given a particular function to perform and tend to stay within the confines of this area.

vertical specialization
The assignment of work to groups or departments where individuals are collectively responsible for performance.

As an organizational characteristic, **specialization** is the assigning of individuals to specific, well-defined tasks. Specialization in an international context can be classified into horizontal and vertical specialization.

Horizontal specialization assigns jobs so that individuals are given a particular function to perform, and people tend to stay within the confines of this area. Examples include jobs in areas such as customer service, sales, recruiting, training, purchasing, and marketing research. When there is a great deal of horizontal specialization, personnel will develop functional expertise in one particular area.

Vertical specialization assigns work to groups or departments where individuals are collectively responsible for performance. Vertical specialization also is characterized by distinct differences between levels in the hierarchy such that those higher up are accorded much more status than those further down, and the overall structure usually is quite tall.

In the earlier comparative study of 55 U.S. and 51 Japanese manufacturing plants, Japanese organizations had lower functional specialization of employees. Specifically, three-quarters of the functions listed were assigned to specialists in the U.S. plants, but less than one-third were assigned in the Japanese plants.[61] Later studies with regard to formalization have echoed this finding on specialization.

By contrast, studies find that the Japanese rely more heavily on vertical specialization. They have taller organization; structures in contrast to the flatter designs of their U.S. counterparts. Japanese departments and units also are more differentiated than

Organizing in Germany

http://www.stihlusa.com/products/chain-saws

Like every other place in the world, Europe in general and Germany, in particular, have gone through economic ups and downs. German labor unions, the most powerful in Europe, have had to make concessions in recent years, and major corporations were scaling back operations and reporting losses. At the same time, a number of medium-sized and small German companies continued to be some of the most successful in the world. Part of this success resulted from their carefully designed, decentralized organizational structures, a result of company efforts to remain close to the customer. The goal of these German MNCs is to establish operations in overseas locales where they can provide on-site assistance to buyers. Moreover, in most cases, these subsidiaries are wholly owned by the company and have centralized controls on profits.

A common practice among German MNCs is to overserve the market by providing more than is needed. For example, when the auto firm BMW entered Japan, its initial investment was several times higher than that required to run a small operation; however, its high visibility and commitment to the market helped create customer awareness and build local prestige.

Another strategy is to leave expatriate managers in their positions for extended periods of time. In this way, they become familiar with the local culture and thus the market, and they are better able to respond to customer needs as well as problems. As a result, customers get to know the firm's personnel and are more willing to do repeat business with them.

Still another strategy the German MNCs use is to closely mesh the talents of the people with the needs of the customers. For example, there is considerable evidence that most customers value product quality, closeness to the customer, service, economy, helpful employees, technological leadership, and innovativeness. The German firms will overperform in the area that is most important and thus further bond themselves to the customer.

A final strategy is to develop strong self-reliance so that when problems arise, they can be handled with in-house personnel. This practice is a result of German companies' believing strongly in specialization and concentration of effort. They tend to do their own research and to master production and service problems, so that if there is a problem, they can resolve it without having to rely on outsiders.

How well do these German organizing efforts pay off? Many of these relatively small companies hold world market shares in the 70 to 90 percent range. These are companies that no one has ever heard of, such as Booder (fish-processing machines), Gehring (honing machines), Korber/Hauni (cigarette machines), Marklin & Cle (model railways), Stihl (chainsaws), and Webasto (sunroofs for cars). Even so, every one of these companies is the market leader not only in Europe but also throughout the world, and in some cases, its relative market strength is up to 10 times greater than that of the nearest competitor.

Source: Neff, Robert, and Douglas Harbrecht. "Germany's Mighty Unions Are Being Forced to Bend." *BusinessWeek*, March 1, 1993, 52–56; Rapoport, Carla. "Europe's Slump Won't End Soon." *Fortune*, May 3, 1993, 82–87; Simon, Hermann. "Lessons from Germany's Midsize Giants." *Harvard Business Review*, March/April 1992, 115–23.

departments and units in U.S. organizations. Vertical specialization can be measured by the amount of group activity as well, such as in quality circles. Japanese firms make much greater use of quality circles than do U.S. firms. Vertical specialization also can result in greater job routinization. Because one is collectively responsible for the work, strong emphasis is placed on everyone's doing the job in a predetermined way, refraining from improvising, and structuring the work so that everyone can do the job after a short training period. Again, Japanese organizations make much wider use of job routinization than do U.S. organizations.

Centralization

Centralization is a management system in which important decisions are made at the top. In an international context, the value of centralization will vary according to the local environment and the goals of the organization. Many U.S. firms tend toward **decentralization**, pushing decision-making down the line and getting the lower-level personnel involved. German MNCs centralize strategic headquarter-specific decisions independent of the host country and decentralize operative decisions in accordance with the local situation in the host country. The International Management in Action box "Organizing in Germany" describes how relatively small German MNCs have been very successful with such a decentralization strategy. In some cases, large firms have also been very successful using a decentralized approach. Nokia, for example, has been described as "one of the least

centralization
A management system in which important decisions are made at the top.

decentralization
Pushing decision making down the line and getting the lower-level personnel involved.

hierarchical big companies on earth, a place where it is often profoundly unclear who's in charge."[62] This hands-off approach promotes creativity, entrepreneurial effort, and personal responsibility. At the same time, however, in order to prevent operations from spinning out of control, the company exercises very tight financial discipline.

In contrast, researchers have found that Japanese organizations delegate less formal authority than their U.S. counterparts but permit greater involvement in decisions by employees lower in the hierarchy. At the same time, the Japanese manage to maintain strong control over their lower-level personnel by limiting the amount of authority given to the latter and carefully controlling and orchestrating worker involvement and participation in quality circles.[63] Japanese firms also rely heavily on parent country nationals in key leadership positions to exercise control over foreign subsidiary operations.[64] When evaluating the presence of centralization by examining the amount of autonomy that the Japanese give to their subordinates, one study concluded the following:

> In terms of job autonomy, employees in American firms have greater freedom to make their decisions and their own rules than in Japanese firms. . . . Results show that managers in American firms perceive a higher degree of delegation than do managers in Japanese firms. Also, managers in American firms feel a much higher level of participation in coordinating with other units, . . . in influencing the company's policy related to their work, and in influencing the company's policy in areas not related to their work.[65]

The finding related to influence is explained in more detail in Table 9–5. U.S. managers in Taiwanese subsidiaries felt that they had greater influence than did their Japanese counterparts. Moreover, when statistically analyzed, these data proved to be significant.

Putting Organizational Characteristics in Perspective

MNCs tend to organize their international operations in a manner similar to that used at home. If the MNC tends to have high formalization, specialization, and centralization at its home-based headquarters, these organizational characteristics probably will occur in the firm's international subsidiaries. Japanese and U.S. firms are good examples. As the researchers of the comparative study in Taiwan concluded, "Almost 80 percent of Japanese firms and more than 80 percent of American firms in the sample have been operating in

Table 9–5
Managers' Influence in U.S. and Japanese Firms in Taiwan

Managers' Work-Related Activity	U.S. Firm Average	Japanese Firm Average
Assigning work to subordinates	4.72	3.96
Disciplining subordinates	4.07	3.82
Controlling subordinates' work (quality and pace)	3.99	3.82
Controlling salary and promotion of subordinates	3.81	3.18
Hiring and placing subordinates	3.94	3.24
Setting the budget for own unit	3.45	3.16
Coordinating with other units	3.68	3.52
Influencing policy related to own work	3.22	2.85
Influencing policy not related to own work	2.29	1.94
Influencing superiors	3.02	3.00

Note: The highest score of means is 5 (very great influence); the lowest score is 1 (very little influence). The *T*-value for all scores is significant at the .01 level.
Source: Yeh, Ryh-song and Sagafi-nejad, Tagi. "Organizational Characteristics of American and Japanese Firms in Taiwan." *Academy of Management Proceedings* 1987, no. 1, 2017.

Taiwan for about ten years, but they maintain the traits of their distinct cultural origins even though they have been operating in the same (Taiwanese) environment for such a long time."[66]

These findings also reveal that many enterprises view their international operations as extensions of their domestic operations, thus disproving the widely held belief that convergence occurs between overseas operations and local customs. In other words, there is far less of an "international management melting pot" than many people realize. European countries are finding that as they attempt to unify and do business with each other, differing cultures (languages, religions, and values) are very difficult to overcome. A major challenge for the years ahead will be bringing subsidiary organizational characteristics more into line with local customs and cultures.



The World of International Management—Revisited

In this chapter, a number of different entry strategies and organizational arrangements were discussed. Some of these are fairly standard approaches used by MNCs; others represent hybrid or flexible arrangements. Increasingly, entry modes and organizational structures involve collaborative relationships in which control and oversight are shared. Review the chapter opening World of International Management discussion of Airbnb's approach to global strategy. Then think about the major themes of the chapter, the forms of entry and organizational structure, and answer the following questions: (1) Which organizational structure described in the chapter does Airbnb's structure most closely resemble? (2) How might such a structure help or hinder entry into new markets? (3) Does a matrix or customer-oriented structure lend itself better to forming joint ventures and alliances?

SUMMARY OF KEY POINTS

1. MNCs pursue a range of entry strategies in their international operations. These include exporting/importing, wholly owned subsidiaries, mergers and acquisitions, alliances and joint ventures, licensing and franchising. In general, the more cooperative forms of entry (alliances, joint ventures, mergers, licensing) are on the rise.
2. A number of different organizational structures are used in international operations. Many MNCs begin by using an export manager or subsidiary to handle overseas business. As the operation grows or the company expands into more markets, the firm often will opt for an international division structure. Further growth may result in the adoption of a global structural arrangement, such as a global production division, global area division structure, global functional division, or a mixture of these structures.
3. Although MNCs still use the various structural designs that can be drawn in a hierarchical manner, they recently have begun merging or acquiring other firms or parts of other firms, and the resulting organizational arrangements are quite different from those of the past. The same is true of the many joint ventures now taking place across the world. One change stems from the Japanese concept of Keiretsu, which involves the vertical integration and cooperation of a group of companies. Other examples of new MNC organizational arrangements include the emergence of electronic networks, new approaches to organizing for production development, and the more effective use of IT.
4. A variety of factors help explain differences in the way that international firms operate. Three organizational characteristics that are of particular importance are formalization, specialization, and centralization. These characteristics often vary from country to country so Japanese firms will conduct operations differently than U.S. firms, for example. When MNCs set up international subsidiaries, they often use the same organizational techniques they do at home without necessarily adjusting their approach to better match the local conditions.

KEY TERMS

alliance, *326*
centralization, *343*
decentralization, *343*
formalization, *341*
franchise, *329*
global area division, *334*
global functional division, *335*
global product division, *333*
horizontal specialization, *342*
international division structure, *332*
joint venture (JV), *326*
license, *328*
merger/acquisition, *325*
mixed organizational structure, *336*
specialization, *342*
transnational network structure, *337*
vertical specialization, *342*
wholly owned subsidiary, *325*

REVIEW AND DISCUSSION QUESTIONS

1. One of the most common entry strategies for MNCs is the joint venture. Why are so many companies opting for this strategy? Would a fully owned subsidiary be a better choice?
2. A small manufacturing firm believes there is a market for handheld tools that are carefully crafted for local markets. After spending two months in Europe, the president of this firm believes that his company can create a popular line of these tools. What type of organizational structure would be of most value to this firm in its initial efforts to go international?
3. If the company in question 2 finds a major market for its products in Europe and decides to expand into Asia, would you recommend any change in its organizational structure? If yes, what would you suggest? If no, why not?
4. If the company in question 2 finds after three years of international effort that it is selling 50 percent of its output overseas, what type of organizational structure would you suggest for the future?
5. In what way do the concepts of formalization, specialization, and centralization have an impact on MNC organizational structures? In your answer, use a well-known firm such as IBM or Ford to illustrate the practical expressions of these three characteristics.

INTERNET EXERCISE: ORGANIZING FOR EFFECTIVENESS

Every MNC tries to drive down costs by getting its goods and services to the market in the most efficient way. Good examples include auto firms such as Ford Motor and Volkswagen, which have worldwide operations. In recent years, Ford has been expanding into Europe and VW has begun setting up operations in Latin America. By building cars closer to the market, these companies hope to reduce their costs and be more responsive to local needs. At the same time, this strategy requires a great deal of organization and coordination. Visit the websites of both firms and examine the scope of their operations. The web address for Ford Motor is http://www.ford.com, and for Volkswagen it is http://www.vw.com. Then, based on your findings, answer these questions: What type of organizational arrangement(s) do you see the two firms using in coordinating their worldwide operations? Which of the two companies has the more modern arrangement? Do you think this increases that firm's efficiency, or does it hamper the company's efforts to contain costs and be more competitive? Why?

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In the International Spotlight

Saudi Arabia

The Kingdom of Saudi Arabia is one of the world's largest oil exporters, the birthplace of Islam, and hosts two of the holiest Islamic sites: Mecca and Medina. Jordan, Iraq, Kuwait, Qatar, the United Arab Emirates, Oman, and Yamen are immediate neighbors sharing land borders. The Red Sea is located to the west and the Persian Gulf to the east.[67,68]

Forty percent of Saudi Arabia's 34.81 million people are 25 years old or younger, and 50 percent are 25-to-54-year-old. Among ethnic groups, 90 percent are Arab, and 10 percent are Afro-Asian. Immigrants make up over 38 percent of the population. The official language is Arabic. As an almost fully Muslim nation, 85 to 90 percent of citizens are Sunni, and 10 to 15 percent are Shia. The government is an absolute hereditary monarchy, with some mix of Egyptian, French, and customary law.[69,70]

The largely oil-based economy shrunk by approximately 4.1 percent in 2020 after the Covid-19 pandemic began. GDP in 2020 was over US$700 billion. With a per-capita GDP of US$20,110 in 2020, the country is still considered a developing country.[71]

Crown Prince Mohammad Bin Salman launched "Vision 2030" in 2016, an economic reform plan intended to diversify the economy away from its over-reliance on oil production. Saudi's sovereign wealth fund, Public Investment Fund (PIF) pledged over US$40 billion annually until 2025 toward the nation's economic transformation. Increasing tourism, and attracting foreign firms and investors, are key agendas. The government plans for tourism to contribute 10 percent of GDP and jobs by the end of the decade. Until 2019, the country only issued visas for religious pilgrimages and business visits; it was only in 2019 that it began issuing tourist visas. In October 2020, Crown Prince Mohammad announced an investment strategy for attracting foreign direct investment (FDI) of US$100 billion annually by 2030.[72,73]

Bureaucracy, an out-of-date legal system, intellectual property theft, high taxes, and poor human rights are among the factors hindering FDI in Saudi Arabia. Many foreign firms that had been enthusiastic about forming business partnerships in Saudi Arabia backed out after the controversial murder of Washington Post columnist and dissident Jamal Khashoggi inside the Saudi Consulate in 2018. Foreign firms also had to shell out millions in payments as the Saudi government raised the 5 percent value-added tax it introduced in 2018 to 15 percent in 2020, even as the Covid-19 pandemic crippled businesses. With the threat of losing favorable contracts, the Saudi government is pressurizing multinationals to move their regional headquarters to the kingdom.[74,75]

You Be the International Management Consultant

Crown Prince Mohammad Bin Salman has introduced a number of radical social reforms since 2016 to increase the kingdom's global appeal, including curtailing the power of the religious police, allowing concerts and cinemas, and allowing women to drive cars, all of which were formerly banned. Saudi Arabia ended its almost 40-year-old ban on cinema theaters in 2018 and inaugurated its first commercial theater, opened by AMC, in a red-carpet event viewing of the movie "Black Panther". Until then, Hollywood movies and tv shows, though very popular, were only viewed privately at home. By easing restrictions, the government aims to bring back Saudis' entertainment spending that was being diverted to other nations including Dubai and Bahrain. Religious conservatives, however, are not happy with the changes.[76]

Following the lift of the ban on theaters, AMC holdings, the largest cinema chain in the U.S. and globally, entered into a joint venture with the Saudi government. The government welcomed the global giant but soon learned that despite its large size, AMC was inexperienced in markets such as Saudi Arabia. AMC faced intense competition from firms including Saudi Arabia's Muvi and Dubai's Vox Cinemas, both of which, as subsidiaries of established conglomerates in the Gulf, had extensive local connections that AMC lacked. The Covid-19 pandemic also slowed the firm's theater expansions. As of late 2021, AMC owned 10 percent of the joint venture with Saudi Entertainment Ventures (also known as "Seven"), which is a subsidiary of PIF. Under their agreement, AMC received licensing and management fees for the partnership and had invested over US$10 million. The government plans to gain greater control of the venture while maintaining the licensing agreement.[77]

Questions

1. What can Saudi Arabia do to attract foreign companies and what are the challenges it faces?
2. Is tourism a lucrative avenue for Saudi Arabia's economic diversification?
3. Is AMC's entry strategy in Saudi Arabia likely to be successful? What could it have done differently?

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Chapter 10

MANAGING POLITICAL RISK, GOVERNMENT RELATIONS, AND ALLIANCES

OBJECTIVES OF THE CHAPTER

Firms go international to become more competitive and profitable. Unfortunately, many risks accompany internationalization. One of the biggest risks emerges from the political situation of the countries in which the MNC does business. Terrorism is also a worldwide concern that can create a large barrier to MNC entry or survival in a country. MNCs must be able to assess political risk and conduct skillful negotiations. An overview of the political environment in selected areas of the world was provided in Chapter 2. This chapter specifically examines the impact of political risk on MNCs and their subsequent decisions in managing it. One major way is through effective evaluation and risk reduction. This process extends from risk identification and quantification to the formulation of appropriate responses, such as integration and protective and defensive techniques.

This chapter also describes the process for developing productive relationships with governments and for managing alliances with foreign partners, many of which are influenced by home- and host-government relations. The specific objectives of this chapter are

1. **EXAMINE** how MNCs evaluate political risk.
2. **PRESENT** some common methods used for managing and reducing political risk.
3. **DISCUSS** strategies to mitigate political risk and develop productive relations with governments.
4. **DESCRIBE** challenges to and strategies for effectively managing alliances.

The World of International Management

Turkey: Risks and Political Uncertainty

In February 2020, Turkey announced that it would not stop the Syrian refugees from crossing over to Europe. Europe has been a major trading partner of Turkey. However, Turkey's relationship with its largest trading partners, the U.S. and the European Union (EU), has become estranged over the years on issues of immigration, illegal oil drilling in the exclusive economic zones of Cyprus and Greece, its ongoing military assertiveness in Syria, and the purchase of Russian S-400 missile defense system. These conflicts have made doing business with Turkey riskier than before.

Recently, Russia's invasion of Ukraine has added another level of complexity to the risks and uncertainty associated with doing business in Turkey. Turkey needs a successful orchestration of opposing power centers in its relations with Ukraine, Russia, and Western-led North Atlantic Treaty Organization (NATO).[1]The falling value of the Lira and out-of-control inflation have negatively impacted the business environment and accentuated the uncertainty that firms face in doing business in Turkey.

External Risks

Turkey's recent actions can best be described as unilateral and prone to the use of force to meet the domestic agenda. Turkish operation in Syria has been against its NATO partners, the U.S. and the EU, which have been fighting the regime of Bashar al-Assad.[2]This, along with Turkey's growing engagement with Russia and purchase of the S-400 missile system, has further deteriorated the relationship between Turkey and its once strategic partner, the US. The U.S. has imposed a series of sanctions against individuals and institutions in Turkey, canceled the negotiations over a $100 billion free trade agreement with Ankara, and further hiked tariffs on steel imports.

Turkey's relationship with Europe has also become increasingly conflictive in the past years. In 2016 Turkey agreed with the EU to host Syrian refugees against financial support from the Union; however, in early 2020, Turkey threatened allowing

refugees to move toward Europe en route to Greece.[3]Turkey's provocative foreign policy against the EU was furthered by its action of sending exploration ships for unauthorized gas drilling off the coast of Greece and Cyprus. In response, EU imposed sanctions on Turkish companies and individuals involved in the Cyprus oil drilling.[4] These conflicts have tarnished the image of Turkey and made investors and businesses worried about their investment in Turkey.

With Russia's invasion of Ukraine, Turkey found itself on a more slippery slope than it was before. Turkey imports 93 percent of the oil and 99 percent of the gas it consumes and is heavily reliant on Russia as its second-largest energy provider.[5] Even before the Russia–Ukraine conflict, the devaluation of the Turkish Lira increased the cost of oil by more than 140 percent.[6] Meanwhile, Russia's state-owned Rosatom has been building the first nuclear power plant in Turkey as an alternative energy source.[7]

The war in Ukraine also puts Turkey's food security at high risk. Turkey procures 70 percent of its wheat from Russia and another 15 percent from Ukraine.[8] Turkey is almost entirely reliant on Russia and Ukraine for many other essential food items, such as cooking oil. Furthermore, Turkish tourism could be on the brink of collapse due to the war. In 2021, while the total tourist flow to Turkey topped 29 million, tourists from Ukraine and Russia made up almost 23 percent of these visitors.[9] All of these factors could worsen Turkey's existing balance of payments crisis and the growth outlook for the future.

Internal Risks

The coup d'état attempt of 15th July 2016 against the Government of the Prime Minister Recep Tayyip Erdoğan had a profound impact on the political ecosystem in Turkey. The failed coup attempt was followed by purges across Turkey in which over 77,000 citizens, including judges, educational staff, government employees, and soldiers, were detained, and over 160,000 were fired from their jobs.[10] Following the coup attempt, Turkey moved from a parliamentary system of democracy to an executive presidential system of government. The constitution change was monumental in the history of Turkey, concentrating most of the powers with the President.

Since then, Turkey has witnessed a severe human rights crisis.[11]Freedom House, a Washington-based non-profit working on advocating democracy, human rights, and political freedom, classified Turkey as "not free" alongside Russia, China, and Iran.[12] Political participation also remains limited in Turkey. For instance, after the 2019 local elections, several elected mayors, mainly from the opposition, were placed under detention on charges of terrorism and got replaced by non-elected officials from the ruling party.[13] There have been cases of selectively targeting groups and organizations associated with the Kurdish minority.[14] Turkish policy against Kurdish actors has oscillated between engagement and brutal repression through military intervention. However, since 2015 Turkish state has largely abandoned peaceful engagement and adopted a more hardline policy of opposition. Since then, the armed conflict between the two actors has risen, leading to terrorist attacks throughout Turkey.[15]

Turkish society has seen pronounced nationalism with deep polarization and marginalization of democratic institutions. The fragile political situation in Turkey has also impacted Foreign Direct Investment (FDI). FDI inflows declined to $ 7.6 billion in 2020.[16] Transparency International ranked Turkey 96 out of 180 nations in its annual "Corruption Perception Index." This is a significant slide for Turkey, which was ranked 54 among 176 nations. Corruption has undermined democratic rights in Turkey and has allowed state leaders and institutions to use undemocratic policies to stifle opposition.

The Turkish economy has been experiencing a significant economic downturn since 2011; while the growth accelerated in 2017, it deaccelerated to 0.9 in 2019.[17] The impact of COVID-19 on the Turkish economy was sharp. In 2020 and 2021, the tourism and hospitality sectors that generate high demand for other local products and services and create employment across the whole country suffered significantly. Following an increase in the current account deficit and inflation, the Turkish government scaled down quasi-fiscal support, weakening investor confidence and exchange rate depreciation of the Turkish Lira. A full recovery from the pandemic crisis is expected to take longer than in other developing countries due to the high corporate debt in foreign currencies and low foreign reserves of the central bank.

The falling value of the Lira is a big threat to the economy. Turkey's Lira lost nearly 44 percent of its value against the dollar in 2021, becoming one of the worst-performing currencies among emerging economies.[18] Inflation reached 54 percent in 2021, its highest point in 20 years. Many economists attribute this to President Recep Tayyip Erdogan's personal, unorthodox economic theories. President believes that cutting interest rates will bring down inflation, raise investment, improve employment, and boost trade and tourism. However, since his decision in

December 2021 to lower interest rates from 19 to 14 percent, the Turkish economy has plunged into a crisis.[19] In three months, the currency collapsed, and inflation reached 61.14 percent.[20] As a result, all MNCs, especially manufacturing firms, are struggling with the cost of inputs and pressure from the government to block price increases.

Several foreign firms have started leaving Turkey due to the continued financial crisis. British firm "Aviva" announced in 2021 that it would be selling its 40 percent stake in its Turkish Joint Venture.[21] Volkswagen, which was in the final round of discussion with the Turkish administration to open a $1.1 billion car factory in Manisa, an industrial region in Western Turkey, decided to shelve its plan when the Turkish Govt ordered the movement of combat troops in Syria to fight Kurdish militants.[22] The number of foreign companies registered in ISO 500, a ranking of top 500 enterprises in Turkey, has decreased from 153 in 2009 to 110 in 2020.[23]

Since 2013, Turkey's accelerating economic, political, social, and cultural problems have led many people to lose faith in Turkey's future. According to the Turkish Institute of Statistics, more than 300,000 Turkish people emigrated in 2018, a sharp increase (28 percent) over the previous year. More than 50 percent of those resettled people's ages ranged from 20 to 39.[24] A recent survey revealed that the percentage of parents who do not think their children will have a prosperous future in Turkey increased from 36.9 percent in 2019 to 46.8 percent in 2022.[25] Analysts find this trend worrying as it might halt Turkey's development and even set Turkey back decades.

As MNCs face such uncertain environments, they need to assess their risk profile and develop strategies to manage political risks on a global scale. Forming alliances and other long-term cooperative relationships with local firms and even host governments are some of the strategies that MNCs use to mitigate risks. In this chapter, we explore strategies for evaluating political risks, managing government relations, and developing and managing alliances with private and public partners.

The Nature and Analysis of Political Risk

Both domestic and international political developments have a major impact on MNCs' strategic plans. MNCs face hazards that originate directly from variation and unpredictability in political and governance systems around the world. The state and its various institutions and agencies continue to pose a direct threat to MNCs through policy shifts in taxation or regulation, through outright or de facto expropriation, or by allowing the exploitation of assets by local firms. As government policies change, MNCs must be willing and able to adjust their strategies and practices to accommodate the new perspectives and actual requirements.

political risk
The unanticipated likelihood that a business's foreign investment will be constrained by a host government's policy.

Applied to international management, **political risk** is the unanticipated likelihood that an MNC's foreign investment will be constrained by a host government's policies. With increased terrorist attacks across the Middle East, Europe, and North America, political risk assessment has become especially vital to MNCs. Today, almost all countries are interested in sustaining investment from MNCs. Yet political risks persist, especially in the emerging economies of the world, which continue to struggle with political and institutional instability. Examples of risk factors include freezing the movement of assets out of the host country, placing limits on the remittance of profits or capital, devaluing the currency, appropriating assets, and refusing to abide by the contractual terms of agreements previously signed with the MNC. As rapid globalization continues, MNCs must be aware of the political risk factors present in doing business abroad and develop strategies to respond to them. Policy and control mechanisms, along with awareness of the historical treatment of MNCs within certain nations, allow firms to evaluate the inherent risk of doing business there.

The government of China, for example, was for years very anxious to see the country admitted to the World Trade Organization (WTO). Yet, even after its entry into the WTO, China made decisions that were in its own best short-run interests but created new political risks for MNCs doing business there. China undertook several actions regarding price controls, foreign exchange restrictions, and other measures that appeared to signal it was committed to maintaining control over the economy. One specific move was to "control the flow of convertible currency out of the country. Officially described as a crackdown on illegal transactions, the moves will effectively make it more difficult for both domestic and international companies to move money in and out of China."[26]

Some of the policies have since been relaxed; however, the political risk continues to be a major consideration for multinationals doing business there. As was brought out in Chapter 3, industrial piracy continues to be a big problem, and the Chinese government has yet to take effective action against it. Chinese-produced goods accounted for about 80 percent of volume and 90 percent of the value of all counterfeit goods introduced in the market in 2019, valued at US$449 billion, costing businesses billions and resulting in thousands of job losses.[27] One reason for the reluctance of the Chinese government to take action may well be that state-owned factories are some of the biggest counterfeiters. In recent years, the footwear industry has been among the hardest hit. In August 2018, the United States Homeland Security Department uncovered a ring of smugglers in New York City who imported over 300,000 counterfeit Nike Air Jordan shoes, valued at more than US$70 million, from China. The five smugglers could face more than 20 years in prison.[28] Sometimes, counterfeiters are so efficient that the fake goods reach the market even before the actual product. Nike experienced this with its Air Max 360 when someone at the China office stole blueprints and began manufacturing.

Another common complaint is the way rules and regulations are interpreted in China. Google's attempted entry into China is an example (see Brief Integrative Case 3.1 at the end of Part Three). The cyber attacks on Google, apparently linked to government concerns about Google's content and a desire to limit that content, as well as ongoing negotiations with the government as to what services and links would be available in China, have resulted in a difficult and ambiguous situation for the company.

These types of actions by the Chinese government increase the political risk of doing business in China. On the other side of the coin, Chinese MNCs must also assess the political risk inherent in doing business in the United States. For years, American trade officials have claimed that China has taken for granted its relationship with the United States and warned that if markets in China were not opened for American goods, there would be reciprocal action against Chinese firms that are selling in the United States. Additionally, U.S. politicians have expressed frustration at China's unwillingness to revalue the yuan. This political risk became a reality for many Chinese MNCs when the Trump administration instituted a series of tariffs aimed at solar panels, washing machines, steel, aluminum, and various other products. Chinese MNCs that depend on the U.S. market for a majority of their sales, such as sporting goods manufacturer Tuke and medical equipment supplier Mindrey Medical, have seen sales plummet and have been forced to lay off employees.[29]

Macro and Micro Analysis of Political Risk

Firms evaluate political risk in a number of ways. One is through **macro political risk analysis**, which reviews major political decisions that are likely to affect all business conducted in the country. For example, China's decision regarding restrictions on foreign-exchange transactions represents a macro political risk because it affects all MNCs. Another approach is **micro political risk analysis**, which is directed toward government policies and actions that influence selected sectors of the economy or specific foreign businesses. The U.S. government tariffs on steel and aluminum fall into the micro political risk category. The following two sections examine both of these areas requiring analysis—macro political risk and micro political risk—in more depth.

macro political risk analysis Analysis that reviews major political decisions likely to affect all enterprises in the country.

micro political risk analysis Analysis directed toward government policies and actions that influence selected sectors of the economy or specific foreign businesses in the country.

Macro Risk Issues and Examples

In recent years, macro risk analysis has become of increasing concern to MNCs because of the growing number of countries that are finding their economies in trouble, as in Latin America, or, even worse, that are unable to make the transition to a market-driven economy.

India provides plenty of examples of macro political risks for MNCs (see India In The International Spotlight at the end of Chapter 1). India's legal system is stymied by a labyrinth of laws and bureaucratic red tape. In 2022, the Indian courts had a backlog of over 47 million cases. Additionally, the country had only 19.5 judges per million

citizens, far fewer than the 100 judges per million citizens in the U.S.[30] So, while the government touts the fact that Indian law offers strong protection to foreign firms against counterfeiters, an MNC finding that it must rely on the Indian judicial system to enforce its proprietary rights is likely to be sadly disappointed. As a result, many MNCs accept this risk as a cost of doing business in India and formulate strategies for managing the problem. A good example is provided by the Timken Company of Canton, Ohio, which makes bearings and alloy steel. When Timken found that the Indian market was rampant with fake Timken products, the MNC's initial reaction was to sue the counterfeiters. However, after realizing how long this would take, the MNC opted for a different strategy. Management switched the packaging of its products from cardboard boxes to heat-sealed plastic with eight-color printing and a hologram that could not be forged. The result was that within months the counterfeit market began drying up. The approach was so successful that Timken utilized it when facing similar counterfeiting in China. Timken is not alone; there are many counterfeit operations in India because the slow-moving judicial system encourages non-compliance. In fact, some counterfeiters have found that by filing countersuits they can tie up a case in court for years.

Many other newly emerging economies, besides the big ones such as China, and India, also present macro political risks for MNCs. In Vietnam, the communist government earned a bad name among foreign investors because of restrictive policies and excessive bureaucratic interference. Foreign investors were required to establish joint ventures with local partners, and getting things done proved to be extremely slow due to the numerous levels of bureaucracy to be dealt with. In recent years, however, the Vietnamese government has been taking steps to liberalize the economy, add elements of capitalism, and attract foreign investment.[31]

An example of a macro consideration of political risk is the Russian invasion of Ukraine in early 2022 and the associated sanctions by the U.S. and the EU nations. The sanctions on Russian firms and individuals and the informal pressure not to engage with Russia lead many firms to close down their Russian operations. McDonald's first entered Russia In 1990; it had 847 stores and 62,000 employees in early 2022. However, faced with extreme pressures from different stakeholder groups in the U.S. and Europe, it decided to leave Russia in May 2022. It is estimated that McDonald's will have to write off about US$1.2bn because of this decision.[32] As of early summer in 2022, about 140 MNCs, including companies such as Coca-Cola, PepsiCo, Starbucks, Netflix, Airbnb, IKEA and Apple, either exited or suspended their operations in Russia.[33] The Russian case demonstrates how policy uncertainty and unpredictability can jeopardize years of planning by MNCs, so much so that they may be forced to leave certain countries or regions altogether.

The Russian case is not an isolated one. In the 1970s, U.S. companies in Iran failed to forecast the fall of the Shah regime and the rise of Khomeini; as a result, they lost their investment. Because of this Iranian experience, the situation in Iraq under militant dictator Saddam Hussein and the subsequent instability after his removal, the terrorist attacks in Paris and New York by ethnic Middle Easterners, and the recent rise of ISIS in Syria and Iraq, many MNCs now are reluctant to invest very heavily in most Middle Eastern countries. As discussed in the chapter-opening World of International Management, the instability has impacted even countries such as Turkey, which has huge market potential and was considered a Western ally until recently.

Central Europe and some parts of Eastern Europe appear to be a better bet, as seen by the millions of dollars that MNCs have poured into transition post-communist countries such as Hungary and Poland. This geographic region is also regarded as politically risky, however, given the ongoing Russian war with Ukraine, the continuing problems in the former Soviet republics, and the political instability in the entire region. As a result, many MNCs have been tempering their expansion plans in these still emerging economies. Recently, populist governments, somewhat hostile to capitalism and foreign investment, have emerged in a number of Latin American countries, including Bolivia and Ecuador. Political instability in Venezuela over the last two decades has been particularly difficult

for international business. The Venezuelan government has effectively forced divestment by MNCs and exerted control over all elements of the economy. The 2019 political crisis further amplified risks for foreign investors in Venezuela, as hyperinflation, food shortages, and electrical blackouts severely damaged the socioeconomic health of the country.

Still another area of consideration for MNCs regarding macro political risks is government corruption, such as the prevalence of bribery and government rules and regulations that require the inclusion of certain locals in lucrative business deals. One of the most commonly cited reasons for the severe economic problems in Indonesia in recent years is the corrupt practices of the government. Because the family of former President Suharto was involved in virtually every big business deal that took place under his regime, many loans and major projects were approved by banks and government agencies simply because these family members were part of the process. When these loans and projects ran into trouble, more money was poured in to shore up things—and no one dared to challenge these unsound decisions. President Widodo, elected in 2014, campaigned on the promise of a clean break from previous corrupt practices, though many problems still remain.

Which are the most and the least corrupt nations in the world? Table 10–1 provides the results for 2021 of the Corruption Perceptions Index, which measures the perceived level of public-sector corruption, in which 180 countries/territories were ranked. The U.S. ended up in 27th position, illustrating that even the U.S. has work to do in improving its business environment.

Table 10–1
Selected Ranking of Corruption in 2021 Transparency International Corruption Perceptions Index from Least to Most Corrupt (note: some countries are "tied")

Rank	Country/Territory	Rank	Country/Territory
1	Denmark	85	India
1	Finland	87	Vietnam
1	New Zealand	96	Brazil
4	Norway	96	Indonesia
4	Singapore	96	Turkey
4	Sweden	110	Thailand
7	Switzerland	117	Egypt
8	Netherlands	122	Ukraine
10	Germany	124	Mexico
11	United Kingdom	124	Niger
13	Canada	128	Bolivia
18	Japan	128	Kenya
22	France	136	Angola
27	Chile	136	Russia
27	United States of America	150	Iran
32	South Korea	157	Cambodia
36	Israel	157	Iraq
42	Poland	157	Zimbabwe
52	Saudi Arabia	164	Haiti
58	Greece	174	Yemen
64	Cuba	177	Venezuela
66	China	178	Syria
70	South Africa	178	Somalia

Source: The Full Data Set. *Transparency International*, 2021. https://www.transparency.org/cpi2021.

Micro Risk Issues and Examples Micro risk issues often take such forms as industry regulation, taxes on specific types of business activity, and restrictive local laws. The essence of these micro risk issues is that some MNCs are treated differently than others, thus increasing the cost of doing business for some.

The U.S. steel industry provides a good example. For decades, American steel makers have filed complaints against dozens of countries, charging that foreign steel producers dump their steel into the U.S. market at artificially low prices. American steel makers, citing job losses and an inability to compete with cheap steel, have repeatedly insisted that their government force foreign producers to raise their prices. In 2018, the Trump administration ultimately imposed a 25 percent tariff on steel imports. The tariffs impacted not only steel importers but also MNCs that manufacture products from steel, such as washing machines and cars. In 2021, President Joe Biden removed these tariffs but set a volume based on historical patterns. Such events underscore the uncertainty and volatility associated with micro politics, even in the United States.[34]

World Trade Organization (WTO) and European Union (EU) regulations on American MNCs have created new sorts of micropolitical risk. The EU examines all major mergers and acquisitions and has the authority to block them. For example, the EU refused to allow the cross-border merger between Siemens (German) and Alstom (France) in 2019, a prime example of the forces of globalization (the EU was able to stop the actions of powerful firms) as well as of the need for political risk analysis (Siemens and Alstom needed to better assess and manage the risk posed by the politicians and government bureaucrats in Brussels). Despite outrage from the French and German governments, there was not much that either country could do.[35]

Other companies have faced difficulty from EU regulators as well. In July 2022, the EU passed the Digital Services Act and Digital Markets Act. These acts are intended to force technology companies such as Facebook, Google, and Amazon to be more transparent and combat illegal content on their platforms.[36] Noncompliance with this act could cost companies as much as 6 percent of their total global sales in a year.[37] Such regulations are not new in the case of the EU. In 2017, Google was issued a US$2.7 billion fine related to antitrust issues with the promotion of its shopping applications, and, in 2018, the company was ordered to pay an additional US$5 billion fine due to claims that preloaded apps on its Android smartphone operating systems, including web browser Chrome, unfairly excluded competitors. These two fines, the largest ever issued by the European Commission, underscore how practices in one market, such as in the U.S., can be acceptable, but the same actions in another jurisdiction can be seen as illegal.[38] Smartphone chip maker Qualcomm faced a similar issue in 2018 when EU regulators determined that the company illegally made payments to Apple to ensure that its products were included in the iPhone. The European Commission slapped a $1.2 billion fine on the company, claiming that competitor Intel was unfairly excluded from the market.[39] These regulatory actions are good examples of the types of micro risk issues that MNCs face from industry regulation.

In some instances, it is not clear whether macro or micro political risk is at work. Facebook announced in 2019 that in response to privacy concerns, it was working to encrypt its messaging system. The company is planning to develop the encrypted messaging system in a way that prevents any third party, including law enforcement, governments, and even Facebook itself, from accessing private messages. Additionally, Facebook has stated that it will not store data in countries that have a poor record on freedom of expression and privacy. Because proprietary encryption technology makes it hard for governments to intercept messages, which some claim are necessary to protect national security, Facebook may face expulsion from some countries. Founder Mark Zuckerberg has acknowledged this as well, stating that the risk of being banned by certain governments is "a tradeoff we're willing to make."[40] In this example, a company may be targeted because of its unique product features and their implications for government security.

Terrorism and Its Overseas Expansion

Terrorism is the use of force or violence against others to promote political or social views. The ultimate goal of the violence is for the government and citizens to change policies and ultimately yield to the beliefs of the terrorist group. Terrorism has existed for centuries, but it has become more of a concern everywhere over the last two decades, especially so in the United States and Europe in light of the New Zealand, Paris, Madrid, London, and New York attacks.

terrorism
The use of force or violence against others to promote political or social views.

MNCs need to be wary of the combative political environment that may exist when they seek to engage in overseas expansion in certain geographic areas.[41] For example, the Al Qaeda group has attacked Yemen, Pakistan, Kuwait, Tunisia, and Kenya, to name a few. Palestinian suicide bombers have blown up buses in Israel. Australian tourists were killed in a massive attack in Bali, and a restaurant in the Philippines was the target of similar assaults. The U.S.'s invasions of Afghanistan and Iraq have harmed political relations with countries that did not agree with those actions. Violent conflicts in Africa are ongoing and endemic. There have been bombings in the U.K., and France has been affected by multiple attacks. In March 2019, 50 worshipers were killed at a mosque in Christchurch, New Zealand, by a lone anti-Islamic terrorist, and, in April 2021, 31 people were killed in Nigeria when terrorists (linked to ISIS) attacked a military base.[42,43] The list is long and likely to get longer.

It is clear that terrorism within a country can have a significant impact on the MNC in the macro sense. If a country has a high incidence of terrorist attacks against commercial businesses specifically, companies will need to be even warier about setting up operations.[44] Typically, terrorists target business areas, businesses that have high status, and those that have a great influence on initiating change. There is no way to guarantee that companies can fully avoid harm, but political risk analysis and preparation may forestall it. MNCs must thoroughly evaluate the political environment, install modern security systems, compile a crisis handbook, and prepare employees for situations that may arise.

Analyzing the Expropriation Risk

Expropriation is the seizure of businesses with little, if any, compensation to the owners. Such seizures of foreign enterprises by developing countries were quite common in the 1960s–1990s. In addition, some takeovers were caused by **indigenization laws**, which required that nationals hold a majority interest in the operation. Generally, expropriation is more likely to occur in non-Western countries that are poor, relatively unstable, and suspicious of foreign multinationals.

expropriation
The seizure of businesses by a host country with little, if any, compensation to the owners.

indigenization laws
Laws that require nationals to hold a majority interest in an operation.

Some firms are more vulnerable than others to expropriations. Often, those at greatest risk are in the extractive, agricultural, or infrastructural industries such as utilities and transportation because of their importance to the country. In addition, large firms often are more likely targets than small firms because more is to be gained by expropriating large firms.

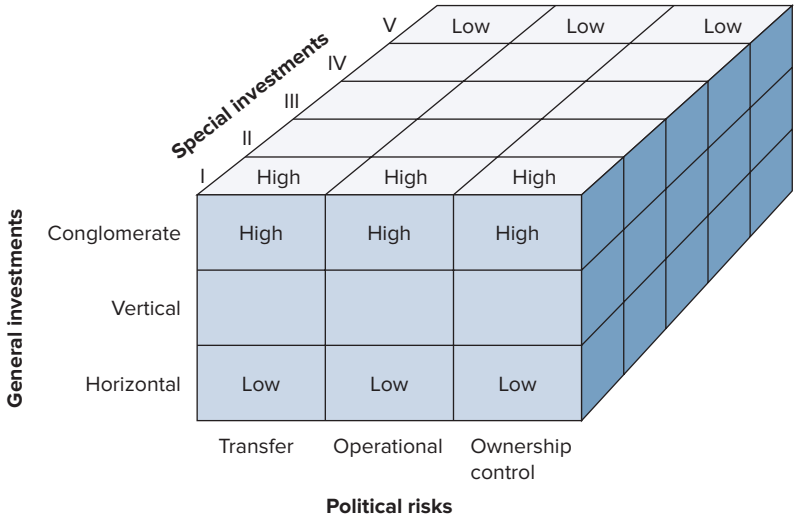
MNCs can take a wide variety of strategies to minimize their chances of expropriation. They can bring in local partners. They can limit the use of high technology so that if the firm is expropriated, the country cannot duplicate the technology. They can also acquire an affiliate that depends on the parent company for key areas of the operation, such as financing, research, and technology transfer, so that no practical value exists in seizing the affiliate.

■ Managing Political Risk and Government Relations

For many decades, businesses have been looking for ways to manage their political risk. Quite often, the process begins with a detailed analysis of the various risks with which the MNC will be confronted, including the development of a comprehensive framework that identifies the various risks and then assigns a quantitative risk or rating factor to them.

Figure 10–1

A Three-Dimensional Framework for Assessing Political Risk



Source: Schmidt, David A. "Analyzing Political Risk." *Business Horizons* 29, no. 4 (1986): 43–50.

Developing a Comprehensive Framework or Quantitative Analysis

A comprehensive framework for managing political risk should consider all political risks and identify those that are most important. Schmidt has offered a three-dimensional framework that combines political risks, general investments, and special investments.[45] Figure 10–1 illustrates this framework, and the following sections examine each dimension in detail.

transfer risks
Government policies that limit the transfer of capital, payments, production, people, and technology in and out of the country.

operational risks
Government policies and procedures that directly constrain management and performance of local operations.

ownership-control risks
Government policies or actions that inhibit ownership or control of local operations.

conglomerate investment
A type of high-risk investment in which goods or services produced are not similar to those produced at home.

vertical investment
The production of raw materials or intermediate goods that are to be processed into final products.

Political Risks Political risks can be broken down into three basic categories: transfer risks, operational risks, and ownership-control risks. **Transfer risks** stem from government policies that limit the transfer of capital, payments, production, people, and technology into or out of the country. Examples include tariffs on exports and imports as well as restrictions on exports, dividend remittance, and capital repatriation. **Operational risks** result from government policies and procedures that directly constrain the management and performance of local operations. Examples include price controls, financing restrictions, export commitments, taxes, and local sourcing requirements. **Ownership-control risks** are embodied in government policies or actions that inhibit ownership or control of local operations. Examples include foreign-ownership limitations, pressure for local participation, confiscation, expropriation, and abrogation of proprietary rights. For example, in the aftermath of Western sanctions on Russia due to the Crimea annexation in 2015, the Russian government-owned gas giant Gazprom canceled an agreement with the Italian oil field contractor Saipem that would have allowed Saipem to construct a pipeline under the Black Sea. Although no definitive explanation for the cancellation was made public, the Russian company cited "convenience" as the reason for the decision. As a result, the US$2.6 billion project came to a grinding halt.[46] Abrogation of the agreement is an example of ownership-control risks.

For some other examples of political risks that must be managed, see the International Management in Action box "Huawei: Technology, Privacy, and Politics," as well as the International Management in Action box "Uber's Global Expansion and Political Strategy"

General Nature of Investment The general nature of investment examines whether the company is making a conglomerate, vertical, or horizontal investment (see Figure 10–1). In a **conglomerate investment**, the goods or services produced are not similar to those produced at home. These types of investments usually are rated as high risk because foreign governments see them as providing fewer benefits to the country and greater benefits to the MNC than other investments. **Vertical investments** include the production

Huawei: Technology, Privacy, and Politics

In order to successfully operate their various agencies, communicate with diplomats, and organize their military forces, governments around the world depend on wireless devices and software developed by companies in foreign countries. Although foreign companies might be able to provide more advanced and affordable technology than their home country's companies can develop, the government's ability to ensure data privacy becomes more challenging. This is especially true of technology that is developed in countries like China, where the government exercises great influence over the products that companies research, design, and produce.

The controversy surrounding Chinese telecom giant Huawei provides a good example of the possible risks that governments must weigh when using foreign technology. The U.S. government maintains that the Chinese government could compel Huawei, which is the world's second-largest smartphone manufacturer after Samsung and maintains operations in over 170 countries, to intercept communications through back doors installed on its devices, thereby allowing the Chinese government to spy on foreign government and individual communication around the globe. It has been alleged that the vague intelligence laws of China provide a credible threat from the Chinese government to force Huawei to share sensitive data that it has access to in other countries. With respect to Huawei's involvement in the 5G mobile networks, many governments have raised concerns that Huawei's 5G infrastructure contains spyware that can give the Chinese Government access to network data of other nations.

Past actions by both Huawei and the Chinese government further, suggest that the risk of data theft is real. Huawei has previously been accused of stealing intellectual property and source code from Cisco Systems and intercepting internal correspondence from Canadian telecom giant Nortel. Recognizing the threat from Huawei, it has been banned by major U.S. allies like Japan, the United Kingdom, and Australia from participating in their 5G network testing and development. Other countries like France, Italy, Germany, and Canada are contemplating such a ban. The coercive actions have not only impacted Huawei's network business but have been equally debilitating for its mobile phone sales, with many countries instituting heightened security measures designed to discourage the use of Huawei by private mobile carriers.

Tensions have continued to escalate between the U.S. and Chinese governments over the Huawei controversy. In December 2018, Huawei CFO Meng Wanzhou was arrested and detained in Vancouver, Canada, at the request of the U.S. government. The initial charges related to the defrauding of U.S.-based banks and violations of the Iranian sanctions; however, on January 28, 2019, Wanzhou and Huawei were officially indicted with over a dozen charges, including obstruction of justice, wire fraud, and intellectual property theft. In an act of retaliation, the Chinese government reinstated the death penalty in January 2019 for a Canadian who was convicted of drug charges. After the U.S. added Huawei to the U.S. Commerce Department's Export Administration Regulations list in May 2019 (thereby making a special license from the U.S. government required before engaging in any business with Huawei), Chinese officials arrested a pair of Canadians over allegations of espionage. To break the ice, CFO Meng Wanzhou returned to China in 2021 after being in detention for three years in Canada following an agreement between Huawei and the US prosecutors to end the bank fraud case against her.

Whether or not Huawei will be able to adequately address its security concerns remains to be seen. American tech companies that create smartphone applications and operating systems, like Google, stand to lose a great deal of market share while their products are restricted from use by Huawei. Huawei has also been significantly impacted by the U.S. sanctions as it recorded a continuous decline in sales for four straight quarters of 2021 as well as in the first quarter of 2022. Ultimately, Huawei's future in the U.S. and Europe may depend on a resolution to the larger trade dispute facing China and the United States

Source: "Global Smartphone Market Share: By Quarter," *Counterpoint Research,*February 8, 2022, https://www.counterpointresearch.com/global-smartphone-share/; Lindsay Maizland and Andrew Chatzky, "Huawei: China's Controversial Tech Giant," *Council on Foreign Relations,* August 6, 2020, https://www.cfr.org/backgrounder/huawei-chinas-controversial-tech-giant; David Sacks, "China's Huawei Is Winning the 5G Race. Here's What the United States Should Do To Respond," *Council on Foreign Relations,* March 29, 2021, https://www.cfr.org/blog/china-huawei-5g; "Huawei's Q1 sales down 14% as U.S. sanctions remain," *Independent,* April 28, 2022, https://www.independent.co.uk/news/huawei-ap-singapore-chinese-google-b2067343.html.

of raw materials or intermediate goods that are to be processed into final products. These investments run the risk of being taken over by the government because they are export-oriented, and governments like a business that helps them generate foreign capital. **Horizontal investments** involve the production of goods or services that are the same as those produced at home. These investments typically are made with an eye toward satisfying the host country's market demands. As a result, they are not very likely to be takeover targets.

horizontal investment
An MNC investment in foreign operations to produce the same goods or services as those produced at home.

Uber's Global Expansion and Political Strategy

Over the course of just a decade, Uber, the taxicab alternative founded in San Francisco in 2009, has disrupted the traditional "vehicle for hire" transportation model on a worldwide scale. While a typical taxicab company may purchase a fleet of cars and hire drivers for those cars, Uber functions as a facilitator for a user-generated ride-sharing network. Both riders and drivers, using their own personal vehicles, connect through the company's phone application. Using this technology, drivers and riders are able to connect within seconds, resulting in an increased number of fare-paying rides that a driver is able to complete and a decreased wait time for riders when compared to hailing a traditional taxicab. Uber offers numerous additional advantages to riders and drivers over traditional taxicab service, including more efficient service, competitive pricing, increased access to the market for those who would like to be drivers, and easier payment for services. Uber has expanded exponentially in the last few years. As of 2021, Uber was operating in 71 countries and 1,110 cities worldwide.

Taxicab companies, often wielding great political influence, have attempted to halt Uber's disruptive expansion. Many cities and countries have unsuccessfully attempted to completely eliminate Uber service. In 2018, Turkish President Tayyip Erdogan declared that Uber was "finished" and attempted to tighten restrictions on ride-sharing services. Uber drivers were fined, and their cars were impounded. Turkish cab drivers launched a lawsuit against Uber, demanding that the app be banned. Uber faced a major setback when in 2019, a Turkish court ordered a ban on the ride-hailing app, however the same was lifted in 2021 following active negotiations between Uber and the Turkish regulators. Today Uber continues to operate in Turkey despite government restrictions and taxi driver lawsuits.

In 2014 and 2015, French courts fined Uber multiple times for operating illegal, unlicensed services, and more than 100 Uber drivers were ticketed. In another move, France banned Uber's ultra-low-budget "UberPop", which allowed drivers without a driving license to pick up customers. Despite these bans and threats, Uber continued to operate its services and, with increasing ridership and available drivers. French authorities have stopped actively pursuing legal actions against drivers. Uber faced similar resistance in other markets too. In 2015 Uber's services were deemed illegal by the Brazilian court system, and phone service providers were ordered to block the downloading of the app. However, within just a few weeks, the court reversed course and eliminated the policy of restricting the use of the app. Recently, Uber has found a very unlikely competitor in Brazil in local governments that launched their own ride-hailing applications. Taxi. Rio is one such application launched by the Rio de Janeiro government to connect riders to the traditional taxi service. Taxi. Rio and other such local apps launched and supported by governments present a new set of challenges for Uber when the competitor is the host government itself.

Uber's political strategy in Turkey, France, and Brazil, like elsewhere, has been to continue to press ahead, knowing that consumer demand will ultimately force governments to permit their service. To build enough consumer support and awareness to effectively implement this strategy, the company has intentionally spent hundreds of millions of U.S. dollars to advertise its services across the global audience. Uber is uniquely positioned to utilize this type of political strategy; while other companies must maintain hard assets in the countries in which they operate, Uber relies on locals, who own their own cars, to keep the business moving. While a government can somewhat easily shutter a retail store or seize assets, Internet-based facilitation apps are nearly impossible to ban in free economies. Despite Uber's remaining technically illegal in many countries in which it operates, consumer demand for Uber has resulted in minimal enforcement and punishments. This strategy, though effective, has not been cheap. In 2021 alone, Uber reported an earnings loss of over $509 million and a cash burn of $1.28 billion.

In new markets like India, Uber has faced backlash and a temporary ban after several incidents involving rider safety, including violent crime. China, with a highly urbanized middle class, held more potential for the company than perhaps any other market. However, as companies like Google have experienced firsthand, the Chinese government holds more political power over the Internet than perhaps any other nation. After struggling to gain market share, Uber ultimately sold its Chinese operations to domestic ride-sharing service Didi. A great deal of political risk remains for Uber as regulators around the globe have started forming more effective regulations to govern the business activities of platforms like Uber.

A major issue that is making Uber rethink its global strategy is its relationship with the drivers and lawsuits against it for the exploitation of its drivers in different countries. There has been growing pressure on Uber to recognize its driver as employees and provide them with the necessary benefits. A Dutch court in 2021 ruled Uber drivers be classified as employees with benefits entitled as per status. A similar ruling was delivered by a court in the United Kingdom that entitled Uber drivers as "workers" and provisioned minimum wage benefits to them. While the major competitive edge of platforms like Uber emanates from their lean business model, the issue of driver status is expected to have important business implications for Uber.

As a company dedicated to the development of disruptive solutions to market demands, Uber will likely face continued political pressures as it develops new technology in the future. For example, Uber had to temporarily halt the testing of its autonomous self-driving cars in the U.S.

following fatal crashes in Arizona and Pennsylvania. Additionally, Uber's driverless testing has resulted in regulatory discussions in various cities and states across the U.S.

Going forward, however, the company should find confidence in the success of its past strategies for global growth; Uber has proven that consumer buy-in is perhaps the most powerful tool when facing political risk and difficulties, regardless of region or country.

Source: "With access ban lifted, Uber returns to Istanbul," *Ahval,* January 13, 2021, https://ahvalnews.com/uber/access-ban-lifted-uber-returns-istanbul#; Romain Dillet, "Uber fined $900,000 in France for running illegal transportation operations with UberPOP," *TechCrunch,* June 9, 2016, https://techcrunch.com/2016/06/09/uber-fined-900000-in-france-for-running-illegal-transportation-operations-with-uberpop/; Charlotte Peet, "Uber faces an unlikely competitor in Brazil: the government's taxi app," *Rest of World,* January 10, 2022, https://restofworld.org/2022/uber-brazil-government-taxi-app/; "Uber is still losing a lot of money," *Business Insider,* August 5, 2021, https://www.businessinsider.in/thelife/news/uber-is-still-losing-a-lot-of-money/articleshow/85055190.cms; Pieter Haeck, "Uber risks death by a thousand court cases," *Politico,* September 20, 2021, https://www.politico.eu/article/uber-platform-employees-workers-benefits/.

Special Nature of Investment The special nature of foreign direct investment (FDI) relates to the sector of economic activity, technological sophistication, and pattern of ownership. There are three sectors of economic activity: (1) the primary sector, which consists of agriculture, forestry, and mineral exploration and extraction; (2) the industrial sector, consisting of manufacturing operations; and (3) the service sector, which includes transportation, finance, insurance, and related industries. Levels of technological sophistication characterize science-based industries and non-science-based industries. The difference between them is that science-based industry requires the continuous introduction of new products or processes. Patterns of ownership relate to whether businesses are wholly or partially owned.

The special nature of FDI can be categorized as one of five types (see Figure 10–1). Type I is the highest-risk venture; type V is the lowest-risk venture. This risk factor is assigned based on sector, technology, and ownership. Primary sector industries usually have the highest risk factor, service sector industries have the next highest, and industrial sector industries have the lowest. Firms with technology that is not available to the government, should the firm be taken over, have lower risk than those with technology that is easily acquired. Wholly owned subsidiaries have a higher risk than partially owned subsidiaries.

Using a framework similar to that provided in Figure 10–1 helps MNCs understand and manage their political risks. A way to complement this framework approach is to give specific risk ratings to various criteria and make a final compilation.

Quantifying the Variables in Managing Political Risk Some MNCs attempt to manage political risk through a quantification process in which a range of variables is simultaneously analyzed to derive an overall rating of the degree of political risk in a given jurisdiction. This would allow an MNC, for example, to compare how risky a particular venture would be in Turkey and in Argentina.

Factors that are typically quantified reflect the political and economic environment, domestic economic conditions, and external economic conditions. Each factor is given a minimum or maximum score, and the scores are tallied to provide an overall evaluation of the risk. Table 10–2 provides an example of a quantitative list of political risk criteria.

Techniques for Responding to Political Risk

Once political risk has been analyzed by a framework, quantitative analysis, or both, the MNC then will attempt to manage the risk further through a carefully developed response. The MNC can also proactively improve its relationship with governments by means of preemptive political strategies to mitigate risk before it appears. Three related strategies should be considered: (1) relative bargaining power analysis; (2) integrative, protective, and defensive techniques; and (3) proactive political strategies.

Table 10–2
Criteria for Quantifying Political Risk

Major Area	Criteria	Scores Minimum	Scores Maximum
Political and economic environment	1. Stability of the political system	3	14
	2. Imminent internal conflicts	0	14
	3. Threats to stability emanating from the outside world	0	12
	4. Degree of control of the economic system	5	9
	5. Reliability of the country as a trading partner	4	12
	6. Constitutional guarantees	2	12
	7. Effectiveness of public administration	3	12
	8. Labor relations and social peace	3	15
Domestic economic conditions	9. Size of population	4	8
	10. Per capita income	2	10
	11. Economic growth during previous 5 years	2	7
	12. Prospective growth during next 3 years	3	10
	13. Inflation during previous 2 years	2	10
	14. Accessibility of domestic capital market to foreigners	3	7
	15. Availability of high-quality local labor	2	8
	16. Possibility of giving employment to foreign nationals	2	8
	17. Availability of energy resources	2	14
	18. Legal requirements concerning environmental protection	4	8
	19. Traffic system and communication	2	14
External economic relations	20. Restrictions imposed on imports	2	10
	21. Restrictions imposed on exports	2	10
	22. Restrictions imposed on foreign investments in the country	3	9
	23. Freedom to set up or engage in partnerships	3	9
	24. Legal protection for brands and products	3	9
	25. Restrictions imposed on monetary transfers	2	8
	26. Revaluations against the home market currency during the previous 5 years	2	7
	27 Development of the balance of payments	2	9
	28. Drain on foreign funds through oil and other energy imports	3	14
	29. International financial standing	3	8
	30. Restrictions imposed on the exchange of local money into foreign currencies	2	8

Source: Dichtl, Erwin and Koglmayr, Hans-Georg. "Country Risk Ratings." *Management International Review* 26, no. 4 (1986): 4–11.

Relative Bargaining Power Analysis The theory behind relative bargaining power is quite simple. The MNC works to maintain a bargaining power position stronger than that of the host country. A good example arises when the MNC has proprietary technology that will be unavailable to the host country if the operation is expropriated or the firm is forced to abide by government decisions that are unacceptable to it. Over time, of course, this technology may become common, and the firm will lose its bargaining power. To prevent this from happening, the firm will work to develop new technology that again establishes the balance of power in its favor. As long as the host country stands to lose more than it will gain by taking action against the company, the firm has successfully minimized its political risk by establishing an effective bargaining position. Figure 10–2 provides an example. As long as the MNC's bargaining power remains at or above the diagonal line, the government will not intervene. At point E in the figure, this power declines, and the host country will begin to intervene.[47]

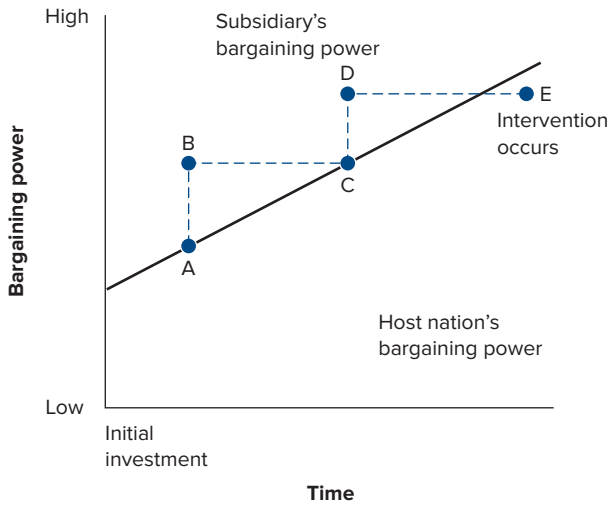


Figure 10–2
Relative Bargaining Power over Time

Source: Pointer, Thomas A. "Political Risk: Managing Government Intervention." In *International Management: Text and Cases*, edited by Paul W.Beamish, J. Peter Killing, Donald J. LeCraw, and Harold Crookell. Homewood, IL: Irwin, 1991: 125.

Gaining bargaining power depends on many factors, such as the host country's perception of the MNC's size, experience, and legitimacy. Furthermore, the ability to bargain and achieve security does not necessarily mean that the MNC must be aggressive or engage in a "power play." Enticing the host country with products or services that could benefit it in the short run can result in retaliatory actions if the MNC is not able to innovate or the host country grows weary of a lack of power.

Integrative, Protective, and Defensive Techniques Another way that MNCs attempt to protect themselves from expropriation or to minimize government interference in their operations is to use integration and the implementation of protective and defensive techniques. **Integrative techniques** are designed to help the overseas operation become part of the host country's infrastructure. The objective is to be perceived as "less foreign" and thus unlikely to be the target of government action. Some of the most integrative techniques include (1) developing good relations with the host government and other local political groups; (2) producing as much of the product locally as possible with the use of in-country suppliers and subcontractors, thus making it a "domestic" product; (3) creating joint ventures and hiring local people to manage and run the operation; (4) doing as much local research and development as possible; and (5) developing effective labor-management relations.

integrative techniques
Techniques that help an overseas operation become a part of the host country's infrastructure.

At the same time, MNCs should be cognizant of how integrated they become in foreign markets. It is recommended that managers seek to maintain close ties between the subsidiary and the parent company, and not fully integrate into the host country. There is no guarantee that host countries will completely treat the MNC as a domestic company, making true competition difficult. Therefore, other, more distant techniques may be beneficial.

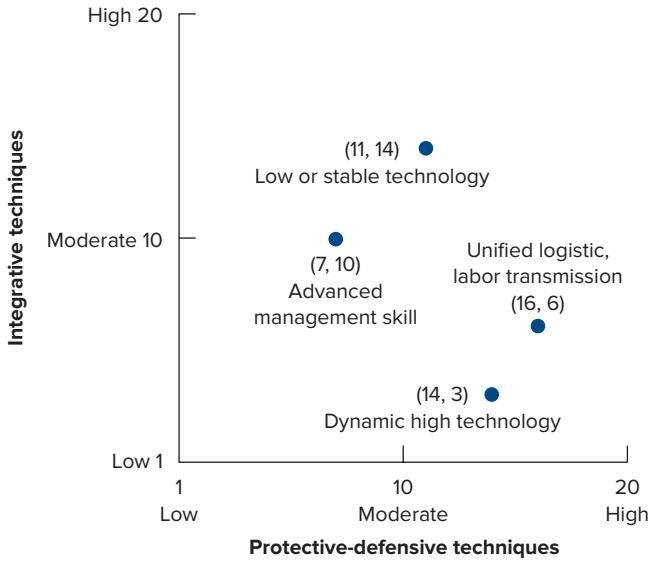
Protective and defensive techniques are designed to discourage the host government from interfering in operations, mainly by avoiding complex ties to the host country's economy. In contrast to the integrative techniques, these actually encourage the nonintegration of the enterprise in the local environment. Examples include (1) doing as little local manufacturing as possible and conducting all research and development outside the country, (2) limiting the responsibility of local personnel and hiring only those who are vital to the operation, and (3) raising capital from local banks and the host government as well as outside sources, and (4) diversifying production of the product among a number of countries.

protective and defensive techniques
Techniques that discourage the host government from interfering in operations.

Companies are more likely to use a protective-defensive strategy or a balance over completely integrating into another country, as illustrated in Figure 10–3.

Figure 10–3

Use of Integrative and Protective-Defensive Techniques by Firms in Select Industries



Source: Gregory, Ann. "Firm Characteristics and Political Risk Reduction in Overseas Ventures." *Academy of Management Proceeding*, no. 1, 1982.

Organizations with an emphasis on innovative technology, such as Microsoft, prefer a protective technique as a way to safeguard against actions such as counterfeiting. MNCs that have products that are labor-intensive and have a high value to weight ratio also prefer protective methods, though there exists some integration. Here, strong global marketing systems are needed to sell the product, which is why integration occurs on some level despite the more cost-efficient method of either manufacturing in the home country or simply outsourcing construction to lower-wage regions.

Developing countries do not hold advanced management skills in as high regard as do developed countries. For this reason, when selling products such as food, which requires advanced marketing and management skills, it is best to use a mixed strategy (see Figure 10–3). That is, integration is necessary in order to effectively manufacture the product to local tastes and advertise, and there is little need for the company to distance operations from the host country in a manner tailored to local preferences. Finally, industries that utilize little technology, such as steel manufacturing, exhibit the strongest integrative technique while still employing a defensive strategy. These companies require integration to ensure long-term production for projects but may not desire to become completely enveloped in the host country's economy due to possibilities such as the host government's suddenly requiring a greater share of profits generated by the MNC.

Proactive Political Strategies As mentioned at the beginning of the chapter, despite the general trend of developing countries seeking MNC investment, many developing-country governments continue to engage in practices that effectively overturn or renege past deals.[48] For example, in the wake of the Arab Spring, in which many Arab countries overthrew long-standing governments, leaders of a number of countries in which autocratic or dictatorial governments controlled negotiations with foreign investors were toppled. The ousting of leaders in Tunisia, Egypt, and Libya led to a backlash against incumbent foreign investors and forced many project leaders to withdraw or renegotiate the terms of their investments.

In Egypt, President Mubarak's 30-year dictatorship left foreign investors, whose reputations were closely associated with his legacy, facing a challenging environment for preserving the economic viability of their presence. For example, Mexican multinational company Cemex SAB was stripped of its more than 20-year ownership of Egypt's Assiut Cement Company, with Egyptian courts ruling that Mubarak did not have the right to privatize the formerly public company. After the government annexed control of a fruit

and vegetable company owned by the Saudis, investors sued in an international court for US$250 million.[49] Even land ownership has been challenged; Dubai-based Damac Properties Company filed complaints after 30 million square meters that it had purchased nearly a decade prior was taken by the new government. In total, more than US$10 billion worth of land has been seized, affecting 54 million square meters and multiple land owners.[50] The increased uncertainty has negatively affected Egypt's ability to attract FDI, as investors have fled the country for less risky investments in countries with more stable governments.[51]

Often, the challenges and complexity associated with the government's tendency to seek to renegotiate investment rules and contracts are worsened by the participation of both national and subcentral governments in the project.[52,53] In countries like India, Indonesia, Brazil, and increasingly China, states and provinces wield significant power, and this has been a particular problem in the development and financing of power, water, and transport projects. The UK-listed mining company Vedanta learned it the hard way in India when the protests led by environmental activists forced the local state government to close down a 10-year-old copper smelter plant in 2018. Vedanta was suffering a loss of US$200mn a year and finally decided to put the plant on sale in June 2022.[54]

In addition to the approaches mentioned previously, how else can MNCs respond to such unpredictable government decisions? Because government policies can have a significant impact on business activities and many governments face competing pressures from a range of stakeholders, corporations must adopt various **proactive political strategies** both to affect government policy and to respond to competitors' efforts to influence that policy. Comprehensive strategies are especially important in unstable and transitional policy environments.[55] These strategies are designed, in part, to develop and maintain ongoing favorable relationships with government policymakers as a tool to mitigate risk before it becomes unmanageable. Broadly, strategies may include leveraging bilateral, regional, and international trade and investment agreements; drawing on bilateral and multilateral financial support; and using project finance structures to separate project exposure from overall firm risk. They also can include entering markets early in the privatization-liberalization cycle (the first-mover strategy discussed in Chapter 8), establishing a local presence and partnering with local firms, and pursuing preemptive stakeholder management strategies to secure relationships with all relevant actors.[56]

proactive political strategies Lobbying, campaign financing, advocacy, and other political interventions designed to shape and influence the political decisions prior to their impact on the firm.

More specific proactive political strategies include formal lobbying, campaign financing, seeking advocacy through the embassy and consulates of the home country, and more formal public relations and public affairs activities such as grassroots campaigning and advertising.[57] Strategies must vary based on the particular political system (parliamentary versus nonparliamentary), the distribution of power (highly centralized versus decentralized), and other variations in political systems.[58] Developing and maintaining ongoing relationships with political actors, including officials in power and opposition parties, and with the range of stakeholders, including non-governmental organizations (NGOs) and others, can help buffer host-government actions that may constrain or undermine MNC strategies and plans.[59]

How does an MNC know which strategy to pursue? There is no straightforward answer to this question because strategic responses depend on a multitude of factors. The nature of the industry, the firm's technological capabilities, local conditions in a host country, management skills and philosophies, logistics, and labor transmission are just a few ways decisions are impacted. No one strategy is guaranteed to work, but building a relationship with all parties involved could assist in the betterment of any method an MNC employs.

Managing Alliances

Another dimension of management strategy related to political risk and government relations is managing relationships with alliance partners. Some partners may be current or former state-owned enterprises; others may be controlled or influenced by government agencies.

For example, in China, most foreign investors have some sort of alliance or joint-venture relationships with Chinese state-owned enterprises. Siemens has effectively used this strategy for doing business in China for many years. Some recent examples include its 2021 alliance with Genetron Health, an oncology platform company in China to promote precision oncology for lung cancer, and a 2018 deal with Guangzhou Suikai Power Company to increase the use of its smart microgrid and other energy technology in the Guangdong province, a 2018 deal with Alibaba to launch a digital operating system called "MindSphere," and a 2014 deal with Beijing Automotive Industry Holding to manufacture drivetrain components.[60,61,62] As mentioned in Chapter 9, alliances and joint ventures can significantly improve the success of MNC entry into and operation in many international markets, especially emerging economies. Managing the relationships inherent in alliances, especially when governments are involved, can be especially challenging.

The Alliance Challenge

The rich and increasingly diverse recent literature has examined the motivations for collective action through international strategic alliances (ISAs). Researchers have begun to focus on specific explanations of ISA formation, the conditions that appear to lead to better or worse ISA performance and endurance, and the primary factors motivating firms to enter into such relationships.[63] Motivating factors include faster entry and payback, economies of scale and rationalization, complementary technologies and patents, and co-opting or blocking of competition.[64]

In the strategic alliance literature, several researchers have argued that learning can be a powerful force in the initial motivations for, and ultimate success of, ISAs.[65] Some kinds of local knowledge cannot be internalized simply as a result of an MNC's entering and operating in a foreign market; the acquisition of some kinds of local knowledge requires local firm participation. Collaboration facilitates rapid market entry by allowing firms to share costs and risks, combine product and market complementarities, and reduce the time to market.[66,67]

How an alliance relationship is developed is largely a function of interfirm negotiation. Alliances are an arena where both value-claiming activities (competitive, distributive negotiation) and value-creating activities (collaborative, integrative negotiation) take place. In order to lay claim to a larger share of the alliance pie, firms tend to seek an advantage over their partners. Firms do this by possessing superior resources or alternatives beyond the scope of the alliance. However, in order to create a "larger pie" through the combination of partner-firm resources and activities, firms must balance authority, allowing each firm to dictate certain activities within the alliance, and commit to sharing and reciprocity where each partner firm plays some decision-making role. In these instances, alliance partners can create value through specialization gains or when the rationalization of redundant activities results in enhanced performance for the partners.[68]

A fundamental challenge of alliances is managing operations with partners from different national cultures (as discussed in Chapter 5). Cultural differences may create uncertainties and misunderstandings in the relationship, which may lead to conflict and even dissolution of the venture. Indeed, an alliance may be viewed as a temporal structure designed to address a particular problem during a period in time; all alliances eventually outlast their purpose.

Successful management of alliances depends on situational conditions, management instruments, and performance criteria. Success factors may include partner selection, cooperation agreement, management structure, the acculturation process, and knowledge management.[69] In particular, partner selection and task selection criteria have been identified as critical variables that influence alliance success or failure. Conducting due diligence, choosing the right partners, and defining the scope and limit of the alliance appears to be the most important elements in determining if an alliance will succeed or fail.

One difficult but important aspect of successful alliance management is preparation for the likely eventual termination of the alliance. Many firms are caught off guard when

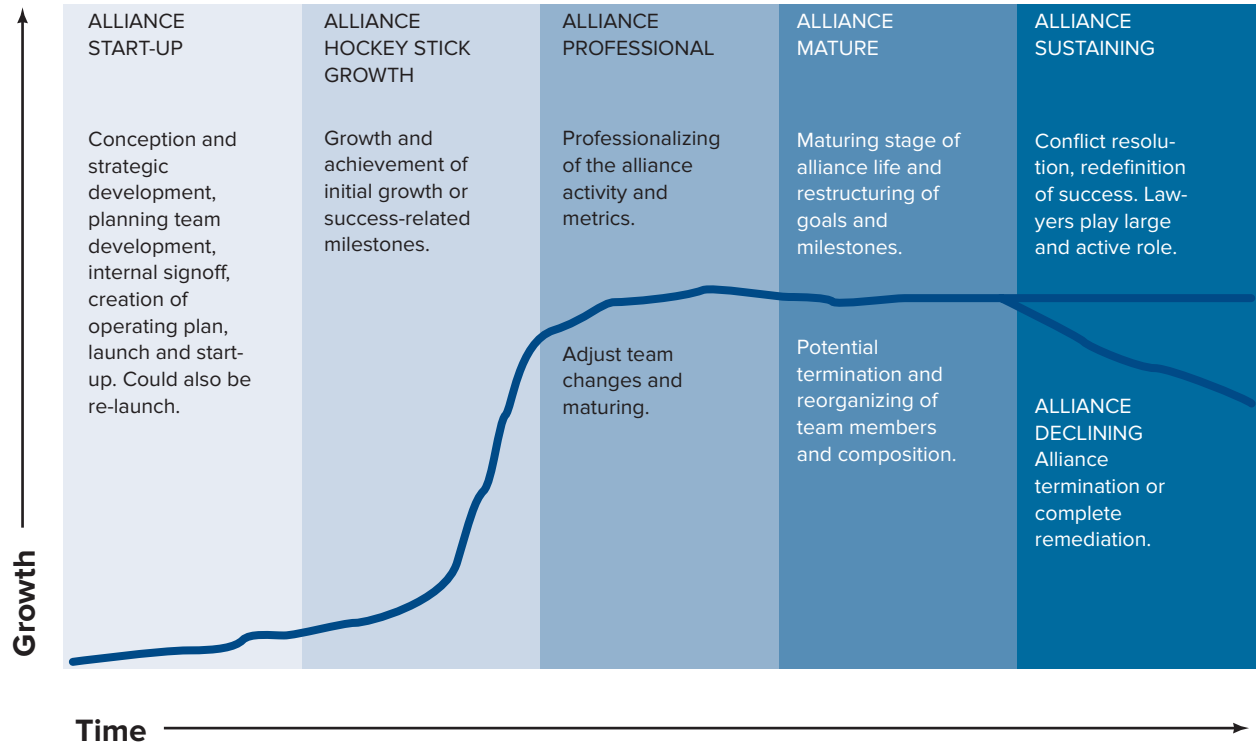
their partners are better prepared than they are to deal with issues related to the termination of the alliance. After studying two dozen successful alliance "divorces," a group of researchers identified a number of legal and business issues that were critical to successful divorces. Legal issues include the conditions of termination, the disposition of assets and liabilities, dispute resolution, the distributorship arrangements, the protection of proprietary information and property, and rights over sales territories and obligations to customers. Business issues include the basic decision to exit, people-related issues and relations with the host government. Alliances, like individual businesses, experience a life cycle, as illustrated in Figure 10–4. Recognizing the point at which your alliance exists in the life cycle can help determine a proactive strategy to sustain the relationship and work toward a common goal.

The Role of Host Governments in Alliances

As previously mentioned, host governments are active in mandating that investors take on partners, and these mandates can pose managerial and operational challenges for MNCs. Many host governments require investors to share ownership of their subsidiaries with local partners—in some cases, state-owned or state-controlled partners. These mandates can include specific requirements that investors select local state-owned firms (China) or that investors form joint ventures to meet local regulatory requirements where restrictions or local-content rules apply (Central and Eastern Europe).[70]

Even when host governments do not require alliances or JV as a condition for entry, many MNCs find that having alliance or JV partners is advantageous to their entry and expansion. This is especially so in highly regulated industries such as banking, telecommunications, and health care. In a study conducted of alliances among global telecommunications firms, firms were found to establish alliances with local partners primarily to gain market access and to contend with local regulations.[71] In another study, also of

Figure 10–4 **Alliance Life Cycle**



Source: Segil, Larraine. "Metrics to Successfully Manage Alliances." *Strategy & Leadership* 33, no. 5 (2005): 46–52.

telecommunications projects in emerging markets, firms were found to take on local partners as a way to cope with emerging-market environments characterized by arbitrary and unpredictable corruption.[72]

Even when alliances are dissolved, host governments can have a role. In particular, the host government of a partner may be unwilling to permit the alliance to terminate. It might object to the termination in an overt way, such as not permitting a foreign partner to sell its interest in the alliance.[73] There are also subtle ways to discourage a partner from leaving an alliance, such as blocking the repatriation of the foreign partner's investments in the alliance. It is also important to consider carefully the long-term effects of terminating an alliance on the ability of the company to do business in the same host country in the future.

In sum, host governments have a substantial role in the terms under which alliances are initially formed, the way in which they are managed, and even the terms of their dissolution. MNCs must be aware of these influences and use carefully crafted strategies to manage host-government involvement in their alliances.

Examples of Challenges and Opportunities in Alliance Management

Alliances and JVs are increasingly common modes of entry and operation in international business. A number of recent examples illustrate the challenges and opportunities associated with managing alliances.

A good example is provided by Honda and General Motors. For a number of years, the two have maintained a strategic alliance that has allowed both companies to expand into new markets and co-develop technology. In 2017, the two companies announced plans to open a fuel cell manufacturing facility in Michigan, which will be the first plant to mass produce fuel cells for automobiles. And, in 2018, the companies agreed to a 12-year deal to develop new battery technologies and self-driving car technology. As part of the deal, Honda is contributing US$2.75 billion to fund further advancements in GM's Cruise Automation technology. By teaming with a competitor, companies like Honda and GM are able to combine their resources and investments to more efficiently develop new technologies that provide competitive advantages in the market.[74]

Joint ventures have worked for U.S.-based Starbucks as well. In India, Starbucks entered a joint venture with Tata, the conglomerate involved in automotive production, informational systems, and beverages such as tea. In addition to selling coffee products, Tata Starbucks also sells traditional Indian drinks and teas. The joint venture has enabled Starbucks to expand to over 250 locations within India's seven biggest cities (see In-Depth Integrative Case 3.1 "How Starbucks Convinced Indians to Embrace Coffee"). In Colombia, Starbucks has teamed with Colombian food and coffee company Grupo Nutresa and Mexican restaurant operator Alsea to grow its operations in Latin America. Through the joint venture, Starbucks will be able to maintain a close connection to one of its coffee bean suppliers (Grupo Nutresa) while leveraging the Latin America restaurant and coffee cafe expertise of Alsea. By 2022, Starbucks had grown to 35 locations within four cities in Colombia.[75]

Several countries that were previously closed to foreign investment are beginning to open up. One of these is Vietnam, which had a very auspicious beginning in the early 1990s when investors began flocking there. During this time period, Japan's Idemitsu Oil Development Company signed a deal with the Vietnamese government that gave the company the right to explore an offshore oil and gas field in the Gulf of Tonkin. A number of U.S. companies also targeted Vietnam for investment, and Citibank and Bank of America both were approved for branch status by the government. The bulk of their business was to be in wholesale banking and, in the case of Bank of America, advising the government on financing the rebuilding of the nation's weak power sector. After significant interest by MNCs in early 1990, the investments dropped a bit in the late 1990s and early 2000s, primarily due to bureaucratic bottlenecks. In recent years, it has risen sharply again.

The sometimes bureaucratic communist government in Vietnam often sends mixed signals to foreign investors. Ford Motor Company's experience in Vietnam over the last 20 years offers a good example. Ford Motor had spent over $100 million to build a factory near Hanoi, but because of pressure from its local rival, the Vietnam Motor Corporation, it took 16 months for Ford to get approval to sell its Laser sedan. By the end of 2000, the company had sold fewer than 1,000 vehicles, a far cry from the 14,000 that had been initially projected.[76] Many other firms reported similar experiences. Consequently, the Vietnamese government tried to turn things around by undertaking domestic economic reform, pursuing international trade agreements, and encouraging foreign investment, especially joint ventures.[77] Among other things, the country's coffee production was skyrocketing, and Vietnam exported over 20 percent of its coffee to the U.S., so it is in the best interests of the country to open its markets. At the same time, a growing number of multinationals were re-examining Vietnam's potential and looking to create strategic alliances that would help them establish a foothold in one of the more promising emerging economies in Asia. After several years, this approach seems to be paying off. Vietnam has passed a domestic enterprise law and investment law easing and clarifying foreign investment and business rules, including those pertaining to joint ventures. It has also signed several trade agreements, starting with joining WTO in 2005, to more recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018, the EU–Vietnam Free Trade Agreement in 2020, the UK-Vietnam Free Trade Agreement in 2021, and the Regional Comprehensive Economic Partnership that came into effect on January 2022.[78] As a result, foreign investment is once again on the rise, reaching US$38.9 billion in registered value and US$19.7 in disbursed value at the end of 2021.[79]



The World of International Management—Revisited

A wide range of risks emanate from the political environment in which MNCs operate, and firms can employ an equally diverse set of strategies to mitigate those risks and improve their relations with governments. As discussed in the chapter opening World of International Management, both internal and external political risks exist when doing business in countries like Iran. Tariffs imposed by third-party countries can impact the ability of MNCs to conduct business in other countries, as has been the case for many European-based companies trying to enter the Iranian market. Additionally, government corruption, bureaucratic red tape, and human rights violations can complicate the relationship that companies forge with foreign governments like Iran. After reading this chapter and considering the challenges associated with doing business in Iran, answer the following questions: (1) What are two main concerns that MNCs should evaluate when doing business in Iran? (2) How can MNCs protect themselves from government action? (3) What proactive political strategies might help protect MNCs from future changes in the political environment? (4) How might alliances and joint ventures reduce risk and help relationships with government actors and other stakeholders?

SUMMARY OF KEY POINTS

1. Political risk is the likelihood that the foreign investment of a business will be constrained by a host government's policies. In dealing with this risk, companies conduct both macro and micro political risk analyses. Specific consideration is given to changing host-government policies, expropriation, and operational profitability risk.
2. MNCs attempt to manage their political risk in two basic ways. One is by developing a comprehensive framework for identifying and describing these risks. This includes a consideration of political, operational, and ownership-control risks. A second is by quantifying the variables that constitute the risk.
3. Common risk management strategies are the use of relative bargaining power; integrative, protective, and defensive techniques; and proactive political strategies.
4. Effective alliance management includes carefully selecting partners, defining the tasks and scope of the alliance, addressing cross-cultural differences, and responding to host-government requirements.

KEY TERMS

conglomerate investment, *360*
expropriation, *359*
horizontal investment, *361*
indigenization laws, *359*
integrative techniques, *365*
macro political risk analysis, *355*
micro political risk analysis, *355*
operational risks, *360*
ownership-control risks, *360*
political risk, *354*
proactive political strategies, *367*
protective and defensive techniques, *365*
terrorism, *359*
transfer risks, *360*
vertical investment, *360*

REVIEW AND DISCUSSION QUESTIONS

1. What types of political risk would a company entering Russia face? Identify and describe three. What types of political risk would a company entering France face? Identify and describe three. How are these risks similar? How are they different?
2. Most firms attempt to quantify their political risk, although they do not assign specific weights to the respective criteria. Why is this approach so popular? Would the companies be better off assigning weights to each of the risks being assumed? Defend your answer.
3. How has terrorism impacted foreign interest in Iran and Saudi Arabia, considering the vast oil reserves that are there? How have terrorist attacks affected political relationships between countries such as the U.S. and Russia?
4. If a high-tech firm wanted to set up operations in Turkey, what steps could it take to ensure that the subsidiary would not be expropriated? Identify and describe three strategies that would be particularly helpful. How might proactive political strategies help protect firms from future changes in the political environment?
5. What are some of the challenges associated with managing alliances? How do host governments affect these?

INTERNET EXERCISE: NOKIA IN CHINA

Asia still offers great opportunities for multinational firms. However, given the slowdown that has occurred in this region in recent years, there are also great risks associated with doing business there. The large, Finnish-based MNC Nokia has determined that the opportunities are worth the risk, has staked a large claim in China, and is determined to be a major player in the emerging Asian market. Visit its website at http://www.nokia.com and focus your attention on what this well-known MNC is now doing in Asia.

Drawing from specific information obtained from the website, this chapter, and your reading of the current news, answer these questions: What political risks does Nokia face in Asia, particularly China? How can Nokia manage these risks? How can effective international negotiating skills be of value to the firm in reducing its political risk and increasing its competitive advantage in this area of the world?

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In the International Spotlight

Vietnam

Located along the eastern side of the Indo-Chinese peninsula, the Socialist Republic of Vietnam is a hilly and heavily forested country that, in recent years, has experienced rapid urbanization. The country boasts a long coastline along the Gulf of Thailand, Gulf of Tonkin, and the South China Sea, and it shares a physical border with China, Laos, and Cambodia. The tropical climate is noted for its monsoon season, spanning from May to September, and its dry season, spanning from October to March.[80]

With roughly 97.3 million residents as of 2020, Vietnam is the world's 15th most populous country. Almost 40 percent of the population now lives in urban areas, which are clustered in the southern Mekong Delta and the northern Red River Valley areas. Ho Chi Minh City is the largest city in Vietnam, containing about 10 percent of the country's population. Vietnam formally recognizes over 50 different ethnicities, although people of Kinh or Viet ethnicity make up the vast majority of the population (about 85 percent). Population growth is relatively stable at about 1 percent annually.[81]

The Communist Party of Vietnam controls the government and, by law, is the only legal political party allowed to operate within Vietnam. The party holds a national congress every five years to chart the future course of the country and formulate national policy. Although the party is officially dedicated to socialism, elements of capitalism have been increasingly embraced. The unicameral National Assembly of Vietnam, with 500 members, holds constitutional and legislative power in addition to the ability to elect the president and prime minister. Elections are held every five years.[82]

With a GDP of US$343.11 billion in 2020, per capita GDP stands at approximately US$3,522. The rate of growth, however, remains high at 2.95 percent in 2020, despite the onset of Covid-19. In 2019, the economy expanded by approximately 7.15 percent. Unemployment stands at below 3 percent, though wages remain low. Vietnam's economy is highly dependent on manufacturing exports, as many companies have shifted their outsourcing activities from China to Vietnam, where labor remains inexpensive.[83]

Vietnam's young population, stable political system, commitment to sustainable growth, relatively low inflation, stable currency, strong FDI inflows, and strong manufacturing sector make it a promising emerging market that seems almost destined for long-term success. The government, however, acknowledges the need to spark a "second wave" of reforms, including reforming state-owned enterprises, reducing red tape, increasing transparency in the business and financial sectors, and reducing the level of nonperforming loans in the banking sector. As the Vietnamese government increasingly incorporates capitalist ideas into its socialist policies, the country's economic growth will likely continue to accelerate at a steady pace.

You Be the International Management Consultant

In 2019, IKEA announced plans to invest US$450 million to build a distribution warehouse and retail center in Hanoi. When completed, the warehouse will function as the primary supply center for IKEA's operations in Southeast Asia. Although disposable income in the country remains lower than in most countries in which IKEA operates, the company seems to be betting on the rapid emergence of the Vietnamese consumer class. IKEA focuses on selling furniture at a lower price point than its competitors, which could lead to success in Vietnam, but the company also requires its customers to assemble the furniture themselves. In 2019, the furniture and interior decoration market in Vietnam was estimated to be worth an annual US$2.5 billion.[84,85]

Questions

1. In your opinion, what are two of the most promising aspects of Vietnam from a business perspective?
2. What aspects of the Vietnamese market do you think will specifically benefit IKEA?
3. What risks do you foresee that could stunt the development of Vietnam in the future?
4. Would you recommend that IKEA change any component of its traditional business strategy when marketing to Vietnamese consumers?

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Chapter 11

MANAGEMENT DECISION AND CONTROL

OBJECTIVES OF THE CHAPTER

Although they are not directly related to internationalization, decision making and control are two management functions that play critical roles in international operations. In *decision making*, a manager chooses a course of action among alternatives. In *controlling*, the manager evaluates results in relation to plans or objectives and decides what action, if any, to take. How these functions are carried out is influenced by the international context. An organization can employ a centralized or decentralized management system depending on such factors as company philosophy or competition. The company also has an array of measures and tools it can use to evaluate firm performance and restructuring options. As with most international operations, culture plays a significant role in what is important in both decision-making processes and control features, and it can affect MNC decisions when forming relationships with subsidiaries.

This chapter examines the different decision-making and controlling management functions used by MNCs, notes some of the major factors that account for differences between these functions, and identifies the major challenges of the years ahead. The specific objectives of this chapter are

1. **PROVIDE** comparative examples of decision making in different countries.
2. **PRESENT** some of the major factors affecting the degree of decision-making authority given to overseas units.
3. **COMPARE and CONTRAST** direct controls with indirect controls.
4. **DESCRIBE** some of the major differences in the ways that MNCs control operations.
5. **DISCUSS** some of the specific performance measures that are used to control international operations.

The World of International Management

Global Online Retail: Amazon versus Alibaba

Over the last two decades, the Internet has revolutionized the way customers around the world shop. Following a robust cumulative annual growth rate of 18 percent, global eCommerce retail sales are expected to reach $5.54 trillion In 2022.[1] As per the latest U.S. Department of Commerce data, the total eCommerce retail sales in the U.S. were $870.8 billion witnessing 14.2 percent growth from the previous year. The eCommerce retail sales were 13 percent of the total retail sales.[2] Within the U.S., no online merchant has had more success than Amazon, which commands about 40 percent of the total eCommerce retail sales in the U.S.[3] Conceptualized in 1995 as a small bookseller, the eCommerce website now sells a variety of products to individuals across North America. Amazon's eCommerce sales in the U.S. crossed $ 314 billion in 2021.[4] Over the years, Amazon has strengthened its presence in markets outside the US. In 2020, more than one-third of its revenue comes from outside the U.S.[5]

While the U.S. has traditionally been the leader in eCommerce, online retail in countries around the world is growing at a rapid pace, with China emerging as the biggest and fastest growing market. In 2020, China recorded online retain sales of US$1,414 billion as against US$791 billion in the U.S. The growth of China market has been accompanied by the sudden surge of the Alibaba Group, an online Chinese retail conglomerate.

Consisting of multiple eCommerce-related websites, Alibaba witnessed revenue growth of 144 percent between 2017–2019; this was much higher than Amazon's revenue growth of 58 percent in the same time period.[6] Similarly, Alibaba's strong profit margin of 23 percent reflected better operational efficiency than Amazon's 4.1 percent.[7] Alibaba controls more than 55 percent of the Chinese eCommerce through its wholesale arm Alibaba, Tmall—the Business-to-Business marketplace, and Taobao—the Consumer-to-Consumer marketplace. Alibaba's Tmall, the direct competitor to Amazon, is expected to become the largest individual eCommerce site within the decade, surpassing Amazon in total revenue. Despite similar successes in the eCommerce marketplace, managers at Amazon and Alibaba have taken different

approaches to the marketplace. What competitive strategies do these two companies use, and which company stands a better shot at long-term success?

Conglomerate versus Specializer

The Alibaba Group is a conglomerate of over a half-dozen individual eCommerce websites, combining business-to-business, business-to-consumer, and consumer-to-consumer transactions under a single ownership umbrella. Through its diverse set of websites, the company can cater to virtually any type of transaction, whether a small, personal purchase or a multimillion-dollar business transaction. In addition to providing traditional eCommerce services, the Alibaba Group has branched into web-based business solutions. Utilizing its existing infrastructure, Alibaba provides cloud computing and data services to companies of all sizes and has even created its own mobile operating system. Alibaba is increasingly focusing on building its cloud computing and data service business. Its cloud business units — Aliyun and Kanbox have emerged as the market leader in China and number two in the Asia-Pacific region.[8]

Alibaba also operates Alipay, a secure payment transfer service, giving the company control over the entire purchase process. Alipay is now used for over half of all online purchases in China.[9] Together, the Alibaba Group conglomerate now accounts for 53 percent of all online sales in China and ships 100 million packages every day.[10]

Amazon and Alibaba have different business models; Alibaba is a marketplace that connects buyers and sellers without owing any inventory of the products getting sold through it. On the other hand, Amazon's business scope is much larger; it is a reseller that owns the inventory and supply chain. Amazon, unlike Alibaba, specializes in just business-to-consumer sales. As a result, Amazon's target market is significantly smaller but more loyal, than Alibaba's. With a primary focus on personal purchases, Amazon has grown into the world's largest online retailer, with a market capitalization of $1.66 trillion.[11] Recently, however, Amazon has made an effort to expand its offerings. Utilizing the information infrastructure that it established for its traditional business operations, Amazon now offers video streaming, cloud storage, and other web services. And in an attempt to enter the growing smart-device market, Amazon has developed its own products, including Kindle Fire tablets, Alexa smart-home units, and Amazon Cloud-Cam security cameras. The core of Amazon's revenue, however, is still generated from its specialization in business-to-consumer transactions.[12]

Merchant versus Facilitator

Amazon not only hosts third-party sellers but also acts as a direct merchant itself. Amazon buys and sells merchandise, ships products, and warehouses inventory. The company currently has over 305 active fulfillment centers strategically spread across the U.S. and 185 globally, with roughly 800,000 square feet of storage space per center.[13] This direct-seller approach allows Amazon to adapt quickly to changes in demand. The company can directly control the timeliness and quality of most products sold over its interface, giving it the ability to provide unmatched service features such as single-day delivery. By 2021, 77 percent of the general U.S. population was located within one hour from the retailer's stores or delivery centers.[14] Furthermore, by hosting third-party merchants, Amazon is able to generate additional revenue on products sold by its users. However, Amazon's merchant strategy, requiring a large investment in fixed assets, has resulted in minimal profits for the company. Though it does not have quite the level of expenses that traditional, physical stores have, Amazon's margin is tightened by the other necessary investments, like labor and warehouses.[15]

Alibaba, on the other hand, acts solely as a facilitator for sales between third parties. The company does not carry an inventory, directly sell products, or control distribution. Rather, it simply provides a digital space for those activities to happen. As a result, fixed assets are kept to a minimum. Going forward, the Alibaba Group sees this "efficiency" as a key business strength. While Amazon's scale of operations is capital intensive, Alibaba's approach allows for extra financial flexibility, as it does not need to build, staff, and maintain regional warehouses. One major downside, however, is that Alibaba gives up control over the shipping and distribution operations of its merchants, meaning that mistakes by third-party businesses could reflect negatively on the company as a whole. Furthermore, the company misses out on possible financial gains from direct-to-consumer selling.[16]

Growth Potential

Although both companies are online, and therefore "global," the geographic positioning of Amazon and Alibaba affects their potential future growth. Alibaba is the largest eCommerce player in China, which is the world's largest e-commerce market. Chinese eCommerce market currently accounts for over 50 percent of all global online sales, and this region is overwhelmingly dominated by Alibaba. Amazon had to shut down its operation in China after years of efforts to improve its market position against local players like Alibaba, Tencent, etc.[17] Although Amazon will likely

continue to lead business-to-consumer sales in North America, the future growth potential of Amazon is somewhat limited. North America has nearly 90 percent internet penetration, and the population growth of the region has rapidly slowed. With Online sales of $2.99 trillion, the Asia-Pacific eCommerce market is nearly triple that of North America.[18] Unless Amazon actively expands into other regions across the globe, its revenues will likely stagnate.[19]

Alibaba's foothold in Asia holds far more growth potential. Internet penetration in China currently stands at just 70 percent, leaving plenty of room for growth with unreached customers. Furthermore, nearly 40 percent of the world's population resides in Asia, and the population growth rates within Southeast Asia far exceed those of North America. As wealth continues to accumulate in the region, Internet access and eCommerce will likely expand. If the Alibaba Group can maintain its strong standing in Asia, revenue will grow significantly over the next decade.[20]

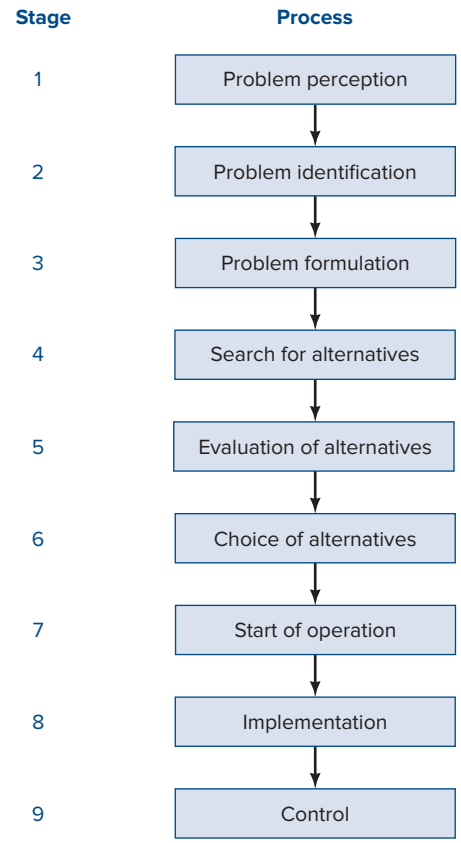
Whether Amazon's strategy as a specialized direct seller or Alibaba's strategy as a third-party facilitator will lead to greater long-term success is yet to be seen. As Internet usage increases and eCommerce expands beyond North America, managers of companies like Amazon and Alibaba will need to implement new strategies to adapt to the changing marketplace. The advent of online retail has certainly challenged some aspects of managerial decision making for all eCommerce companies.

Decision-Making Process and Challenges

decision making
The process of choosing a course of action from among alternatives.

The managerial **decision-making** process, choosing a course of action from among alternatives, is a common business practice and is becoming more and more relevant for the international manager as globalization becomes more pervasive. The decision-making process is often linear, though looping back is common, and consists of the general stages outlined in Figure 11–1. The degree to which managers are involved in this procedure depends on the structure of the subsidiaries and the locus of decision making. If decision making is centralized, most important decisions are made at the top; if decision making

Figure 11–1
Decision-Making Process



Source: Schramm-Nielsen, Jette. "Cultural Dimensions of Decision Making: Denmark and France Compared." *Journal of Managerial Psychology* 16, no. 6 (2001): 404–423.

is decentralized, decisions are delegated to operating personnel. Decision making is used to solve a myriad of issues, including helping a subsidiary respond to the economic and political demands of the host country. Decisions that are heavily economic in orientation concentrate on such aspects as return on investment (ROI) for overseas operations. In other instances, cultural differences both inspire and motivate the process and outcome of decision making.

For example, Nissan designed and built an inexpensive electric vehicle, the Sylphy Zero Emission, for the Chinese market. Engineers took apart the Nissan Leaf, an electric vehicle sold in the U.S., and rebuilt the car to address buyer needs. Some of the changes included a more aesthetically pleasing frame, a modified battery range, and a lower price point starting at about US$24,000.[21] In another example, Santander, the largest bank in Europe by market capitalization, is vesting more autonomy in its subsidiaries by listing subsidiaries in its principal foreign markets and thereby strengthening their independence and autonomy from the Spanish headquarters. A number of European banks, including Santander and HSBC Holdings PLC, establish foreign subsidiaries as opposed to direct branches. Santander CEO Alfredo Saenz said, "We also believe it's good for the local management teams, because having local minority shareholders breathing down their neck keeps them on their toes, and it's a good way of identifying the franchise as local, instead of foreign." In addition, the IPO boosted the visibility of the bank in Brazil, resulted in greater access to local capital, and put a higher value on the franchise than what analysts were giving it before the float. When Santander sold 15 percent of its Brazilian unit, the unit alone was valued at €34 billion, more than European rival Deutsche Bank or Société Générale.[22]

The way in which decision making is carried out will be influenced by a number of factors. We will first discuss some of the factors, then look at some comparative examples in order to see some of the differences.

Factors Affecting Decision-Making Authority

A number of factors influence international managers' conclusions about retaining authority or delegating decision making to a subsidiary. Table 11–1 lists some of the most important situational factors, and the following discussion evaluates the influential aspects.

Table 11–1
Factors That Influence Centralization or Decentralization of Decision Making in Subsidiary Operations

Encourage Centralization	Encourage Decentralization
Large size	Small size
Large capital investment	Small capital investment
Relatively high importance to MNC	Relatively low importance to MNC
Highly competitive environment	Stable environment
Strong volume-to-unit-cost relationship	Weak volume-to-unit-cost relationship
High degree of technology	Moderate to low degree of technology
Strong importance attached to brand name, patent rights, etc.	Little importance attached to brand name, patent rights, etc.
Low level of product diversification	High level of product diversification
Homogeneous product lines	Heterogeneous product lines
Small geographic distance between home office and subsidiary	Large geographic distance between home office and subsidiary
High interdependence between the units	Low interdependence between the units
Fewer highly competent managers in host country	More highly competent managers in host country
Much experience in international business	Little experience in international business

One of the major concerns for organizations is how efficient are the processes that are put in place. The size of a company can have great importance in this realm. Larger organizations may choose to centralize authority for critical decisions in order to ensure efficiency through greater coordination and integration of operations. The same holds true for companies that have a high degree of interdependence because there is a greater need for coordination. This is especially relevant when organizations provide a large investment because they prefer to keep track of progress. It is quite common for the investing company to send home-office personnel to the subsidiary and report on the situation, and for subsidiary managers to submit periodic reports. Both of these scenarios imply that the subsidiary is of great importance to the MNC, and it is customary in these situations for subsidiary managers to clear any decisions with the home office before implementation. In fact, MNCs often will hire someone who they know will respond to their directives and will regard this individual as an extension of the central management staff.[23]

Another efficiency checkpoint arises when competition is high. In domestic situations, when competition increases, management will decentralize authority and give the local manager greater decision-making authority. This reduces the time that is needed to respond to competitive threats. In the international arena, however, sometimes the opposite approach is used. As competition increases and profit margins are driven down, home-office management often seeks to standardize product and marketing decisions to reduce cost and maintain profitability. Many upper-level operating decisions are made by central management and merely implemented by the subsidiary, although, in some instances, companies still opt to decentralize operations if product diversification is necessary. Kraft Heinz Company provides a recent, albeit cautionary, example of an effort to centralize operations to improve efficiency and competitiveness. Following H. J. Heinz's 2015 acquisition of the Kraft Foods Group, seven manufacturing facilities were closed to consolidate processes. Roughly 2,600 manufacturing jobs, representing 6 percent of the company's workforce, were eliminated by the closures. Additionally, 2,500 office jobs were eliminated to remove redundancy in management positions. The consolidation aimed to increase global growth while decreasing costs, resulting in US$1.5 billion in savings. Kraft Heinz had planned to invest millions in upgrading the remaining manufacturing facilities to meet increasing product demand, thinking that the investments would strengthen the acquired company and make the combined firm leaner and better positioned globally.[24] In the midst of focusing its efforts on consolidation of resources, however, Kraft Heinz seemed to have brushed aside a major shift in the food and beverage industry: a renewed focus on healthier and organic options. In 2019, just four years after the merger, Kraft Heinz was forced to take a massive write-down on several of its brands. The stock price plummeted, along with investor confidence, leading many analysts to question the future of the combined company.[25] Firms, like Kraft Heinz, that are able to produce large quantities will have a lower cost per unit than those that produce at smaller amounts, and home-office management will often take the initiative to oversee sourcing, marketing, and overall strategy to keep costs down; however, they must do so without jeopardizing their product offerings and ability to adapt to the changing global environment.

Efficient processes become increasingly important as diversification or differences between the parent and subsidiary increase. This refers not only to specific products and services that may need to be tailored to geographic areas but also to the socioeconomic, political, legal, and cultural environments in which the subsidiary exists. In this case, the subsidiary would have superior staff and resources that would only become increasingly skilled in manufacturing and marketing products at the local level over time. Decentralization is emphasized here, and there exists a direct relationship between the physical distance and different environments between the parent and subsidiary and the level of decentralization. In other words, the farther apart the two units are in either geographic area or cultural beliefs, the higher the level of decentralization.

Experience proves to be a simple indicator of efficiency. For example, if the subsidiary has highly competent local managers, the chances for decentralization are increased because the home office has more confidence in delegating to the local level and less to

gain by making all the important decisions. Conversely, if the local managers are inexperienced or not highly effective, the MNC likely will centralize decision making and make many of the major decisions at headquarters.[26,27] Furthermore, if the firm itself has a great deal of international experience, its operations will likely be more centralized, as it has already exhibited a high-efficiency level, and increasing management decision making at the local level may slow processes.

Protection of goods and services is also important to an MNC. It would not be a very lucrative experience to spend valuable time and money on R&D processes only to have competitors successfully mimic products and essentially take away market share. For this reason and many others, it is common for MNCs to centralize operations when dealing with sophisticated levels of technology. This is particularly true for high-tech, research-intensive firms such as computer and pharmaceutical companies, which do not want their technology controlled at the local level. Furthermore, a company is likely to centralize decision-making processes when there are important brand names or patent rights involved, as it wants to create as much protection as possible.

In some areas of operation, MNCs tend to retain decision making at the top (centralization); other areas fall within the domain of subsidiary management (decentralization). It is most common to find finance, R&D, and strategic planning decisions being made at MNC headquarters, with the subsidiaries working within the parameters established by the home office. In addition, when the subsidiary is selling new products in growing markets, centralized decision making is more likely. As the product line matures and the subsidiary managers gain experience, however, the company will start to rely more on decentralized decision making. These decisions involve planning and budgeting systems, performance evaluations, assignment of managers to the subsidiary, and the use of coordinating committees to mesh the operations of the subsidiary with the worldwide operations of the MNC. The right degree of centralized or decentralized decision making can be critical to the success of the MNC.

Deloitte, the accounting and management consulting firm, describes some of the challenges associated with postmerger integration in the area of centralization and decentralization:

> The union of two European engineering companies is a prime example of a merger that brought together companies with very different structures—a business unit of a much larger corporation and a stand-alone company. The business unit had a more decentralized management approach with responsibilities delegated within functional areas such as procurement and IT. In contrast, the stand-alone company had a more centralized approach with a strong corporate headquarters retaining control over IT, finance, procurement, and HR. Bringing these two disparate structures together without reconciling these differences almost destroyed the new company. Sales plummeted and key people left, unable to adjust to the new corporate structure. Within three years the company collapsed, to be swiftly scooped up by a competitor.[28]

Cultural Differences and Comparative Examples of Decision Making

Culture, whether outside or within the organization (see Chapters 4 and 6, respectively), has an effect on how individuals and businesses perceive situations and subsequently react. This knowledge raises the question, Do decision-making philosophies and practices differ from country to country? Research shows that to some extent they do, although there is also evidence that many international operations, regardless of foreign or domestic ownership, use similar decision-making norms.[29]

One study showed that French and Danish managers do not approach the decision-making process in the same manner.[30] French managers tend to spend ample time on searching for and evaluating alternatives (see Figure 11–1), exhibiting rationality and intelligence in each option. While the French approach each opportunity with a sense of creativity and logic, they tend to become quite emotionally charged rather quickly if challenged. Middle managers report to higher-level managers, who ultimately make the final decision. Therefore, the individualistic nature of the French creates an environment

in which middle managers vie for the recognition and praise of the upper management. Furthermore, middle-management implementation of ideas tends to be lacking because that stage is often seen as boring, practical work that lacks the prestige managers strive to achieve. Control, discussed later in the chapter, is quite high in French firms at every level, so, where implementation fails, control will compensate.

Danish managers tend to emphasize different stages in the decision-making process (see Figure 11–1). They do not spend as much time searching or analyzing alternatives to optimize production but, instead, choose the option that can be started and implemented quickly and still bring about the relative desired results. They are less emotionally responsive and tend to take a straightforward approach. Danes do not emphasize control in operations because it tends to be a sign that management lacks confidence in the areas that "require" high control. The cooperative as opposed to individualistic emphasis in Danish corporations, coupled with a results-oriented environment, breeds a situation in which decisions are made quickly and middle managers are given autonomy.

Overall, the Danes' pragmatic nature and the French need for intellectual prowess mark why each is more adept at different stages of the decision-making process. The French tend to be better at stages 4, 5, and 9, while the Danes are more adept at stages 6, 7, and 8 (see Figure 11–1). As one Danish manager in France says,

> They [the Danes and the French] do not analyze and synthesize the same way. The French tend to think that the Danes are not thorough enough, and the Danes tend to think that the French are too complicated. At his desk, the Frenchman tends to keep on working on the case. He seems to agree neither with his surroundings nor with himself. This means that when he has analyzed a case and has come to a conclusion, then he would like to go over it once more. I think that Frenchmen think in a more synthetic way . . . and he has a tendency to say: "well, yes, but what if it can still be done in another maybe smarter way." This means that in fact he is wasting time instead of making improvements.[31]

In Germany, managers focus more on productivity and quality of goods and services than on managing subordinates, which often translates into companies pursuing long-term approaches. In addition, management education is highly technical, and a legal system called **codetermination** requires workers and their managers to discuss major decisions. As a result, German MNCs tend to be fairly centralized, autocratic, and hierarchical. Scandinavian countries also have codetermination, but the Swedes focus much more on quality of work life and the importance of the individual in the organization. As a result, decision-making in Sweden is decentralized and participative.

codetermination
A legal system that requires workers and their managers to discuss major decisions.

The Japanese are somewhat different from the Europeans, though they still employ a long-term focus. They make heavy use of a decision-making process called **ringisei**, or decision-making by consensus. Under this system, any changes in procedures and routines, tactics, and even strategies of a firm are organized by those directly concerned with those changes. The final decision is made at the top level after an elaborate examination of the proposal through successively higher levels in the management hierarchy and resulting in the acceptance or rejection of a decision only through consensus at every echelon of the management structure.[32]

ringisei
A Japanese term that means "decision making by consensus."

Sometimes Japanese consensus decision-making can be very time-consuming. However, in practice, most Japanese managers know how to respond to "suggestions" from the top and to act accordingly—thus saving a great deal of time. Many outsiders misunderstand how Japanese managers make such decisions. In Japan, what should be done is called **tatemae**, while what one really feels, which may be quite different, is **honne**. Because it is vital to do what others expect in a given context, situations arise that often strike Westerners as a game of charades. Nevertheless, it is very important in Japan to play out the situation according to what each person believes others expect to happen.

tatemae
A Japanese term that means "doing the right thing" according to the norm.

honne
A Japanese term that means "what one really wants to do."

Another cultural difference is how managers view time in the decision-making process. As we saw from the French-Danish example earlier, the French do not value time as much as their counterparts. The French want to ensure that the best alternative is put into action, while the Danes want to act first and take advantage of opportunities. This is key in many international decision-making processes, as globalization has opened the

door to extreme competition, and all players need to be able to both identify and make the most of profitable prospects.

In another study of decision-making in teams, composed of Swedes, Germans, and combinations of the two, the researchers found that the Swedish teams featured higher team orientation, flatter organizational hierarchies, and more open-minded and informal work attitudes. In this study, the German team members were perceived to be faster in decision making, to have clearer responsibilities for the individual, and to be more willing to accept a changed or unpopular decision. In the Swedish teams, decision making appeared more transparent and less formal. On the German teams, the process was largely dominated by the decision authority of an expert in the field. This was in contrast to the group decision-making style used in the Swedish teams.[33]

Total Quality Management Decisions

To achieve world-class competitiveness, MNCs are finding that a commitment to total quality management is critical. **Total quality management (TQM)** is an organizational strategy and accompanying techniques that result in the delivery of high-quality products or services to customers.[34] The concept and techniques of TQM, which were introduced in Chapter 8 in relation to strategic planning, also are relevant to decision-making and control.

total quality management (TQM)
An organizational strategy and the accompanying techniques that result in the delivery of high-quality products or services to customers.

One of the primary areas where TQM is having a big impact is in manufacturing. A number of TQM techniques have been successfully applied to improve the quality of manufactured goods. One is the use of concurrent engineering/interfunctional teams in which designers, engineers, production specialists, and customers work together to develop new products. This approach involves all the necessary parties and overcomes what used to be an all-too-common procedure: The design people would tell the manufacturing group what to produce, and the latter would send the finished product to retail stores for sale to the customer. Today, MNCs taking a TQM approach are customer-driven. They use TQM techniques to tailor their output to customer needs, and they require the same approach from their own suppliers.[35] Recently, Lenovo has transformed its design process from an engineer-driven one to a customer-driven one. In 2019, the company partnered with IBM to begin using blockchain technology to improve the customer service experience, and, in 2016, the company developed an application that pulls together unstructured customer feedback from a variety of sources, including YouTube comments, online forums, and traditional call centers, and organizes the data in a useful way, so that Lenovo can design tablets and products that best meet consumer demands.[36,37]

A particularly critical issue is how much decision-making to delegate to subordinates. TQM uses employee **empowerment**. Individuals and teams are encouraged to generate and implement ideas for improving quality and are given the decision-making authority and necessary resources and information to implement them. Many MNCs have had outstanding success with empowerment. For example, General Electric credits employee empowerment with cutting in half the time needed to change product-mix production of its dishwashers in response to market demand.

empowerment
The process of giving individuals and teams the resources, information, and authority they need to develop ideas and effectively implement them.

Another TQM technique that is successfully employed by MNCs is rewards and recognition. These range from increases in pay and benefits to the use of merit pay, discretionary bonuses, pay-for-skills and knowledge plans, plaques, and public recognition. The important thing to realize is that the rewards and recognition approaches that work well in one country may be ineffective in another. For example, individual recognition in the U.S. may be appropriate and valued by workers, but, in Japan, group rewards are more appropriate, as the Japanese do not like to be singled out for personal praise. Similarly, although putting a picture or plaque on the wall to honor an individual is common practice in the U.S., these rewards are frowned on in Finland, for they remind the workers that their neighbors, the Russians, used this system to encourage people to increase output (but not necessarily quality), and, while the Russian economy is beginning to make headway, it was once in shambles in part due to poor decision making.

Still another technique associated with TQM is the use of ongoing training to achieve continual improvement. This training takes a wide variety of forms, ranging from statistical quality control techniques to team meetings designed to generate ideas for streamlining operations and eliminating waste. In all cases, the objective is to apply what the Japanese call **kaizen**, or continuous improvement. By adopting a TQM perspective and applying the techniques discussed earlier, MNCs find that they can both develop and maintain a worldwide competitive edge. A good example is provided by Herman Miller, an American office furniture company. Herman Miller manufactures some of the best-selling office task chairs worldwide. Over the last two decades, the company has used the kaizen mindset to improve quality by 1,000 percent and productivity by 500 percent. Originally, it took approximately 82 seconds for Herman Miller to produce a single chair from its production line. Today, it takes only 17 seconds.[38]

kaizen
A Japanese term that means "continuous improvement."

Indirectly related to TQM is ISO 9000, International Standards Organization (ISO) certification, to ensure quality products and services. Areas that are examined by the ISO certification team include design (product or service specifications), process control (instruction for manufacturing or service functions), purchasing, service (e.g., instructions for conducting after-sales service), inspection and testing, and training. ISO 9000 certification is becoming a necessary prerequisite to doing business in the E.U., but it also is increasingly used as a screening criterion for bidding on contracts or getting business in the United States and other parts of the world.

Decisions for Attacking the Competition

Another series of key decisions relates to MNC actions that are designed to attack the competition and gain a foothold in world markets. An example is Ford Motor Company's decision to be a major player in developing markets, such as Asia and Africa. As a result of this decision, Ford has been shifting production closer to the local consumer and away from its stagnant U.S. home market. In 2017, Ford inaugurated the opening of a manufacturing plant for its pickup truck, the Ranger, in Lagos, Nigeria. As Ford's first plant in Africa outside of South Africa, the new Lagos facility provided Ford with the infrastructure and manufacturing capacity necessary for future growth. The plant has the capacity to produce up to 20,000 vehicles annually.[39] Ford has also opened plants in China and Thailand in recent years, with the ability to produce more than 100,000 vehicles every year for the local Asian market.[40]

Another example of decision-making for attacking the competition is provided by the global luxury car industry. While German automakers Audi, Mercedes-Benz, and BMW all share the same goal of leading the international luxury vehicle market, the companies are taking different approaches to beat the competition. Audi has made the decision to target younger professionals in established markets. This strategy is reflected in the company's new, trendy body designs. Though the demographics of the luxury vehicle market favors older consumers, Audi's approach has been fairly successful. More than 200,000 units are now sold annually in the U.S.[41] Conversely, BMW has attempted to undermine the competition by focusing on providing more options and personalization for its consumers. With a variety of engine and body options, the company offers more than 100 different combinations for its luxury vehicles in the U.S. and Mercedes, which holds the largest share of the luxury vehicle market, has taken a lowest-cost strategy. With its CLA 250 starting at under US$30,000, the luxury sedan offers high value for a price that is less than that of the average car sale in the U.S.[42]

Decision and Control Linkages

controlling
The process of evaluating results in relation to plans or objectives and deciding what action, if any, to take.

Decision making and **controlling** are two vital and often interlinked functions of international management. As an example of a company that struggled with control issues, Canadian company BlackBerry Limited (formerly Research in Motion) ultimately failed in the smartphone industry due to its slow market response. Over the course of just

six years, BlackBerry evolved from the most promising phone producer to just a footnote. In 2009, BlackBerry was one of the fastest-growing companies in the world, with an 84 percent increase in earnings.[43] BlackBerry held an estimated 41 percent share of the smartphone market in the U.S. by 2010, making it more popular than Apple's iPhone. However, as Apple and Samsung introduced touchscreens and innovated to meet customer demands, BlackBerry continued producing phones with full keyboards. In the high-tech sector, where the pace of change is incredibly fast, BlackBerry's resistance to meeting customer expectations led to a rapid decline in market share. By the time BlackBerry finally adapted to the evolving mobile market, it was too late: In 2016, BlackBerry stopped manufacturing new devices, and, by 2019, the company's market share had plummeted to close to near zero percent.[44]

Another example of how the control function plays out is Universal Studios Japan. To attract visitors to the Osaka location, this new theme park was specially built based on feedback from Japanese tourists at Universal parks in Orlando and Los Angeles. The company wanted to learn what these visitors liked and disliked and then use this information in its Osaka park. One theme clearly emerged: The Japanese wanted an authentic American experience but also expected the park to cater to their own cultural preferences. In the process of controlling the creation of the new park, thousands of decisions were made regarding what to include and what to leave out. For example, seafood pizza and gumbo-style soup were put on the menu, but a fried-shrimp concoction with colored rice crackers was rejected. It was decided that in a musical number based on the movie *Beetlejuice*, the main character should talk in Japanese and his sidekicks would speak and sing in English. The decision to put in a restaurant called Shakin's, based on the 1906 San Francisco earthquake, turned out not to be a good idea because Osaka has had terrible earthquakes that killed thousands of people.

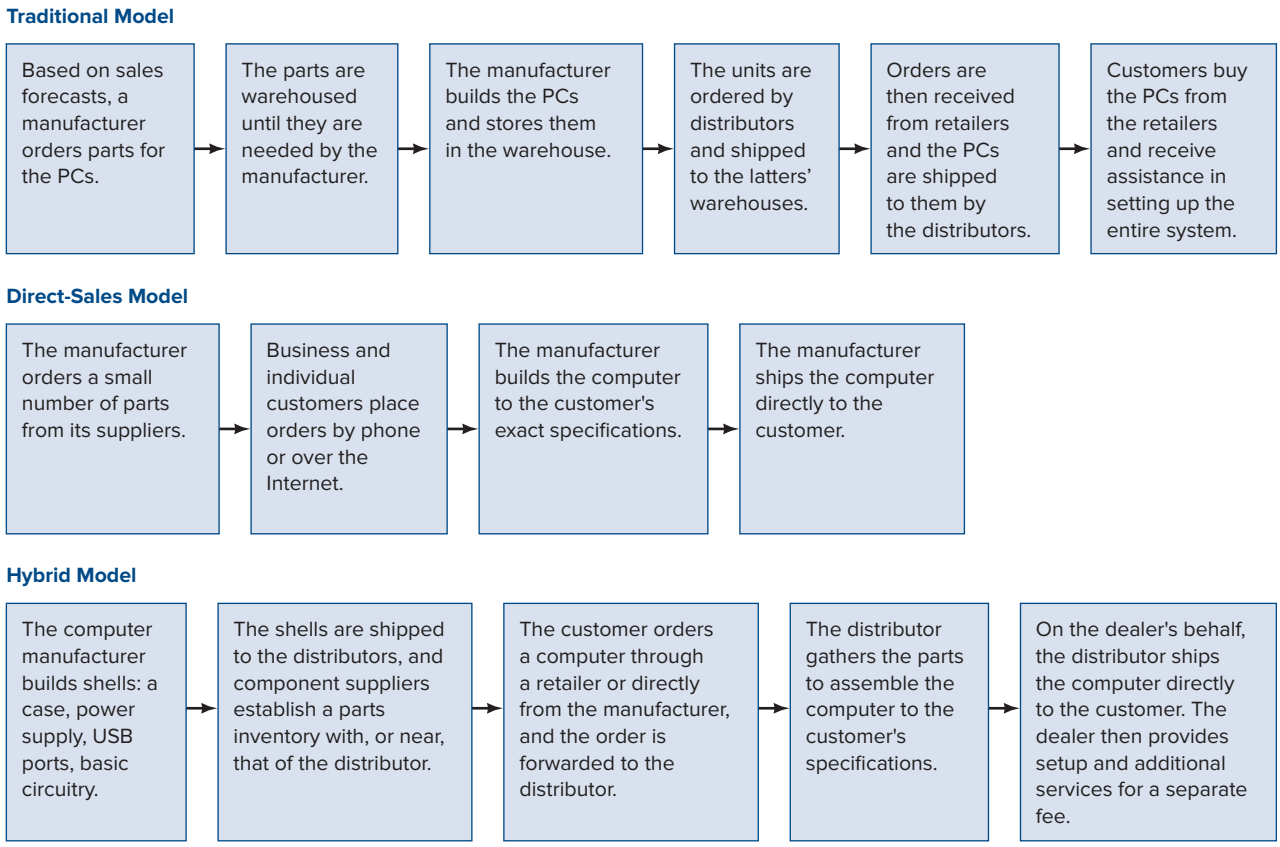
Other decisions were made to give the "American" park a uniquely Japanese flavor. The nation's penchant for buying edible souvenirs inspired a 6,000-square-foot confection shop packed with Japanese sweets such as dinosaur-shaped bean cakes. Restrooms include Japanese-style squat toilets. Even the park layout caters to the tendency of Japanese crowds to flow clockwise in an orderly manner, contrary to more chaotic U.S. crowds that steer right. And millions of dollars were spent on the Jurassic Park water slide to widen the landing pond, redesign boat hulls, and install underwater wave-damping panels to reduce spray. Why? Many fastidious Japanese don't like to get wet, even on what's billed as one of the world's biggest water slides.[45]

The efforts to design a uniquely Japanese theme park with an American feel seem to be paying off. Twenty years after first opening, Universal Studios Japan is now the fifth-most-visited amusement park worldwide, attracting over 14 million visitors in 2019 before the COVID-19 pandemic hit the travel and tourism industry.[46] The company has discovered that creating an emotional connection between the consumer and the park, instead of focusing on the power of Hollywood, encourages people to frequent the park. The success that Universal has had in integrating Japanese and American cultures has encouraged the company to expand further into the Asian market. (See the related discussion in In-Depth Integrative Case 2.1b on Disney in Asia at the end of Part Two.)

The Controlling Process

As previously stated, controlling involves evaluating results in relation to plans or objectives and deciding what action to take next. An excellent illustration of this process can be seen through ExxonMobil's recent strategic changes to its investments in Russia. In 2012 and 2014, the U.S.-based company joined with Russian-based Rosneft to form a series of joint ventures to tap into the Russian Arctic oil and gas fields. The investment looked like a wise decision initially; teaming with Rosneft would allow ExxonMobil access to Russia's massive natural resource reserves, and the deal made ExxonMobil one of the largest foreign players inside Russia. However, U.S.-imposed sanctions in 2014 in the wake of the annexation of Crimea resulted in increased complexity and fines for the company.

Figure 11–2 Models of PC Manufacturing



In 2018, ExxonMobil announced its intentions to withdraw from the joint ventures, resulting in a US$200 million loss but freeing up capital to allow ExxonMobil to invest elsewhere.[47] This decision turned out to be a prudent one given the more difficult climate for doing business in Russia that has emerged in 2022. In March, 2022, ExxonMobil announced to discontinue all of its operations in Russia, including exiting the lucrative Sakhalin-1 project.[48]

The control process is, of course, crucial for MNCs in the fast-moving personal computer (PC) business. Until the mid-1990s, PCs were built using the traditional model shown in Figure 11–2. Today, the direct-sales model and the hybrid model are the most common. PC firms are finding that they must keep on the cutting edge more than any other industry because of the relentless pace of technological change. This is where the control function becomes especially critical for success. For example, stringent controls keep the inventory in the system as small as possible. PCs are manufactured using a just-in-time approach (a customer orders the unit and has it made to specifications) or an almost just-in-time approach (a retailer orders 30 units and sells them all within a few weeks). Because technology in the PC industry changes so quickly, any units that are not sold in retail outlets within 60 days may be outdated and must be severely discounted and sold for whatever the market will bear. In turn, these costs are often assumed by the manufacturer. As a result, PC manufacturers are very much inclined to build to order or to ship in quantities that can be sold quickly. In this way, the firm's control system helps ensure that inventory moves through the system profitably.[49]

Of particular interest is how companies attempt to control their overseas operations to become integrated, coordinated units. A number of control problems may arise: (1) The objectives of the overseas operation and the corporation may conflict. (2) The

objectives of joint-venture partners and corporate management may not be in accord. (3) Degrees of experience and competence in planning vary widely among managers running the various overseas units. (4) Some managers may not agree with the headquarter decision and, rather than expressing their views, may choose to remain silent.[50] (5) Finally, there may be basic philosophic disagreements about the objectives and policies of international operations, largely because of cultural differences between home- and host-country managers. The following discussion examines the various types of control that are used in international operations and the approaches that are often taken in dealing with typical problems.

Types of Control

There are two common, complementary ways of looking at how MNCs control operations. One way is by determining whether the enterprise chooses to use internal or external control in devising its overall strategy. The other is by looking at the ways in which the organization uses direct and indirect controls.

Internal and External Control From an internal control standpoint, an MNC will focus on the things that it does best. At the same time, of course, management wants to ensure that there is a market for the goods and services that it is offering. So the company first needs to find out what the customers want and be prepared to respond appropriately. This requires an external control focus. Naturally, every MNC will give consideration to both internal and external perspectives on control. However, one is often given more attention than the other. In explaining this idea, Trompenaars and Hampden-Turner set forth four management views regarding how a control strategy should be devised and implemented:

1. No one dealing with customers is without a strategy of sorts. Our task is to find out which of these strategies work, which don't, and why. Devising our own strategy in the abstract and imposing it downward only spreads confusion.
2. No one dealing with customers is without a strategy of sorts. Our task is to find out which of these strategies work and then create a master strategy from proven successful initiatives by encouraging and combining the best.
3. To be a leader is to be the chief deviser of strategy. Using all the experience, information, and intelligence we can mobilize, we need to devise an innovative strategy and then cascade it down the hierarchy.
4. To be a leader is to be the chief deviser of strategy. Using all the experience, information, and intelligence we can mobilize, we must create a broad thrust while leaving it to subordinates to fit these to customer needs.[51]

Trompenaars and Hampden-Turner ask managers to rank each of these four statements by placing a "1" next to the one they feel would most likely be used in their company, a "2" next to the second most likely, and on down to a "4" next to the one that would be the last choice. This ranking helps managers better see whether they use an external or an internal control approach. Answer 1 focuses most strongly on an external-directed approach and rejects the internal control option. Answer 3 represents the opposite. Answer 2 affirms a connection between an external-directed strategy and an inner-directed one, while answer 4 does the opposite.[52]

Cultures differ in the control approach they use. For example, among U.S. MNCs, it is common to find managers using an internal control approach. Among Asian firms, an external control approach is more typical. Table 11–2 provides some contrasts between the two.

Table 11–2
The Impact of Internal- and External-Oriented Cultures on the Control Process

Key Differences between . . .	
Internal Control	**External Control**
Often dominating attitude bordering on aggressiveness toward the environment	Often flexible attitude, willing to compromise and keep the peace
Conflict and resistance mean that a person has convictions.	Harmony, responsiveness, and sensibility are encouraged.
The focus is on self, function, one's own group, and one's own organization.	The focus is on others such as customers, partners, and colleagues.
There is discomfort when the environment seems "out of control" or changeable.	There is comfort with waves, shifts, and cycles, which are regarded as "natural."
Tips for Doing Business with . . .	
Internally Controlled (for externals)	**Externally Controlled (for internals)**
Playing "hardball" is legitimate to test the resilience of an opponent.	Softness, persistence, politeness, and long patience will get rewards.
It is most important to "win your objective."	It is most important to maintain one's relationships with others.
Win some, lose some.	Win together, lose apart.

Source: Trompenaars, Alfons, and Turner, Charles Hampden. *Riding the Waves of Culture: Understanding Cultural Diversity in Global Business*. McGraw Hill, 1998.

direct controls
The use of face-to-face or personal meetings for the purpose of monitoring operations.

Direct Controls

Direct controls involve the use of face-to-face or personal meetings to monitor operations. A good example is how International Telephone and Telegraph (ITT) holds monthly management meetings at its New York headquarters. These meetings are run by the CEO of the company, and reports are submitted by each ITT unit manager throughout the world. Problems are discussed, goals set, evaluations made, and actions taken that will help the unit improve its effectiveness.

Another common form of direct control is visited by top executives to overseas affiliates or subsidiaries. During these visits, top managers can learn firsthand the problems and challenges facing the unit and offer assistance.

A third form is the staffing practices of MNCs. By determining whom to send overseas to run the unit, the corporation can directly control how the operation will be run. The company will want the manager to make operating decisions and handle day-to-day matters, but the individual also will know which decisions should be cleared with the home office. In fact, this approach to direct control sometimes results in a manager who is more responsive to central management than to the needs of the local unit.

Finally, a fourth form is the organizational structure itself. By designing a structure that makes the unit highly responsive to home-office requests and communications, the MNC ensures that all overseas operations are run in accord with central management's desires. This structure can be established through formal reporting relationships and chain of command (who reports to whom).

indirect controls
The use of reports and other written forms of communication to control operations.

Indirect Controls

Indirect controls involve the use of reports and other written forms of communication to control operations. One of the most common examples is the use of monthly operating reports that are sent to the home office. Other examples, which typically are used to supplement the operating report, include financial statements such as balance sheets, income statements, cash budgets, and financial ratios that provide insights into the unit's financial health. The home office will use these operating and financial data to evaluate how well things are going and make decisions about necessary changes. Three sets of financial statements usually are required from subsidiaries: (1) statements prepared to meet the national accounting standards and procedures prescribed by law and other professional organizations in the host country, (2) statements

prepared to comply with the accounting principles and standards required by the home country, and (3) statements prepared to meet the financial consolidation requirements of the home country.

Indirect controls are particularly important in international management because of the great expense associated with direct methods of control. Typically, MNCs will use indirect controls to monitor performance on a monthly basis, while direct controls are used semiannually or annually. This dual approach often provides the company with effective control of its operations at a price that also is cost-effective.

Approaches to Control

International managers can take many different approaches to control. These approaches typically are dictated by the MNC's philosophy of control, the economic environment in which the overseas unit is operating, and the needs and desires of the managerial personnel who staff the unit. Working within control parameters, MNCs will structure their processes so that they are as efficient and effective as possible. Typically, the tools used will give the unit manager the autonomy needed to adapt to changes in the market as well as to attract competent local personnel. These tools will also provide for coordination of operations with the home office so that the overseas unit operates in harmony with the MNC's overall strategic plan.

Some control tools are universal. For example, all MNCs use financial tools in monitoring overseas units. This was true as long as over four decades ago when the following was reported:

> The cross-cultural homogeneity in financial control is in marked contrast to the heterogeneity exercised over the areas of international operations. American subsidiaries of Italian and Scandinavian firms are virtually independent operationally from their parents in functions pertaining to marketing, production, and research and development; whereas, the subsidiaries of German and British firms have limited freedom in these areas. Almost no autonomy on financial matters is given by any nationality to the subsidiaries.[53]

Some Major Differences MNCs control operations in many different ways, and these often vary considerably from country to country. For example, how British firms monitor their overseas operations often is different from how German or French firms do. Similarly, U.S. MNCs tend to have their own approach to controlling, and it differs from both European and Japanese approaches. When Horovitz examined the key characteristics of top management control in Great Britain, Germany, and France, he found that British controls had four common characteristics: (1) Financial records were sophisticated and heavily emphasized. (2) Top management tended to focus its attention on major problem areas and did not get involved in specific, detailed matters of control. (3) Control was used more for general guidance than for surveillance. (4) Operating units had a large amount of marketing autonomy.[54]

This model was in marked contrast to that of German managers, who employed very detailed control and focused attention on all variances, large and small. These managers also placed heavy control on the production area and stressed operational efficiency. In achieving this centralized control, the managers used a large central staff for measuring performance, analyzing variances, and compiling quantitative reports for senior executives. Overall, the control process in the German firms was used as a policing and surveillance instrument. The French managers employed a control system that was closer to that of the Germans than to the British. Control was used more for surveillance than for guiding operations, and the process was centrally administered. Even so, the French system was less systematic and sophisticated.[55]

How do U.S. MNCs differ from their European counterparts? One comparative study found that a major difference is that U.S. firms tend to rely much more heavily on reports and other performance-related data. Americans make greater use of output control, and Europeans rely more heavily on behavioral control. Commenting on the

differences between these two groups, the researcher noted, "This pattern appears to be quite robust and continues to exist even when a number of common factors that seem to influence control are taken into account."[56] Following are some specific findings from this study:

1. Control in U.S. MNCs focuses more on the quantifiable, objective aspects of a foreign subsidiary, while control in European MNCs tends to be used to measure more qualitative aspects. The U.S. approach allows comparative analyses between other foreign operations as well as domestic units; the European measures are more flexible and allow control to be exercised on a unit-by-unit basis.
2. Control in U.S. MNCs requires more precise plans and budgets in generating suitable standards for comparison. Control in European MNCs requires a high level of companywide understanding and agreement regarding what constitutes appropriate behavior and how such behavior supports the goals of both the subsidiary and the parent firm.
3. Control in U.S. MNCs requires a large central staff and centralized information-processing capability. Control in European MNCs requires a larger cadre of capable expatriate managers who are willing to spend long periods of time abroad. This control characteristic is reflected in the career approaches used in the various MNCs. Although U.S. multinationals do not encourage lengthy stays in foreign management positions, European MNCs often regard these positions as stepping-stones to higher offices.
4. Control in European MNCs requires more decentralization of operating decision-making than does control in U.S. MNCs.
5. Control in European MNCs favors short, vertical spans or reporting channels from the foreign subsidiary to responsible positions in the parent company.[57]

As noted in the discussion of decision making, these differences help explain why many researchers have found European subsidiaries to be more decentralized than U.S. subsidiaries. Europeans rely on the managerial personnel they assign from headquarters to run the unit properly. Americans tend to hire a greater percentage of local management people and control operations through reports and other objective, performance-related data. The difference results in Europeans' relying more on socio-emotional control systems and Americans' opting for task-oriented, objective control systems.

Evaluating Approaches to Control Is one control approach any better than the other? The answer is that each seems to work best for its respective group. Some studies predict that as MNCs increase in size, they likely will move toward the objective orientation of the U.S. MNCs. Commenting on the data gathered from large German and U.S. MNCs, two researchers concluded,

> Control mechanisms have to be harmonized with the main characteristics of management corporate structure to become an integrated part of the global organization concept and to meet situational needs. Trying to explain the differences in concepts of control, we have to consider that the companies of the U.S. sample were much larger and more diversified. Accordingly, they use different corporate structures, combining operational units into larger units and integrating these through primarily centralized, indirect, and task-oriented control. The German companies have not (yet) reached this size and complexity, so a behavioral model of control seems to be fitting.[58]

Thus, in deciding which form of control to use, MNCs must determine whether they want a more bureaucratic or a more cultural control approach, and, from the cultural perspective, it must be remembered that this control will vary across subsidiaries.

Performance Evaluation as a Mechanism of Control

A number of performance measures are used for control purposes. Three of the most common evaluate financial performance, quality performance, and personnel performance.

Financial Performance

Financial performance evaluation of a foreign subsidiary or affiliate is usually based on profit and loss and return on investment. **Profit** and loss (P&L) is the amount remaining after all expenses are deducted from total revenues. **Return on investment (ROI)** is measured by dividing profit by assets; some firms use profit divided by owners' equity (return on owners' investment, or ROOI) in referring to the return-on-investment performance measure. In any case, the most important part of the ROI calculation is profits, which often can be manipulated by management. Thus, the amount of profit directly relates to how well or how poorly a unit is judged to perform. For example, if an MNC has an operation in both country A and country B and taxes are lower in country A, the MNC may be able to benefit if the two units have occasion to do business with each other. This benefit can be accomplished by having the unit in country A charge higher prices than usual to the unit in country B, thus providing greater net profits to the MNC. Simply put, sometimes differences in tax rates can be used to maximize overall MNC profits. This same basic form of manipulation can be used in transferring money from one country to another, which can be explained as follows:

profit
The amount remaining after all expenses are deducted from total revenues.

return on investment (ROI)
Return measured by dividing profit by assets.

> Transfer prices are manipulated upward or downward depending on whether the parent company wishes to inject or remove cash into or from a subsidiary. Prices on imports by a subsidiary from a related subsidiary are raised if the multinational company wishes to move funds from the receiver to the seller, but they are lowered if the objective is to keep the funds in the importing subsidiary. . . . Multinational companies have been known to use transfer pricing for moving excess cash from subsidiaries located in countries with weak currencies to countries with strong currencies in order to protect the value of their current assets.[59]

The so-called bottom-line (i.e., profit or loss) performance of subsidiaries also can be affected by a devaluation or revaluation of local currency. For example, if a country devalues its currency, then subsidiary export sales will increase because the price of these goods will be lower for foreign buyers, whose currencies now have greater purchasing power. If the country revalues its currency, then export sales will decline because the price of goods for foreign buyers will rise because their currencies now have less purchasing power in the subsidiary's country. Likewise, a devaluation of the currency will increase the cost of imported materials and supplies for the subsidiary, and a revaluation will decrease these costs because of the relative changes in the purchasing power of local currency. Because devaluation and revaluation of local currency are outside the control of the overseas unit, bottom-line performance sometimes will be a result of external conditions that do not accurately reflect how well the operation actually is being run, which should be considered when evaluating a subsidiary's performance.

Of course, not all bottom-line financial performance is a result of manipulation or external economic conditions. Frequently, other forces account for the problem. For example, Volkswagen has long struggled to meet profit margin goals. One reason for this poor performance is that labor costs in Lower Saxony, where approximately half its workforce is located and workers are strongly unionized, are very high. Workers there produce only 40 vehicles per employee annually, in contrast to the VW plant in Navarra, Spain, which turns out 79 vehicles per employee per year. Why doesn't VW move work to lower-cost production sites? The major reason is that the state of Lower Saxony owns 20 percent of the company's voting stock, so the workers' jobs are protected. As recently as 2021, Volkswagen management proposed plan to cut local jobs and transition into making electric cars has received strong resistance from Lower Saxony.[60] Similar cost-cutting measures to increase profitability and the possibility of opening a lower-cost factory in Eastern

Europe, were rebuffed by the union representatives in Lower Saxony in 2019.[61] Simply put, relying solely on financial results to evaluate performance can result in misleading conclusions.

Quality Performance

Just as quality has become a major focus in decision making, it also is a major dimension of the modern control process of MNCs. The term *quality control (QC)* has been around for a long time, and it is a major function of production and operations management. Besides the TQM techniques of concurrent engineering/interfunctional teams, employee empowerment, reward/recognition systems, and training discussed earlier in this chapter in the context of decision making, another technique more directly associated with the control function is the use of quality circles, which have been popularized by the Japanese. A **quality control circle (QCC)** is a group of workers who meet on a regular basis to discuss ways of improving the quality of work. This approach has helped many MNCs dramatically improve the quality of their goods and services.

quality control circle (QCC) A group of workers who meet on a regular basis to discuss ways of improving the quality of work.

Why are Japanese-made goods of higher quality than the goods of many other countries? The answer cannot rest solely on technology because many MNCs have the same or superior technology, or the financial ability to purchase it. There must be other causal factors. The nearby International Management in Action box "How the Japanese Do Things Differently" gives some details about these factors. One study attempted to answer the question by examining the differences between Japanese and U.S. manufacturers of air conditioners.[62] In this analysis, many of the commonly cited reasons for superior Japanese quality were discovered to be inaccurate. So what were the reasons for the quality differences?

One reason was the focus on keeping the workplace clean and ensuring that all machinery and equipment were properly maintained. The Japanese firms were more careful in handling incoming parts and materials, work-in-process, and finished products than their U.S. counterparts. The Japanese companies also employed equipment fixtures to a greater extent than did the U.S. manufacturers in ensuring the proper alignment of parts during final assembly.

The Japanese minimized worker error by assigning new employees to existing work teams or pairing them with supervisors. In this way, the new workers gained important experience under the watchful eye of someone who could correct their mistakes.

Another interesting finding was that the Japanese made effective use of QCCs. Quality targets were set, and responsibility for their attainment then fell on the circle while management provided support assistance. This was stated by the researcher as follows:

> In supporting the activities of their QCCs, the Japanese firms in this industry routinely collected extensive quality data. Information on defects was compiled daily and analyzed for trends. Perhaps most important, the data were made easily accessible to line workers, often in the form of publicly posted charts. More detailed data were available to QCCs on request.[63]

This finding pointed out an important difference between the Americans and the Japanese. The Japanese pushed data on quality down to the operating employees in the quality circles, while the Americans tended to aggregate the quality data into summary reports aimed at middle and upper management.

Another important difference is that the Japanese tended to build in early warning systems so that they knew when something was going wrong. Incoming field data, for example, were reviewed immediately by the quality department, and problems were assigned to one of two categories: routine or emergency. Special efforts then were made to resolve the emergency problems as quickly as possible. High failure rates attributable to a single persistent problem were identified and handled much faster than they would be in U.S. firms. Still, another reason is that the Japanese worked closely with their suppliers so that the latter's quality increased. In fact, research shows that among suppliers that have contracts with both American and Japanese auto plants in the U.S., the Japanese

International Management in Action

How the Japanese Do Things Differently

Japanese firms do a number of things extremely well. One is to train their people carefully, a strategy that many successful U.S. firms also use. Another is to try to remain on the technological cutting edge. A third, increasingly important because of its uniqueness to the Japanese, is to keep a keen focus on developing and bringing to market goods that are competitively priced.

In contrast to Western firms, many Japanese companies use a "target cost" approach. Like other multinational firms, Japanese companies begin the new-product development process by conducting marketing research and examining the characteristics of the product to be produced. At this point, however, the Japanese take a different approach. The traditional approach used by MNCs around the world is next to go into designing, engineering, and supplier pricing and then to determine if the cost is sufficiently competitive to move ahead with manufacturing. Japanese manufacturers, in contrast, first determine the price that the consumer most likely will accept, and then they work with design, engineering, and supply people to ensure that the product can be produced at this price. The other major difference is that after most firms manufacture a product, they engage in periodic cost reductions. The Japanese, however, use a kaizen approach, which fosters continuous cost-reduction efforts.

The critical difference between the two systems is that the Japanese get costs out of the product during the planning and design stages. Additionally, they look at profit in terms of product lines, rather than just individual goods, so a consumer product that would be rejected for production by a U.S. or European firm because its projected profitability was too low may be accepted by a Japanese firm because the product will attract additional customers to other offerings in the line. A good example is Sony, which decided to build a smaller version of its compact personal stereo system and market it to older consumers. Sony knew that the profitability of the unit would not be as high as usual, but it went ahead because the product would provide another market niche for the firm and strengthen its reputation. Also, a side benefit is that once a product is out there, it may appeal to an unanticipated market. This was the case with Sony's compact personal stereo system. The unit caught on with young people, and Sony's sales were 50 percent greater than anticipated. Had Sony based its manufacturing decision solely on "stand-alone" profitability, the unit never would have been produced.

These approaches are not unique to Japanese firms. Foreign companies operating in Japan are catching on and using them as well. Coca-Cola Japan is the leading company in the Japanese soft drink market, which sees the introduction of more than 1,000 new products each year. Most offerings do not last very long, and a cost accountant might well argue that it is not worth the effort to produce them. However, Coca-Cola introduces one new product a month. Most of these sodas, soft drinks, and cold coffees survive less than 90 days, but Coke does not let the short-term bottom line dictate the decision. The firm goes beyond quick profitability and looks at the overall picture. The result is that Coca-Cola continues to be the leading soft drink firm in Japan despite the competition that often is more vigorous than that in the United States.

Source: Carlton, Jim. "Sega Leaps Ahead by Shipping New Player Early." *Wall Street Journal*, May 11, 1995, B1, B3; Henkoff, Ronald. "Companies That Train Best." *Fortune*, March 22, 1993; Liker, Jeffery K., and Yen-Chun Wu. "Japanese Automakers, U.S. Suppliers and Supply-Chain Superiority." *Sloan Management Review*, Fall 2000, 81–93; Schlender, Brenton R. "Hard Times for High Tech." *Fortune*, March 22, 1993, 98; Worthy, Ford S. "Japan's Smart Secret Weapon." *Fortune*, August 12, 1991, 72–75

plants get higher performance from their suppliers than do the American.[64] The Japanese are able to accomplish this because they work closely with their suppliers and help them develop lean manufacturing capabilities. Some of the steps that Japanese manufacturers take in doing this include (1) leveling their own production schedules in order to avoid big spikes in demand, thus allowing their suppliers to hold less inventory; (2) encouraging their suppliers to ship only what is needed by the assembly plant at a particular time, even if this means sending partially filled trucks; and (3) creating a disciplined system of delivery time windows during which all parts have to be received at the delivery plant. A close look at Table 11–3 shows that in this study, the 91 suppliers who were working for both the Japanese and American auto firms performed more efficiently for their Japanese customers than for their American customers.

Management attitudes toward quality also were quite different in this study. The Japanese philosophy was "Anything worth doing in the area of quality is worth overdoing." The workers were trained for all jobs on the line, even though they eventually were assigned to a single workstation. This method of "training overkill" ensured that everyone could perform every job perfectly and resulted in two important outcomes: (1) If someone was moved to

Table 11–3
Performance of Suppliers When Serving U.S.- and Japanese-Owned Auto Plants

Performance Indicators	Chrysler Suppliers ($n = 26$)	Ford Suppliers ($n = 42$)	GM Suppliers ($n = 23$)	Honda Suppliers ($n = 22$)	Nissan Suppliers ($n = 16$)	Toyota Suppliers ($n = 37$)
Inventory turnover	28.3	24.4	25.5	38.4	49.2	52.4
Work-in-process	3.0	3.9	7.2	4.0	3.8	3.0
Finished-goods storage time	4.8	5.4	6.6	5.3	4.9	3.2
Inventory on the truck	2.1	4.5	2.6	2.8	2.08	1.61
Inventory maintained at the customer's site	3.5	4.8	3.1	4.0	2.8	2.3
Percentage change in manufacturing costs compared to the previous year	0.69%	0.58%	0.74%	−0.9%	−0.7%	−1.3%
Percentage of late deliveries	4.4%	7.70%	3.04%	2.11%	1.08%	0.44%
Emergency shipping cost (per million sales dollars) in previous year	$1,235	$446	$616	$423	$379	$204

Source: Liker, Jeffery K., and Yenchun Jim Wu. "Japanese Automakers, U.S. Suppliers and Supply-Chain Superiority." *Sloan Management Review* 42, no. 1 (2000): 81–93.

another job, he or she could handle the work without any additional assistance. (2) The workers realized that management put an extremely high value on the need for quality. When questioned regarding whether their approach to quality resulted in spending more money than was necessary, the Japanese managers disagreed. They believed that quality improvement was technically possible and economically feasible. They did not accept the common U.S. strategy of building a product with quality that was "good enough."

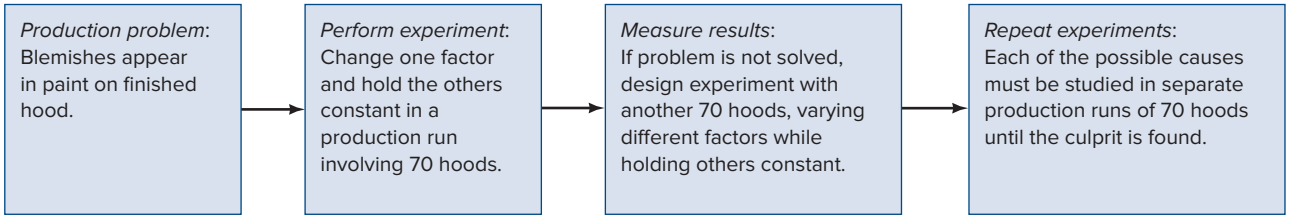
These managers were speaking only for their own firms, however. Some evidence shows that at least in the short run, an overfocus on quality may become economically unwise. Even so, firms must remember that quality goods and services lead in the long run to repeat business, which translates into profits and growth. From a control standpoint, the major issue is how to identify quality problems and resolve them as efficiently as possible. One approach that has gained acceptance in the U.S. is outlined by Genichi Taguchi, one of the foremost authorities on quality control. Taguchi's method is to dispense with highly sophisticated statistical methods unless more fundamental ways do not work. Figure 11–3 compares the use of the Taguchi method and the traditional method to identify the cause of defects in the paint on a minivan hood. The Taguchi approach to solving quality control problems is proving to be so effective that many MNCs are adopting it. They also are realizing that the belief that Japanese firms will correct quality control problems regardless of the cost is not true. As Taguchi puts it, "the more efficient approach is to identify the things that can be controlled at a reasonable cost in an organized manner, and simply ignore those too expensive to control."[65,66] To the extent that U.S. MNCs can do this, they will be able to compete on the basis of quality.

Personnel Performance

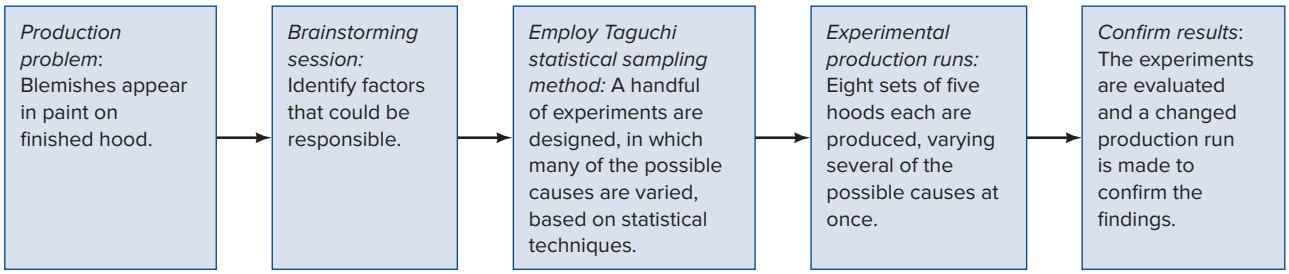
Besides financial techniques and the emphasis on quality, another key area of control is personnel performance evaluation. This type of evaluation can take a variety of forms, although there is a great deal of agreement from firm to firm about the general criteria to be measured. Table 11–4 provides a list of the most reputable companies in 2022, as calculated by the Reputation Institute in conjunction with *Forbes* magazine. This ranking

Figure 11–3 **Solving a Quality Problem: Taguchi Method versus Traditional Method**

Traditional Method Possible causes are studied one by one while holding the other factors constant.



Taguchi Method Brainstorming and a few bold experiments seek to quickly find the problem.



Source: Holusha, John. "Improving Quality, The Japanese Way." *The New York Times*, July 20, 1988.

is based on a range of criteria, including the trust, admiration, and esteem that stakeholders have for a company.

In describing what makes another group of companies successful—the "World's Most Admired" firms—consultants at the Hay Group made an analysis of the best global firms, focusing especially on their personnel and talent management systems and identifying seven common themes:

1. Top managers at the most-admired companies take their mission statements seriously and expect everyone else to do the same.
2. Success attracts the best people—and the best people sustain success.
3. The top companies know precisely what they are looking for.
4. These firms see career development as an investment, not a chore.
5. Whenever possible, these companies promote from within.
6. Performance is rewarded.
7. The firms are genuinely interested in what their employees think, and they measure work satisfaction often and thoroughly.[67]

One of the most common approaches to personnel performance evaluation is the periodic appraisal of work performance. Although the objective is similar from country to country, how performance appraisals are done differs. For example, effective employee performance in one country is not always judged to be effective in another. An awareness of international differences is particularly important when expatriate managers evaluate local managers on the basis of home-country standards. A good example comes out of a survey that found Japanese managers in U.S.-based manufacturing firms gave higher evaluations to Japanese personnel than to Americans. The results led the researcher to conclude, "It seems that cultural differences and diversified approaches to management in MNCs of different nationalities will always create a situation where some bias in performance appraisal may exist."[68] Dealing with these biases is a big challenge facing MNCs.

Another important difference is how personnel performance control actually is conducted. A study that compared personnel control approaches used by Japanese managers in Japan with those used by U.S. managers in the U.S. found marked differences.[69] For example, when Japanese work groups were successful because of the actions of a particular

Table 11–4
World's Most Reputable Companies 2022

RepTrak® 100: The Most Reputable Companies in the World: Pulse Score and Rank

Company	Home Country	Rank
Rolex	Switzerland	1
Ferrari	Italy	2
LEGO Group	Denmark	3
Rolls-Royce	U.K.	4
Mercedes-Benz	Germany	5
Harley-Davidson	U.S.	6
Bosch	Germany	7
PayPal	U.S.	8
Netflix	U.S.	9
Intel	U.S.	10
Canon	Japan	11
BMW Group	Germany	12
Miele	Germany	13
Philips	Netherlands	14
Sony	Japan	15
Adidas	Germany	16
Microsoft	U.S.	17
3M	U.S.	18
Ferrero	Italy	19
Samsung	South Korea	20
Levi-Strauss & Co.	U.S.	21
Michelin	France	22
Colgate-Palmolive	U.S.	23
Dyson	Singapore/U.K.	24
Nike	U.S.	25
Nintendo	Japan	26
Chanel	France	27
Mastercard	U.S.	28
Goodyear	U.S.	29
Barilla	Italy	30

Source: "Global RepTrak 100." Reputation Institute (2022). https://www.reptrak.com/rankings/.

individual, the Japanese manager tended to give credit to the whole group. When the group was unsuccessful because of the actions of a particular individual, however, the Japanese manager tended to perceive this one employee as responsible. In addition, the more unexpected the poor performance, the greater was the likelihood that the individual would be responsible. In contrast, individuals in the U.S. typically were given the credit when things went well and the blame when performance was poor.

Other differences related to how rewards and monitoring of personnel performance are handled. Both U.S. and Japanese managers offered greater rewards and more freedom from close monitoring to individuals when they were associated with successful performance, no matter what the influence of the group on the performance. The Americans carried this tendency further than the Japanese in the case of rewards, including giving high rewards to a person who was a "lone wolf."[70]

A comparison of these two approaches to personnel evaluation shows that the Japanese tend to use a more social or group orientation, while the Americans are more individualistic (see Chapter 4). The researchers found that overall, however, the approaches are quite similar and that the control of personnel performance by Japanese and U.S. managers is far more similar than different.

Such similarity also can be found in assessment centers used to evaluate employees. An **assessment center** is an evaluation tool that is used to identify individuals with the potential to be selected for or promoted to higher-level positions. Used by large U.S. MNCs for many years, these centers also are employed around the world. A typical assessment center involves simulation exercises such as these: (1) in-basket exercises that require managerial attention, (2) a committee exercise in which the candidates must work as a team in making decisions, (3) business decision exercises in which participants compete in the same market, (4) preparation of a business plan, and (5) a letter-writing exercise. These forms of evaluation are beginning to gain support because they are more comprehensive than simple checklists or the use of a test or an interview and thus better able to identify managers who are most likely to succeed when hired or promoted.

assessment center
An evaluation tool used to identify individuals with the potential to be selected or promoted to higher-level positions.

The World of International Management—Revisited

This chapter focuses on two areas that are essential to any company joining the race to compete in online retail or to develop productive contracting relationships for outsourcing in this area: management decision and control systems. The rapid growth in online retail poses substantial challenges in the areas of decision-making and control. For example, many companies rely on extensive and sophisticated web infrastructure to market and fulfill orders; any breakdown in these systems can have substantial ramifications for smooth operations and overall reputation. The implications for these firms' control processes are obvious. Further, many companies, even large ones, outsource these functions to one of the large online retailers such as Amazon, further exacerbating the possible misconnection between management and customers.

Review the opening World of International Management discussion of online retailers and think about the principal considerations in international management decision-making and control processes you have read about in this chapter. Then, answer the following questions: (1) How might differences in national and corporate culture impede timely decisions and control processes among existing and potential competitors in online retail? (2) To what extent should total quality management and quality control be considered when establishing an online retail presence or contracting with another firm to provide it? (3) What specific decision and control systems or tools would be helpful in overseeing an online presence (either internal or outsourced)?

SUMMARY OF KEY POINTS

1. Decision making involves choosing from among alternatives. Some countries tend to use more centralized decision making than do others, so that more decisions are made at the top of the MNC than are delegated to the subsidiaries and operating levels.
2. A number of factors help influence whether decision making will be centralized or decentralized, including company size, amount of capital investment, relative importance of the overseas unit to the MNC, volume-to-unit-cost relationship, level of product diversification, distance between the home office and the subsidiary, and the competence of managers in the host country.
3. There are a number of decision-making challenges with which MNCs are confronted. These include total quality management (TQM) decisions and strategies for attacking the competition, among others.
4. Controlling involves evaluating results in relation to plans or objectives and then taking action to correct deviations. MNCs control their overseas operations in a number of ways. Most combine direct and indirect controls. Some prefer heavily quantifiable methods, and others opt for more qualitative approaches. Some prefer decentralized approaches; others opt for greater centralization.
5. Three of the most common performance measures used to control subsidiaries are in the financial, quality, and personnel areas. Financial performance typically is measured by profit and return on investment. Quality performance often is controlled through quality circles. Personnel performance typically is judged through performance evaluation techniques.

KEY TERMS

assessment center, *399*
codetermination, *384*
controlling, *386*
decision making, *380*
direct controls, *390*
empowerment, *385*
honne, *384*
indirect controls, *390*
kaizen, *386*
profit, *393*
quality control circle (QCC), *394*
return on investment (ROI), *393*
ringisei, *384*
tatemae, *384*
total quality management (TQM), *385*

REVIEW AND DISCUSSION QUESTIONS

1. A British computer firm is acquiring a smaller competitor located in Frankfurt. What are two likely differences in the way these two firms carry out the decision-making process? How could these differences create a problem for the acquiring firm? Give an example in each case.
2. Which cultures would be more likely to focus on external controls? Which cultures would consider direct controls to be more important than indirect controls?
3. How would you explain a company's decision to use centralized decision-making processes and decentralized control processes, considering that the two are so interconnected? Provide an industry example of where this may occur.
4. How are U.S. multinationals trying to introduce total quality management into their operations? Give two examples. Would a U.S. MNC doing business in Germany find it easier to introduce TQM concepts into German operations, or would there be more receptivity to them back in the U.S.? Why? What if the U.S. multinational were introducing these ideas into a Japanese subsidiary?
5. In what ways could an accelerated decision-making process harm a company? Using Figure 11–1, which stage(s) do you think would be most in danger of being overlooked?
6. A company practices personnel performance evaluation through reviewing financial decisions management has made, specifically focusing on ROI. How is this approach beneficial to the company? Which aspects could the company be neglecting? Which cultures are most likely to employ this method? Which cultures would avoid this tactic?

INTERNET EXERCISE: LOOKING AT THE BEST

In Table 11–4, the most reputable global companies are listed. Each company uses decision making and controlling to help ensure its success in the world market. Visit these two companies' corporate websites: Procter & Gamble (**https://us.pg.com**) and Panasonic (**https://na.panasonic.com**). Carefully examine what these firms are doing. For example, what markets are they targeting? What products and services are they offering? What new markets are they entering? Then, after you are as familiar with their operations as possible, answer these two questions: (1) What types of factors may influence future management decision making in these two companies? (2) What types of control criteria would you expect these companies to use in evaluating their operations and determining how well they are doing?

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In the International Spotlight

Japan

Comprised of more than 3,000 islands, Japan is located off the eastern coast of mainland Asia. Japan's total land mass is slightly less than that of California. The country is largely mountainous and contains very few natural resources. In fact, Japan is the largest importer of coal and liquefied natural gas in the world.[71]

Japan is among the densest countries in the world. More than 90 percent of the country's population, estimated at nearly 126 million in total, lives in urban areas. Approximately 37 million people live in Tokyo alone. With a median age of over 48 years, high life expectancy, and low birth rates, Japan is among the world's oldest countries. Close to 80 percent of its people are 25 years old or older and nearly a third of the population is over 65 years old. With a declining workforce, many are choosing to retire only at 70. The country is attempting to use a combination of a slightly more favorable immigration policy, which is politically difficult to achieve, and automation to make up for the shrinking workforce. The population is expected to continue to slowly decline in the foreseeable future.[72,73]

Japan's 2020 GDP was estimated at US$5.05 trillion, making it the third largest economy in the world. Previously second to only the U.S., the country's flat and sometimes declining economic growth rate has allowed the fast-growing Chinese economy to overtake it in total size. High public debt, which in 2021 was estimated at over 250 percent of its annual GDP, remains an ongoing challenge. Japan's economy has been struggling since the 1980s to gain traction. After decades of deflation, prices in Japan are slowly inching upward, though inflation remains dramatically low compared to most other countries experiencing supply chain disruptions during the Covid-19 pandemic.[74]

Japan has a parliamentary government with a constitutional monarchy. Its legal system is largely based on the Western model with some elements of traditional Japanese culture. The country's corporate culture is often criticized for the close business-government relationship that many large companies have, leading many outsiders to call the relationship "Japan, Inc."[75] This culture is very resistant to change and strives for stability, often leading to substantial losses. The Japanese government also has been criticized for blocking private-sector solutions to economic underperformance. For example, rather than allowing foreign investors to acquire failing or underperforming Japanese businesses, the government instead seeks to support those domestic businesses in the form of cash or loans.[76]

You Be the International Management Consultant

Once considered to be the world leader in consumer electronics, Japan's tech industry has experienced years of slow sales. As a result, some of Japan's biggest companies have restructured their product offerings and sold portions of their businesses to foreign competitors. The Sharp Corporation, known internationally for its televisions, appliances, and audiovisual equipment, was sold in its entirety to the Taiwan-based Foxconn in 2016, and Toshiba sold its computer business to Foxconn in 2018.

Hitachi has been especially active in consolidating its businesses. The company sold its semiconductor business, Hitachi Kokusai Electric Inc., to U.S.-based KKR in early 2018, and French company Faurecia purchased Hitachi's car navigation business, Clarion, for US$700 million in late 2018. In 2019, Hitachi began searching for a buyer for its material manufacturing business, Hitachi Chemical, in an effort to refocus on new technology, like the "Internet of Things." This major shift in focus, from electronic consumer products to technology, for Japan's historic conglomerates is still in its infancy, and the future role of tech-based industries in Japan's economy remains somewhat uncertain.[77]

This major shift in focus away from consumer electronic products, for Japan's historic conglomerates, is still in its infancy, and the future role of tech-based industries in Japan's economy remains somewhat uncertain. However, Japan's technological prowess continues to grow to push the boundaries of innovation beyond what has been achieved thus far in the third industrial revolution. As the Covid-19 pandemic and supply bottlenecks urge companies to digitize and automate faster, Hitachi, once a consumer electronics giant, is now making its transformation into a software company with its planned US$9.6 billion planned purchase of GlobalLogic Inc. in 2022.[78]

Questions

1. If you were a foreign investor, would you want to invest in a consumer electronics company in Japan?
2. Does the fact that many of these conglomerates are restructuring and refocusing on newer technology impact your decision?
3. What do you see as benefits to investing in Japan? What are some difficulties that you could experience as a foreign company expanding into the Japanese market?
4. What difficulties will Hitachi face as it attempts to become a software company from an electronics company?

Design Elements: Chess Icon, Globe Icon, People Icon: McGraw-Hill Global Education Holdings, LLC; World map vector: vectorlight/Shutterstock; World map background with globe: one AND only/Shutterstock

Brief Integrative Case 3.1

Google in China: Protecting Property and Rights

Google in China

In early 2008 Guo Quan announced plans to sue Google in the United States for blocking his entire name from search results in China. But why was his name blocked from search results? Guo Quan had published an open letter in early January to his government leaders Hu Jintao and Wu Bangguo, calling "for government reform [with] multi-party democratic elections" that served the interests of the common people.[1] In response to his letter, the government labeled Guo as a dissident and a political danger. He was ultimately arrested on charges of "subversion of state power."[2]

Guo Quan's name might have forever been lost in the shadow of the then-upcoming 2008 Beijing Summer Olympics, but formal and informal networks of information helped publicize his case; his harsh sentence, which resulted in his imprisonment until 2018, and the fact that he named Google in his suit has made him infamous. Quan sued Google and Yahoo for blocking his name from search results in China. The story of Guo Quan reflects the many challenges faced by Google over the course of the past decade as it has attempted to expand globally. During this period, Google's relationship with China has undergone a series of advances and setbacks, each reflecting in some way China's response to the challenges of the Internet and social networking as well as Google's difficulties in translating a uniquely North American business model to countries and environments with different regulatory regimes, legal environments, and fundamental values.

Rough Beginnings

At the break of the new millennium, Google began to offer its search services in a Chinese-language format with the hope of furthering its mission "to organize the world's information and make it universally accessible and useful."[3] Disappointingly, when Google started operations in China in 2000, the website was consistently unavailable "about 10 percent of the time . . . [and] slow and unreliable" due to "extensive filtering performed by China's licensed Internet service providers."[4] This sense of distrust persisted for another two years until the autumn of 2002 when Google first became completely unavailable in China because Google claimed to have "stood by its principles and not subject[ed] itself to Chinese laws and regulations."[5] The dysfunctional use of Google search services for mainlanders continued.

In 2006, Google.com was again blocked while Google .cn, Google's Chinese subsidiary, remained in operation. The following year, in 2007, CEO Eric Schmidt gave an upbeat assessment of Google's outlook in China amid challenges of censorship issues and competition from Baidu.com.[6]

More Than a BackRub: Google's Rise to Power

But how did Google come to such international prominence? In 1996, Stanford graduate students Larry Page and Sergey Brin began collaborating on a search engine called BackRub. This search engine got its name because Page and Brin used backlinks to measure the importance of a site.[7] A little more than a year later, BackRub's massive bandwidth usage, which had downloaded over 30 million indexable HTML pages, made it inoperable on the Stanford server. From then on, Larry and Sergey realized the potential of BackRub, changed its name to Google, and moved their office to a colleague's garage.[8]

Google's first investor became interested in 1996 when Sun Microsystem founder Andy Bechtolsheim provided a $100,000 check, allowing Google to incorporate and become officially Google Inc. In 1999, more investors grew attracted to Page and Brin's idea and, with an increased budget of around $1 million, Google Inc. was able to relocate to a real office in Palo Alto, where a staff of only eight answered about 500,000 queries per day.[9]

In mid-1999 Google received an additional $25 million in equity funding for its search engine from two venture capital firms: Sequoia Capital and Kleiner Perkins Caufield & Buyers. The confidence to invest such a large amount of capital came from the previous experience these VCs had in funding high-tech companies, such as Amazon and Cisco Systems. Google's engineering genius and a monthly growth rate of 50 percent fuelled only by word of mouth easily proved its value to these seasoned investors.[10]

Within just two decades of its foundation, Google became the second most innovative company. Today Google controls 90 percent of the global search engine market with the market capitalization of its parent Alphabet Inc reaching over $1.57 trillion.[11] To drive agility and flexibility, Alphabet Inc was created as the parent company for over 200 Google subsidiaries, while Google focused on search and software. By anticipating the need to be flexible in order to expand, Google was set to go global. And as Larry Page remarked: "Google's search engine has always had strong global appeal. We attribute this success to the site's simplicity of design, ease of use, and highly relevant results. By localizing our search services to new international communities, Google will open up a host of new revenue, sales, and partnership channels."[12]

Figure 1 China's Internet Users and Population

	Users (millions)	Population (millions)	Percent
2005	111	1,306	8.5
2006	137	1,313	10.5
2007	210	1,320	16.0
2008	298	1,327	22.6
2009	384	1,334	28.9
2010	457	1,341	34.3
2011	513	1,348	38.3
2012	564	1,354	42.3
2013	618	1,363	45.8
2014	649	1,372	47.9
2015	688	1,406	50.3
2016	731	1,380	53.2
2017	772	1,396	54.3
2018	823	1,403	59.2
2019	854	1,408	64.1
2020	989	1,411	70.4
2021	1,031	1,412	73.0

Source: Number of internet users in China from 2005–2021. https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=CN.

Unfortunately, some Asian countries, in general, had always been more difficult to penetrate because of competition from well-established local search engines. As recently as 2021, local search engine Naver had a market share of 56 percent in South Korea, while Google had 34.73 percent.[13] Furthermore, China posed the greatest roadblock with censorship and competition from Baidu; Google had a minuscule 2.5 percent market share in the search engine market in 2022.[14] However, with a population of one billion people and Internet usage on a steady climb, Google was determined to establish a stronger foothold in China (see Figure 1). China already has the world's largest online community, and this user base is expected to reach the size of 1.26 billion by 2026.[15]

Google versus Baidu

China's policies have directly influenced the competitive landscape for search firms in China. In the space of Internet search, Baidu is usually referred to as China's Google. But in reality, Baidu holds a strong market share lead over Google in China due to the latter's sites being blocked for Chinese Mainland users.[16]

Prior to the launch of Google.cn in 2006 in China, Google held 33.3 percent of the search engine market share between Shanghai, Beijing, and Guangzhou while Baidu held 47.9 percent.[17] Google was optimistic about the close margin in market share and considered the possibility of perhaps buying out Baidu in competition. But instead, in mid-2006, Google made a fatal mistake, selling its 2.6 percent stake of more than $60 million in Baidu shares and introducing Google.cn to China.[18]

Nevertheless, Google.cn was launched with the promise that it would agree to block certain websites in return for the opportunity to run local Chinese services.[19] Google promised to notify Chinese users when their search results would be censored and also promised not to maintain any services that involved personal or confidential data, like Gmail or Blogger, on the mainland. The fundamental thought within Google was that even with censored searches Google would help the Chinese internet move towards greater openness.[20] Google.cn was a response to improve the poor service Google believed it was providing in China. As senior policy counsel Andrew McLaughlin put it, "Google users in China today struggle with a service that, to be blunt, isn't very good . . . the website is slow, and sometimes produces results that when clicked on, stall out the user's browser. Our Google News service is never available; Google Images is accessible only half the time . . . the level of service we've been able to provide in China is not something we're proud of."[21]

Fundamentally, Google's strategic move to create a local presence with Google.cn was driven by its desire to follow its mission of creating the most organized and efficient search engine. However, Google failed in both its understanding of the Chinese markets and in assessing the capabilities of its main competitor, Baidu.[22] Not only did Baidu have a strong competing search engine against Google, but it also provided several innovative search features customized for more local tastes. It introduced community-oriented services, including information-exchanging bulletin boards and instant messaging. These extra services appealed strongly to Chinese Internet users and put Baidu ahead of a foreign Google that did not seem to understand the Chinese market as well.

In addition, Baidu also took an extra step that Google missed by setting up "a national network of advertising resellers in 200 Chinese cities to educate businesses about the power of online advertising."[23] By specifically targeting the business market segment, Baidu aimed to secure the Shanghai business sector. To secure the more general student population in Beijing, Baidu also offered a search engine that provided easy access to pirated film and music downloads.[24]

While Baidu strategically offered services that targeted specific market segments, Google was at a loss because of its slow comprehension of the Chinese market. Among the failures Google made was its attempt to rebrand Google.cn to Guge, which was Chinese for Harvest Song. Six months after the launch of Guge, "72.6 percent (62.8 percent of the users whose first choice was Google) of the interviewed users still weren't able to [recall] the Chinese name of Google."[25] The lack of brand loyalty was reflected in the insignificant number of Google users who were willing to convert from using

the Chinese version of Google.com to Guge. Most users still preferred to use the original Google.com which was censored by the People's Republic of China.[26]

Google seemed to be fighting a losing battle, while Baidu continued to receive positive press coverage during its 2005 IPO on NASDAQ. Consequently, in just one year, Baidu gained 14 percent of the search engine market share while Google lost 8 percent.[27]

In the following year, 2007, Google fought hard to hold onto its piece of the China market, increasing its total market share from 19.2 percent to 22.8 percent while Baidu fell from 63.7 percent to 58.1 percent. Google increased its efforts by "hiring Chinese employees and . . . partnering with Chinese technology firms . . . [and establishing] two research centers, one in Beijing and one in Shanghai."[28]

The small victory was short-lived as Google was soon met with conflict from both China's and the U.S.'s governments.

The Challenge of Censorship: Google under Fire

Shortly after Google.cn received its license from the Chinese government in 2007, Google proceeded to sign a set of guidelines, designed to reduce the risk that its actions would lead to human rights abuses in China and other countries.[29] By promising to comply with censorship when the government filed a formal request, this effectively removed Google's presence from the majority of human rights activities.

From this point forward, Google was fiercely criticized for running advertisements from nonlicensed medical websites in 2008, launching free music services, scanning books without proper copyright laws, and making pornographic content easily available multiple times in 2009.[30] What has unfolded in the most recent years has been the climax of this drama between country and company.

On January 13, 2010, in response to an attack on the Gmail accounts of human rights activists by the Chinese government, Google released an initial statement saying that it was ready to end censorship of its search service.[31] The announcement caused a stir, with speculations that Google would pull out of China completely.

Soon afterward, however, CEO Eric Schmidt released a counterstatement stating that Google was planning to stay in China, even if it was forced to close down its local search services and just carry through with its other range of services.[32] In the same month, Hillary Clinton, the U.S. Secretary of State, called upon Beijing to carry out a thorough and transparent investigation regarding the cyber hacks of human rights activists' e-mail accounts. Ultimately, she threw her weight behind Google's threat to pull out of China unless Beijing permitted an "unfiltered search engine."[33]

Following the conflict in January, Google formally announced in March that all Google.cn users would be directed to the uncensored Google.com.hk website instead. According to Google, the decision reflected a legal move that still allowed mainland users access to their search engine.[34] The move to stop offering a local search engine and battling with China over censorship reflected a shift in Google's attitude, giving up competing with Baidu for Internet usage. In April, Google's share of Chinese Internet searches dropped from 35.6 percent to 30.9 percent and Baidu's rose from 58.4 percent to 64 percent.[35] Despite no longer providing Google.cn to China, Google still cannot escape the censorship battles and attacks on its server. In 2014, China restricted access to nearly all of Google's auxiliary services.[36] Almost instantly, Google's market share in China dropped to 2.5 percent in 2022.

But criticisms of Google have not always been from China. On March 22, 2011, New York Judge Denny Chin rejected a settlement between Google and both the Authors Guild and the Association of American Publishers (AAP). The original settlement had included an annual payment of $125 million in royalties to the copyright owners in order for Google to continue its project of scanning and selling online access to 150 million books.[37] But copyright concerns persisted because no one could establish ownership of the digitized and scanned pages. It was concluded that Google's current pact would simply give the company an unfair advantage over its competitors while rewarding it for engaging in wholesale copying of copyrighted works without permission.

Some of the hardest-hitting criticisms have come from Google employees themselves. In August 2018, online magazine *The Intercept* released details of a leaked internal Google memo, highlighting a new attempt by the company to create a search engine, code-named "Project Dragonfly," for the Chinese market.[38] The memo seemed to suggest that, rather than holding firm to its commitment to providing an open and uncensored search engine, Google was exploring the possibility of creating a product that met the demands of the Chinese government. In specific, the Project Dragonfly search engine would censor items that dealt with human rights, democracy, protesting peacefully, and religion.[39] Additionally, users' search histories would be shared with a Chinese JV partner, giving the Chinese government the ability to spy on its citizens. It was feared that this would terribly jeopardize and danger the lives of critics in China just for the simple reason of carrying out a search on Google. Upon learning of the project, Google employees, fearing that Project Dragonfly would compromise the business ethics of the company, penned open letters discussing their disapproval of the plan. The privacy and security teams at Google also noted that they were excluded from Project Dragonfly, leading to increased outrage from employees. Some Google employees threatened to strike, and others enlisted the backing of Amnesty International. By October 2018, U.S. Vice President Mike Pence had even weighed in on the issue, stating his opposition to Project Dragonfly due to the potential persecution of Chinese citizens. Appearing before the US Congress, Google's CEO

Sunder Pichai ruled out any plans of launching a search service in China "right now" but refused to rule out any future release, and within a few months, Project Dragonfly had been scrapped by Google.[40]

Google's Future: Innovation and Alphabet Inc.

The challenges of censorship in China have forced Google to look beyond the appeal of China's gargantuan search market. Instead, Google has shifted its focus to the operating systems of smartphones. By March 2022, Google's Android operating system enjoyed a market share of nearly 79 percent in China.[41] Android is closely held by Google; so closely, in fact, that Google had been unwilling to share the most recent versions of code with Chinese smartphone developers. [An] example of this is when Google forced the delayed release of a smartphone manufactured by Acer Inc., which ran an operating system called Aliyun. This operating system was allegedly created by taking Android's software and making unapproved changes that were headed by the Chinese e-commerce organization Alibaba.[42]

Relationships are extremely hostile between Google and China, and the options for China are quickly disappearing especially after the US sanctions on Huawei. The only course of action left for China is to build its own Chinese mobile OS for Chinese mobile devices and taking a clue at the situation, Chinese mobile players have started developing an alternative to the android mobile OS.[43] Huawei Technology launched its own mobile operating system 'Harmony OS' to break free from Android's dominance.[44] Mobile continues to dominate a large portion of Google's strategy. When Google purchased Motorola Mobility in May 2012, it had hoped that the accompanying treasure trove of over 17,000 patents would yield innumerable benefits. But this has not been the case. As discussed previously, the US$12.4 billion purchase did not yield any decisive legal victories with big payoffs.

Regardless of the challenges, Google still has accumulated a powerful tool by acquiring Motorola Mobility's patents. Google now possesses among the best IPRs for designing devices, and Google has the software to supplement those devices and integrate them vertically into its online systems.[45] Despite selling most of Motorola Mobility's hardware business to Lenovo in 2014, this purchase was ultimately consistent with Google's hope to reposition itself as a bigger player in the space of mobile technology.

The rate at which technology is becoming even more integrated into our lives is astounding, and Google is at the forefront of that mission. With its app for Android users, called "Google Keep," it hopes to target early software adopters looking for another way to manage all of their sticky notes, photos, and lists. But yet again, a central component to this new advancement is trust. While some users are easily giving up more private ground in the routine of their daily lives, others are questioning whether or not the free services are worth it, especially because similar projects like Google Reader or iGoogle have been terminated.[46]

For Google, these privacy issues and other antitrust criticisms have taken off internationally, resulting in various fines and penalties across the globe. The EU has been particularly aggressive with Google. Between 2017 and 2019, a series of three large fines relating to alleged antitrust issues were levied by the EU against the company. The first, totaling US$2.7 billion, is related to Google's manipulation of search results by directing retail customers to its own shopping comparison website. The second, issued in 2018 and totaling US$5 billion, was levied against Google due to claims that the company required Android-operated cellphone users to download additional Google applications. In 2019, a further US$1.7 billion fine was issued against Google due to claims that it manipulated the placement of its own advertisements to the detriment of its competitors.[47]

Google has a major trust issue to address. In the United States, Google faced a backlash against Google Cloud's association with Ascension to collect the personal health data of millions of Americans. More than 150 Google employees had access to complete health records of patients including lab reports, diagnostics, and hospitalization records.[48] Similarly, in 2020, the US Government's Department of Justice sued Google for "unlawfully maintaining monopolies through anticompetitive and exclusionary practices in the search and search advertising markets".[49] Despite Google's legal and privacy challenges, it is still pressing on with several innovative projects.

Google has been working on future technologies like robotics, self-driving cars, delivery drones, and healthcare and biotech among others. Google brought eight robotics companies in the US and Japan including the famed Boston Dynamics to thrust its robotics ambitions. Google's aim is to use advanced robotics via machine learning and improve machine learning via robotics.[50] Healthcare and biotechnology are some other streams Google is upbeat about and to date, Google has invested $4 billion in healthcare-related ventures.[51] Calico, incorporated in 2013, is centered around biotech research and development, with a specific focus on disease and aging. Alphabet Inc is also testing the waters in the field of AI-driven drug discovery with the hope that this will significantly reduce the time in drug discovery process. Alphabet's DeepMind AI, in one instance, predicted the most accurate shape of 25 proteins.[52] Google is also aiming to bring drone-based delivery into mainstream logistics. Google Wing in a major feat completed 100,000 drone-based delivery since it started operating in 2014. Wing's drone-based delivery services were specially picked during the COVID pandemic for the delivery of small packages, vaccines, medical supplies, and even blood for transfusions.[53]

Google's strategy is clear: With billions of dollars spent on research and development, Google knows that it has a responsibility to push out products that no other company would dare to dream about, all the while pursuing high-tech inventions that integrate with our daily lives.

To better structure the company for future innovation and diversification, Google reorganized itself under a newly

formed umbrella company, called Alphabet Inc., in 2015. Alphabet Inc. consists of multiple subsidiaries, each with a distinct focus. Google Capital and GV (formerly Google Ventures) function as the venture capital arms of Alphabet Inc., targeting both tech startups and growth-stage companies.

As Google expands, and its presence permeates developing markets, its opportunities are abundant. This is especially true because most of the newly connected Internet users are living in areas of conflict and could potentially experience drastic changes to their social structures as a result of interacting with Google. A company such as Google could extend its influence beyond that of a nation-state by empowering desperate citizens with the ideas or information they need to incite a revolution. New innovative Google projects, like "Project Loon," will connect the developing world with access to information and communication in ways that were previously impossible.

Ultimately, Google's international strategy will continue to align itself with its information strategy, continually leveraging the opportunities of both computational science and human ingenuity. At the same time, Google will continue to face political threats of censorship and information restriction and challenges to its privacy policies and practices. But the reverberations from its new technology will continue to generate commotion in the markets and challenges to governments and their information policies.

Questions for Review

1. How would you characterize China's market for online search and related services?
2. Why was Google initially attracted to China? What changed its perspective?
3. Should companies like Google conform to the Chinese government's expectations regarding privacy, censorship, and distribution of information?
4. What advantages does Baidu have over Google in the Chinese marketplace? How might Google overcome those advantages?
5. What recommendations would you make for Google in China going forward?

This case was prepared by Karl Li and Pin-Pin Liao of Villanova University under the supervision of Professor Jonathan Doh with additional input from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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Brief Integrative Case 3.2

Winning a War Without an Armor: Tesla's Open Innovation Strategy in Emerging Markets

In June 2014, Elon Musk, CEO of Tesla Motors, announced that Tesla would adopt an open innovation model and that all its patents would be made public under its open-source philosophy. By that time, Tesla had spent more than 1.5 billion USD developing its portfolio of patents (see Figure 1). Opening its patent portfolio meant that it was still willing to share the knowledge with its competitors. A fledgling startup had upturned the conventional wisdom of the closed innovation model in a legacy industry that had seen no major change since the 1920s, when the dominant design of the cars was established.

At the time, the electric vehicle space was emerging, and traditional automakers had a very limited presence in this space. Musk argued that adopting an open innovation model would further the interests of technological development in the broader electric vehicles market and increase their adoption among consumers.[1] This would serve the broader goal of Tesla—to make every vehicle car on the road electric. However, most critics decried Musk's move to open Tesla's patents, and this led to a significant drop in its stock on the announcement.[2] 'Tesla doesn't burn fuel, it burns cash' memes remained viral for years.[3]

In July 2018, Tesla announced its plans to open a Gigafactory in Shanghai, China.[4] Having entered the Chinese EV market through imports in 2013, the rising demand for Tesla's EVs in China led it to plan to produce locally. However, entering an emerging market with poor intellectual property protection using an open-innovation model while operating in a highly competitive and technologically advanced industry baffled most US-based investors. It was not immediately clear this strategy could generate value or defend Tesla's competitive advantage. Firms in technologically advanced sectors have always been wary of the lack of IP protection in the Chinese markets, a caution that led to anemic growth.

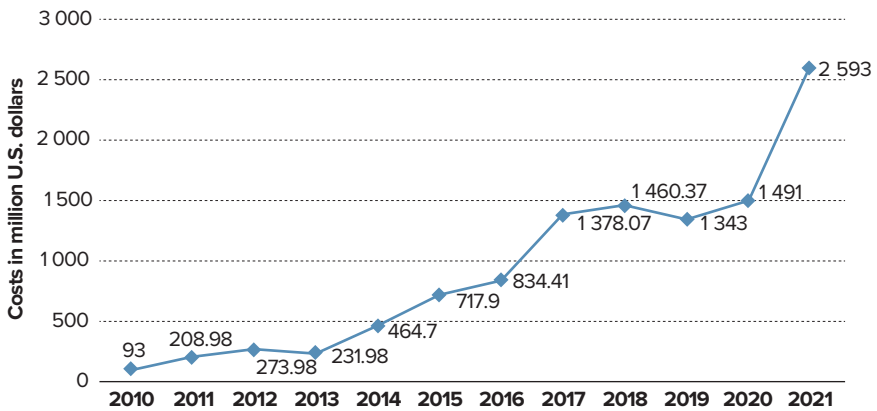
However, the motivations of the Chinese government were clear—to enhance the prospects of Chinese EV manufacturers. In exchange for expertise in electric mobility, the Chinese government gave Tesla special treatment. It became the first company to enter China without a JV agreement and earned substantial tax breaks and funding from local banks to set up the Gigafactory outside Shanghai.[5] As Tesla ventured into China with an open innovation model, industry pundits noted that the erosion of sustainable competitive advantage in the Chinese market was not the only challenge facing Tesla. It was also possible that knowledge spillovers in the Chinese EV market could thwart the global dominance of Tesla by increasing the global competitiveness of Chinese EV manufacturers.[6]

Tesla Motors, Inc.: Overview

Tesla Motors was founded as an electric sports car company by Martin Eberhard and Marc Tarpenning in 2003.[7] In 2004, Tesla raised more than 30 million USD from Elon Musk and invited him to serve as the Chairman of Tesla. Musk never saw Tesla as a niche market player manufacturing high-end luxury electric sportscars. Instead, he sought to leverage the expertise gained by developing low volume, high-cost EVs, e.g., Tesla Roadster, to seek more funding and develop high-volume, low-cost mass-market vehicles.[8]

In 2012, in its bid to break into mass-market, Tesla discontinued its 100,000$ offering—Tesla Roadster. It released its first product under 100,000, the model S, an EV that debuted

Figure 1 Research and Development Expenditures of Tesla Annualized



with rave reviews. But priced at $89,490 at the time,[9] Model S wasn't yet the mass-market vehicle Musk envisioned. Instead, it was positioned in the premium segment of the EV market and competed in the already saturated luxury car market.[10] Musk's stated mission of developing a 35,000$ EV that would directly compete with the ICE vehicles in the mass market required a further investment of 4.5 billion USD.[11,12] The Model 3 was eventually launched in February 2018, but was discontinued after only two months.[13] Tesla faced two challenges that led to this outcome: fragmented and complex value chains, which increased manufacturing costs and the lack of supporting infrastructure required for the mass adoption of EVs.[14] Talking about the challenges facing Tesla, at the unveiling of the Model Y in March 2019, Elon Musk said, "The issue is definitely not about coming up with the car design, it is absolutely all about building the production system. The difficulty and value of manufacturing are underappreciated . . .[15] it is extremely difficult to manufacture a vehicle reliably and at scale".[16]

To cut the costs of its offerings, Tesla sought to do two things. Firstly, it started to simplify the value chain of EV manufacturing by consolidating the entire process–from manufacturing batteries to the Software as Service offerings for their EV owners. Tesla uses the fewest moving parts to cut manufacturing costs, which also helps its consumers lower their maintenance costs. They also sought to partner with legacy automakers to leverage their expertise, e.g., Daimler AG made a strategic equity investment in Tesla, as did Toyota.[17] Secondly, Tesla effectively leveraged showrooming strategies to sell to its consumers directly by opening "Galleries" where consumers can experience the products and then place an order directly through their website. Tesla also gained visibility by participating in racing competitions and word-of-mouth publicity from their influential clients. However, increasing the adoption of EVs without cutting prices and only by developing the ecosystem proved quite challenging.

To begin with, Tesla lacked the deep pockets to offer discounts on their EVs. In 2017, Tesla had more than 9.4 billion USD in outstanding debts.[18] As cash was running out, Tesla faced dire prospects.[19] But after the firm announced the opening of its Shanghai Gigafactory in China, things changed for Tesla.

Electric Vehicle Industry in China

Chinese government had strived to develop the "alternative energy vehicle" ecosystem since the 1980s.[20] But even by the early 2010s, it had failed to make any significant inroads into the EV industry[21] (see Figure 2). For the most part, even globally the electric vehicle space was emerging at the time, the supporting infrastructure essential for the adoption of these vehicles was missing, and most Chinese consumers were either unaware of electric vehicles or deeply distrustful of such products. Understanding that the primary impediment faced by the electric vehicles industry was awareness and the lack of an ecosystem of supporting infrastructure, the Chinese government soon started to work on opening the bottlenecks and to develop the ecosystem by promoting the development and installation of a charging infrastructure and servicing venues. By 2020, their efforts had paid off, and China had emerged as the biggest market for electric vehicles globally.[22] Unsurprisingly, Chinese companies like Nio, Xpeng, Li Auto, and BYD also became global leaders in the electric vehicles market by building on their successes in their domestic market. However, domestic Chinese EV makers were focused on serving the mass market with a budget-friendly product and thus reducing costs.[23]

Buoyed by its strong global brand value and cult following, Tesla entered the premium end of China's electric vehicles market. The rising demand for luxury products in China gave Tesla the visibility it needed in the world's largest and fastest-growing EV market.[24] However, for Tesla to tap into the mass market in China, the firm had to cut prices to attract the price-sensitive Chinese customers. It needed to do this to gain scale effects and benefit from the government subsidies.[25] To cut costs, the firm had to localize production. "As we try to make cars more and more affordable, it's going to be important to localize production," Elon Musk said at the annual meeting of Tesla in June 2018.[26] In July 2018, Tesla announced the opening of the Shanghai Gigafactory[27] and made its first deliveries of a locally produced Model 3 in record time in January 2020.[28] Soon Tesla's Model 3 and Model Y became the bestselling premium electric vehicles in China.[29] Together, they surpassed the sales of electric vehicles by any other brand.[30]

However, trying to keep up with the demands of the highly technical automobile industry has never been easy. While Tesla has struggled to keep up with the demand for its vehicles in China,[31] it has also had to increase its prices to keep up with the rising costs and complexity of manufacturing.[32] Tesla's overzealous approach to cutting costs led to

Figure 2 **Sales of Electric Vehicles by Type in China**

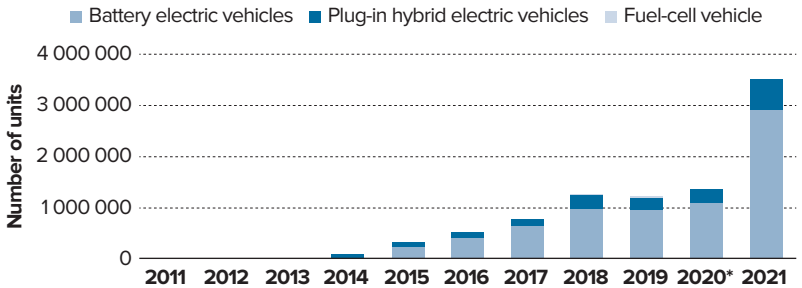
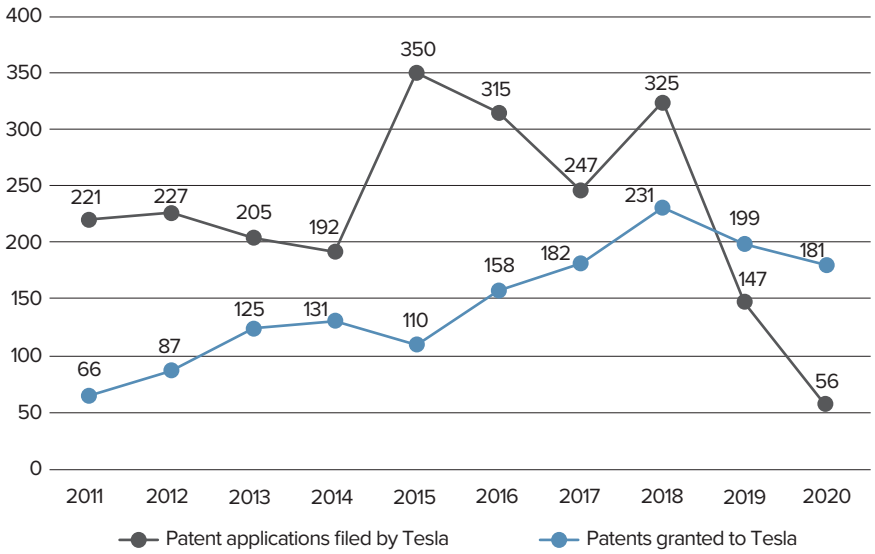


Figure 3 **Patents Granted to Tesla by USPTO**



Source: China Association of Automobile Manufacturers and Statista, February 24, 2022, https://www-statista-com/statistics/425466/china-annual-new-energy-vehicle-sales-by-type/

quality issues in its Chinese markets.[33] However, competing in an EV market dominated by local low-cost EVs, Tesla's sustainable advantage almost certainly was tied to its technology leadership. Since its entry into China, the firm's knowledge production had slowed, and it continues to rely on technology developed earlier (Figure 3).

Major Electric Vehicle Manufacturers in China

The electric vehicles industry has always been a crowded sector in China despite high barriers to entry.[34] Unlike the traditional internal combustion engine (ICE) vehicle industry, where foreign firms still command most of the Chinese market, domestic Chinese firms dominate the EV market. Moreover, domestic EV firms compete with foreign OEMs on technology, product design, and customer experience,[35] and less on price. Below is a brief description of the top three firms:

Build Your Dreams Auto Co., Ltd (BYD). BYD is a Chinese electric auto manufacturer headquartered in Shenzhen, China. One of the oldest OEMs in the space, it was founded by Chuan Fu Wang in 1997 and was originally a battery manufacturer. It ventured into the automobile manufacturing industry in 2003 and is currently valued at over US$651.5 bn.[36] BYD is the only EV company with expertise in insulated-gate bipolar transistors (IGBT) technology related to 'driver chips,' a critical component required to manufacture EVs. In 2021, BYD was the largest EV firm by output and sales in China.[37]

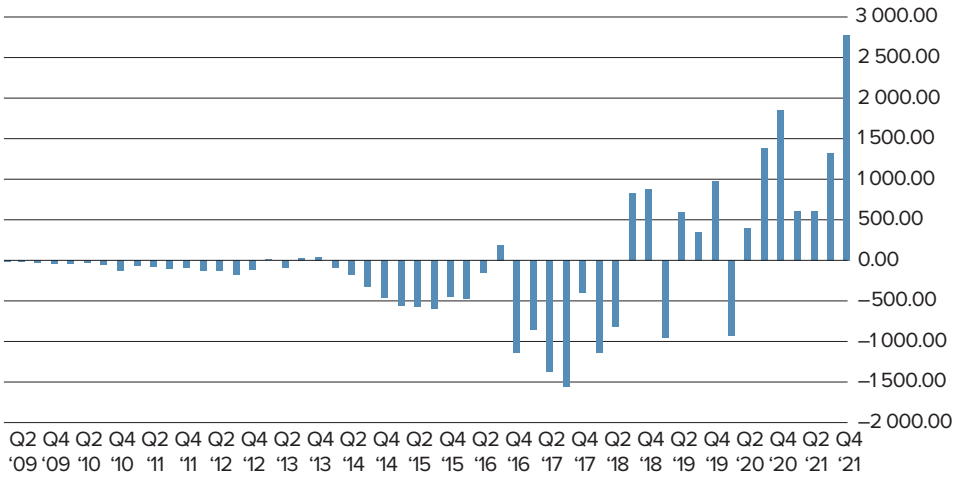
Nio. Founded in 2014, Nio is a relative newcomer in the electric mobility industry that makes premium smart electric vehicles. Armed with an understanding of the needs of the local consumers and their budgets, Nio has emerged as one of the leading budget-friendly electric vehicle manufacturers in China with a range of products like seven-seater SUVs like the ES8 and premium sedans like the ET7. Listed on the NYSE, the firm is currently valued at US$30.9 billion.[38] Nio is known for developing technologies facilitating its Battery as a Service (BaaS) offering in the industry. Where Tesla had failed due to a lack of consumer interest and had to discontinue its battery swap program in 2013, Nio has been relatively successful, using BaaS to price its vehicles competitively by decoupling the battery from the costs of the vehicle.[39]

Guangzhou Xiaopeng Motors Technology Co Ltd (Xpeng). XPeng is a Chinese electric vehicle maker founded in 2015 by Xiao Peng He, Heng Xia, and Tao He. Headquartered in Guangzhou, China, XPeng manufactures two flagship products: the G3 SUV and the P7 sports sedan.[40] Currently valued at US$37.17 bn,[41] XPeng is considered the leader in offering the best technological experience to its owners and primarily competes with Tesla's budget-friendly options such as the Model Y.[42]

Drivers of Value in an Open Versus Closed Innovation Model in Emerging Markets

Emerging markets are weak institutional environments where legal safeguards offer less protection than in advanced economies, so that the transaction costs of intellectual property rights enforcement are very high. Typically, the ability of the firm to create value based on intellectual property in emerging markets is limited. In several reported instances, companies in high-tech sectors venturing into Chinese markets have reported the theft of their IP with the consequent loss of competitive advantage.[43] However, the theft of intellectual property was insignificant for a company whose patents were already open. Regardless, it must be noted that Tesla faces strong headwinds in China as the domestic competition is getting fiercer by the day, given the government's emphasis on the local development of electric cars. Many local players that ventured into this space less than a decade ago have become global giants.[44]

Figure 4 **Tesla's Free Cashflow**



Moreover, critical costs of operating in weak institutional environments for firms like Tesla are related to allocating additional resources to weather the contingencies related to the fast-changing political environment, which may or may not be favorable to the firm.[45] In this situation, having a strong brand has helped Tesla and has become a key defense against imitation threats. Tesla even became the first foreign company to be exempt from the "forced technology (IP) transfers" and allowed to operate independently.[46]

Like any other EV manufacturer, Tesla is constrained by resources and finance in addressing the limited infrastructure critical to the mass-scale commercialization of electric vehicles. By adopting an open innovation model, Tesla facilitated the rapid expansion of the EV ecosystem in China.[47] In any technology ecosystem, network effects are very important to increase the adoption of a new product, since as adoption increases, scale efficiencies are ramped up. In contrast, lack of development in the EV ecosystem will thwart the adoption rate of EVs by potential consumers, which negatively affects Tesla's price competitiveness which would confine it to a niche segment. Electric vehicles are still a very small proportion of the cars on the road, and for any significant development to happen in this space, economies of scale and the associated efficiency are much needed. In a mature industry like automobiles, electric vehicles are still competing with traditional gas-fueled cars, and the dominant force of competition in this industry is economies of scale, which Tesla desperately needs. The demand for EVs in China is sizeable enough for Tesla to operate on a scale.

Using the open innovation model can help Tesla become the de facto industry standard in the EV market. The global EV market is in the experimental stages, where several competing EV designs exist in the market. If Tesla succeeds in establishing its design as the dominant design in the EV industry, it will be significantly ahead on the experience curve and alleviate the threat of imitation by rivals. This can help Tesla leverage the locational advantages in China, such as manufacturing expertise and inexpensive labor.[48] Chinese manufacturing expertise has already helped Tesla become cash flow positive (Figure 4). The production output of the Shanghai Gigafactory surpassed the output of its first-ever Gigafactory in California, USA, less than two years after it became operational and has become its hub for global exports.[49] Having established the dominant design, Tesla can become a world leader in global EV production using its manufacturing facilities in China.

Furthermore, as Tesla realized the hard way, the manufacturing process cannot be fully automated; as Elon Musk admitted, "We did go too far on the automation front." Industry standards in automobile manufacturing were "way more reliable, had less issues and complications, in terms of bringing it [manufactured vehicles] up to scale," said JT Stukes, Senior Project Engineer, Tesla.[50] This implies that relatively inexpensive highly-skilled labor can make a difference to its goal of consistently producing low-cost cars.

Questions for Review

1. Would Tesla have performed better in China if they entered China with a closed innovation model?
2. How does value chain consolidation help or hurt Tesla's ability to generate a competitive advantage? Should Tesla continue with its 'vertical integration strategy' or adopt a 'specialization strategy,' i.e., focusing only on its value chain's creative heart?
3. Recently, Tesla's pace of knowledge generation has slowed (Figure 4)—can this be attributed to the knowledge spillovers from its open innovation model?
4. Since entering the Chinese markets, Tesla's cash flow has been positive (Figure 3). Is this on account of Chinese manufacturing expertise and lower personnel costs or the demand for its products in China?

This case was prepared by Soni Jha and Ram Mudambi of Temple University. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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In-Depth Integrative Case 3.1

How Starbucks Convinced Indians to Embrace Coffee

Through superior product offerings, dependable customer service, and an emphasis on progression, Starbucks has quickly become one of the world's most recognizable coffeehouse chains. Aiding Starbucks' success is a focus on global development, which has served as a fundamental pillar of the firm's strategy since the opening of its first international location in Tokyo 25 years ago in 1996. This devotion to global expansion was further solidified in January of 2012 when Starbucks announced that it would be finally entering India, the fastest growing market in the world, through a 50/50 joint venture with Tata Global Beverages.[1] After almost five years of unsuccessful entry attempts, Starbucks and Tata's groundbreaking partnership would mark the beginning of a period of taste transitions in India.[2]

This partnership also ignited the blending of American and Indian preferences and styles within the coffee industry. The westernized Starbucks image, mixed with the cultural knowledge and products of Tata, created a unique consumer experience that has become particularly appealing to the rapidly growing Indian middle class. With a 2021 population of over 1.4 billion people, and a national consumption volume of 1090 million kilograms and 108 million kilograms of tea and coffee, respectively, the potential for a reliable coffeehouse chain in India is tremendous.[3] Interestingly, tea consumption drastically decreased as a result of the COVID-19 pandemic. In the months from March to June of 2020, consumption fell as much as 30% due to the limitation on out-of-home tea drinking and disposable income. Because out-of-home tea drinking makes up a large proportion of India's tea consumption, Starbucks will continue to feel the effects of the pandemic.[4]

Although India may still be [a] tea drinking nation, coffee culture is progressing. Guided by young millennials and a westernized push, coffeehouse experiences have flourished, which in turn have enabled entrepreneurial partnerships like Tata Starbucks to blossom.[5] In fact, 33 percent of Generation Z respondents in a 2019 survey view India as a coffee-drinking nation, compared to 49 percent who view it as a tea-drinking nation. This is a noticeable shift from the Baby Boomer generation, of which 18 percent of respondents believe that India has a primarily coffee-drinking culture, and 71 percent find it to be a tea-drinking culture.[6] With such massive potential within India, especially in its target demographic, and Tata serving as a liaison to these markets, Starbucks is now primed for rapid growth in India.

Tata Starbucks has additionally been a force for good in India, championing ambitious goals for gender equality. As of 2020, Tata Starbucks announced the opening of two stores operated and managed entirely by women, with plans to add more. CEO of Tata Starbucks stated, "We are proud to open these all-women stores that will Increase our commitment to diversity and inclusion in India and empower our female partners in new and meaningful ways."[7] In 2019, the company achieved 100 percent gender pay equity, and the company has not stopped there - it was the first food and beverage retailer to offer a 5-day work schedule in the country. Tata Starbucks is actively seeking to foster a better, more inclusive work environment. The Starbucks-Tata alliance has the ability to change more than just the coffee culture in India.[8]

The Starbucks Experience

The Starbucks Corporation has transformed immensely since its opening in 1971, and the famed cafe was originally a distributor of roasted coffee beans. Being entirely operated by three former University of San Francisco classmates, Starbucks' original location in Seattle's Pike Place market did not actually sell beverages but was solely a roastery. In fact, much of Starbucks's early influence came from a close friend of the founders, Alfred Peet, creator of Peet's Coffee. Starbucks originally received both supplies and techniques from Peet himself, and as the company progressed, the founders discovered their own signature roasting styles and blends. The superiority of these original practices, and an early commitment to an excellent product and experience, would come to serve as the foundation for the firm's renowned brand.[9]

Although Starbucks quickly gained popularity, location and product line expansion were never a focus for the original founders. This would change when Howard Schultz joined the growing Starbucks team as Director of Retail Operations and Marketing in 1982. Schultz pushed the founders to transform Starbucks from a roastery to a cafe, and he even spent time in Europe observing Italian coffee houses that he hoped the company would mimic.

In 1985, Schultz left Starbucks in order to open his own coffee shop, Il Giornale, where he had hoped to offer a more formal dining experience with a wider menu selection. Shultz's quick success at Il Giornale inspired him to acquire Starbucks just two years later, and through this acquisition, he gained access to the company's name, network, and reputation.[10] Following this acquisition, Starbucks' values were modified to emphasize rapid development, expansion, and customizability, and within a decade, hundreds of new locations and products were being offered. Today, there are over 33,000 Starbucks cafes in 83 countries and the number of international locations has surpassed domestic ones as of 2021.[11]

Starbucks was listed on the New York Stock Exchange in 1992 with an initial public offering of 17 dollars a share. Starbucks has climbed since and revenue reached US$29.06 billion in 2021, up 23.6 percent from the previous year. With a market capitalization of over US$88 billion, Starbucks is the world's largest global coffee chain.[12] Measured by revenue, Starbucks is the largest global food chain, ahead of McDonald's and Yum China Holdings by $5 billion and $15 billion respectively.[13] Starbucks has also grown rapidly in areas outside of its core cafe operations, and its volumes rank third in coffee bean distribution and top ten in domestic tea distribution.[14,15] With operations that encompass over 350,000 employees, each member of the Starbucks team is guided by the mission "to inspire and nurture the human spirit, one person, one cup and one neighborhood at a time."[16]

As CEO Howard Schultz explains, "Starbucks represents something beyond a cup of coffee."[17] While Starbucks is known for its high-quality coffee, the company's real competitive advantage stems from the experience associated with its products. Every Starbucks cafe welcomes its customers with consistent quality, vast customizability, and a friendly and engaging workforce. The culmination of these ideas has been termed the "Starbucks experience" and has made Starbucks the "third place," a place that describes a consumer's third most frequented location outside of home and work, for many.[18] This unique experience has resulted in passionate customer loyalty, positive brand perception, and a recognizable image.[19]

Starbucks is equally focused on environmental protection. This emphasis has resulted in organizational practices, including the development of fully recyclable packaging and the creation of an initiative that would lower in-store water consumption by over 25 percent within the next ten years. Starbucks is also a founding member of the Business for Innovative Climate and Energy Policy (BICEP) and a signatory of the RE100, a corporate commitment program focused on purchasing 100 percent renewable energy.[20]

Starbucks is committed to improving the quality of life of the communities it operates in, and each year over 50,000 Starbucks partners participate in more than 2,800 projects during Starbucks' Global Month of Service. Starbucks transmits this commitment onto the communities it sources from, and through a partnership with the Conservation International, Starbucks has promised to buy 100 percent ethically sourced coffee. From 2015 to 2019, 99% of Starbucks coffee was verified to be ethically sourced. Starbucks also focuses on improving the education, health, and employability of fledgling farmer populations, and its Global Farmer Fund Pro-gram has invested over US$40 million in financing projects for farming communities and trained over 200,000 coffee farmers to "help increase the productivity, quality, and profitability of coffee on their farms and improve their livelihoods."[21] Starbucks' emphasis on charitable giving has resulted in the company consecutively ranking among the top ten of the world's most admired companies.[22]

Starbucks' International Outreach

Starbucks has been sourcing coffee beans from African, Latin American, and Asian Pacific regions since its founding, but it was not until the 1990s that cafes begun to open outside of North America. Since then, international expansion has been rapid, and Starbucks now has locations in every country it sources from.[23] Starbucks' success stems from its ability to transform the tastes and preferences of the nation it enters. In Mexico, for instance, coffee consumption has increased an estimated 100-150 percent since Starbucks' first appearance in 2002.[24]

Emphasizing localization has been critical to Starbucks' expansive success. Starbucks has adapted and rearranged its offerings and strives to cater to the unique history and culture of each country in which it operates. To appeal to French taste preferences, the firm offers unique Viennese coffee and foie gras sandwiches. In the Netherlands, Starbucks has constructed stages inside its cafes, as this promotion of performance is particularly common throughout the nation. Even within the UK, Starbucks has adapted by allowing over 70 percent of all locations to be operated as franchises. With an abnormally high number of franchises in this region, Starbucks hopes to align itself with the UK's cultural preference for independent, local, and self-sufficient cafes.[25]

A strategic focus on cafe location and a careful adjustment of product offerings has allowed for smooth market penetration by Starbucks throughout the world. "Starbucks remains highly respectful of the culture and traditions of the countries in which it does business," explained Howard Shultz. "We recognize that our success is not an entitlement, and we must continue to earn the trust and respect of customers every day." Localizing offerings has allowed the company to gain this trust, and in turn, has changed foreign perspectives of Starbucks.[26]

Starbucks Milestones

1971 • Starbucks opens its first location in Seattle's Pike Place Market.

1982 • Howard Schultz joins Starbucks as director of retail operations and marketing.

1984 • Sells first Cafe Latte.

1985 • Schultz leaves Starbucks to open Il Giornale, where all coffee and espresso beverages were made from Starbucks coffee beans.

1987 • Il Giornale acquires all Starbucks assets and changes its name to Starbucks.
• Opens its first international location in Canada.

1988 • Offers full health benefits to all eligible full- and part-time employees, including coverage for domestic partnerships.

1989 • Opens its 50th store.

1990 • Expands its Seattle headquarters.

1991
- Becomes the first privately owned U.S. company to offer a stock option program that includes part-time employees.
- Opens its first airport store at Seattle's Sea-Tac International Airport.
- Opens its 100th store.

1992
- Announces initial public offering (IPO).
- Partners with Nordstrom and Barnes & Noble to open cafes near their locations.

1993
- Opens its second roasting plant in Kent, Washington.
- Opens its first location on the East Coast in Washington, D.C.
- Opens its 250th store.

1994
- Opens first drive-thru location.

1995
- Through a coalition with Pepsi-Cola, Starbucks begins serving Frappuccino beverages.
- Opens its 500th store.

1996
- Begins selling bottled Frappuccino coffee drinks through North American Coffee Partnership.
- Opens its first overseas locations in Japan and Singapore.
- Opens its 1,000th store.

1997
- The Starbucks Foundation is established.
- Opens stores in the Philippines.

1998
- The Starbucks brand begins selling in grocery stores across the U.S.
- Launches Starbucks.com.
- Opens stores in England, Malaysia, New Zealand, Taiwan, and Thailand.

1999
- Acquires TazoTea.
- Partners with Conservation International to promote sustainable coffee-growing practices.
- Opens stores in China, Kuwait, Lebanon, and South Korea.
- Opens its 2,000th store.

2000
- Establishes licensing agreement with TransFair USA to sell Fairtrade certified coffee across North America.
- Opens stores in Australia, Bahrain, Hong Kong, Qatar, Saudi Arabia, and United Arab Emirates.

2001
- Introduces ethical coffee-sourcing guidelines developed in partnership with Conservation International.
- Introduces the Starbucks Card.
- Opens stores in Austria, Scotland, Switzerland, and Wales.

2002
- Opens stores in Germany, Greece, Indonesia, Mexico, Oman, Puerto Rico, and Spain.
- Opens its 5,000th store.

2003
- Opens two new roasting facilities in Carson Valley, Nevada and Amsterdam, Netherlands.
- Opens stores in Chile, Cyprus, Peru, and Turkey.

2004
- Begins sourcing coffee from India through Tata Coffee.
- Introduces Starbucks Coffee Master Program.
- Opens stores in France and Northern Ireland.

2005
- Acquires Ethos Water.
- Opens stores in Bahamas, Ireland, and Jordan.
- Opens its 10,000th store.

2006
- Announces interest in expanding into Indian.
- Launches industry's first paper cup containing post-consumer recycled fiber.
- Opens stores in Brazil and Egypt.

2007
- Indian expansion is delayed due to governmental obstacles.
- Opens stores in Denmark, the Netherlands, Romania, and Russia.
- Open its 15,000th store.

2008
- Howard Schultz returns as chief executive officer.
- Acquires Coffee Equipment Company and Clover brewing systems.
- Establishes social media presence through Twitter, Facebook, and independent online community called My Starbucks Idea.
- Opens stores in Argentina, Belgium, Bulgaria, Czech Republic, and Portugal.

2009
- Introduces first iPhone app with Starbucks card mobile payment option.
- Opens roasting plant in Sandy Run, South Carolina.
- Opens stores in Aruba and Poland.

2010
- Opens stores in El Salvador, Hungary, and Sweden.

2011
- Starbucks and Tata Global Beverages sign a non-binding Memorandum of Understanding.
- Launches first annual Global Month of Service to celebrate the company's 40th anniversary.
- Opens stores in Guatemala, Curacao, and Morocco.

2012
- Announces 50/50 joint venture with Tata Global Beverages.
- Opens its first Indian cafe within the historical Elphinstone Building of Mumbai's Horniman Circle.
- Announces progressive pay and benefit structure for all Indian employees.
- Opens Starbucks Soluble Plant in Augusta, Georgia.
- Opens stores in Costa Rica, Finland, India, and Norway.

2013
- Starbucks and Tata Coffee open joint roasting and packaging plant in Kushalnagar, Karnataka.
- Expands Indian presence by opening cafes in New Delhi.
- Enters Pune and Bengaluru, India.
- Expands into Gurgaon, India's epicenter for financial and industrial business.
- Begin servicing in New Delhi's Indira Gandhi International Airport and Mumbai's Chhatrapati Sivaji International Airport.
- Creates specialty Indian sourced coffee, named India Estates Blend, to celebrate one year in India.
- Introduces most popular drink, Salted Caramel Mocha, in India.
- Opens farming research and development center in Costa Rica to strengthen ethical sourcing efforts.
- Opens stores in Vietnam and Monaco.
- Opens its 30th store in India.

2014
- Begins selling Pour-Over Sets within India in order to expand its in home presence.
- Enters Chennai, India.

- Establishes its first Indian month of community service in September.
- Launches My Starbucks Rewards loyalty program throughout India.
- Reaches 1,000 partners within India.
- Opens stores in Brunei and Colombia.
- Opens its 20,000th store.
- Opens its 50th store within India.

2015
- Announces that India has become its fastest growing market.
- Begins working with the Food Safety and Standards Authority of India (FSSAI) to ensure and improve quality standards of Indian offerings.
- Hosts first Coffee Championship within India.
- Sumi Ghosh is elected chief executive officer of Tata-Starbucks.
- Reaches 99 percent ethically sourced coffee milestone.
- Announces the Sustainable Coffee Challenge at the U.N. climate negotiations in Paris, which would make coffee the world's first sustainably sourced agricultural product.
- Opens stores in Azerbaijan, Cambodia, Kazakhstan, and Panama.
- Opens its 75th store within India.

2016
- Makes single origin coffee from India available in Starbucks Reserve Roastery.
- Introduces Tata's Himalayan water throughout all Chinese and Asian Pacific regions.
- Introduces coffee aboard Vistara flights.
- Begins the development of two new Indian plantations.
- Announces five-day work schedule for all Indian partners.
- Opens stores in Andorra, Luxembourg, Slovakia, South Africa, and Trinidad and Tobago.
- Opens its 25,000th store.

2017
- Announces commitment to becoming the "employer of choice" in India.
- Introduces Teavana specialty tea across India.
- Introduces Starbucks' mobile app across India.
- Employees become eligible for the Tata Strive program.
- Begins offering specialty Nitro Cold Brew products throughout India.
- Begins offering specialty Indian Spiced Majesty Blend tea.
- Expands hiring commitment to include 10,000 refugees by 2022.
- Kevin Johnson becomes chief executive officer while Howard Schultz transitions to executive chairman.
- Opens stores in Jamaica.
- Opens its 100th store within India.

2018
- Enters Kolkata, India.
- Opens Starbucks Reserve Roastery locations in Milan and New York.
- Opens first Signing Store in Washington, D.C.
- Howard Schultz retires from Starbucks and becomes chairman emeritus.
- Opens stores in Italy and Uruguay.

2019
- Opens Starbucks Reserve Roastery locations in Tokyo and Chicago.
- Opens stores in the Cayman Islands, Malta, Serbia, and Turks and Caicos.
- Becomes first food and beverage company in India to remove the gender pay gap.
- The My Starbucks Rewards program doubles to over half a million members in just two years in India.
- Opens its 30,000th store.

2020
- Announces new sustainability initiative to become resource positive.
- Opens stores in the Dominican Republic.
- Opens its first drive-thru outlet in India.

2021
- Sushant Dash becomes CEO of Tata Starbucks, replacing former CEO, Navin Gurnaney.
- Begins offering oat milk as a milk alternative in India.
- US store unionizes for the first time since the 1980s.

2022
- Commits to spending $1.5 billion with diverse suppliers.
- Opens its 250th store in India.

India's Changing Marketplace

As a result of British colonization and a socialist mentality that lingered after independence, India remained isolated from most of the world during the majority of the 20th century. Up until the early 1990s, strict nationalistic regulations were implemented in order to protect local firms and achieve productive self-reliance. The promotion of centralized planning within India led to governmental manipulation of company initiatives and firm successes. The Indian government also strictly blocked foreign competition, and obstructive custom barriers were implemented in order to deter widespread importation and entrance by foreign firms.

As a result of protectionist policies, India's economy faltered and annual growth stagnated at around 3 percent during the 1980s. Decades of poor policy decisions lead to an inability to pay debt, a lack of foreign investment, and ultimately, a balance of payments crisis. In an effort to generate relief funding, India began implementing economic liberalization reforms in 1991. These reforms were meant to globalize the economy and lessen the government's control over the private sector. In less than a decade following these reforms, tariffs had fallen by 120 percent and exports had more than tripled.[27]

In the decades following liberalization, India's economy has flourished. The nation has consistently recorded annual GDP growth rates of over 7 percent, and India is now projected to become the world's fastest growing economy.[28] While many Indians may still live below the poverty line, poverty has nonetheless seen a 10 percent reduction since 2010 and India's GDP per capita is up 6.5 times since liberalizing.[29] In recent years, India has become a highly

targeted market due to its expanding wealth and population of over 1.4 billion people. With one of the most rapidly growing middle classes in the world, India will be the third largest consumer market by 2025. This presents immense opportunities for consumer products such as Starbucks' coffee.[30]

India's increasing growth and fading regulations have led to mounting foreign interest. For instance, prior to 1991 there were less than 500 foreign-owned corporations active within India. Today, however, there are closer to 4,000 foreign-owned companies and major brands such as Walmart, Dunkin' Donuts, and General Motors are all actively fighting to gain a foothold in this high-potential market.[31] India now ranks as one of the top ten most highly invested in countries, and the nation received over US$40 billion in 2018 investments, up from as little as US$100 million three decades ago.[32] Chief Economic Advisor of India, Krishnamurthy V. Subramanian, expects an investment rate of 40 percent, with a growth in investments of 6.5 to 7 percent during 2022. He expects this number to get even higher after 2022.[33]

Starbucks' Mounting Interest

Policy reform and economic liberalization allowed Starbucks to consider entering India, and the rapidly growing market that resulted from these reforms furthered the appeal of entrance. In 2006, the year Starbucks first announced its interest in India, the Indian government had relaxed regulations so that single brand retail outlets could maintain a 51 percent majority hold over their investment. In 2012, the year of Starbucks entrance, India fully opened its market to foreign investors, now allowing a 100 percent investment in this same context. By being classified as a single brand retail outlet, Starbucks was primed for Indian entrance in the early 2000s, something which would have not been possible 20 years prior.[34]

To Starbucks, the appeal of India was not solely based on relaxed regulations. The profitability potential of the nation was also a tremendous factor to be considered. Since the 1990s, middle-class wealth within India had been growing alongside a falling population age, and these demographics aligned well with Starbucks' typical consumer base. Starbucks generally attracts younger consumers, and over one-third of its customers fall into the 18 to 29 age range.[35] With around 40 percent of Indians being under 18 and over 65 percent being under 35, Starbucks should be able to retain, attract, and grow from the consistently young population that is expected to permeate into India's future.[36] Additionally, the rising rate of personal wealth, mixed with an increasingly westernized attitude, propelled Starbucks' interests in the Indian market further. India presented the ideal mentality, opportunities, and population for Starbucks to live out these values and aid in its mission of converting consumers into coffee lovers.[37]

India also offered tremendous growth opportunities for the coffee Industry; coffee consumption within India doubled between 2002 and 2012.[38] By 2021, India's food service market was valued at US$117.5 billion dollars, and is expected to grow at a rate of 15.5 percent through 2025.[39] While Indians may not have been drinking coffee at the same rate as Americans, the sheer volume of possible consumers, mixed with definitive future growth, was highly appealing to Starbucks.

While India was becoming increasingly attractive, growing competition within the US market also pushed Starbucks to look for opportunities beyond its established markets. Within the U.S., Starbucks had been facing competitive growth from both cheaper national chains, as well as newly emerging mom-and-pop cafes. For instance, in the 1990s Dunkin' Donuts shifted its focus to coffee and the "America runs on Dunkin'" tagline pushed consumers to try a cheaper alternative with a similarly extensive product line. Similarly, McDonald's $1 coffee had gained interest from consumers who saw no value in Starbucks' premiums. Although Starbucks remains a clear market leader, over the last few decades, domestic consumers have gradually reevaluated the higher price for quality payoff that Starbucks presents.[40]

Starbucks' motivation to enter India was further influenced by the success and profitability that the firm had already seen in Asian markets. During a shareholders' meeting, Howard Schultz noted that "Asia and the entire Pacific Rim present one of the most significant growth opportunities within Starbucks Coffee Company. India being at the core, along with China."[41] Prior to Starbucks' Indian entrance, China, and the Asian market as a whole, had become Starbucks' most rapidly growing segment. In 2012, Asia surpassed EMEA in profitability, and this region contributed more than 10 percent of global revenue.[42] With Asia holding more than half of the world's population, and India retaining some of the most densely populated regions, Starbucks had hoped to enter the nation in order to replicate past successes and to take advantage of the synergies and insight learned from previous Asian expansions.

While India did display countless opportunities and large synergistic potential, Starbucks' delayed entrance was the result of many uncertainties that nonetheless persisted. Regulatory transparency was Starbucks' greatest obstacle. While there had been ground-breaking strides in India's liberalization, the unpredictability of the Indian government presented a major threat. Irregular and excessive supplier restrictions presented yet another challenge for Starbucks.[43] Starbucks has generally sourced its high-quality coffee beans from secure locations in Africa, Asia, and Latin America. However, Indian restrictions tightly regulate what countries' specific products could be sourced from. By emphasizing the protection of the domestic agricultural industry, India has instilled tariffs as high as 100 percent on specific agricultural products like coffee and tea.

These excessive fees would make it too costly for Starbucks to source from their typical suppliers, and thus, the firm would be challenged to invest in costly alternatives.[44]

Despite the fact that Starbucks had hoped to enter India in order to free itself from competitive hurdles, the firm would nonetheless have to face already established coffee and tea shops within India. Companies such as Cafe Coffee Day and Barista dominated the Indian market. For instance, Cafe Coffee Day had been present in India since 1995 and had over 1,000 outlets prior to Starbucks' entrance. These retailers had been investing in the Indian market for years and initiatives such as setting up smaller kiosk locations and offering hot coffee through vending machines had resulted in already established ubiquitous brands. In addition to its full-service cafes, Café Coffee Day alone had set up over 600 kiosks and 30,000 vending machines.[45] While the coffee market may have already had established players, the greatest competitive force working against Starbucks was chai tea, as chai accounted for an estimated 79 percent of all non-alcoholic beverages consumed within India. Many local cafes begun to establish themselves due to the dominance of the tea market and the growth of coffee, and this growing saturation of cafes within India added to Starbucks' challenges.[46]

Race for a Strategic Partner

In 2006, Starbucks officially announced its intentions to enter India, and while the firm had hoped to enter by the end of 2007, early governmental blockades delayed progression. Starbucks' original entrance strategy was to set up a network of franchises. However, due to strict franchisee regulations, the Indian government suggested that Starbucks enter under the FDI model instead. With a more definitive approach, Starbucks submitted an entrance proposal to India's Foreign Investment Promotion Board (FIPB) in early 2007. Unfortunately for Starbucks, the FIPB immediately rejected the proposal, citing a "lack of clarity," and the firm would spend the next five years reevaluating potential partners and entry strategies before sanction would be granted.[47]

In order to meet FDI guidelines, Starbucks initially planned to partner with Kishore Biyani, managing director of India's Future Group, and V.P. Sharma, operator of Starbucks Indonesia franchises. The firm had hoped to leverage Sharma's experience of Starbucks in Asia and Biyani's knowledge of Indian FDI regulations to gain entrance.[48] Nonetheless, Starbucks' following entrance proposal was again rejected. This time, the FIPB claimed that the combined stakes of Starbucks and Sharma breached the 51 percent FDI limit that foreign owners of a single branded retail venture could hold. A revised proposal where Starbucks noted that it would not hold any direct equity in its Indian operation was subsequently rejected. By the end of 2007, Starbucks had announced that it would be delaying its Indian entrance due to consistent hurdles, a lack of coordination, and faults in its original partner-ship plan.[49]

As a result of mounting stakeholder pressure to enter India quickly, Starbucks sought out new partnership opportunities, this time with the Tata Group. The Tata Group, which was founded in 1868 as a textile wholesaler, is now one of India's largest conglomerates. Ratan Tata, chairman of the Tata Group, has been described as the "most powerful businessman in India and one of the most powerful in the world."[50] Today, the Tata Group's product lines range from cars, software, and steel to chemicals, coffee and consulting, with a presence in over 100 countries, over 800,000 employees, and revenues exceeding US$110 billion.[51]

One of the Tata group companies, Tata Global Beverages, operates in tea, coffee, and water business and is the world's second-largest maker of branded tea.[52] Tata Global Beverages owns most of its vast supply chain network, which consists of plantations, processing plants, and packaging and distribution facilities. Products are sourced from across the world, yet the firm's most substantial coffee and tea plantations are located within India. The firm's close relationship with the Indian government and its dominance over the beverage market have led to a competitive edge in resource attainment. Furthermore, the firm's vision of "being the most admired natural beverages company in the world by making a big and lasting difference on tea, coffee and water" has resulted in a mentality that chases further market dominance.[53]

For Starbucks, a partnership with the Tata Group would allow the firm to overcome India's regulatory blockades. The Tata Group had past experience forming foreign partnerships and the company's established governmental relationships would ensure a smooth entrance process.

A partnership with Tata Global Beverages would also mean access to all other business lines within the Tata Group conglomerate, which would open the door to seemingly limitless synergistic potential. For instance, Starbucks could easily find retail space within the lobbies and outlets of Tata's Taj Hotels. Similarly, the partnership would also mean the mitigation of many of Starbucks' supplier concerns. Tata Global Beverages owns 19 coffee plantation estates in western India alone. It also owns water processing facilities and multiple tea plantations. Having a domestically established supplier as a partner would provide Starbucks with cheap sourcing alternatives.[54]

Finding a partner who shares similar values was another key consideration for Starbucks as the firm's progressive, opportunistic, and excited personality had the potential to cause friction with less open-minded companies. Star-bucks and Tata Global Beverages both share very similar positions on societal giving, ethical sourcing, sustainability, and employee rights and improvement. Both firms also follow similar practices when conducting business, and they each operate with very similar considerations in mind.[55] Prior to Starbucks' entrance, R.K. Krishnakumar, Chairman of Tata Coffee, noted the parallels between the two companies' aspirations by saying, "we welcome Starbucks' entrance into India because of both its unique experience and its commitment to the societal values that we share."[56]

Presenting a Joint Venture Proposal

Starbucks had been sourcing from India prior to its market entrance. In 2004, Starbucks and Tata Global Beverages established a long-term sourcing agreement in which Starbucks had promised to regularly purchase an undisclosed amount of raw coffee beans from Tata's Indian plantations at 40 cents over market price. This supplier-customer relationship would come to define how Starbucks would later enter India and this agreement established the Tata Group as a reliable partner early on.

Less than a decade after Starbucks agreed to purchase coffee beans from Tata Coffee, the two firms decided to further their relationship. In January of 2011, Starbucks and Tata Global Beverages signed a non-binding Memorandum of Understanding.[57] This agreement created areas for collaboration and noted that upon Starbucks' entrance into India, the firm would exclusively source from Tata's domestic plantations and roast green coffee beans within Tata's Indian facilities. The arrangement also established avenues to focus on societal cooperation, and the two would jointly invest in the development of agricultural communities by promoting responsible agronomy practices and offering training opportunities to local farmers, technicians, and agronomists.[58]

After nearly 5 years of repeated attempts, in January of 2012, Starbucks announced that it would be finally entering India through a 50-50 joint venture with Tata Global Beverages. Through an initial investment of US$80 million, Starbucks had opened the door to India's US$667 million coffee industry and US$140 million cafe landscape. John Culver described Starbucks' anticipated strategy within India as, "moving as fast as possible in opening as many stores as we can" and the joint venture, officially labeled Starbucks Coffee: A Tata Alliance, had planned to open its first store in Mumbai by the end of the year.[59] With a population of 18.4 million people, Starbucks would soon be located in India's largest city and planned on quickly embracing the rest of the nation.[60]

Just weeks prior to Starbucks' joint venture announcement, the India government had declared that it would be revoking the FDI ownership limits on foreign retail outlets, meaning that Starbucks would have had the opportunity to operate in India without a partner. When asked why Starbucks would enter with a partner given India's relaxation of FDI regulations, Howard Shultz responded by saying that, "India is like no other market in the world. Tata's position in India is very unique. It is a company that has unique capabilities in terms of infrastructure. But mostly their values were so consistent with ours, building a company with a conscience, treating people well, taking care of the communities, and we thought this was an opportunity to do something together that we just could not do ourselves."[61]

In order to support new Indian demand, Tata Global Beverages agreed to fund the creation of an improved coffee roasting facility in Coorg, Karnataka. This new facility would have the capacity to supply an additional 375 tons of roasted coffee beans. With the ultimate goal of combining the Starbucks experience with an Indian product, this supplier network would result in Starbucks being able to expand its capacity through signature Tata blends.[62]

Other aspects of the agreement focused on building upon the shared synergies and mindsets of the two companies. Given the breadth of the Tata Group, the two firms had hoped to take advantage of overlaps such as food production and outlet space. Additionally, Starbucks and Tata Global Beverages wished to further invest in India through both Tata-owned plantations and local farming communities. Both companies plan on working together to promote the Indian coffee industry as a whole.

With the Tata Group as a guide, Starbucks finally had the opportunity to enter Asia's fastest-growing market. The joint venture benefited Starbucks beyond simply granting entrance and this agreement would also lead to the mitigation of supplier barriers, the lessening of governmental restrictions, and the adding of cultural and regulatory knowledge. The extent of the Tata Group's landscape posed many opportunities for Starbucks to easily integrate into the retail landscape of India.[63]

Tata Starbucks Takes Off

In October of 2012, Tata Starbucks opened its first Indian cafe. Located within the historical Elphinstone Building of Mumbai's Horniman Circle, the 4,500-square-foot outlet would serve as the company's flagship store and would be used as a baseline for the image Starbucks wanted to create in India.

With people lined up outside the store and queues described as being "miles long," the excitement around Starbucks' initial opening attracted thousands of customers in just the first day. Tata Starbucks would quickly expand its Mumbai presence and within a week, two additional stores had opened. These outlets included a 1,500-square-foot cafe located in the Oberoi mall and a third cafe situated within the Tal Mahal Palace Annex, a luxury hotel owned by the Tata Group. The success of these proceeding openings mimicked the first, and in an earnings call that occurred two weeks after Starbucks' expansion, Howard Shultz described Starbucks' initial Indian success as "exceeding the firm's loftiest expectations."[64]

Although Starbucks did not publicly comment on the initial financial success of its Indian expansion, *Forbes* retail experts estimated that the company's Horniman Circle outlet was generating around Rs 8.5 Lakh a day (over US$11,000). To put this into perspective, even the most established Indian coffee chains, such as Cafe Coffee Day, were only generating sales averaging around Rs 1 Lakh a day. While this initial success may have been inflated due to the excitement generated over the newness of Starbucks, it

is nonetheless evident that Starbucks had quickly integrated itself within Indian society.[65]

Due to initial positive reception, Tata Starbucks quickly expanded its operations and within a year, over 30 unique outlets had opened. Starbucks cafes rapidly permeated shopping centers, airports, malls, and hotels, and by 2017, the firm had opened its 100th location. With over 45 years of experience, Starbucks' growth within India has been unprecedented, and India is now regarded as Starbucks' fastest-growing market.[66] As of 2022, Starbucks had expanded into over 250 locations within 26 cities, including Mumbai, Hyderabad, Chennai, Delhi, and Bangalore, all of which have populations exceeding 5 million people.[67]

Tata Starbucks' success within India can be attributed to how the firm has modified its accommodations in order to assimilate into Indian society. By customizing product lines, interactions, and store atmospheres, Starbucks has encouraged the subtle promotion of Indian culture within its cafes. Starbucks cafes within India include both foreign-themed dishes and standard products, and items such as Elaichi Mawa croissants and tandoori paneer rolls are exclusively served within Indian outlets. As a result of menu modifications, food sales in India are larger than anywhere else in the world and makeup nearly 25 percent of total sales.[68]

In addition to product offerings, both store atmospheres and customer interactions have also been modified to meet Indian expectations. For instance, Starbucks locations within the U.S. have increasingly highlighted small, quick, and convenient interactions where customers can swiftly grab a cup of coffee before work or class. In India, however, this mentality has been refined and there is less emphasis on the product and more emphasis on the atmosphere. Starbucks within India has become a place for customers to relax and hang out, and while people may come for the coffee, they typically linger for the experience. This adjustment explains why Starbucks invests so heavily in the decor of Indian cafes, why these cafes are typically larger than their American counterparts, and why food sales are much higher in India. Starbucks has become more of a cultural phenomenon than a coffee chain, and cafes serve as a place to socialize, do business, go on a date, or simply get away from home and work life. Starbucks cafes within India have quickly become "the third place" for many.[69]

An Expanding Relationship

In 2016, Starbucks announced a set of initiatives aimed at further strengthening its relationship with the Tata Group. This development would begin with Starbucks selling Indian coffee in its esteemed Roastery Reserve location in Seattle. The Starbucks Reserve is known for selling the world's finest coffee blends, and the contribution of an Indian blend would promote the image of Indian coffee. This introduction would build upon the legitimacy of Indian coffee, while also adding to the credibility of Tata's global coffee image.[70]

In addition to introducing select Indian blends within U.S. tasting rooms, Tata Global Beverages and Starbucks have established additional collaborative efforts to build upon many of the synergies present between the two companies. For instance, Vistara Airlines, a joint venture between the Tata Group and Singapore Airlines, has recently begun selling freshly brewed Starbucks coffee on all Indian flights. Vistara Airlines is India's fastest-growing full-service airline and it runs more than 450 weekly flights. Vistara has serviced more than 30 million travelers since it opened in 2015.[71] The exclusivity of selling Starbucks coffee on these flights not only adds to the airline's image but also opens Starbucks' blends to thousands of new potential customers.

Further collaborative efforts have resulted in the development of additional product lines within India. Specifically, in 2016, specialty Teavana tea started being sold across all Indian locations. Through cooperative efforts, Tata Global Beverages and Starbucks developed signature Indian flavors, and the firms hope to attract the majority of Indian consumers who still prefer tea over coffee.[72] Similarly, Starbucks also started selling Himalayan Mineral Water across all Indian and Singaporean outlets. This mineral water is bottled by Tata Global Beverages, and Starbucks plans to expand its international presence by introducing these bottles throughout its China and Asian Pacific regions.[73]

Starbucks and the Tata Group have also begun collaborating on societal interests. In addition to joint investments in Kenyan and Sumatran production locations, the two firms have ensured that they will further work together to promote farming communities and the cultivation of sustainable coffee from new and existing plantations. In 2016, the Tata Group announced that it would be opening its STRIVE program, an initiative that empowers struggling Indian youth with career development opportunities, to Starbucks employees. By expanding this developmental program, Tata was able to impact over an estimated 400,000 people by 2021 through the work of Tata Trusts.[74]

In the few years since Starbucks' entrance, the increased presence of foreign and local cafes has transformed the Indian coffee market. Analysts estimate that this industry will experience annual growth of around 18 percent over the next five years, and the overall coffee market is projected to be worth US$855 million by 2025. Due to the firm's current success in India and sales growth that reached 21 percent during the fiscal year of 2019-2020 alone, Tata Starbucks hopes to rapidly expand its Indian presence. Starbucks now serves over 2.7 million Indian customers every week, and it grew this number by expanding into 51 new locations in 2021. While Starbucks already has locations in India's five largest cities, the firm hopes to gain a foothold in smaller cities and suburbs with populations under 5 million. In 2022, Starbucks announced its plans to enter 6 new cities, which would be the single-largest expansion in a year.[75] In order to meet these expectations, Starbucks anticipates that it will double its number of employees within the next five years.[76]

What Lies Ahead

Indian liberalization has intensified since Starbucks' entrance, and reforms have been particularly concentrated during Prime Minister Narendra Modi's term in office. Since 2014, Modi has executed 37 reforms aimed at easing India's constrictive FDI policies.[77] Modi has targeted historically protected sectors such as insurance, railways, and retail e-commerce, and he is pursuing initiatives that would allow FDI investments greater than 50 percent in these sectors. Modi has also pushed for the increased relaxation of FDI regulations on single and multiband retail outlets, and he wants to further reform policies that were already restructured in 2012. Modi's administration hopes to eliminate limiting clauses such as those that force foreign-owned single brand retail outlets to source 30 percent of their products from domestic manufacturers. Continuous policy reforms have increased both competition and wealth within the nation. According to Chief Economic Advisor Subramanian, the government is focused on a capital expenditure-led economic recovery in 2022 after the COVID-19 pandemic.[78]

While continuous liberalization presents opportunities for Starbucks' Indian growth, it is important that the firm monitors political trends throughout the other regions it operates in. For instance, Starbucks' largest market, the United States, has not shared the same mentality as India, and growing hostilities, tariffs, and trade wars threaten Starbucks' operations and relationships. Preferences, tastes, and landscapes are constantly shifting around the world, yet not all regions are shifting in the same direction. In order to be successful, Starbucks must constantly monitor these varying movements and must establish a common ground that aligns well with a universal Starbucks image. As the firm increases its emphasis on international expansion, it is important that it also monitors foreign landscapes, especially as they relate to its domestic presence.[79]

The competitive reaction to Starbucks' Indian entrance has also been overwhelming, and Howard Schultz has described the Indian coffee market as "ferocious in terms of competition." Pre-established firms such as Cafe Coffee Day already dominate the market, and easing FDI regulations have allowed new foreign competitors such as Dunkin' Donuts to gain a presence within India. Local, smaller coffee shops that mimic the cultural and atmospheric feel of Starbucks' cafes have also been gaining popularity. These independent locations have been able to foster the same third-place image that Starbucks has built into its brand.

This influx of competition is not unique to India, and both domestic and international opposition have begun to erode Starbucks' dominance. Growing competition, especially by smaller independent cafes, has had a monumental impact on Starbucks' bottom line, and this threat accounts for the company's slowing development. Even though Starbucks bounced back with revenue growth of 9.8 percent from 2020 to 2021 and exceeded its pre-pandemic earnings, the challenges remain.[80] Starbucks has reached a point in which the U.S. can no longer support the overall growth of the company. With over 15,000 domestic locations, Starbucks has become highly saturated in the American market.[81] Cafe cannibalization threatens expansion, and new developments harm existing outlets. Saturation also threatens Starbucks' identity as too many domestic stores have spread the firm thin.[82] The Starbucks image has therefore begun to lose its uniqueness and prestige, and the firm is seeing itself become associated with the negative implications of fast-food culture. As a result, international growth has become vital to the longevity of Starbucks' image. Internationally, Starbucks retains its reputation, and the rarity of these cafes has associated Starbucks with luxury. Capitalizing on this status internationally is an important component of Starbucks' future success, and a revolutionary adjustment to its domestic image is necessary to protect the firm from becoming ordinary and outdated.[83]

Starbucks entered India during a time primed for growth. If Starbucks and the Tata Group can continue to leverage shared strengths and synergies, then the firms' potential success within India is limitless. Increased relaxation of governmental regulations, growing consumer wealth, and a changing culture that has created an emerging preference for coffee have combined to result in an Indian market ready to embrace the growth of Starbucks. While the Tata Group and Starbucks have aided one another well so far, further expansion of the two firms' synergies could permanently change the way Starbucks operates internationally. While it is clear that Starbucks is primed for international growth, it is vital that the firm continuously expands its presence abroad. Slowing domestic dominance can only be countered by international expansion, and this expansion seems to be the firm's main opportunity for future success.

Questions for Review

1. What inspired Starbucks to venture in to India? What were some of the company's early concerns and obstacles?
2. Describe why Starbucks wanted to enter India through a joint venture. Specifically, what benefits did Starbucks and the Tata Group both gain by partnering with one another? What synergies were present?
3. How would you describe Starbucks' approach to entering India?
4. How did national cultural differences between India and the United States influence how Starbucks adapted its offerings for the Indian market?
5. What is your assessment of the future outlook of Starbucks within India? What areas for improvement or greater focus do you think would allow the firm to prosper?

6. Do you think Starbucks should continuously enter foreign markets through joint-venture partnerships? What are some benefits and concerns that Starbucks faces by doing this?

Exercise

You have recently joined Starbucks' global strategy team. Given the success that the firm has seen in developing markets such as China and India, Starbucks is looking to expand into new emerging economies. Starbucks has targeted Northern Africa, Eastern Europe, and Central Asia.

You have been asked to analyze the specific economic, political, and cultural context of these regions and to describe both the strengths and weaknesses of expansion. Additionally, you are asked to make a recommendation on which market presents the greatest chance of success for Starbucks. Finally, describe what Starbucks should do differently, if anything, in order to be successful within that market.

Keep in mind that Starbucks' global strategy team wants to expand into an area where it would be economically feasible to do so, but perhaps more importantly, Starbucks is also looking to expand into a region that will accept the culture and experiences it offers.

This case was prepared by Matthew Sepe of Villanova University under the supervision of Professor Jonathan Doh with additional input from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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PART FOUR

ORGANIZATIONAL BEHAVIOR AND HUMAN RESOURCE MANAGEMENT

Chapter 12

MOTIVATION ACROSS CULTURES

OBJECTIVES OF THE CHAPTER

Motivation is closely related to the performance of human resources in modern organizations. Although the motivation process may be similar across cultures, there are clear differences in motivation that are culturally based. What motivates employees in the U.S. may be only moderately effective in Japan, France, or Nigeria. Therefore, although motivation in the workplace is related to stimulating and encouraging employee performance in many situations and environments, an international context requires country-by-country, or at least regional, examination of differences in motivation and its sources.

This chapter examines motivation as a psychological process and explores how motivation can be used to understand and improve employee performance. It also identifies and describes internationally researched work-motivation theories and discusses their relevance for international human resource management. The specific objectives of this chapter are

1. **DEFINE** *motivation* and explain it as a psychological process.
2. **EXAMINE** the hierarchy-of-needs, two-factor, and achievement motivation theories and assess their value to international human resource management.
3. **DISCUSS** how an understanding of employee satisfaction can be useful in human resource management throughout the world.
4. **EXAMINE** the value of process theories in motivating employees worldwide.
5. **UNDERSTAND** the importance of job design, work centrality, and rewards in motivating employees in an international context.

The World of International Management

Motivating Employees in a Multicultural Context: Insights from Emerging Markets

Studies have shown that employees who are deeply engaged in their company culture and invested in their co-workers are more efficient in their jobs and feel a greater sense of commitment to the company. In the past, managers were often able to take a one-size-fits-all approach when finding ways to motivate and engage their teams, as team members often shared similar demographic and cultural backgrounds and responded to the same incentives. In the interconnected world that we now live in, however, increasingly diverse cross-cultural teams are commonplace at many MNCs. To motivate their international teams, today's managers must adapt their motivational styles to each employee's preferences.

Effectively incentivizing employees is often correlated with culture. For example, in a certain Australian company, recognizing specific employees through programs like "Employee of the Month" effectively work as a strong motivator. Australian employees, with an individualistic culture, tend to feel comfortable when specific key performers are rewarded for their individual contributions, and many will work harder to achieve this recognition. In a certain Chinese company, however, this approach may actually demotivate employees. Chinese employees, who tend to be collectivistic, may view an individual award or bonus to be embarrassing. In this type of culture, recognition of the entire work group might be more effective, strengthening the entire team rather than causing division.[1]

Furthermore, managers must be aware that a reward in one culture may be viewed differently in another culture. Bob Nelson shares a story of how a pharmaceutical company decided to give customized watches bearing the company logo to all 44,000 employees around the world. When Nelson told this story to Taiwanese employees of a different company, they remarked that such a gift would never work in their culture. Timepieces are associated with death in Taiwan and China.[2] Additionally, managers are finding that Millennials are not motivated by the same incentives as older employees, even within the same cultural context. While flexible work-from-anywhere and remote work options are increasingly more attractive, motivating remote-working employees across generations and cultures can be more of a challenge, especially if too

much flexibility and being 'out of sight and out of mind' make it harder to see whether employees are struggling or stressed out. Reduced social interaction and work-life balance can impact remote workers' motivation.

So how does a manager motivate employees from varied cultural and generational backgrounds when the business ecosystem is undergoing profound changes because of automation and remote work becoming mainstream? General management principles can be applied to most cultural settings, but there also are specific considerations for each individual culture. Next, we examine some general concepts that have proved useful and then discuss motivating Millennial Indian employees in particular.

Motivating Employees: General Principles

In its guide on how to motivate employees, *The Wall Street Journal* suggests that motivation involves "creat[ing] conditions that make people want to offer maximum effort, [having] employees harness self-direction and self-control in pursuit of common objectives, . . . [r]ewarding people for achievement," providing responsibility that allows them to rise to the challenge, and "[u]nleashing their imagination, ingenuity, and creativity. . . ."[3]

In addition, Nelson notes that today employees "expect work to be an integrated part of their lives—not their entire lives."[4] Thus, managers can likely increase employee motivation by offering more flexible working hours. With technology, it has become much easier for employees to work from home. Nelson also emphasizes that discussing career options in the organization and providing learning and development opportunities often motivate employees.[5]

Frequently, managers focus on extrinsic rewards, such as pay, to motivate employees while ignoring intrinsic rewards. Kenneth Thomas told *Bloomberg Businessweek*, "Research shows that managers underestimate the importance of intrinsic rewards." *Bloomberg Businessweek* describes intrinsic rewards as "the psychological lift that employees get from doing work that matters to them."[6] Intrinsic rewards include the personal feeling of accomplishment that employees have when completing work. In a collectivistic culture, such as Argentina, an intrinsic reward may be the satisfaction of helping the group complete a project. In an individualistic country, like the United Kingdom, an intrinsic reward may be the satisfaction of personally exceeding sales goals or efficiency.

Motivating Millennials in India

When compared to Europe, the U.S., and China, India's population is relatively young. In fact, there are more Millennials in India (over 440 million) than there are people in the U.S. (330 million). Compared to their superiors, Indian Millennials are more likely to have received a college education, have an advanced understanding of technology, and value equality. For this reason, when working in India, managers must understand motivating factors not only from a cultural perspective but also from a generational perspective.[7]

Compensation is still a key cross-generational motivator when looking to attract new employees in India. According to a recent survey by Deloitte India, 63 percent of Millennials included salary among their top factors when evaluating a potential job opportunity. However, a majority of Indian Millennials also rated more qualitative job factors as highly important to their happiness in their career. For example, company culture and flexibility were included as top employment factors by 52 and 50 percent of Millennial survey respondents, respectively. When it comes to retaining Millennial talent, diversity is increasingly important. Nearly 70 percent of Indian Millennials stated that they would stay with the same company beyond five years if it were diverse, while only 27 percent said the same for a nondiverse organization. When working in India, managers should consider other benefits, in addition to traditional pay increases, that will align with this cultural shift and incentivize younger employees.[8]

Aligning company actions with stated company values should be a priority for business leaders in India in the coming years. According to the survey by Deloitte, Indian Millennials are less likely to believe that their company leaders behave ethically or are committed to improving society and are more likely to see companies as purely motivated by profit and their own agendas at the expense of society in general. This distrust largely stems from a perceived gap between what employers state as their priorities and what Millennial employees actually observe in the workplace. For example, 43 percent of surveyed employees noted that their companies stated a goal of "generating jobs," and 39 percent stated that their company included "improving society" as a business priority. However, only 25 percent of those employees felt that they actually observed their business leaders take action toward achieving these goals. A 2021 survey of Millennials and Gen Z employees in India revealed that 31 percent of millennials and 35 percent of Gen Zs experienced a high level of stress due to the COVID-19 pandemic. A large proportion of these employees were not satisfied with what their employers did to support mental health Issues.[9] The COVID-19 pandemic has highlighted the importance of a good work-life balance as an important factor to motivate the new generation of employees. When working in India, managers should aim to motivate the Millennial employees by rebuilding trust and working

to ensure that the interest and concerns of employees are given sincere consideration right from setting achievable company goals to determining how to achieve those goals.

Motivating Employees in the Global Workplace

In her article "Motivating Employees from Other Cultures," Sondra Thiederman offers tips to adapt one's management style to fit a multicultural context. First, she underscores the importance of interpreting situations accurately. For instance, many managers "misinterpret the speaking of a foreign language in the workplace as a sign of laziness, rudeness, and disrespect." In reality, "using another language is an effort to communicate a job-related message accurately, a sign of extreme stress or fatigue, or an effort to speed up the communication process."[10]

Second, Thiederman notes that managers need to explain their expectations to employees in such a way that they can be understood by someone not raised in American culture. For example, many cultures view complaining to superiors as a sign of disloyalty. For an American manager, however, complaints provide an opportunity to identify problems. Managers need to explain to their workforce that good employees can bring up problems to managers. Third, managers can motivate employees by offering positive reinforcement. Kind words can go a long way in affirming the value of people of any culture.[11]

In addition to the demographic and cultural issues, other major factors that have impacted employee motivations in recent years are remote working and automation. Remote working and automation have transformed the very nature of the employer-employee relationship. While remote working became a mainstream post-COVID-19 pandemic, increasing adoption of Industry 4.0 technologies like Artificial Intelligence and Machine Learning, Robotic Process Automation, and Blockchains have brought with them massive automation to the workplace. The rise of automation and the associated fear of skill obsolescence has generated a heightened sense of uncertainty and insecurity among employees.[12] This makes effective communication by managers ever more important to keep employees motivated and create a positive ecosystem for an organization to leverage the real value of new-age technologies.

Clearly, motivation is a matter of critical importance to international managers in organizations around the world that is much discussed and debated, as are the similarities and differences among cultures touching on what are perceived to be effective incentives and rewards. While there are some common elements in effective motivation across cultures and generations, the role of pay (versus other forms of incentives) varies somewhat. Moreover, the form and structure of financial rewards are distinct in different cultures. For instance, the Australian and Chinese examples in the World of International Management demonstrate how individual rewards and incentives work well in culturally individualistic cultures such as Australia, while such approaches would be inappropriate and potentially embarrassing in collectivistic cultures such as China. The role of intrinsic rewards—the psychological rewards that employees get from doing work that matters to them—is important around the world; however, what is meaningful and rewarding may vary from culture to culture and between generations. As MNCs shift from simply finding inexpensive employment bases to discovering new ways to enhance employee satisfaction, important questions begin to surface. Why does a relationship with an employee's family make a difference? What truly motivates workers in different cultures? What do they consider important with regard to their perception of satisfaction? Employees typically seek more than just fair compensation. They want to believe that they are making a difference in some way. Effectively motivating across cultures can create competitive advantages that are difficult for competitors to match. In this chapter, we discuss some of the backgrounds about motivation, explore research in the area of motivation, and examine the implications of the knowledge about motivating employees across cultures.

motivation
A psychological process through which unsatisfied wants or needs lead to drives that are aimed at goals or incentives.

intrinsic
A type of determinant of motivation by which an individual experiences fulfillment through carrying out an activity and helping others.

extrinsic
A type of determinant of motivation by which the external environment and result of the activity are of greater importance due to competition and compensation or incentive plans.

The Nature of Motivation

Motivation is a psychological process through which unsatisfied wants or needs lead to drives that are aimed at goals or incentives. A person with an unsatisfied need will undertake goal-directed behavior to satisfy the need. Figure 12–1 shows the motivation process. The three basic elements in this process are needs, drives, and goal attainment. The determinants of motivation can be **intrinsic**, by which an individual experiences fulfillment through carrying out an activity itself and helping others, or **extrinsic**, in the sense that the external environment and result of the activity in the form of competition and compensation or incentive plans are of greater importance.[13] Motivation is an important topic in international human resource management, especially so because many MNC managers tend to assume they can motivate their overseas personnel with the same approaches that are used in the home country. Whether this is true, or to what extent major differences in culture require tailor-made, country-by-country motivation programs, is the source of debate. As described in earlier chapters (especially Chapter 4), there obviously are some motivational differences caused by culture. The major question is, are these differences highly significant, or can an overall theory of work motivation apply throughout the world? Considerable research on motivating human resources has been conducted in a large

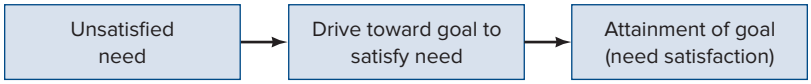


Figure 12–1
The Basic Motivation Process

number of countries. Before reviewing these findings, let's take a look at two generally agreed-on starting assumptions about work motivation in the international arena.

The Universalist Assumption

The first assumption is that the motivation process is universal, that all people are motivated to pursue goals they value—what the work-motivation theorists call goals with "high valence" or "preference." The process is universal; however, culture influences the specific content and goals that are pursued. For example, one analysis suggests that the key incentive for many U.S. workers is money; for Japanese employees, it is respect and power; and, for Latin American workers, it is an array of factors, including family considerations, respect, job status, and a good personal life. Similarly, the primary interest of U.S. workers is themselves; for the Japanese, it is group interest; and, for Latin American employees, it is the interest of the employer.[14] Simply put, motivation is universal, but its specific nature differs across cultures, so no one motivation theory can be universally applied across cultures.

In the U.S., personal success and professional achievement are important motivators, and promotions and increased earnings are important goals. In China, group affiliation is an important need, and social harmony is an important goal. Obviously, Americans may value teamwork, too, and Chinese workers wish to be well paid. However, clearly, some of the ways to motivate U.S. employees and Chinese workers differ. The motivational process may be the same, but the specific needs and goals can be different between the two cultures. At the same time, it is important to remember that as a growing number of countries begin moving toward free-market economies and as new opportunities for economic rewards emerge, the ways in which individuals in these nations are motivated will change. Commenting on the management of Chinese personnel, for example, Sergeant and Frenkel have pointed out that labor laws now allow both state enterprises and foreign-invested Chinese enterprises to set their own wage and salary levels. However, companies have to be careful about believing that they can simply go into the marketplace, pay high wages, and recruit highly motivated personnel. In particular, the researchers note that

> Devising reward packages for Chinese employees has been difficult because of the range and complexity of nonwage benefits expected by workers as a legacy of the "iron rice bowl" tradition. However, health and accident insurance, pensions, unemployment and other benefits are increasingly being taken over by the state. There are two cultural impediments to introducing greater differentials in pay among workers of similar status: importance accorded to interpersonal harmony which would be disrupted by variations in earnings; and distrust of performance appraisals because in state enterprises evaluations are based on ideological principles and guanxi [connections].[15]

Thus, some of what foreign MNCs would suspect about how to motivate Chinese employees is accurate, but not all. The same is true, for example, about Japanese employees. Many people believe that all Japanese firms guarantee lifetime employment, that this practice is motivational, and that it results in a strong bond between employer and employee. In truth, much of this is a myth. Younger Japanese employees have increasingly shown that they are more motivated by benefits other than lifetime employment, such as the promise of a better work-life balance. This is especially true in Japan's tech sector. In recent years, a worker shortage and low unemployment levels have resulted in as many as 3 million midcareer job changes annually within Japan. As they do in the West, companies doing business in Japan are using higher salaries and reduced hours to attract Japanese employees, rather than promising lifetime employment.[16]

International Management in Action

Key Differences When Motivating Millennials and Gen Z

As Millennials and Generation Z ("Gen Z") continue to make up a higher percentage of the global workforce, MNCs are realizing that the work environment is evolving quickly as the wants and needs of their employees are shifting. The motivating factors for Millennials and Gen Z can differ from each other, requiring companies to formulate new strategies to engage all of their younger employees.

In general, financial compensation tends to be a higher motivating factor for Gen Z than for Millennials. Having a "purpose" tends to be more important than a high salary for Millennials. Although Gen Z individuals also tend to value having a sense of purpose in their careers, financial security is more important. Gen Z employees are independent, creative and highly entrepreneurial in their approach to work.

Personal growth and career development, rather than day-to-day job satisfaction, are priorities for Millennials. Conversely, Gen Z tends to value individual, highly rewarding experiences, which allow for instantaneous satisfaction and growth. Long-term career development programs may be motivating for Millennials, but they are seen as boring and wasteful to Gen Z.

Both Millennials and Gen Z prefer honesty from their bosses, with an emphasis on continual feedback rather than infrequent performance reviews. While Gen Z desires bosses who promote rapid career advancement, Millennials prefer more of a mentoring relationship from their superiors.

Perhaps one of the most striking differences between the two generational cohorts is the deeply ingrained collaborative mindset of the Millennials and the more competitive nature of Gen Z. Being judged independently for one's own work product, contributions, and successes is important to Gen Z; individual recognition is a motivating factor. Millennials skew toward a more collectivistic approach in the workforce; working together as a team and receiving recognition as a group can be more desirable—especially when working with peers. Another trend that distinguishes millennials and Gen Z workforce is their preference for the gig economy. A recent survey in India found millennials and Gen Z workers to comprise 48 percent of the gig workforce, indicating their preference for freelancing and flexible employment.

Although they have some similarities in their approach to receiving feedback and developing their skillsets, the differences between Millennials and Gen Z prove that the motivating factors in the global workplace are ever-evolving. As new generations join the workforce, companies will need to continue to engage with their employees to understand the workers' wants and needs, cultivating new strategies to successfully motivate their employees.

Source: David Stillman and Jonah Stillman. "Move Over, Millennials; Generation Z Is Here." Society for Human Resource Management, April 11, 2017, https://www.shrm.org/ResourcesAndTools/hr-topics/behavioral-competencies/global-and-cultural-effectiveness/Pages/Move-over-Millennials-Generation-Z-Is-Here.aspx; Vaamanaa Sethi, "Gig economy is dominated by millennials but women make up for less than a third of the workforce," Business Insider, June 15, 2022, https://www.businessinsider.in/careers/news/gig-economy-is-dominated-by-millennials-but-women-make-up-for-less-than-a-third-of-the-workforce/articleshow/92230115.cms

In a test of the universalist assumption in developing countries, researchers measured the frequency with which managers were involved with certain skill activities, such as negotiation, job planning, motivation, and decision making. Drawing from a sample that included managers from Hungary and Senegal, they found that the relative frequency with which managers from one stratum of one nation are involved in various skill activities reflects the relative frequency with which managers from other strata within the same nation and from nations of different cultural-industrialized standing are also involved in the same activities, providing in this case at least some general support for the universalist hypothesis.[17]

In today's interconnected world, where music, pop culture, sports, and icons are shared across the globe through YouTube and Facebook, cultural similarities can be found among individuals who share the same generational demographic cohort but come from completely different countries. This is especially true of Millennials and Generation Z (those born since about 2000). See the nearby **International Management in Action** box for a comparison of the motivational factors impacting these two generations.

content theories
Theories that explain work motivation in terms of what arouses, energizes, or initiates employee behavior.

process theories
Theories that explain work motivation by how employee behavior is initiated, redirected, and halted.

The Assumption of Content and Process

The second starting assumption about work motivation in the international arena is that work-motivation theories can be broken down into two general categories: content and process. **Content theories** explain work motivation in terms of what arouses, energizes, or initiates employee behavior. **Process theories** of work motivation explain how employee behavior is initiated, redirected, and halted.[18] Most research in international human resource management has been content oriented because these theories examine motivation in more general

terms and are more useful in creating a composite picture of employee motivation in a particular country or region. Process theories are more sophisticated and tend to focus on individual behavior in specific settings. Thus, they have less value to the study of employee motivation in international settings, although there has been some research in this area as well. By far the majority of research studies in the international arena have been content-driven, but this chapter examines research exploring both content and process theories.

The next sections examine work motivation in an international setting by focusing on the three content theories that have received the greatest amount of attention: the hierarchy-of-needs theory, the two-factor motivation theory, and the achievement motivation theory. Then we focus on three process theories: equity theory, goal-setting theory, and expectancy theory. Each theory offers important insights into the motivation process for personnel in international settings.

The Hierarchy-of-Needs Theory

The hierarchy-of-needs theory is based primarily on work by Abraham Maslow, a well-known humanistic psychologist.[19] Maslow's hierarchy of needs has received a great deal of attention in the U.S. management and organizational behavior field and from international management researchers, who have attempted to show its value in understanding employee motivation throughout the world.[20]

The Maslow Theory

Maslow postulated that everyone has five basic types of needs that constitute a need hierarchy. In ascending order, beginning with the most basic needs and going up to the highest, they are physiological, safety, social, esteem, and self-actualization needs. Figure 12–2 illustrates this hierarchy.

Physiological needs are basic physical needs for water, food, clothing, and shelter. Maslow contended that an individual's drive to satisfy these physiological needs is greater than the drive to satisfy any other type of need. In the context of work motivation, these physiological needs often are satisfied through the wages and salaries paid by the organization.

Safety needs are desires for security, stability, and the absence of pain. Organizations typically help personnel satisfy these needs through safety programs and equipment, and by providing security through medical insurance, unemployment and retirement plans, and similar benefits.

Social needs are desires to interact and affiliate with others and the need to feel wanted by others. This desire for "belongingness" often is satisfied on the job through social interaction within work groups in which people give and receive friendship. Social needs can be satisfied not only in formally assigned work groups but also in informal groups.

Esteem needs are needs for power and status. Individuals need to feel important and receive recognition from others. Promotions, awards, and feedback from the boss lead to feelings of self-confidence, prestige, and self-importance.

Self-actualization needs reflect a desire to reach one's full potential, to become everything that one is capable of becoming as a human being. In an organization, an individual may achieve self-actualization not so much through promotion but, instead, by mastering his or her environment and setting and achieving personal goals.[21]

physiological needs
Basic physical needs for water, food, clothing, and shelter.

safety needs
Desires for security, stability, and the absence of pain.

social needs
Desires to interact and affiliate with others and to feel wanted by others.

esteem needs
Needs for power and status.

self-actualization needs
Desires to reach one's full potential, to become everything one is capable of becoming as a human being.

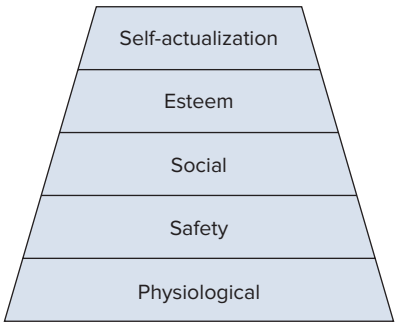


Figure 12–2
Maslow's Need Hierarchy

Maslow's theory rests on a number of basic assumptions. One is that lower-level needs must be satisfied before higher-level needs can be achieved. A second is that a need that is satisfied no longer serves as a motivator. A third is that there are more ways to satisfy higher-level needs than there are ways to satisfy lower-level needs. Some of these assumptions come from Maslow's original work, some come from others' work, and some were later modifications by Maslow himself. These assumptions have driven much of the international research on the theory.

International Findings on Maslow's Theory

Do people throughout the world have needs that are similar to those described in Maslow's need hierarchy? Research generally shows that they do. For example, in a classic study undertaken by Haire, Ghiselli, and Porter, a sample of 3,641 managers from 14 countries was surveyed. Countries in this survey included the U.S., Argentina, Belgium, Chile, Denmark, England, France, Germany, India, Italy, Japan, Norway, Spain, and Sweden.[22] With some minor modifications, the researchers examined the need of satisfaction and the need of importance of the four highest-level needs in the Maslow hierarchy. Esteem needs were divided into two groups: esteem and autonomy. The former included needs for self-esteem and prestige; the latter, desires for authority and for opportunities for independent thought and action.

The results of the Haire group's study showed that all these needs were important to the respondents across cultures. It should be remembered, however, that the subjects in this huge international study were managers, not rank-and-file employees. Upper-level needs were of particular importance to these managers. The findings for select country clusters (Latin Europe, U.S./United Kingdom, and Nordic Europe) show that autonomy and self-actualization were the most important needs for the respondents. Interestingly, these managers reported that those were the needs with which they were least satisfied, which led Haire and his associates to conclude the following:

> It appears obvious, from an organizational point of view, that business firms, no matter what country, will have to be concerned with the satisfaction of these needs for their managers and executives. Both types of needs were regarded as relatively quite important by managers, but, at the present time at least, the degree to which they were fulfilled did not live up to their expectations.[23]

Each country or geographic region appears to have its own need-satisfaction profile. When using this information to motivate managers, MNCs would be wise to consider the individual country's or region's profile and adjust their approach accordingly.

Some researchers have suggested that Maslow's hierarchy is too Western and that a more collectivistic, Eastern perspective is necessary. Nevis believes that the Maslow hierarchy reflects a culture that is Western-oriented and focused on the inner needs of individuals.[24] Obviously, not all cultures function in this way: Asian cultures emphasize the needs of society. Nevis suggested that a Chinese hierarchy of needs would have four levels, which from lowest to highest, would be (1) belonging (social), (2) physiological, (3) safety, and (4) self-actualization in the service of society, as seen in Figure 12–3. If this is true, MNCs attempting to do business in China must consider this revised hierarchy and determine how they can modify their compensation and job-design programs to accommodate the requisite motivational needs. In any event, Nevis' idea is worth considering because it forces the multinational firm to address work motivation based on those cultural factors that are unique to its surroundings as opposed to a universal approach.

The discussion so far indicates that even though the need-hierarchy concept is culturally specific, it offers a useful way to study and apply work motivation internationally. However, the well-known Dutch researcher Geert Hofstede and others have suggested that need-satisfaction profiles are not a very useful way of addressing motivation because there often are so many different subcultures within any given country that it may be difficult or impossible to determine which cultural variables are at work in any particular work setting. The Haire and follow-up studies dealt only with managers. Hofstede found that job categories are a more effective way of examining motivation. He reported a linkage between job types and levels and the need hierarchy.

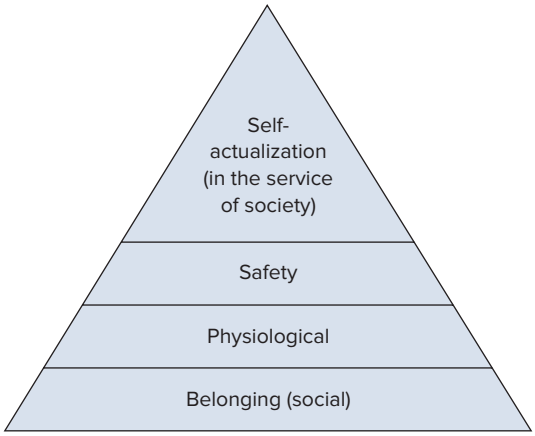


Figure 12–3
Collectivistic Need Hierarchy

Source: Gambrel, Patrick A., and Rebecca Cianci. "Maslow's Hierarchy of Needs: Does It Apply in A Collectivist Culture." *Journal of Applied Management and Entrepreneurship* 8, no.2 (2003): 143–61.

Based on survey results from over 60,000 people in more than 50 countries who were asked to rank a series of 19 work goals (see Tables 12–1 and 12–2), he found that

- The top four goals ranked by professionals corresponded to "high" Maslow needs.
- The top four goals ranked by clerks corresponded to "middle" Maslow needs.
- The top four goals ranked by unskilled workers corresponded to "low" Maslow needs.
- Managers and technicians showed a mixed picture—having at least one goal in the "high" Maslow category.[25]

The tables from Hofstede's research show that self-actualization and esteem needs rank highest for professionals and managers and that security, earnings, benefits, and physical working conditions are most important to low-level, unskilled workers. These findings

Table 12–1
Top-Ranking Goals for Professional Technical Personnel from a Large Variety of Countries

Rank	Goal	Questionnaire Wording
1	Training	Have training opportunities (to improve your present skills or learn new skills)
2	Challenge	Have challenging work to do—work from which you can get a personal sense of accomplishment
3	Autonomy	Have considerable freedom to adopt your own approach to the job
4	Up-to-dateness	Keep up-to-date with the technical developments relating to your job
5	Use of skills	Fully use your skills and abilities on the job
6	Advancement	Have an opportunity for advancement to higher-level job
7	Recognition	Get the recognition you deserve when you do a good job
8	Earnings	Have an opportunity for high earnings
9	Cooperation	Work with people who cooperate well with one another
10	Manager	Have a good working relationship with your manager
11	Personal time	Have a job that leaves you sufficient time for your personal or family life
12	Friendly department	Work in a congenial and friendly atmosphere
13	Company contribution	Have a job that allows you to make a real contribution to the success of your company
14	Efficient department	Work in a department that is run efficiently
15	Security	Have the security that you will be able to work for your company as long as you want to
16	Desirable area	Live in an area desirable to you and your family
17	Benefits	Have good fringe benefits
18	Physical conditions	Have good physical working conditions (good ventilation and lighting, adequate work space, etc.)
19	Successful company	Work in a company that is regarded in your country as successful

Source: Hofstede, Geert H. "The Colors of Collars." *Columbia Journal of World Business* 7, no. 5 (September 1972): 72–78.

Table 12–2
The Four Most Important Goals Ranked by Occupational Group and Related to the Need Hierarchy

Goals Ranked in "Need Hierarchy"	Professionals (research laboratories)	Professionals (branch offices)	Managers	Technicians (branch offices)	Technicians (manufacturing plants)	Clerical Workers (branch offices)	Unskilled Workers (manufacturing plants)
High—Self-Actualization and Esteem Needs							
Challenge	1	2	1	3	3		
Training		1		1			
Autonomy	3	3	2				
Up-to-dateness	2	4		4			
Use of skills	4						
Middle—Social Needs							
Cooperation			3/4			1	
Manager			3/4		4	2	
Friendly department						3	
Efficient department						4	
Low—Security and Physiological Needs							
Security				2	1		2
Earnings					2		3
Benefits							4
Physical conditions							1

Source: Hofstede, Geert H. "The Colors of Collars." *Columbia Journal of World Business* 7, no. 5 (September 1972): 72–78.

International Management in Action

McDonald's' Latin Flavor

McDonald's was once the leader of "fast and friendly" service, according to customer opinions of Latin American restaurants. Over time, the company saw its margins quickly shrinking, and, in some areas of Latin America, competitors were edging ahead. With managerial turnover at 40 percent, and an astounding 90 to 100 percent turnover among employees between 16 and 18 years old, it was clear that motivation and morale were too low for a sustainable work environment. Clearly, something had to change.

In the past, organizational operations were carried out on a country-by-country basis, where initiatives were created to mirror the specific region in a way McDonald's calls "freedom within a framework." The stagnant sales and dissatisfied employees indicated that while the company could survive, altering initiatives could lead to further success. The human resource department recognized its crucial role in changing the atmosphere, and soon plans emerged. First, it modified the HR board to include one member from each country. This provided efficient communication, collaboration, and coordination among the Latin American countries. A three-year plan was then set in place, accentuating a continuous-improvement mentality that would keep processes and employee satisfaction in check. However, no plan is effective unless it is put into action.

McDonald's began a point reward system in which each store was allotted a base number of points, depending on sales for that store. A competitive structure was then furthered by allowing lower-level employees to increase points by filling out operational surveys, a tactic used to promote product knowledge and enhance employee skills. These points could then be cashed in for prizes such as backpacks and even an iPod. Furthermore, global recognition programs were instilled that rewarded top-performing employees. For example, McDonald's sent the top 300 performers from around the world to the Turin Winter Olympics, where crew members attended various McDonald's-sponsored events and, of course, the Olympic games. Managers were also given the opportunity to profit from their actions, and the company stressed creativity throughout the process. Periodic meetings among regional managers allowed each to share "best practices" that have helped each store, and company strategies were often brought to the table to better inform those in charge. A Latin American Ray Kroc Award program was created to bring the top 1 percent of managers in the region to McDonald's headquarters, where participants had a chance to meet with top executives and engage in forums. The company further encouraged success by offering managers the opportunity to take business classes at surrounding universities and work toward a degree. Furthermore, managers engaged in training courses that shifted focus from administrative work to customers and employees under the assumption that given a more hands-on approach, personnel can better understand and achieve organizational and personal satisfaction goals.

McDonald's seems to have made all the right moves. Employees at every level are more motivated, and it shows in the numbers. After implementation of the new HR strategy, sales in Latin America initially increased by 13 percent and continued to grow by 11.6 percent the next year. More crew members and managers remained at the stores as well, with turnover reducing to 70 and 25 percent, respectively. Furthermore, employee surveys indicated that there was an increase of overall commitment to the company by 9 percent, far surpassing the goal of 3–4 percent projected by the company.

Latin America sent a strong message to McDonald's without having to say a word. Personnel originally did not feel challenged and therefore sought other lucrative endeavors. McDonald's global strategy clearly was not universal, and, in order to successfully integrate, local responses were imperative (see Chapter 8). The company's ability to balance its global HR standardization with regional cultures proved to be beneficial to all. Motivating personnel to achieve goals through rewards programs keeps morale high and could save McDonald's a great deal of money as retention rates rise and the need for new worker training declines. Employees have had a taste of the revised HR programs, and it shows they like the new Latin flavor.

Source: "Putting the Front Line First: McDonald's Commitment to Employees Bolsters the Bottom Line." *Hewitt* 9 no. 1, http:// www .hewittassociates.com/intl/na/en-us/KnowledgeCenter/Magazine/ vol9_iss1 /departments-upclose.html.

illustrate that job categories and levels may have a dramatic effect on motivation and may well offset cultural considerations. As Hofstede noted, "There are greater differences between job categories than there are between countries when it comes to employee motivation."[26]

In deciding how to motivate human resources in different countries or help them attain need satisfaction, researchers such as Hofstede recommend that MNCs focus most heavily on giving physical rewards to lower-level personnel and on creating for middle- and upper-level personnel a climate in which there are challenge, autonomy, the ability to use one's skills, and cooperation. Some companies are finding innovative ways to create motivation throughout the organization, from lower-level employees to middle management, by altering HR strategies. The nearby International Management in Action box "McDonald's' Latin Flavor" provides an example of how focusing on employees' needs can both increase sales for the company and keep personnel on board.

Overall, there seems to be little doubt that hierarchy-of-needs theory is useful in helping identify motivational factors for international human resource management. This theory alone is not sufficient, however. Other content theories, such as the two-factor theory, add further understanding and effective practical application for motivating personnel.

The Two-Factor Theory of Motivation

The two-factor theory was formulated by well-known work-motivation theorist Frederick Herzberg and his colleagues. Like Maslow's theory, Herzberg's has been a focus of attention in international human resource management research over the years. This two-factor theory is closely linked to the need hierarchy.

The Herzberg Theory

two-factor theory of motivation
A theory that identifies two sets of factors that influence job satisfaction: hygiene factors and motivators.

motivators
In the two-factor motivation theory, job-content factors such as achievement, recognition, responsibility, advancement, and the work itself.

hygiene factors
In the two-factor motivation theory, job-context variables such as salary, interpersonal relations, technical supervision, working conditions, and company policies and administration.

The **two-factor theory of motivation** holds that two sets of factors influence job satisfaction: hygiene factors and motivators. The data from which the theory was developed were collected through a critical incident methodology that asked the respondents to answer two basic types of questions: (1) When did you feel particularly good about your job? (2) When did you feel exceptionally bad about your job? Responses to the first question generally related to job content and included factors such as achievement, recognition, responsibility, advancement, and the work itself. Herzberg called these job-content factors **motivators**. Responses to the second question related to job context and included factors such as salary, interpersonal relations, technical supervision, working conditions, and company policies and administration. Herzberg called these job-context factors **hygiene factors**. Table 12–3 lists both groups of factors. A close look at the two lists shows that the motivators are heavily psychological and relate to Maslow's upper-level needs and that the hygiene factors are environmental and relate more to Maslow's lower-level needs. Table 12–4 illustrates this linkage.

The two-factor theory holds that motivators and hygiene factors relate to employee satisfaction. This relationship is more complex than the traditional view that employees are either satisfied or dissatisfied. According to the two-factor theory, if hygiene factors are not taken care of or are deficient, there will be dissatisfaction (see Figure 12–4). Importantly, however, if hygiene factors are taken care of, there may be no dissatisfaction, but there also may be no satisfaction. Only when motivators are present will there be satisfaction. In short, hygiene factors help prevent dissatisfaction (thus the term *hygiene*, as it is used in the health field), but only motivators lead to satisfaction. Therefore, according to

Table 12–3
Herzberg's Two-Factor Theory

Hygiene Factors	Motivators
Salary	Achievement
Technical supervision	Recognition
Company policies and administration	Responsibility
Interpersonal relations	Advancement
Working conditions	The work itself

Table 12–4
The Relationship between Maslow's Need Hierarchy and Herzberg's Two-Factor Theory

Maslow's Need Hierarchy	Herzberg's Two-Factor Theory
Self-actualization	Motivators
	Achievement
	Recognition
	Responsibility
Esteem	Advancement
	The work itself
Social	Hygiene factors
	Salary
	Technical supervision
Safety	Company policies and administration
	Interpersonal relations
Physiological	Working conditions

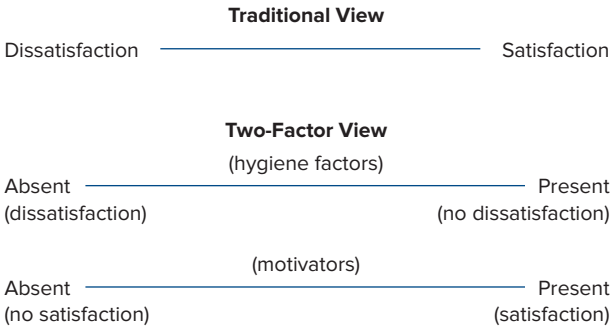


Figure 12–4
Views of Satisfaction/ Dissatisfaction

this theory, efforts to motivate human resources must provide recognition, a chance to achieve and grow, advancement, and interesting work.

Before examining the two-factor theory in the international arena, it is important to note that Herzberg's theory has been criticized by some organizational behavior academics. One criticism involves the classification of money as a hygiene factor, not as a motivator. There is no universal agreement on this point. Some researchers report that salary is a motivator for some groups, such as blue-collar workers or those for whom money is important for psychological reasons, such as a score-keeping method for their power and achievement needs.

A second line of criticism is whether Herzberg developed a total theory of motivation. Some argue that his findings actually support a theory of job satisfaction. In other words, if a company gives its people motivators, they will be satisfied; if it denies them motivators, they will not be satisfied; and, if the hygiene factors are deficient, they may well be dissatisfied. Much of the international research on the two-factor theory discussed next is directed toward the satisfaction-dissatisfaction concerns rather than complex motivational needs, drives, and goals.

International Findings on Herzberg's Theory

International findings related to the two-factor theory fall into two categories. One consists of replications of Herzberg's research in a particular country. This research asks whether managers in country X give answers similar to those in Herzberg's original studies. In the other category are cross-cultural studies that focus on job satisfaction. This research asks what factors cause job satisfaction and how these responses differ from country to country. The latter studies are not a direct extension of the two-factor theory, but they do offer insights into the importance of job satisfaction in international human resource management.

Two-Factor Replications A number of research efforts have been undertaken to replicate the two-factor theory, and, in the main, they support Herzberg's findings. Hines, for example, surveyed 218 middle managers and 196 salaried employees in New Zealand using ratings of 12 job factors and overall job satisfaction. Based on these findings, he concluded that "the Herzberg model appears to have validity across occupational levels."[27]

Another, similar study was conducted among 178 managers in Greece who were Greek nationals. Overall, this study found that Herzberg's two-factor theory of job satisfaction generally held true for these managers. The researchers summarized their findings as follows:

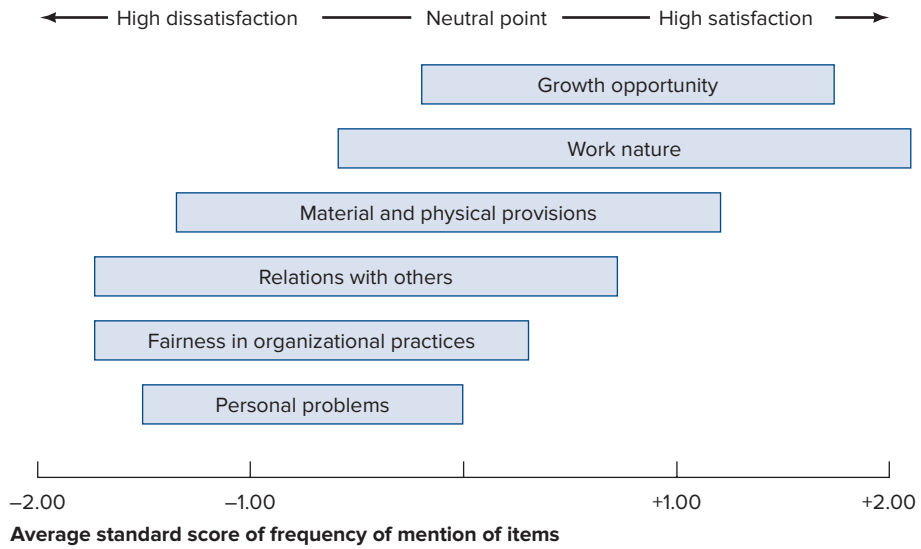
> As far as job dissatisfaction was concerned, no motivator was found to be a source of dissatisfaction. Only categories traditionally designated as hygiene factors were reported to be sources of dissatisfaction for participating Greek managers. . . . Moreover . . . motivators . . . were more important contributors to job satisfaction than to dissatisfaction . . . (66.8% of the traditional motivator items . . . were related to satisfaction and 31.1% were related to dissatisfaction). Traditional hygiene factors, as a group, were more important contributors to job dissatisfaction than to job satisfaction (64% of the responses were related to dissatisfaction and 36% were related to satisfaction).[28]

Another study tested the Herzberg theory in an Israeli kibbutz (communal workgroup). Motivators there tended to be sources of satisfaction and hygiene factors as sources of dissatisfaction, although interpersonal relations (a hygiene factor) were regarded more as a source of satisfaction than of dissatisfaction. The researcher was careful to explain this finding as a result of the unique nature of a kibbutz: Interpersonal relations of work and nonwork nature are not clearly defined, thus making difficult the separation of this factor on a motivator-hygiene basis. Commenting on the results, the researcher noted that "the findings of this study support Herzberg's two-factor hypothesis: Satisfactions arise from the nature of the work itself, while dissatisfactions have to do with the conditions surrounding the work."[29]

Similar results on the Herzberg theory have been obtained by research studies in developing countries. For example, one study examined work motivation in Zambia, employing a variety of motivational variables, and found that work motivation was a result of six factors: work nature, growth and advancement, material and physical provisions, relations with others, fairness/unfairness in organizational practices, and personal problems. These variables are presented in Figure 12–5. They illustrate that in general the two-factor theory of motivation was supported in this African country.[30] Furthermore, a study performed in Romania indicated that hygiene factors (salary, working conditions, and supervision), though important, were not the driving forces in deciding to accept a senior manager position. The most important aspects of a job to Romanians were how much recognition and appreciation they would receive. This was followed by a desire for salary incentives, though the need for increased knowledge and skills, along with being involved in teams and improving competence and self- development, was also significant.[31]

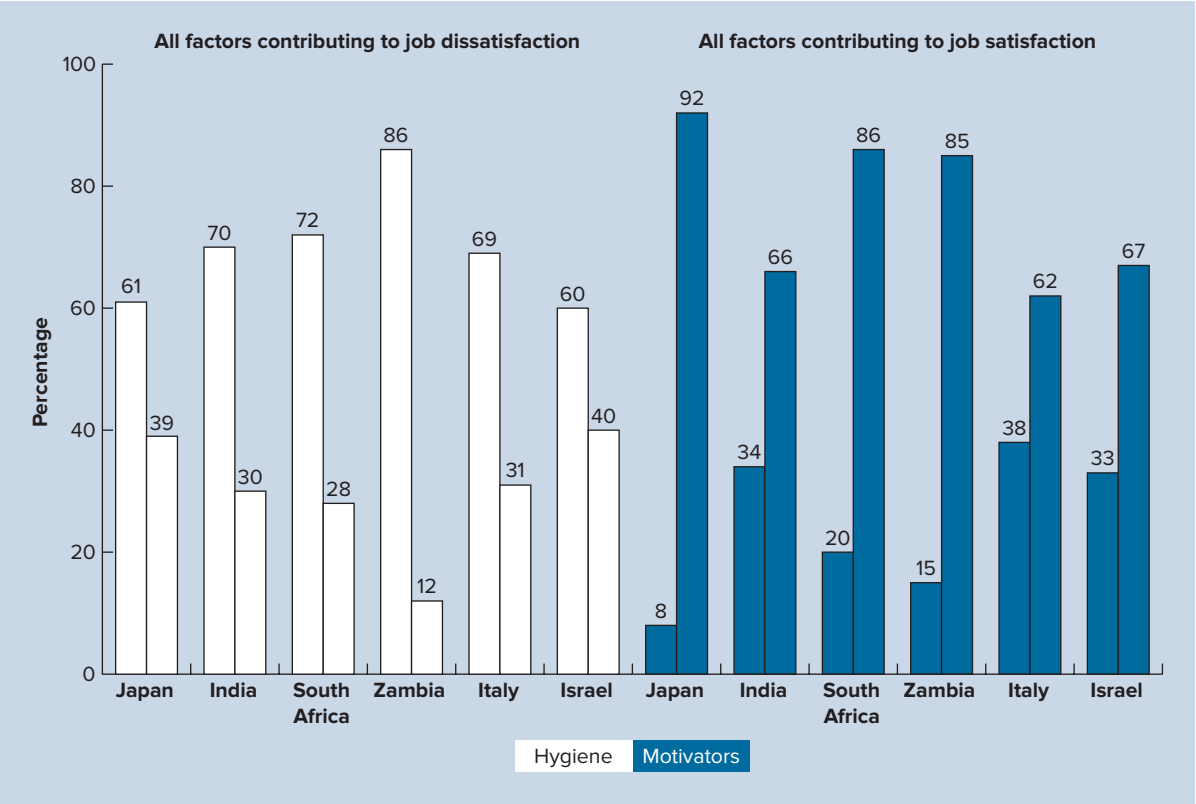
Cross-Cultural Job-Satisfaction Studies A number of cross-cultural studies related to job satisfaction also have been conducted in recent years. These comparisons show that Herzberg-type motivators tend to be of more importance to job satisfaction than hygiene factors. A comparison from selected Herzberg studies is provided in Figure 12–6. This shows that hygiene is strongly associated with factors that relate to job dissatisfaction (or avoidance of) and that motivation correlates with factors that drive job satisfaction. This is also evident in the research, as seen in one study that administered the Job Orientation Inventory (JOI) to MBA candidates from four countries.[32] As seen in Table 12–5, the relative ranking placed hygiene factors at the bottom of the list and motivators at the top. What also is significant is

Figure 12–5
Motivation Factors in Zambia



Source: Machungwa, Peter D., and Neal Schmitt. "Work Motivation in a Developing Country." *Journal of Applied Psychology* 68, no.1 (1983): 31–42.

Figure 12–6 **Selected Countries' Hygiene and Motivation**



Source: Herzberg, Frederick. One More Time: How Do You Motivate Employees? *Harvard Business Review*, September–October 1987: 118.

Table 12–5
Results of Administering the JOI to Four Cross-Cultural Groups

	Relative Rankings			
	United States (*n* = 49)	**Australia (*n* = 58)**	**Canada (*n* = 25)**	**Singapore (*n* = 33)**
Achievement	2	2	2	2
Responsibility	3	3	3	3
Growth	1	1	1	1
Recognition	10	10	8	9
Job status	7	7	7	7
Relationships	5	5	10	6
Pay	8	8	6	8
Security	9	9	9	10
Family	6	6	5	5
Hobby	4	4	4	4

Source: Popp, Gary E., Davis, Herbert J. and Herbert, Theodore T. "An International Study of Intrinsic Motivation Composition." *Management International Review* 26, no. 3 (1986): 28–35.

that although the Singapore students did not fit into the same cultural cluster as the other three groups in the study, their responses were similar. These findings provide evidence that job-satisfaction-related factors may not always be culturally bounded.[33]

Another, more comprehensive study of managerial job attitudes investigated the types of job outcomes that are desired by managers in different cultures. Data were gathered

from lower- and middle-management personnel who were attending management development courses in Canada, the United Kingdom, France, and Japan.[34] The researchers sought to identify the importance of 15 job-related outcomes and how satisfied the respondents were with each. The results indicated that job content was more important than job context. Organizationally controlled factors (**job-context factors**, such as conditions, hours, earnings, security, benefits, and promotions) for the most part did not receive as high a ranking as internally mediated factors (**job-content factors**, such as responsibility, achievement, and the work itself).

job-context factors
In work motivation, those factors controlled by the organization, such as conditions, hours, earnings, security, benefits, and promotions.

job-content factors
In work motivation, those factors internally controlled, such as responsibility, achievement, and the work itself.

The data also show that the managers from the four countries differed significantly regarding both the perceived importance of job outcomes and the level of satisfaction experienced on the job with respect to these outcomes. These differences are useful in shedding light on what motivates managers in these countries and, in the case of MNCs, in developing country-specific human resource management approaches. The most striking contrasts were between the French and the British. Commenting on the applicability of this research to the formulation of motivational strategies for effective human resource management, the researchers noted the following:

> The results suggest . . . that efforts to improve managerial performance in the UK should focus on job content rather than on job context. Changes in the nature of the work itself are likely to be more valued than changes in organizational or interpersonal factors. Job enrichment programs which help individuals design their own goals and tasks, and which downplay formal rules and structure, are more likely to improve performance in an intrinsically oriented society such as Britain, where satisfaction tends to be derived from the job itself, than in France, where job context factors such as security and fringe benefits are more highly valued. The results suggest that French managers may be more effectively motivated by changing job situation factors, as long as such changes are explicitly linked to performance.[35]

In summary, Herzberg's two-factor theory appears to reinforce Maslow's need hierarchy through its research support in the international arena. As with the application of Maslow's theory, however, MNCs would be wise to apply the motivation-hygiene theory on a country-by-country or a regional basis. Although there are exceptions, such as France, there seems to be little doubt that job-content factors are more important than job-context factors in motivating not only managers but also lower-level employees around the world, as Hofstede pointed out.

Achievement Motivation Theory

In addition to the hierarchy of needs and two-factor theories of work motivation, achievement motivation theory has been given a relatively great amount of attention in the international arena. Achievement motivation theory has been applied more to the actual practice of management than the others, and it has been the focus of some interesting international research.

The Background of Achievement Motivation Theory

achievement motivation theory
A theory that holds that individuals can have a need to get ahead, to attain success, and to reach objectives.

Achievement motivation theory holds that individuals can have a need to get ahead, to attain success, and reach objectives. Note that like the upper-level needs in Maslow's hierarchy or like Herzberg's motivators, the need for achievement is learned. Therefore, in the U.S., where entrepreneurial effort is encouraged and individual success promoted, the probability is higher that there would be a greater percentage of people with high needs for achievement than, for example, in China, Russia, or Eastern European countries,[36] where cultural values have not traditionally supported individual, entrepreneurial efforts.

Researchers such as Harvard psychologist David McClelland have identified a characteristic profile of high achievers.[37] First, these people like situations in which they take personal responsibility for finding solutions to problems. They want to win because of

their own efforts, not because of luck or chance. Second, they tend to be moderate risk takers rather than high- or low-risk takers. If a decision-making situation appears to be too risky, they will learn as much as they can about the environment and try to reduce the probability of failure. In this way, they turn a high-risk situation into a moderate-risk situation. If the situation is too low-risk, however, there usually is an accompanying low reward, and they tend to avoid situations with insufficient incentive.

Third, high achievers want concrete feedback on their performance. They like to know how well they are doing, and they use this information to modify their actions. High achievers tend to gravitate into vocations such as sales, which provide them with immediate, objective feedback about how they are doing. Finally, and this has considerable implications for human resource management, high achievers often tend to be loners, not team players. They do not form warm, close relationships, and they have little empathy for others' problems. This last characteristic may distract from their effectiveness as managers of people.

Researchers have discovered a number of ways to develop high achievement needs in people. These involve teaching individuals to do the following: (1) obtain feedback on performance and use this information to channel efforts into areas where success likely will be attained, (2) emulate people who have been successful achievers, (3) develop an internal desire for success and challenges, and (4) daydream in positive terms by picturing oneself as successful in the pursuit of important objectives.[38] Simply put, the need for achievement can be taught and learned.

Before examining international research on achievement motivation theory, it is important to realize that the theory has been cited as having a number of shortcomings. One is that it relies almost solely on the projective personality Thematic Apperception Test (TAT) to measure individual achievement, and a number of recent studies have questioned the validity and reliability of this approach.[39] Another concern is that achievement motivation is grounded in individual effort, but in many countries group, harmony and cooperation are critically important to success. Simply put, the original theory does not satisfactorily explain the need for achievement in cultures in which individual accomplishment is neither valued nor rewarded.[40,41]

International Findings on Achievement Motivation Theory

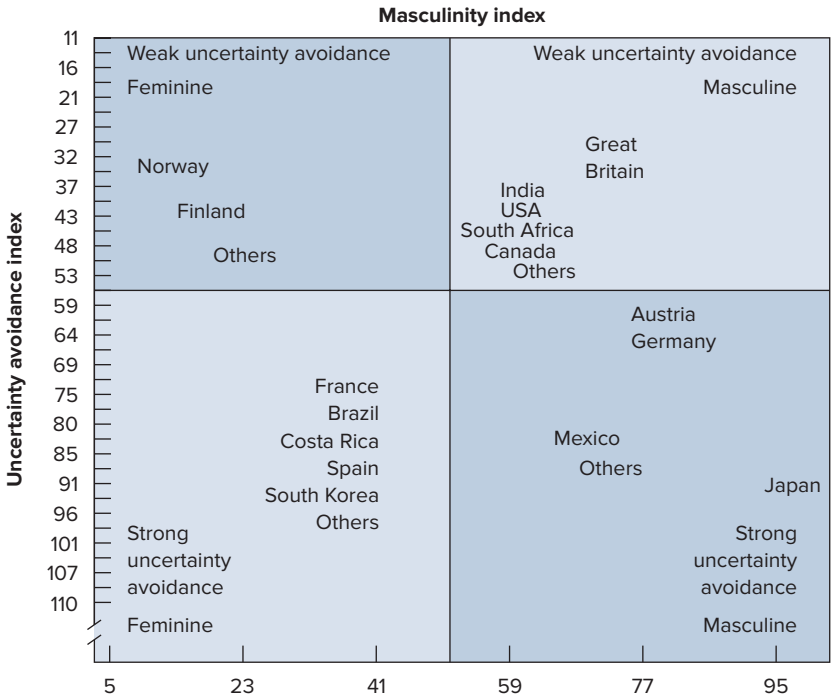
A number of international researchers have investigated the role and importance of high achievement needs in human resource management.[42]

Early research among Polish industrialists found that many of them were high achievers.[43] The average high-achievement score was 6.58, quite close to U.S. managers' average score of 6.74. This led some to conclude that there is evidence that managers in countries as diverse as the U.S. and those in the former Soviet bloc in Central Europe have high needs for achievement.[44] In later studies, however, researchers did not find a high need for achievement in Central European countries. One study, for example, surveyed Czech industrial managers and found that the average high-achievement score was 3.32, considerably lower than that of U.S. managers.[45] Because the need for achievement is learned, the differences in these samples can be attributed to cultural differences. By the same token, given the dramatic, revolutionary changes that occurred in Central and Eastern Europe with the end of communism and of centrally planned economies, one could argue that the achievement needs of postcommunist Europeans, now able to be freely expressed, may well be high today. The important point is that because achievement is a learned need and thus largely determined by the prevailing culture, it is not universal and may change over time.

The ideal profile for high-achieving societies can be described in terms of the cultural dimensions examined in Chapter 4. In particular, two cultural dimensions identified by Hofstede in Chapter 4—uncertainty avoidance and masculinity—best describe high-achieving societies (see Figure 12–7). These societies tend to have weak uncertainty avoidance. People in high-achieving societies are not afraid to take at least moderate risks or to live with ambiguity. These societies also tend to have moderate to high masculinity,

Figure 12–7

Select Countries on the Uncertainty-Avoidance and Masculinity Scales



Source: Hofstede, Geert. "The Cultural Relativity of Organizational Practices and Theories." *Journal of International Business Studies* 14, no. 2 (1983): 75–89.

as measured by the high importance they assign to the acquisition of money and other physical assets and the low value they give to caring for others and the quality of work life. This combination (see the upper-right quadrant of Figure 12–7) is found almost exclusively in Anglo countries and in nations that have been closely associated with them through colonization or treaty, such as India, Singapore, and Hong Kong (countries associated with Great Britain) and the Philippines (associated with the U.S.).

Countries that fall into one of the other three quadrants of Figure 12–7 will not be very supportive of the high need for achievement. MNCs in these geographic regions, therefore, would be wise to formulate a human resource management strategy for either changing the situation or adjusting to it. If they decide to change the situation, they must design jobs to fit the needs of their people or put people through an achievement motivation training program to create high-achieving managers and entrepreneurs.

A number of years ago, McClelland was able to demonstrate the success of such achievement motivation training programs with underdeveloped countries. For example, in India, he conducted such a program with considerable success. In following up with these Indian trainees over the subsequent 6 to 10 months, he found that two-thirds were unusually active in achievement-oriented activities. They had started new businesses, investigated new product lines, increased profits, or expanded their present organizations. For example, the owner of a small radio store had opened a paint and varnish factory after completing the program. McClelland concluded that this training appeared to have doubled the natural rate of unusual achievement-oriented activity in the group studied.[46]

If international human resource managers cannot change the situation or train the participants, then they must adjust to the specific conditions of the country and formulate a motivation strategy based on those conditions. In many cases, this requires consideration of a need-hierarchy approach blended with an achievement approach. Hofstede offers such advice in dealing with the countries in the various quadrants of Figure 12–7:

> The countries on the feminine side . . . distinguish themselves by focusing on quality of life rather than on performance and on relationships between people rather than on money and things. This means social motivation: quality of life plus security and quality of life plus risk.[47]

In the case of countries that are attempting to introduce changes that incorporate values from one of the other quadrants in Figure 12–7, the challenge can be even greater.

In summary, achievement motivation theory provides additional insights into the motivation of personnel around the world. Like the need-hierarchy and two-factor theories, however, the achievement motivation theory must be modified to meet the specific needs of the local culture. The culture of many countries does not support high achievement. However, the cultures of Anglo countries and those that reward entrepreneurial effort do support achievement motivation, and their human resources should probably be managed accordingly.

Select Process Theories

While content theories are useful in explaining motivation for managing international personnel, process theories can also lead to better understanding. As noted earlier, the process theories explain how employee behavior is initiated, redirected, and halted; some of these theories have been used to examine motivation in the international arena. Among the most widely recognized are equity theory, goal-setting theory, and expectancy theory. The following briefly examines each of these and their relevance to international human resource management.

Equity Theory

Equity theory focuses on how motivation is affected by people's perception of how fairly they are being treated. The theory holds that if people perceive that they are being treated equitably, this perception will have a positive effect on their job performance and satisfaction, and there is no need to strive for equity. Conversely, if they believe they are not being treated fairly, especially in relation to relevant others, they will be dissatisfied, and this belief will have a negative effect on their job performance and they will strive to restore equity.

equity theory
A process theory that focuses on how motivation is affected by people's perception of how fairly they are being treated.

There is considerable research to support the fundamental equity principle in Western work groups.[48] However, when the theory is examined on an international basis, the results are mixed. Yuchtman, for example, studied equity perceptions among managers and nonmanagers in an Israeli kibbutz production unit.[49] In this setting, everyone was treated the same, but the managers reported lower satisfaction levels than the workers. The managers perceived their contributions to be greater than those of any other group in the kibbutz. As a result of this perception, they felt that they were undercompensated for their value and effort. These findings support the basic concepts of equity theory.

One study, which assumed that Western thought was synonymous with individualism and Eastern thought with collectivism, indicated that there are both similarities and differences between how cultures view the equity model. The model consists of employee inputs, subsequent outcomes, areas employees choose to compare the self to, and the motivation to change any perceived inequity that may exist between the self and the point of comparison (such as co-workers or employees in similar industries and positions).[50] A summary comparison is provided in Table 12–6.

On the other hand, a number of studies cast doubt on the relevance of equity theory in explaining motivation in an international setting. Perhaps the biggest shortcoming is that the theory appears to be culture-bound. For example, equity theory postulates that when people are not treated fairly, they will take steps to reduce the inequity by, for example, doing less work, filing a grievance, or getting a transfer to another department. In Asia and the Middle East, however, employees often readily accept inequitable treatment in order to preserve group harmony. Additionally, in countries such as Japan and Korea, men and women typically receive different pay for doing the same work, yet, because of years of cultural conditioning, women may not feel they are being treated inequitably.[51,52] Some researchers have explained this finding by suggesting that these women compare themselves only to other women and in this

Table 12–6
Individualistic and Collectivistic Approaches to the Equity Model

	Western (individualistic) Cultures	Eastern (collectivistic) Cultures
Inputs	Effort	Loyalty
	Intelligence	Support
	Education	Respect
	Experience	Organizational tenure
	Skill	Organizational status
	Social status	Group member
Outcomes	Pay	Harmony
	Autonomy	Social status
	Seniority status	Acceptance
	Fringe benefits	Solidarity
	Job status	Cohesion
	Status symbol	
Comparisons	*Situation*	*Organizational Group*
	Physical proximity	Similar industry
	Job facet	Similar product/service
	Personal	*In-Group*
	Gender	Status
	Age	Job
	Position	Tenure
	Professionalism	Age
		Position
Motivation to Reduce Inequity	Change personal inputs	*Organizational Group*
	Provoke alternate outcomes	Change points of comparison
	Psychologically distort inputs and outcomes	Psychologically distort inputs and outcomes
	Leave the field	*In-Group*
	Change points of comparison	Alter inputs of self
		Psychologically distort inputs and outcomes

Source: Fadil, Paul A., Williams, Robert J., Limpaphayom, Wanthanee and Smatt, Cindi. "Equity or Equality? A Conceptual Examination of the Influence of Individualism/Collectivism on the Cross?Cultural Application of Equity Theory." *Cross Cultural Management: An International Journal* 12, no. 4 (2005): 17–35.

comparison feel they are being treated equitably. While this may be true, the results still point to the fact that equity theory is not universally applicable in explaining motivation and job satisfaction.

Goal-Setting Theory

goal-setting theory
A process theory that focuses on how individuals go about setting goals and responding to them and the overall impact of this process on motivation.

Goal-setting theory focuses on how individuals go about setting goals and responding to them and the overall impact of this process on motivation. Specific areas that are given attention in goal-setting theory include the level of participation in setting goals, goal difficulty, goal specificity, and the importance of objective, timely feedback to progress toward goals. Unlike many theories of motivation, goal setting has been continually refined and developed.[53] There is considerable research evidence showing that employees perform extremely well when they are assigned specific and challenging goals that they have had a hand in setting.[54] But most of these studies have been

conducted in the U.S., while few of them have been carried out in other cultures.[55] One study that did examine goal setting in an international setting looked at Norwegian employee participation in goal setting.[56] The researchers found that the Norwegian employees shunned participation and preferred to have their union representatives work with management in determining work goals. This led the researchers to conclude that individual participation in goal setting was seen as inconsistent with the prevailing philosophy of participation through union representatives. Unlike the U.S., where employee participation in setting goals is motivational, it had no value for the Norwegian employees in this study.

Results similar to those in the Norwegian study have been reported by Earley, who found that workers in the U.K. responded more favorably to a goal-setting program sponsored by the union stewards than to one sponsored by management. This led Earley to conclude that the transferability across cultural settings of management concepts such as participation in goal setting may well be affected by the prevailing work norms.[57] In order to further test this proposition, Erez and Earley studied American and Israeli subjects and found that participative strategies led to higher levels of goal acceptance and performance in both cultures than did strategies in which objectives were assigned by higher-level management.[58] In other words, the value of goal-setting theory may be determined by culture. In the case, for example, of Asian and Latin work groups, where collectivism is very high, the theory may have limited value for MNC managers in some countries.

Expectancy Theory

Expectancy theory postulates that motivation is largely influenced by a multiplicative combination of a person's belief that (a) effort will lead to performance, (b) performance will lead to specific outcomes, and (c) the outcomes will be of value to the individual.[59] In addition, the theory predicts that high performance followed by high rewards will lead to high satisfaction.[60] Does this theory have universal application? Eden used it in studying workers in an Israeli kibbutz and found some support;[61] and Matsui and colleagues reported that the theory could be applied successfully in Japan.[62] On the other hand, it is important to remember that expectancy theory is based on employees having considerable control over their environment, a condition that does not exist in many cultures (e.g., Asia and Africa). In particular, in societies where people believe that much of what happens is beyond their control, this theory may have less value. It would seem that expectancy theory is best able to explain worker motivation in cultures where there is a strong internal locus of control (e.g., in the U.S.). In short, the theory seems culture-bound, and international managers must be aware of this limitation in their efforts to apply this theory to motivate human resources.

expectancy theory
A process theory that postulates that motivation is influenced by a person's belief that (a) effort will lead to performance, (b) performance will lead to specific outcomes, and (c) the outcomes will be of value to the individual.

Motivation Applied: Job Design, Work Centrality, and Rewards

Content and process theories provide important insights into and an understanding of ways to motivate human resources in international management. So, too, do applied concepts such as job design, work centrality, and rewards.

Job Design

Job design consists of a job's content, the methods that are used on the job, and the way in which the job relates to other jobs in the organization. Job design typically is a function of the work to be done and the way in which management wants it to be carried out. These factors help explain why the same type of work may have a different impact on the motivation of human resources in various parts of the world and result in differing qualities of work life.

job design
A job's content, the methods that are used on the job, and the way the job relates to other jobs in the organization.

Table 12–7
Cultural Dimensions in Japan, Sweden, and the United States

Cultural Dimension	Degree of Dimension: High/Strong X ←	Moderate — X —	Low/Weak → X
Uncertainty avoidance	J		USA S
Individualism	USA	S	J
Power distance		J USA	S
Masculinity	J	USA	S

Source: Hofstede, Geert. "The Cultural Relativity of the Quality of Life Concept." *Academy of Management Review* 9, no. 3 (July 1984): 389–398.

Quality of Work Life: The Impact of Culture Quality of work life (QWL) is not the same throughout the world. For example, assembly-line employees in Japan work at a rapid pace for hours and have very little control over their work activities. In Sweden, assembly-line employees work at a more relaxed pace and have a great deal of control over their work activities. U.S. assembly-line employees are somewhere in between; they typically work at a pace that is less demanding than that in Japan but more structured than that in Sweden.

What accounts for these differences? One answer is found in the culture of the country. QWL is directly related to culture. Table 12–7 compares the U.S., Japan, and Sweden along the four cultural dimensions described in Chapter 4. A brief look shows that each country has a different cultural profile, helping explain why similar jobs may be designed quite differently from country to country. Assembly-line work provides a good basis for comparison.

In Japan, there is strong uncertainty avoidance. The Japanese like to structure tasks so that there is no doubt what is to be done and how it is to be done. Individualism is low, so there is strong emphasis on security, and individual risk-taking is discouraged. The power-distance index is high, so Japanese workers are accustomed to taking orders from those above them. The masculinity index for the Japanese is high, which shows that they put a great deal of importance on money and other material symbols of success. In designing jobs, the Japanese structure tasks so that the work is performed within these cultural constraints. Japanese managers work their employees extremely hard. Although Japanese workers contribute many ideas through the extensive use of quality circles, Japanese managers give them very little say in what actually goes on in the organization (in contrast to the erroneous picture often portrayed by the media, which presents Japanese firms as highly democratic and managed from the bottom up)[63] and depend heavily on monetary rewards, as reflected by the fact that the Japanese rate money as an important motivator more than do the workers in any other industrialized country.

In Sweden, uncertainty avoidance is low, so job descriptions, policy manuals, and similar work-related materials are more open-ended or general, in contrast to the detailed procedural materials developed by the Japanese. In addition, Swedish workers are encouraged to make decisions and take risks. Swedes exhibit a moderate to high degree of individualism, which is reflected in their emphasis on individual decision making (in contrast to the collective, or group, decision making of the Japanese). They have a weak power-distance index, which means that Swedish managers use participative approaches in leading their people. Swedes score low on masculinity, which means that interpersonal relations and the ability to interact with other workers and discuss job-related matters are important. These cultural dimensions result in job designs that are markedly different from those in Japan.

Cultural dimensions in the U.S. are closer to those of Sweden than to those of Japan. In addition, except for individualism, the U.S. profile is between that of Sweden and Japan (see Table 12–7). This means that job design in U.S. assembly plants tends to be more flexible or unstructured than that of the Japanese but more rigid than that of the Swedes.

This same pattern holds for many other jobs in these three countries. All job designs tend to reflect the cultural values of the country. The challenge for MNCs is to adjust job design to meet the needs of the host country's culture. For example, when Japanese firms enter the U.S., they often are surprised to learn that people resent close control. In fact, there is evidence that the most profitable Japanese-owned companies in the U.S. are those that delegate a high degree of authority to their U.S. managers.[64] Similarly, Japanese firms operating in Sweden find that quality of work life is a central concern for the personnel and that a less structured, highly participative management style is needed for success. Some of the best examples of efforts to integrate job designs with culture and personality are provided by sociotechnical designs.

Sociotechnical Job Designs

Sociotechnical designs are job designs that blend personnel and technology. The objective of these designs is to integrate new technology into the workplace, so that workers accept and use it to increase overall productivity. Because new technology often requires people to learn new methods and in some cases work faster, employee resistance is common. Effective sociotechnical design can overcome these problems. There are a number of good examples, and perhaps the most famous is that of Swedish automaker Volvo.

sociotechnical designs
Job designs that blend personnel and technology.

Sociotechnical changes that reflect the cultural values of the workers were introduced at Volvo's Kalmar plant. Autonomous work groups were formed and given the authority to elect their own supervisors as well as to schedule, assign, and inspect their own work. Each group was allowed to work at its own pace, although there was an overall output objective for the week, and each group was expected to attain this goal.[65] The outcome was very positive and resulted in Volvo's building another plant that employed even more sophisticated sociotechnical job-design concepts. Volvo's plant layout, however, did not prevent the firm from having some problems. Both Japanese and North American automakers were able to produce cars in far less time, putting Volvo at a cost disadvantage. As a result, stagnant economies in Asia, coupled with weakening demand for Volvo's product lines in both Europe and the U.S., resulted in the firm's laying off workers and taking steps to increase its efficiency.[66,67]

Without sacrificing efficiency, other firms have introduced sociotechnical designs for better blending of their personnel and technology. A well-known U.S. example is General Foods, which set up autonomous groups at its Topeka, Kansas, plant to produce Gaines pet food. Patterned after the Volvo example, the General Foods project allowed workers to share responsibility and work in a highly democratic environment. Other U.S. firms also have opted for a self-managed team approach. In fact, research reports that the concept of multifunctional teams with autonomy for generating successful product innovation is more widely used by successful U.S., Japanese, and European firms than any other teamwork concept.[68] Its use must be tempered by the cultural situation, however. And even the widely publicized General Foods project at Topeka had some problems. Some former employees indicate that the approach steadily eroded and that some managers were openly hostile because it undermined their power, authority, and decision-making flexibility. The most effective job design will be a result of both the job to be done and the cultural values that support a particular approach.[69] For MNCs, the challenge is to make the fit between the design and the culture.

At the same time, it is important to realize that functional job descriptions are being phased out in many MNCs and replaced by more of a process approach. The result is a more horizontal network that relies on communication and teamwork. This approach also is useful in helping create and sustain partnerships with other firms.

Work Centrality

work centrality
The importance of work in an individual's life relative to other areas of interest.

Work centrality, which is the importance of work in an individual's life relative to his or her other areas of interest (family, church, leisure), provides important insights into how to motivate human resources in different cultures.[70] Bhagat and associates found that Japan has the highest level of work centrality, followed by moderately high levels for Israel, average levels for the U.S. and Belgium, moderately low levels for the Netherlands and Germany, and low levels for Britain.[71] These findings indicate that successful multinationals in Japan must realize that while work is an integral part of the Japanese lifestyle, work in the U.S. must be more balanced with a concern for other interests. Unfortunately, this is likely to become increasingly more difficult for Japanese firms in Japan because stagnant population growth is creating a shortage of personnel. As a result, growing numbers of Japanese firms are now trying to either raise the mandatory retirement age to 65 or eliminate it altogether. Additionally, the government is debating uncapping the mandatory age that citizens must start drawing from their pensions.[72]

Value of Work Although work is an important part of the lifestyles of most people, this emphasis can be attributed to a variety of conditions. For example, one reason that Americans and Japanese work such long hours is that the cost of living is high, and hourly employees cannot afford to pass up the opportunity for extra money. Among salaried employees who are not paid extra, most Japanese managers expect their subordinates to stay late at work, and overtime has become a requirement of the job. Moreover, there is recent evidence that Japanese workers may do far less work on a business day than outsiders would suspect.

Many people are unaware of these facts and have misperceptions of why the Japanese and Americans work so hard and the importance of work to them. The same is true of Germans and Americans. In recent years, the number of hours worked annually by German workers has been declining, while the number for Americans has been on the rise. What accounts for this trend? Some observers have explained it in cultural terms, noting that Germans place a high value on lifestyle and often prefer leisure to work, while their American counterparts are just the opposite. In fact, research reveals that culture may have little to do with it. A study by the National Bureau of Economic Research (NBER) found a far wider range of wages within American companies than in German firms, and this large pay disparity has created incentives for American employees to work harder. For instance, Table 12–8 compares U.S. and German salaries based on a "Step 1," or entry-level pay scale. In particular, many U.S. workers believe that if they work harder, their chances of getting pay hikes and promotions will increase, and there are historical data to support this belief. An analysis of worker histories in the U.S. and Germany led NBER researchers to estimate that American workers who increase their working time by 10 percent, for example, from 2,000 to 2,200 hours annually, will raise their future earnings by about 1 percent for each year in which they put in extra hours.

Obviously, factors other than culture—such as gender, industry, and organizational characteristics—influence the degree and type of work centrality within a country. These factors, in turn, interact with national cultural characteristics. One study of work centrality examined the effect of parenthood on men and on women regarding the centrality of and investment in work and family in the bicultural context of the Israeli high-tech industry (i.e., the family-centered Israeli society on the one hand and the masculine work-centered high-tech industry on the other hand). This study found a contrasting parenthood effect on men and women. Fathers showed higher relative work centrality than childless men, whereas mothers showed lower relative work centrality than women without children. Fathers invested more weekly hours in paid work than childless men, whereas mothers invested fewer weekly hours in paid work than women without children. In the parents' subsample, mothers evinced higher relative family centrality than fathers. Mothers also invested more weekly hours in child care and core housework tasks than fathers. A key

Table 12–8
2022 Annual Salaries: U.S. and Germany

Grade	U.S. Salary (Annual, in US$)	German Salary (Annual, in US$)
1	$ 20,172	$28,803
2	22,682	30,432
3	24,749	31,774
4	27,782	32,862
5	31,083	34,347
6	34,649	36,572
7	38,503	39,666
8	42,641	42,820
9	47,097	47,684
10	51,864	52,893
11	56,983	58,164
12	68,299	64,489
13	81,216	70,098
14	95,973	79,125
15	112,890	88,116

Sources: "Salary Table 20192022." Office of Personal Management. https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf2022/GS.pdf; https://oeffentlicher-dienst.info/beamte/vergleich

finding was that the contrasting parenthood effect prevails even in the demanding high-tech sector, in which women are expected to work long hours and play down their caregiving activities.[73]

Another important area of consideration is the importance of work as a part of the overall lifestyle. In the case of Japanese workers, in particular, there has been a growing interest in the impact of overwork on the physical condition of employees. A report by the Japanese government noted that one-third of the working-age population suffers from chronic fatigue, and a recent survey by the Japanese prime minister's office found that a majority of those who were surveyed complained of being chronically tired and feeling emotionally stressed and some complained about abusive conditions in the workplace.[74,75] Fortunately, as seen in the International Management in Action box "Karoshi: Stressed Out in Japan," the effects of overwork or job burnout—**karoshi** in Japanese—are beginning to be recognized as a real social problem. Other Asian countries that are subject to accelerated development are also experiencing job stress. Chinese workers, for example, are exhibiting classic Western signs of stress and overwork. Burnout, substance abuse, eating disorders, and depression abound, not to mention time away from the family. The culture is such that employees will not seek counseling, as it is a sign of weakness and embarrassment. However, like the Japanese, the Chinese are seeing the issue and attempting to approach a solution that will alleviate stress and save face.[76]

karoshi
A Japanese term that means "overwork" or "job burnout."

Job Satisfaction In addition to the implications that the value of work has for motivating human resources across cultures, another interesting contrast is job satisfaction. For example, one study found that Japanese office workers may be much less satisfied with their jobs than their U.S., Canadian, and EU counterparts are. The Americans, who reported the highest level of satisfaction in this study, were pleased with their job challenges, opportunities for teamwork, and ability to make a significant contribution at work. The Japanese workers were least pleased with these three factors.[77] Similar findings were uncovered by Luthans and associates, who reported that U.S. employees had higher organizational commitment than Japanese or Korean workers in their cross-cultural study.

International Management in Action

Karoshi: Stressed Out in Japan

Doing business in Japan can be a real killer. Overwork, or karoshi, as it is called in Japan, claims 10,000 lives annually in this hard-driving, competitive economic society, according to Hiroshi Kawahito, a lawyer who founded the National Defense Council for Victims of Karoshi.

One of the cases is Jun Ishii of Mitsui & Company. Ishii was one of the firm's only speakers of Russian. In the year before his death, Ishii made 10 trips to Russia, totaling 115 days. No sooner would he arrive home from one trip than the company would send him out again. The grueling pace took its toll. While on a trip, Ishii collapsed and died of a heart attack. His widow filed a lawsuit against Mitsui & Company, charging that her husband had been worked to death. Tokyo labor regulators ruled that Ishii had indeed died of karoshi, and the government now is paying annual worker's compensation to the widow. The company also cooperated and agreed to make a one-time payment of $240,000.

The reason that the case received so much publicity is that this is one of the few instances in which the government ruled that a person died from overwork. Now regulators are expanding karoshi compensation to salaried as well as hourly workers. Realizing the detrimental effect of karoshi, the Japanese Government passed the "Work Style Reform" bill, which allowed employers to force employees to take holidays. For the first time in Japan, a cap on overtime was introduced to check karoshi, setting the monthly overtime cap at 80 hours a month. This development is receiving the attention of the top management of many Japanese multinationals, and some Japanese MNCs are beginning to take steps to prevent the likelihood of overwork. For example, Mitsui & Company now assesses its managers based on how well they set overtime hours, keep subordinates healthy, and encourage workers to take vacations. Matsushita Electric has extended vacations from 16 days annually to 23 days and now requires all workers to take this time off. One branch of Nippon Telegraph & Telephone found that stress made some workers irritable and ill, so the company initiated periods of silent meditation. Other companies are following suit, although there still are many Japanese who work well over 2,500 hours a year and feel both frustrated and burned out by job demands.

On the positive side, the Ishii case likely will bring about some improvements in working conditions for many Japanese employees. Experts admit, however, that it is difficult to determine if karoshi is caused by work demands or by private, late-night socializing that may be work-related. Other possible causes include high stress, lack of exercise, and fatty diets, but, whatever the cause, one thing is clear: More and more Japanese families are no longer willing to accept the belief that karoshi is a risk that all employees must accept. Work may be a killer, but this outcome can be prevented through more carefully implemented job designs and work processes.

At the same time, recent reports show that there is still a long way to go. In Saku, Japan, for example, the city's main hospital has found that 32 percent of the patients hospitalized in the internal medicine and psychiatric wards are being treated for chronic fatigue syndrome, a diagnosis that is made only after six months of severe, continuous fatigue in the absence of any organic illness. Japanese doctors attribute this explosion of chronic fatigue syndrome to stress. Moreover, during the prolonged economic downturn, a growing number of businesspeople found themselves suffering from these symptoms. And, to make matters worse, there is growing concern about alcoholism among workers. Over the past four decades, per capita alcohol consumption in most countries has declined, but in Japan, it has risen fourfold. The per capita consumption of alcohol in Japan is equal to that in the U.S. Even this comparison is misleading because researchers have found that most Japanese women do not drink at all, but Japanese men in their 50s drink more than twice as much as their American counterparts. Additionally, young Japanese employees find that drinking is considered necessary, and some of them have raised complaints about *alru-hara*, or alcohol harassment (forced/pressured alcohol consumption).

Dealing with overwork will continue to be a challenge for both for Japanese firms and for the government. The same is true of the growing problems associated with alcohol that are being brought on by stress and business cultures that have long supported alcohol consumption as a way of doing business and fitting into the social structure.

Source: Brown, William S., Rebecca E. Lubove, and James Kwalwasser. "Karoshi: Alternative Perspectives of Japanese Management Styles." *Business Horizons*, March/April 1994, 58–60; French, Howard K. "A Postmodern Plague Ravages Japan's Workers." *New York Times*, February 21, 2000, A4; Miller, Karen Lowry. "Now, Japan Is Admitting It: Work Kills Executives." *BusinessWeek*, August 3, 1992, 35; Zielenziger, Michael. "Alcohol Consumption a Rising Problem in Japan." *Miami Herald*, December 28, 2000, 10A; Elle Hunt, "Japan's karoshi culture was a warning. We didn't listen," Wired, June 02, 2021, https://www.wired.co.uk/article/karoshi-japan-overwork-culture.

What makes these findings particularly interesting is that a large percentage of the Japanese and Korean workers were supervisory employees, who could be expected to be more committed to their organization than nonsupervisory employees, and a significant percentage of these employees also had lifetime guarantees.[78] This study also showed that findings related to job satisfaction in the international arena often are different from expected.[79]

Conventional wisdom not always being substantiated has been reinforced by cross-cultural studies that found that Japanese workers who already were highly paid, and then received even higher wages, experienced decreased job satisfaction, morale, commitment,

and intention to remain with the firm. This contrasted sharply with the U.S. workers, who did not experience these negative feelings.[80] These findings show that the motivation approaches used in one culture may have limited value in another.[81]

Research by Kakabadse and Myers also has brought to light findings that are contradictory to commonly accepted beliefs. These researchers examined job satisfaction among managers from the United Kingdom, France, Belgium, Sweden, and Finland. It has long been assumed that satisfaction is highest at the upper levels of organizations; however, this study found varying degrees of satisfaction among managers, depending on the country. The researchers reported that senior managers from France and Finland display greater job dissatisfaction than managers from the remaining countries. In terms of satisfaction with and commitment to the organization, British, German, and Swedish managers display the highest levels of commitment. Equally, British and German managers highlight that they feel stretched in their job, but senior managers from French organizations suggest that their jobs lack sufficient challenge and stimulus. In keeping with the job-related views displayed by French managers, they equally indicate their desire to leave their job because of their unsatisfactory work-related circumstances.[82]

On the other hand, research also reveals that some of the conditions that help create organizational commitment among U.S. workers also have value in other cultures. For example, a large study of Korean employees (n = 1,192 in 27 companies in 8 major industries) found that consistent with U.S. studies, Korean employees' position in the hierarchy, tenure in their current position, and age all relate significantly to organizational commitment. Also, as in previous studies in the United States, as the size of the Korean organizations increases, commitment decreases, and, the more positive the climate perceptions, the greater the commitment.[83] In other words, there is at least beginning evidence that the theoretic constructs predicting organizational commitment may hold across cultures.

Also related to motivation are job attitudes toward quality of work life. Research reports that EU workers see a strong relationship between how well they do their jobs and the ability to get what they want out of life. U.S. workers are not as supportive of this relationship, and Japanese workers are least likely to see any connection. This finding raises an interesting motivation-related issue regarding how well, for example, American, European, and Japanese employees can work together effectively. Some researchers have recently raised the question of how Japanese firms will be able to have effective strategic alliances with American and European companies if the work values of the partners are so different. Tornvall, after conducting a detailed examination of the work practices of five companies—Fuji-Kiku, a spare-parts firm in Japan; Toyota Motor Ltd. of Japan; Volvo Automobile AB of Sweden; SAAB Automobile AB, Sweden; and the General Motors plant in Saginaw, Michigan—concluded that there were benefits from the approaches used by each. This led him to recommend what he calls a "balance in the synergy" between the partners.[84] Some of his suggestions included the following:

Moving Away From	Moving Toward
Logical and reason-centered, individualistic thinking	A more holistic, idealistic, and group thinking approach to problem-solving
Viewing work as a necessary burden	Viewing work as a challenging and development activity
The avoidance of risk-taking and the feeling of distrust of others	An emphasis on cooperation, trust, and personal concern for others
The habit of analyzing things in such great depth that it results in "paralysis through analysis"	Cooperation built on intuition and pragmatism
An emphasis on control	An emphasis on flexibility

In a large degree, this balance will require all three groups—Americans, Europeans, and Asians—to make changes in the way they approach work.

In conclusion, work is important in every society. The extent of importance varies, however, and much of what is "known" about work as a motivator often is culture-specific. Again, the lesson to be learned for international management is that although the process of motivation may be the same, the content may change from one culture to another.

Reward Systems

Besides the content and process theories, another important area of motivation is that of rewards. Managers everywhere use rewards to motivate their personnel. Sometimes these are financial, such as salary raises, bonuses, and stock options. At other times, they are nonfinancial, such as feedback and recognition.[85] The major challenge for international managers is that there are often significant differences between the reward systems that work best in one country and those that are most effective in another. Some of these differences are a result of the competitive environment[86] or of government legislation that dictates such things as minimum wages, pensions, and perquisites.[87] In other cases, the differences are accounted for very heavily by culture.[88] For example, while many American companies like to use merit-based reward systems, firms in Japan, Korea, and Taiwan, where individualism is not very high, often feel that this form of reward system is too disruptive of the corporate culture and traditional values.[89]

■ Incentives and Culture

The use of financial incentives to motivate employees is very common, especially in countries with high individualism. In the U.S., several chief executive officers earn over $100 million a year thanks to bonuses, stock options, and long-term incentive payments.[90] These pay systems are common when companies attempt to link compensation to performance. Typically, these systems range from individual incentive-based pay systems, in which workers are paid directly for their output, to systems in which employees earn individual bonuses based on how well the organization at large achieves certain goals such as sales growth, total revenue, or total profit. These reward systems are designed to stress equity. However, they are not universally accepted.

In many cultures, compensation is based on group membership or group effort. In these cases, the systems are designed to stress equality, and employees will oppose the use of individual incentive plans. One example of this is an American multinational corporation that decided to institute an individually based bonus system for the sales representatives in its Danish subsidiary. The sales force rejected the proposal because it favored one group over another and employees felt that everyone should receive the same size bonus.[91] Another example, reported by Vance and associates, was Indonesian oil workers who rejected a pay-for-performance system that would have resulted in some work teams' making more money than others.[92]

While financial rewards such as pay, bonuses, and stock options are important motivators, in many countries workers are highly motivated by other things as well. For example, Sirota and Greenwood studied employees of a large multinational electrical equipment manufacturer with operations in 40 countries. They found that in all of these locales the most important rewards involved recognition and achievement. Second in importance were improvements in the work environment and employment conditions, including pay and work hours.[93] Beyond this, a number of differences emerged in preferred types of rewards. For example, employees in France and Italy highly valued job security, while for American and British workers it held little importance. Scandinavian workers placed high value on concern for others on the job and for personal freedom and autonomy, but they did not rate "getting ahead" as very important. German workers ranked security, fringe benefits, and "getting ahead" as very important, while Japanese employees put good working conditions and a congenial work environment high on their list but ranked personal advancement quite low. The nearby International Management in Action box "Motivating through a Better Working Environment" provides a few additional examples.

Very simply, the types of incentives that are deemed important appear to be culturally influenced. Moreover, culture can even affect the overall cost of an incentive system. In Japan, efforts to introduce Western-style merit pay systems typically lead to an increase

International Management in Action

Motivating through a Better Working Environment

Employee remuneration and sharing in the financial successes of the company are important motivating factors that are valued across nearly every culture. However, research has shown that relying solely on financial rewards to incentivize employees can result in a negative impact on long-term retention. This is especially true for Millennials and Generation Z employees, who tend to value intangible benefits, like a favorable work-life balance, as much as they value their paychecks. For this reason, global companies, such as BMW, Alibaba, and Virgin Group, are creating unique working environments to engage their employees.

BMW, a German-based automotive company, prides itself on encouraging employees to be creative while focusing on their own personal and professional growth. According to Harald Krüger, the former CEO of BMW, providing a work environment where employees can be responsible for inspiring tasks has been far more important than rewarding employees financially. Long-term employee development has been a key component of this strategy. Programs aimed at developing female managers and initiatives designed to encourage cross-generational knowledge sharing were implemented specifically with Millennial employees in mind.

With a completely different cultural context from that of BMW, Alibaba, the Chinese e-commerce giant, engages its workforce by outwardly displaying appreciation for the sacrifices made by their employees and their employees' families. This appreciation is designed to encourage a familial feeling between personal and professional life. For example, on Alibaba Day, employees and their families are invited to participate in various activities designed to show thankfulness for the hard work of Alibaba's employees throughout the year, as well as to celebrate the support that employees' families provide. Additionally, a special mass "wedding" ceremony for all newlywed employees is performed by Alibaba each year on Alibaba Day, and the founder Jack Ma has officiated the ceremony in past years. The wedding ceremony is designed to reinforce that the entire family unit is a part of the Alibaba family, not just the employee. Although this may be seen as too intimate for employees from Germany or the U.S., the ceremony is valued by the Alibaba employees as a special and significant show of appreciation.

Embracing families, albeit in a less direct way, has also boosted morale and happiness at the Virgin Group, a family-owned conglomerate headquartered in the U.K. According to founder Richard Branson, the majority of the Virgin Group employees want the option to work remotely, and top Millennial talent will move to companies that offer such flexibility. As a result, the Virgin Group has expanded its offering of flexible work options. Today, Virgin Group employees can work remotely as needed, enabling them to spend more time with their families. Additionally, the company offers an "unlimited leave policy," whereby vacation time is not strictly defined as a specific number of days per year. Rather, employees can take the time they need, as they see fit, to relax and unwind. As a brand leader in multiple industries, Virgin Group is likely setting the work-life balance standard for future companies to follow.

Source: "BMW Group CEO Harald Krüger Voted Most Popular Manager 2018." BMW Group Press, June 20, 2018, https://www.press.bmwgroup.com/global/article/detail/T0282346EN/bmw-group-ceo-harald-krueger-voted-most-popular-manager-2018?language=en; Horwitz, Josh. "On the Alibaba Campus, Ambition and Humility Are Both on Display." Quartz, December 19, 2017, https://qz.com/1159008/all-about-alibaba-ambition-and-humility-in-the-companys-campus-and-culture; Umoh, Ruth. "Billionaire Richard Branson: 3 Reasons You Should Let Your Employees Work Remotely." CNBC, March 13, 2018, https://www.cnbc.com/2018/03/13/richard-branson-3-reasons-you-should-let-your-employees-work-remotely.html.

in the overall labor costs because the companies find that they cannot reduce the pay of less productive workers for fear of causing them to lose face and thus disturb group harmony.[94] As a result, everyone's salary increases. Culture also impacts profit in that people tend to perform better under management systems that are supportive of their own values. Nam, for example, studied two Korean banks that operated under different management systems.[95] One was owned and operated as a joint venture with an American bank, and the other was owned and operated as a joint venture with a Japanese bank. The American bank put into place management practices and personnel policies that were common in its own organization. The Japanese bank put together a blend of Japanese and Korean human resource management policies. Nam found that employees in the joint venture with the Japanese bank were significantly more committed to the organization than were their counterparts in the American joint venture and the Japanese-affiliated bank had significantly higher financial performance.

Sometimes, however, reward systems can be transferred and used successfully. For example, U.S. MNCs such as IBM, Microsoft, and Oracle have successfully applied the same reward and incentive systems in their Indian subsidiaries as are used in the U.S.

These include performance-based bonuses, promotions with increased responsibilities, and opportunities for learning and growth. In fact, in many emerging economies, workers are motivated to work for Western MNCs because of the reward and incentive policies that are similar between the headquarters and the subsidiaries.[96] Many people believe that large annual financial packages and lucrative golden parachutes are used only in American firms, but this is untrue. Senior-level managers in many MNCs earn large salaries, and large financial packages for executives who are terminated or whose company is acquired by another firm are gaining in popularity, especially in Europe.[97] In other words, the type of rewards that are used is not culture-bound.

Overall, however, cultures do greatly influence the effectiveness of various rewards. What works in one country may not work in another. For example, research shows that Swedish workers with superior performance often prefer a reward of time off rather than additional money, while high-performing Japanese workers tend to opt for financial incentives—as long as they are group-based and not given on an individual basis.[98] It is also important to realize that the reasons workers choose one form of motivation over another—for example, days off rather than more money—may not be immediately obvious or intuitively discernible. For example, research has found that Japanese workers tend to take only about half of their annual holiday entitlements, while French and German workers take all of the days to which they are entitled. Many people believe the Japanese want to earn more money, but the primary reason they do not take all their holiday entitlements is that they believe taking all of those days shows a lack of commitment to their work group. The same is true for overtime: Individuals who refuse to work overtime are viewed as selfish. One of the results of these Japanese cultural values is karoshi, which we discussed a bit earlier in the chapter.

COVID-19 and the Future of Work

The COVID-19 pandemic has had a profound impact on how organizations motivate employees and how employees engage with work. While some of the immediate consequences of the pandemic included a reduction on global mobility and a shift to remote working, many of these trends are likely to persist even as societies return to a new normal. In March 2020, when the World Health Organization declared COVID-19 a global pandemic, IBM transitioned 95 percent of its employees to remote work within days.[99] While it was initially assumed that this shift to remote work would be temporary, both employees and employers found many benefits in the remote work policies and have persisted with the same.

According to a survey of 530 companies across 46 jurisdictions by global consulting firm KPMG, by early 2022, about 90 percent of the companies had introduced a remote working policy or were considering one.[100] The study further highlighted that the new employees increasingly consider remote working policy in choosing a new employer. While travel restriction because of the COVID-19 pandemic was the trigger for companies shifting to remote working to maintain continuity, in the later days of the pandemic, requests and interest shown by employees became major reasons for remote working to continue. A survey of 4,000 people in the US by job search site flexjobs indicated about sixty-five percent of the respondents wanting to become full-time remote employees post the COVID-19 pandemic.[101] Similar trends are observed globally. A 2021 BCG survey of 209,000 employees in 190 countries found that a majority wanted to work from home at least some of the time, with a quarter of the respondents preferring to work from home all the time.[102] For companies, remote working has emerged as a tool for brand differentiation and talent acquisition. As per the KPMG survey, 18 percent of the companies view remote working as essential and brand-defining in the talent market, while for 12 percent of the companies, it helped in addressing talent shortage. In the 2021 KPMG CEO Outlook survey, 37 percent of CEOs see their workforce to be working remotely at least two or more days per week, while 42 percent indicated an intention to hire resources that will predominantly work remotely.[103]

The rapid pace of technology adoption in tandem with the COVID-19 pandemic has also accelerated the push for automation, especially pushing digitization in all spheres of work. Although the number of new jobs getting created because of the adoption of newer technologies will surpass the number of jobs lost but the pace of job loss will be swifter in many countries. Skill gaps will continue to be high in key occupations with increasing demand for cogitative skills like critical thinking and problem-solving.[104]

In the new workplace reality, ensuring employees feel engaged and motivated is very essential for organizations to achieve the pre-pandemic level performance. Organizations are grappling with challenges of improving organizational culture and ensuring employees feel part of the team.[105] As a McKinsey report states, "culture is way harder when it is remote … ".[106] Businesses have tried to improve employee engagement through various means like promoting casual communications through live chat apps, and virtual team get-togethers. While many organizations have overcome the initial hurdles of providing technical tools and defining processes and systems to enable organizational continuity remotely, companies are still trying to demystify other challenges like how motivated employees feel while working remotely or how working from home impacts employee engagement. McKinsey & Co. in a survey of 800 US-based employees, found employees seeing more positive effects of remote working, were more engaged and had a stronger sense of well-being. Similarly, 80 percent of the survey respondents reported remote working to be materially affecting their work-life balance.[107]

Social isolation, distraction, access to technology, and low level of communication are some of the major challenges impacting employee engagement and motivation when working remotely. We do not yet have clear answers to these questions yet, which makes it very important for companies and their leaders to seek constructive feedback while showing show transparency and empathy in their interactions with the employees and developing policies that are contextually relevant.



The World of International Management—Revisited

The World of International Management at the start of the chapter introduced you to how important it is for MNCs and international managers to understand the underlying motivators of workers' performance. It also discussed various sources of employee satisfaction or dissatisfaction and how these factors may differ among countries and cultures or how they may be the same. By ignoring such crucial issues, companies risk losing a vast talent pool and incurring costs through new hires, training, or settling for less experienced personnel.

While workers in some countries may be lured into attractive jobs provided by MNCs through relatively good salary compensation and the promise of upward mobility, many have become impatient from the lack of institutional follow-through in various dimensions. The COVID-19 pandemic and shift to remote work have further complicated employer-employee relations. Companies moving to other countries may initially save money from low introductory wages, but they need to consider the costs involved in retaining (or losing) valuable talent. Until recently, awareness of the needs of employees in the international context was reflected simply in wage incentives, but more and more organizations are realizing that the less tangible values of the work environment, recognition of intertwined work/family relationships, and the opportunity to continue education are highly regarded in many cultures. Identifying specific cultural viewpoints early can help MNCs in any country to grow and may be the key to continued survival.

The challenge for international managers is to put together a motivational package that addresses the specific needs of the employee or group in each region where an MNC serves. Applying the ideas presented in this chapter, answer the following questions: (1) What are some of the things that successful MNCs do to effectively motivate European employees? Chinese employees? Southeast-Asian (Indonesian) employees? (2) What kinds of incentives do scientific and technical employees respond to that might not be as meaningful to other categories of employees? (3) What advantages might employees see in working for a truly global company (as opposed to a North American MNC)?

SUMMARY OF KEY POINTS

1. Two basic types of theories explain motivation: content and process. Content theories have received much more attention in international management research because they provide the opportunity to create a composite picture of the motivation of human resources in a particular country or region. In addition, content theories more directly provide ways for managers to improve the performance of their human resources.
2. Maslow's hierarchy-of-needs theory has been studied in a number of countries. Researchers have found that regardless of the country, managers have to be concerned with the satisfaction of these needs for their human resources.
3. Some researchers have suggested that satisfaction profiles are not very useful for studying motivation in an international setting because there are so many different subcultures within any country or even at different levels of a given organization. These researchers have suggested that job categories are more effective for examining motivation because job level (managers versus operating employees) and the need hierarchy have established correspondences.
4. Like Maslow's theory, Herzberg's two-factor theory has received considerable attention in the international arena, and Herzberg's original findings from the United States have been replicated in other countries. Cross-cultural studies related to job satisfaction also have been conducted. The data show that job content is more important to job satisfaction than is job context.
5. The third content theory of motivation that has received a great amount of attention in the international arena is the need for achievement. Some current findings show that this need is not as widely held across cultures as was previously believed. In some parts of the world, however, cultural values encourage people to be high achievers. In particular, Hofstede suggested that an analysis of two cultural dimensions, uncertainty avoidance and masculinity, helps identify high-achieving societies. Once again, it can be concluded that different cultures will support different motivational needs and that international managers developing strategies to motivate their human resources for improved performance must recognize cultural differences.
6. Process theories have also contributed to the understanding of motivation in the international arena. Equity theory focuses on how motivation is affected by people's perception of how fairly they are being treated, and there is considerable research to support the fundamental equity principle in Western work groups. However, when the theory is examined on an international basis, the results are mixed. Perhaps the biggest shortcoming of the theory is that it appears to be culture-bound.
7. Goal-setting theory focuses on how individuals go about setting goals and responding to them and the overall impact of this process on motivation. There is evidence showing that employees perform extremely well when they are assigned specific and challenging goals that they had a hand in setting. However, most of these goal-setting studies have been conducted in the United States. Additionally, research results on the effects of goal setting at the individual level are very limited, and culture may well account for these outcomes.
8. Expectancy theory postulates that motivation is largely influenced by a multiplicative combination of a person's belief that effort will lead to performance, that performance will lead to specific outcomes, and that these outcomes are valued by the individual. There is mixed support for this theory. Many researchers believe that the theory best explains motivation in countries characterized by an internal locus of control.
9. Although content and process theories provide important insights into the motivation of human resources, three additional areas that have received attention are job design, work centrality, and reward systems. Job design is influenced by culture as well as the specific methods that are used to bring together the people and the work. Work centrality helps explain the importance of work in an individual's life relative to other areas of interest. Work has become a relatively greater part of the average U.S. employee's life and perhaps less a part of the average Japanese worker's life. Research also indicates that Japanese office workers are less satisfied with their jobs than are U.S., Canadian, and EU workers, suggesting that MNCs need to design motivation packages that address the specific needs of different cultures. This is also true for rewards. Research shows that the relative motivational value of monetary and nonmonetary rewards is influenced by culture. Countries with high individualism, such as the U.S. and the U.K., tend to make wide use of individual incentives, while collectivistic countries such as those in Asia prefer group-oriented incentives.
10. Some motivational practices may have universal appeal, but more often they need tailoring to fit to the culture in which an MNC is working. Research shows that some motivational approaches in the U.S. have been successfully transferred to Russia. More often, creative modification to familiar approaches is necessary. The importance for international managers of focusing on employee motivation is unquestioned. The challenge lies in finding the appropriate applications of motivational theory to the specific culture at hand.

KEY TERMS

achievement motivation theory, *446*
content theories, *436*
equity theory, *449*
esteem needs, *437*
expectancy theory, *451*
extrinsic, *434*
goal-setting theory, *450*
hygiene factors, *442*
intrinsic, *434*
job-content factors, *446*
job-context factors, *446*
job design, *451*
karoshi, *455*
motivation, *434*
motivators, *442*
physiological needs, *437*
process theories, *436*
safety needs, *437*
self-actualization needs, *437*
social needs, *437*
sociotechnical designs, *453*
two-factor theory of motivation, *442*
work centrality, *454*

REVIEW AND DISCUSSION QUESTIONS

1. Do people throughout the world have needs similar to those described in Maslow's need hierarchy? What does your answer reveal about using universal assumptions regarding motivation?
2. Is Herzberg's two-factor theory universally applicable to human resource management, or is its value limited to Anglo countries?
3. What are the dominant characteristics of high achievers? Using Figure 12–7 as your point of reference, determine which countries likely will have the greatest percentage of high achievers. Why is this so? Of what value is your answer to the study of international management?
4. A U.S. manufacturer is planning to open a plant in Sweden. What should this firm know about the quality of work life in Sweden that would have a direct effect on job design in the plant? Give an example.
5. What does a U.S. firm setting up operations in Japan need to know about work centrality in that country? How would this information be of value to the multinational? Conversely, what would a Japanese firm need to know about work centrality in the United States? Explain.
6. In managing operations in Europe, which process theory—equity theory, goal-setting theory, or expectancy theory—would be of most value to an American manager? Why?
7. What do international managers need to know about the use of reward incentives to motivate personnel? What role does culture play in this process?
8. What policies could MNCs utilize to motivate employees working remotely from different geographic settings?

INTERNET EXERCISE: MOTIVATING POTENTIAL EMPLOYEES

In order for multinationals to continue expanding their operations, they must be able to attract and retain highly qualified personnel in many countries. Much of their success in doing this will be tied to the motivational package they offer, including financial opportunities, benefits and perquisites, meaningful work, and an environment that promotes productivity and worker creativity. Automotive firms, in particular, are a good example of MNCs that are trying very hard to increase their worldwide market share. So, for them, employee motivation is an area that is getting a lot of attention. Go to the web and look at the career opportunities that are currently being offered by Nestlé, Unilever, and Procter & Gamble (websites: **https://www.nestle.com, https://www.unilever.com, https://us.pg.com**). All three of these companies provide information about the career opportunities they offer. Based on this information, answer these questions: (1) What are some of the things that all three firms offer to motivate new employees? (2) Which of the three has the best motivational package? Why? (3) Are there any major differences between P&G and European-based rivals? What conclusion can you draw from this?

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In the International Spotlight

Nigeria

Located in western Africa, Nigeria is situated between the countries of Benin and Cameroon on the Gulf of Guinea. The Niger River, perhaps the most important river in western Africa, flows into the country through Niger and empties into the Gulf of Guinea. The total land mass of Nigeria is slightly larger than twice the size of California. Its natural resources include natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, and arable land. The climate is tropical in most of the country, although the northern portion of the country is quite arid.[108]

The British Empire controlled a majority of Africa and, specifically, Nigeria from the early 19th century until the end of World War II. Nigeria gained its independence in 1960, but its politics consisted of military regimes and numerous coups. Military rule continued until the adoption of a new constitution in 1999, which transitioned the country's government into a civilian one. Since this transition, the political environment has been relatively stable, consisting of legitimate and regular elections. The country is, however, still feeling the effects of the four decades of corruption and mismanagement.[109]

With over 206.1 million people and a population growth rate of 2.5 percent in 2021, Nigeria is Africa's most populous nation and one of the fastest growing. Population projections indicate that the nation will grow to nearly 400 million by 2050, becoming the world's fourth most populous country. The official spoken language is English, due to Nigeria's history as a part of the British empire. The country is incredibly diverse, with more than 250 ethnic groups. By religion, Nigeria is split evenly between Muslims and Christians. This spiritual division has led to significant unrest and civil wars from the time of its independence until recent history.[110, 111]

The country's population is younger than most. Nigeria faces the difficult challenge of harnessing the potential of its young population (median age of 18.6 years in 2020) to boost economic development, reduce widespread poverty, and channel individuals into productive activities instead of ongoing religious and ethnic violence. Wealth inequality is especially pronounced in Nigeria, leaving a large gap between the "haves" and "have nots". With a GDP per capita in 2020 of US$2,083, over 60 percent of the country's population lives below the poverty line. Nigeria's total 2020 GDP stood at US$492.42 billion and the country has been experiencing slowing economic growth. In 2020, the economy contracted by 1.8 percent.[112]

Nigeria faces major challenges. Two large terrorist groups, Boko Haram and the Islamic State of Iraq and ash-Sham (ISIS) in West Africa, reside in the northeast of Nigeria. Both aim to replace the Nigerian government with an Islamic state under Sharia law and attack both civilian and regional military targets in order to expand their foothold in the region. Boko Haram has killed tens of thousands of Nigerians over the last decade, violently targeting any political or social activity associated with Western society. Additionally, the country still struggles with infant and maternal mortality and has the highest number of deaths due to AIDS globally.[113]

You Be the International Management Consultant

As of 2015, Nigeria's film industry employed over 1 million people and generated over US$2 billion in annual revenues, and had been steadily growing. The Nigerian owner of the Filmhouse Cinemas franchise, Kene Mpkaru, had announced a significant expansion of his company's presence in the country. Although the movie industry in Nigeria consists of viewers watching movies in their homes, Mpkaru believed there was growth potential for in-theater watching. Mpkaru had some expertise in the movie theater business; prior to owning his Nigerian franchise, he had worked for a European franchise and oversaw substantial expansion. Filmhouse had nine movie theaters in Nigeria, and the company planned to open 16 additional locations. The greatest challenge to doing business in the country was the relatively low purchasing power of the consumers, with more than 60 percent of the population living below the poverty line. Prior to Filmhouse, Nigeria's main movie theater option was a high-end theater that included a full dining experience, costing approximately US$40 per ticket.[114]

Nigeria built a film industry of its own in recent years. The country's movies, generally shot with very small budgets, were often released directly to DVD. This industry referred to as "Nollywood", accounted for over 2 percent of the nation's GDP. For Filmhouse, this domestic industry could serve as an attractive expansion vehicle. Currently, the industry faces many additional challenges, including the presence of too many film associations representing the country's multiple ethnic groups.[115]

Questions

1. If you were a consultant for Filmhouse, how would you advise Kene Mpkaru regarding his next moves in Nigeria?
2. What specific aspects of the country are positive for the company? What factors are negatives?
3. How would you deal with the wealth gap in the country?
4. Would you advise Filmhouse to concentrate on Nollywood productions, or would you try to attract Hollywood movies?

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Chapter 13

LEADERSHIP ACROSS CULTURES

OBJECTIVES OF THE CHAPTER

Leadership is often credited (or blamed) for the success (or failure) of international operations. As with other aspects of management, leadership styles and practices that work well in one culture are not necessarily effective in another. The leadership approach commonly used by U.S. managers would not necessarily be the same as that employed in other parts of the world. Even within the same country, effective leadership tends to be very situation-specific. However, as with the other areas of international management you have studied in this text, certain leadership styles and practices may be more or less universally applicable and transcend international boundaries. This chapter examines some differences and similarities in leadership styles across cultures.

First, we review the basic foundation for the study of leadership. Next, we examine leadership in various parts of the world, including some developing countries. Finally, we'll analyze specific types of leadership, drawing from recent research on leadership across cultures. The specific objectives of this chapter are

1. **DESCRIBE** the basic philosophic foundation and styles of managerial leadership.
2. **EXAMINE** the attitudes of European managers toward leadership practices.
3. **COMPARE** and **CONTRAST** leadership styles in Japan with those in the U.S.
4. **REVIEW** leadership approaches in China, the Middle East, and developing countries.
5. **EXAMINE** recent research and findings regarding leadership across cultures.
6. **DISCUSS** the relationship of culture clusters and leader behavior on effective leadership practices, including increasing calls for more responsible global leadership.

The World of International Management

Global Leadership Development: An Emerging Need

A lack of globally trained business leaders is resulting in missed opportunities for many MNCs. According to research by McKinsey & Company, nearly a third of companies have been unable to capitalize on international business opportunities due to a lack of skilled managers. Additionally, more than three-quarters of senior leadership at MNCs believe that their companies must better develop globally minded employees.[1] As a result, many firms are currently bolstering their leadership development programs to prevent a future shortage of managers.

What does a global leadership development program look like? What qualities are companies looking for in candidates for these programs? What are the benefits to the individual in participating in such a program? To answer these questions, one MNC will be examined in detail.

Spotlight on Roche

With over 101,000 employees and active in more than 100 countries, health care company Roche operates in a variety of diverse cultures around the globe.[2] According to Roche's website, "every Roche employee deserves a great leader, someone who inspires and engages the team with every interaction and who provides his or her employees with opportunities to discover, learn, develop and contribute continuously."[3] To ensure that its managers are properly trained to achieve success in the global environment, the company has developed extensive leadership development programs.

One such program is the "Business Perspectives Program." During the two-year training program, managers complete four six-month global rotations across the company's various sectors. With the help of designated executive mentors, participants are expected to organize their own rotations based on their career interests. One of Roche's primary goals through the Business Perspectives Program is to stretch its managers to reach outside their cultural comfort zones. Gaining experience in developing economies is encouraged, as is working across the local, regional, and global levels.[4]

Roche's Business Perspectives Program aims to develop well-rounded global leaders who

- Have a strong understanding of the business
- Are interculturally educated and aware
- Take initiative to develop themselves for future career growth
- Have experienced leadership decision-making in a variety of diverse cultural situations

In addition to real-world experience, the Business Perspectives Program also includes training-based simulations and lectures, which give participants the chance to immediately apply what they have learned, even if they are not facing a similar situation in the real-world work environment. Feedback, provided both formally and informally, provides critical benchmarking for the development of the program's participants. Both training facilitators and fellow participants rate each other's progress while coaching each other through open dialogue.

Networking with fellow Roche managers and executives is encouraged throughout the program. Every quarter, participants join "Fireside Chats," where senior leaders from across Roche, including CEO Severin Schwan, field questions and share insights. By the end of the two-year program, Roche's managers are prepared to lead teams from across the globe.[5]

Employee Development Yields Results

The Business Perspectives Program is just one of many leadership training initiatives at Roche. Two Roche employees' experiences demonstrate the results of these training programs.

Vadim, a native of Moscow who had grown up in Germany, Switzerland, and the United Kingdom, is a recent participant of the program. He viewed the program "as an opportunity to gain an in-depth understanding of Roche's organizational structure across different geographies and functions." As part of the program, he has worked in Roche's locations in Singapore, Moscow, and Basel. Reflecting on his assignments, he stated: "While all three assignments were very different in nature and provided me with a unique insight into regional customs, it was our Roche culture that ensured that I would find myself quickly integrated into the local work and social life every time."[6] Thomas Schinecker, CEO Roche Diagnostics, started his Roche career in the Perspectives Program in 2003. He shared his views on the program: "The Roche Perspectives 2-year program has not only accelerated my understanding and knowledge of Roche, its customers, and products across geographies and functions, it has also helped me learn more about myself and where I contribute most to Roche."[7] During the course of his Roche career since then, he has worked at Roche's locations, including Singapore, Basel, Vienna, Mannheim, and Stockholm.[8]

Roche considers its key to success to be "placing the best people with the most advanced skills and attributes in the right place, at the right time, focused on the right priorities." This focus on what's right requires good leadership. Thus, good leadership is essential to corporate success. When companies invest in global leadership development programs, they are investing in their firms' future.[9]

Effective global leadership is an essential competency of leading MNCs, and therefore companies are investing in programs to ensure effective global leadership development. Having leaders who can help companies enter and operate in new markets is especially important. At Roche and other companies, a shortage of such employees could constrain global growth. Roche, like many MNCs, has developed a series of formal, structured programs that are available to employees around the world. These programs are designed to develop skills and capabilities that will help the firms become more culturally sensitive, adaptable, and able to effectively manage in challenging global environments. In this chapter, we address different leadership styles as a platform for building effective leadership across cultures.

Foundation for Leadership

More academic research over the years has focused on leadership than on nearly any other social science topic. Much of the historical studies, political science, and behavioral sciences are either directly or indirectly concerned with leadership. Despite all this attention, there still is no generally agreed-on definition of leadership, let alone sound answers to the question of which leadership approach is more effective than others in the international arena.

leadership
The process of influencing people to direct their efforts toward the achievement of some particular goal or goals.

For our purposes, **leadership** can be defined simply as the process of influencing people to direct their efforts toward the achievement of some particular goal or goals.[10] Leadership is widely recognized as being very important in the study of international management, which raises the question: what is the difference between being a manager and being a leader? While there is no concise answer to this, either, some interesting and helpful perspectives have emerged.

The Manager-Leader Paradigm

While the terms *manager* and *leader* have often been used interchangeably in the business environment, many believe that there exist clear distinctions in characteristics and behaviors between the two. MNCs that have simply sought out employees with appropriate skill sets now face a new challenge: clarifying the seemingly dichotomous roles of managers and leaders to ensure a cohesive vision going forward.

It has been postulated that managers may provide leadership and leaders perform management functions. But managers don't perform the unique functions of leaders.[11,12] Managerial positions often consist of sheer responsibility. The attributes necessary to make a successful manager can be learned through academic study or observation and training.[13] Behaviors of managers vary greatly, but fundamentally they tend to follow company objectives and rules while attempting to maintain stability as they react to inevitable change. Essentially, management is something that one does, and the journey consists of striving to always do things right (as opposed to doing the right thing). Unfortunately, this often results in focusing on failures as a basis for identifying what needs improvement and ignoring success or denying praise.[14]

Leadership is more difficult to articulate, as views of what makes a leader are inconsistent across studies. Leader status is not something that can be learned but something that must be earned through respect.[15] In other words, people are not hired as leaders but appointed as such via employee perspective on the individual. Leaders guide and motivate team members and are extremely visible. While managers often merely focus on reaching objectives by mastering financial information, leaders work to get the right people in the right positions and motivate them; money matters become a secondary objective. Proactive behavior is often crucial as these individuals create change on the basis of a vision of the future. To sum it up, leadership is about the drive to ultimately do the right thing.[16] The focus of the leader is on the success of team members and on building their morale and motivation as the firm seeks to implement and execute the right strategy.

Many firms are beginning to search for an all-encompassing package of skill sets, and, while it is imperative for the survival of a business to have both managers and leaders, it is extremely difficult, if not impossible, to find someone who fits the inclusive criteria of both roles.[17] Still, hope abounds that it is a reasonable venture to search for individuals with the latent attributes of the leader-manager, who may benefit from training methods that can magnify the most relevant qualities.[18]

Table 13–1 provides a comparison of perceived differences between leadership and management. Whether or not these contrasting qualities and abilities are mutually exclusive or if one list is a subset of the other is highly debatable. But it seems clear that pitfalls loom when individuals who do not really exhibit the capacities of both a leader and a manager attempt to fill both sets of shoes. Uncertain and shifting roles and practices can lead to inconsistencies in execution, resulting in a belief among subordinates that those in positions of authority may not have the qualifications to serve in either capacity.[19]

In the context of international management, it is important to note that cultural perspectives are often responsible for how the roles of managers and leaders are seen to overlap and, in some cases, viewed as synonymous. In some cultures, especially those characterized by high power distance, the aura of a leader is projected onto the manager,

Table 13–1
Perceived Differences: Managers versus Leaders

Managers	Leaders
Can learn skills necessary	Harbor innate characteristics
Take care of where you are	Bring you to new horizons
Oversee	Motivate
Point out flaws to improve on	Give recognition for good work
Deal with complexity	Deal with ambiguity
Are fact finders	Are decision makers
Focus on efficiency	Focus on effectiveness
Are given immediate authority	Earn respect through actions
Follow company objectives	Set new standards
Have present vision	Have future vision
Do things right	Do the right things

whether or not he or she is ready for it. At the same time, globalization and international operations are evolving such that the manager may be cast into the role of leader out of necessity because there is no one else or no other choice available.[20] Today, managers that seek to do more than balance the budget may be shaped through appropriate training into the leaders of tomorrow.[21]

For the purpose of this book and the multiple challenges associated with managing in an international context, we may assume a high level of overlap in characteristics such that international managers will often be called upon to assume the role of manager-leader, or leader-manager. Indeed, in our discussion in the international context, we use the terms *supervisor, leader,* and *manager* somewhat interchangeably.

Leadership definitions may not be universal, yet relatively little effort has been made to systematically study and compare leadership approaches throughout the world. Most international research efforts on leadership have been directed toward a specific country or geographic area. Two comparative areas provide a foundation for understanding leadership in the international arena: (1) the philosophical grounding of how leaders view their subordinates and (2) leadership approaches as reflected by autocratic-participative behaviors of leaders. The philosophies/approaches common in the U.S. often are quite different from those employed by leaders in overseas organizations. At the same time, the differences often are not as pronounced as is commonly believed. First, we will review historical viewpoints on leadership and then move on to exploring new findings.

Philosophical Background: Theories X, Y, and Z

One primary reason that leaders behave as they do is rooted in their philosophy or beliefs regarding how to direct their subordinates most effectively. Managers who believe their people are naturally lazy and work only for money will use a leadership style that is different from the style of managers who believe their people are self-starters and enjoy challenge and increased responsibility. Douglas McGregor, the pioneering leadership theorist, labeled these two sets of assumptions "Theory X" and "Theory Y."

Theory X manager
A manager who believes that people are basically lazy and that coercion and threats of punishment often are necessary to get them to work.

A **Theory X manager** believes that people are basically lazy and that coercion and threats of punishment must be used to get them to work. The specific philosophical assumptions of Theory X managers or leaders are

1. By their very nature, people do not like to work and will avoid it whenever possible.

2. Workers have little ambition, try to avoid responsibility, and like to be directed.
3. The primary need of employees is job security.
4. To get people to attain organizational objectives, it is necessary to use coercion, control, and threats of punishment.[22]

Theory Y manager
A manager who believes that under the right conditions, people not only will work hard but also will seek increased responsibility and challenge.

A **Theory Y manager** believes that under the right conditions, people not only will work hard but also will seek increased responsibility and challenge. In addition, a great deal of creative potential basically goes untapped, believes Theory Y, and, if these abilities can be tapped, workers will provide much higher quantity and quality of output. The specific philosophical assumptions of Theory Y leaders are

1. The expenditure of physical and mental effort at work is as natural to people as resting or playing.
2. External control and threats of punishment are not the only ways of getting people to work toward organizational objectives. If people are committed to the goals, they will exercise self-direction and self-control.
3. Commitment to objectives is determined by the rewards that are associated with their achievement.
4. Under proper conditions, the average human being learns not only to accept but to seek responsibility.
5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely distributed throughout the population.
6. Under conditions of modern industrial life, the intellectual potential of the average human being is only partially tapped.[23]

The reasoning behind these beliefs varies by culture. U.S. managers believe that to motivate workers, it is necessary to satisfy their higher-order needs. This is done best through a Theory Y leadership approach. In China, Theory Y managers act similarly—but for different reasons. After the 1949 revolution, two types of managers emerged in China: Experts and Reds. The Experts focused on technical skills and primarily were Theory X advocates. The Reds, skilled in the management of people and possessing political and ideological expertise, were Theory Y advocates. The Reds also believed that the philosophy of Chairman Mao supported their thinking (i.e., all employees had to rise together both economically and culturally). Both Chinese and U.S. managers support Theory Y, but for very different reasons.[24]

Theory Z manager
A manager who believes that workers seek opportunities to participate in management and are motivated by teamwork and responsibility sharing.

William Ouchi proposed an additional perspective, which he called "Theory Z," that brings together Theory Y and modern Japanese management techniques. A **Theory Z manager** believes that workers seek opportunities to participate in management and are motivated by teamwork and responsibility sharing.[25] The specific philosophical assumptions of a Theory Z leader are

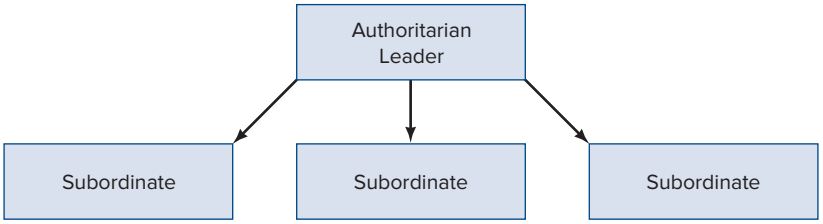
1. People are motivated by a strong sense of commitment to be part of a greater whole—the organization in which they work.
2. Employees seek out responsibility and look for opportunities to advance in an organization. Through teamwork and commitment to common goals, employees derive self-satisfaction and contribute to organizational success.
3. Employees who learn different aspects of the business will be in a better position to contribute to the broader goals of the organization.
4. By making commitments to employees' security through lifetime or long-term employment, the organization will engender in employees strong bonds of loyalty, making the organization more productive and successful.

In sum, each of these three theories, Theories X, Y, and Z, provides useful insights that reveal how different leadership approaches and styles appeal to different constituencies and to certain aspects of human behavior. Theory X has generally fallen out of fashion, and managers and leaders are increasingly aware of nonpecuniary (nonfinancial) incentives and rewards. Theories Y and Z are somewhat complementary in that each assumes some degree of intrinsic motivation on the part of employees.

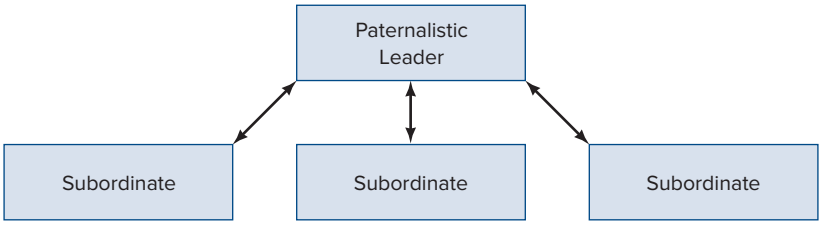
Leadership Behaviors and Styles

Leader behaviors can be translated into three commonly recognized styles: (1) authoritarian, (2) paternalistic, and (3) participative. **Authoritarian leadership** is the use of work-centered behavior that is designed to ensure task accomplishment. As shown in Figure 13–1, this leader behavior typically involves the use of one-way communication from manager to subordinate. The focus of attention usually is on work progress, work procedures, and roadblocks that are preventing goal attainment. There is a managerial tendency toward a lack of involvement with subordinates, where final decisions are in the hands of the higher-level employees. The distance translates into a lack of a relationship where managers focus on assignments over the needs of the employees. At times, the organizational leadership behavior is reflective of the political surroundings, as indicated in one study that focused on Romania.[26] Leaders in this region were slightly more

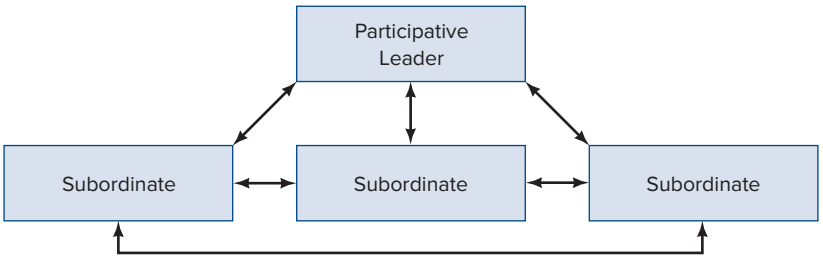
authoritarian leadership
The use of work-centered behavior designed to ensure task accomplishment.



One-way downward flow of information and influence from authoritarian leader to subordinates



Continual interaction and exchange of information and influence between leader and subordinates



Continual interaction and exchange of information and influence between leader and subordinates and between subordinates

Figure 13–1
Leader-Subordinate Interactions

Source: Hodgetts, Richard M. *Modern Human Relations at Work.* Harcourt College Publishers, 2002.

authoritarian (55 percent), which could have been influenced by the Romanian communistic roots that stressed the importance of completing planned productions. Although this leadership style often is effective in handling crises, some leaders employ it as their primary style regardless of the situation. It also is widely used by Theory X managers, who believe that a continued focus on the task is compatible with the kind of people they are dealing with.

paternalistic leadership The use of work-centered behavior coupled with a protective employee-centered concern.

Paternalistic leadership uses work-centered behavior coupled with a protective employee-centered concern. This leadership style can be best summarized by the statement "Work hard and the company will take care of you." Paternalistic leaders expect everyone to work hard; in return, the employees are guaranteed employment and given security benefits such as medical and retirement programs. Usually, this leadership behavior satisfies some employee needs, and in turn, subordinates tend to exhibit loyalty and compliance.[27]

Studies have shown that this behavior is seen throughout Latin America, including Argentina, Bolivia, Chile, and Mexico,[28] but also in China, Pakistan, India, Turkey, and the U.S.[29] Mexico appears to be a country that has high paternalistic values, owing in part to Mexican cultural values of respect for hierarchical relations and strong family and personal relationships[30] and the fact of the absence of welfare or employment benefits.[31] There is also some evidence that paternalistic leadership is still a common leadership approach in greater China, stemming from Confucian ideology, which is founded on social relations, such as "benevolent leader with loyal minister" and "kind father with filial son." In Malaysia, paternalistic leadership acts as a positive reinforcer because paternalistic treatment is contingent on subordinates' task accomplishment. More broadly, paternalistic leadership has been shown to have a positive impact on employees' attitudes in collectivistic cultures because the care, support, and protection provided by paternalistic leaders may address employees' need for frequent contact and close personal relationships.[32]

participative leadership The use of both work- or task-centered and people-centered approaches to leading subordinates.

Participative leadership is the use of both work-centered and people-centered approaches. Participative leaders typically encourage their people to play an active role in assuming control of their work, and authority usually is highly decentralized. The way in which leaders motivate employees might be through consulting with employees, encouraging joint decisions, or delegating responsibilities. Regardless of the method, employees tend to be more creative and innovative when driven by leaders exhibiting this behavior.[33,34] Participative leadership is very popular in many technologically advanced countries. Such leadership has been widely espoused in the United States, England, and other Anglo countries, and it is currently very popular in Scandinavian countries.

In the post-COVID-19 world, as remote work has become more common, it has become somewhat difficult to engage in participative leadership. It is imperative that companies create a safe and open online space where employees can share their views and engage with others who may be at levels below or above them in the organizational hierarchy. While platforms such as Zoom, Webex, and Microsoft Teams provide tools for such open communications, many employees and leaders are not yet comfortable with these tools. Thus, companies that want to encourage participative leadership, need to make investments not only in technology solutions but also in training employees to actively participate from remote settings. Such a culture is still missing in many companies. Research has shown how participative leadership contributes to employees' task performance, especially in the presence of psychological empowerment on the part of subordinates who are managers themselves and trust in the supervisors in the case of nonmanagerial subordinates.[35]

One way of characterizing participative leaders is in terms of the managerial grid, which is a traditional, well-known method of identifying leadership styles, as shown in Figure 13–2. Perspectives on and preferences toward where leaders perform on the grid can be influenced by culture. The next section explores this idea as a way to better illustrate the managerial grid.

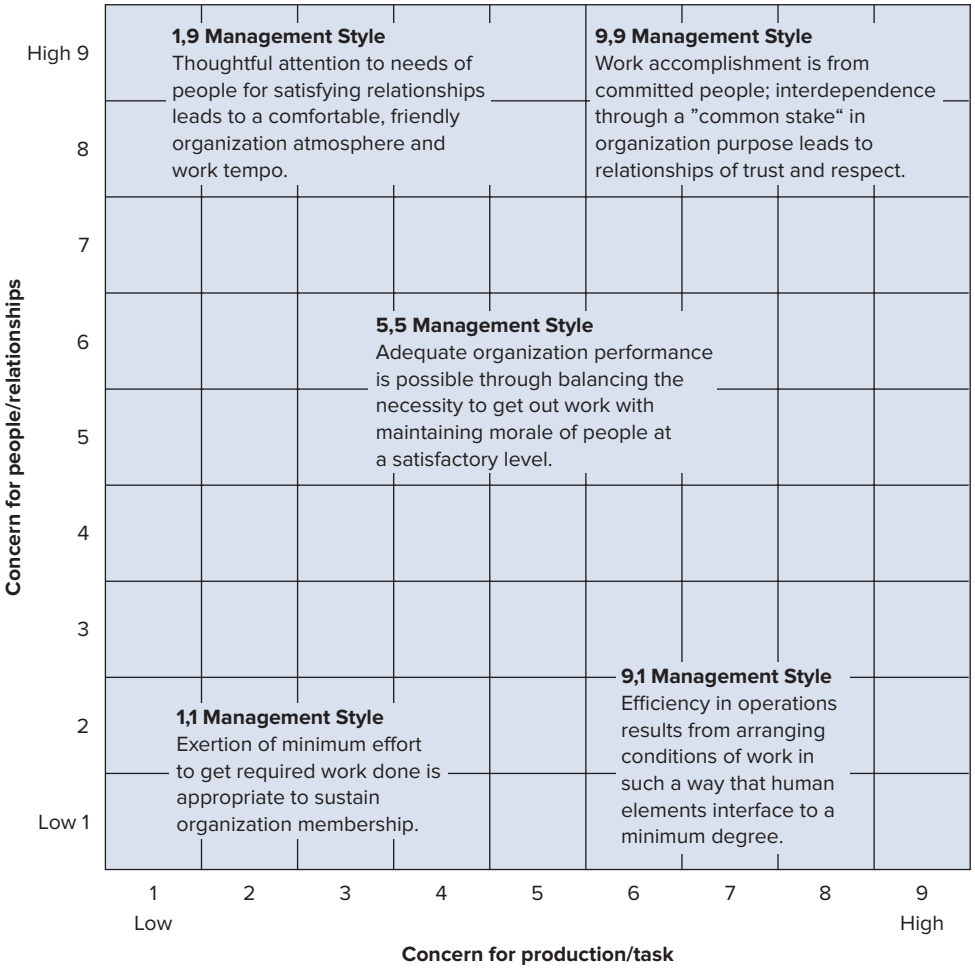


Figure 13–2
The Managerial Grid

Source: Blake, Robert S., and Mouton, Jane S. "Managerial Facades." *Advanced Management Journal* 31, no. 3 (1966).

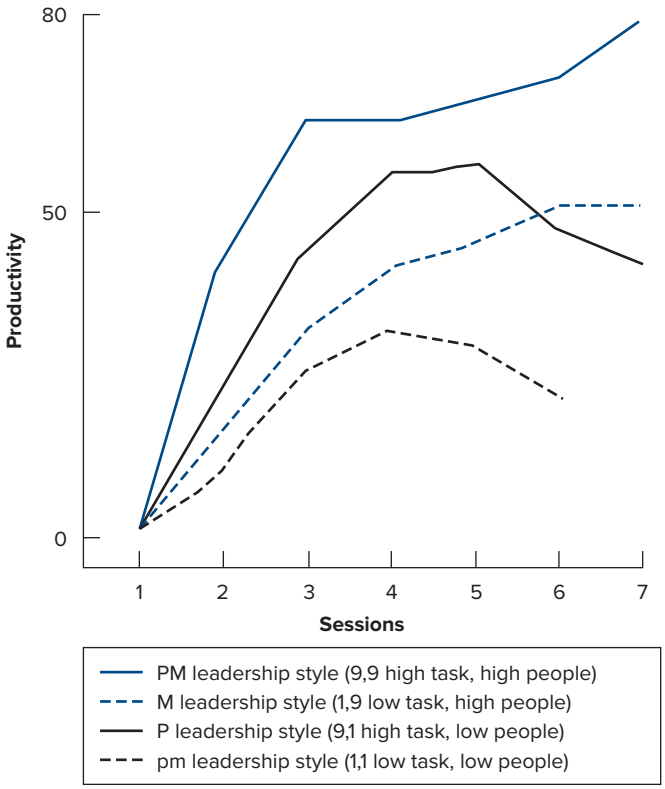
The Managerial Grid Performance: A Japanese Perspective

The managerial grid is a useful visual to chart how leadership behaviors compare with one another. Participative leaders are on the 9,9 position of the grid. This is in contrast to paternalistic leaders, who tend to be about 9,5, and autocratic leaders, who are in more of a 9,1 position on the grid. How does this translate into practice, and how effective are these in motivating employees? One early but still relevant study examined the ways in which leadership style could be used to influence the achievement motivation of Japanese subjects.[36] Japanese participants were separated into eight subsets: four groups of high achievers and four groups of low achievers. Leaders were then assigned to the groups. The first leader focused on performance (called "P supervision" in the study) and mirrored the autocratic style. There was a work-centered focus where subordinates were compared to other groups, and, if they were behind, they were pressed to catch up. This correlates to point 9,1 on the grid (high on task, low on people). The second leadership style focused on maintaining and strengthening the group (called "M supervision" in the study). The individual used a 1,9 (low on task, high on people) leadership style on the managerial grid and created a warm, friendly, sympathetic environment where tensions were reduced, interpersonal relationships strengthened, and suggestions welcomed.

The third leader combined the first two methods into a performance-maintenance style (called "PM supervision" in the study). While pressure to complete tasks was prevalent, supervisors still offered encouragement and support. This style correlates with participative leadership and is at point 9,9 on the managerial grid. Finally, the fourth leader

Figure 13–3

Productivity of Japanese Groups with High-Achievement Motivation under Different Leadership Styles



Source: Misumi, Jyuji, and Fumiyasu Seki. "Effects of Achievement Motivation on the Effectiveness of Leadership Patterns." *Administrative Science Quarterly* 16, no. 1 (1971): 51–59.

exhibited more absenteeism, as the focus was neither on performance nor maintenance (called "pm supervision" in the study). This supervisor simply did not get very involved in either the task or the people side of the group being led. In other words, the supervisor used a 1,1 leadership style on the grid.

The results of these four leadership styles among the high-achieving and low-achieving groups are reported in Figures 13–3 and 13–4. In the high-achieving groups, the PM, or participative (9,9), the style was most effective across all phases. The P, or authoritarian (9,1—high on task, low on people), leadership style was second most effective during the early and middle phases of the study, but later phases proved M supervision (1,9—low on task, high on people) to be more relevant, possibly suggesting that the more familiar the supervisor and subordinate become with one another, the more significant a personal relationship is over a task-focused objective. Finally, the pm (1,1) leadership style was consistently ineffective.

Among low-achieving groups, the P, or authoritarian (9,1), supervision was most effective. The M (1,9) leadership style was the second most effective during early sessions but eventually led to negative results. The PM, or participative (9,9), style was moderately ineffective during the first three stages but improved rapidly and was the second most effective by the end of the seventh session. The pm (1,1) leadership style was consistently effective until the fifth session; then productivity began to level off.

So what does this all mean? One can infer from the results that if an individual is high-achieving, then he or she may be driven by intrinsic factors. This translates into being the most motivated when a creative and supportive environment is provided, as indicated by the success of the participative leadership style. In the study, this group preferred to be actively challenged and became unproductive when faced with absentee leadership. On the other hand, the low-achieving groups seemed to be driven by extrinsic factors, such as supervisor behavior toward subordinates. The success of the authoritarian style indicated that this group preferred to be told what to do, and a creative environment that

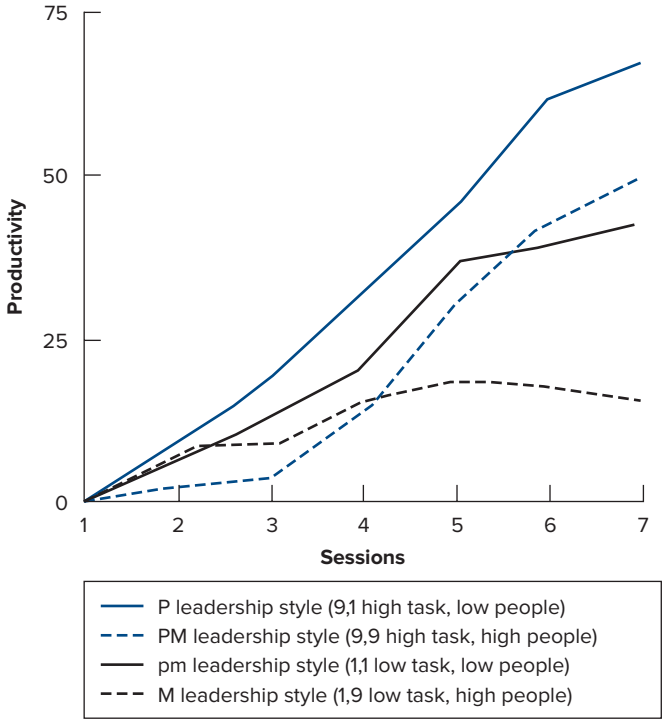


Figure 13–4

Productivity of Japanese Groups with Low-Achievement Motivation under Different Leadership Styles

Source: Misumi, Jyuji, and Fumiyasu Seki. "Effects of Achievement Motivation on the Effectiveness of Leadership Patterns." *Administrative Science Quarterly* 16, no. 1 (1971): 51–59.

encouraged participation was not a successful motivator until after the supervisors and subordinates were familiar with one another. This group tended to be more self-motivated, as absentee leadership initially resulted in satisfactory production, but this did not last throughout the study. This could be an indication that the subordinates were active because of the uncertainty involved but relaxed efforts when it was clear that the supervisors would not intervene.

While the results of this study were not specific as to what actually occurs in Japan, other studies from high-achieving societies have supported the findings. Korean firms, for example, are relying more heavily on 9,9, or participatory, leadership. Sang Lee and associates have reported that among Korea's largest firms, a series of personality criteria are used in screening employees, and many of these directly relate to 9,9 leadership: harmonious relationships with others, creativeness, motivation to achieve, future orientation, and a sense of duty.[37] These findings have important implications as to what it means to be a leader in different cultures. The next section looks at leadership in the international context in more detail.

■ Leadership in the International Context

How do leaders in other countries attempt to direct or influence their subordinates? Are their approaches similar to those used in the U.S.? Research shows that there are both similarities and differences.

Attitudes of European Managers toward Leadership Practices

In recent years, much research has been directed at leadership approaches in Europe. Most effort has concentrated on related areas, such as decision making, risk-taking, strategic planning, and organization design, which are covered in previous chapters. Some of that discussion is relevant to an understanding of leadership practices in Europe. For example, British managers tend to use a highly participative leadership approach. This is true for two reasons:

(1) The political background of the country favors such an approach and, (2) because most top British managers are not highly involved in the day-to-day affairs of the business, they prefer to delegate authority and let much of the decision making be handled by middle- and lower-level managers. This preference contrasts sharply with that of the French and the Germans,[38] who prefer a more work-centered, authoritarian approach. In fact, if labor unions had no legally mandated seats on the boards of directors, participative management in Germany likely would be even less pervasive than it is, a problem that currently confronts firms, like Volkswagen, that are trying to sharply reduce their overhead to meet increasing competition in Europe.[39] Scandinavian countries, however, make wide use of participative leadership approaches, with worker representation on the boards of directors and high management-worker interaction regarding workplace design and changes.

As a general statement, most evidence indicates that European managers tend to use a participative approach. They do not entirely subscribe to Theory Y philosophical assumptions, however, because an element of Theory X thinking persists. This was made clear by a Haire, Ghiselli, and Porter study of 3,641 managers from 14 countries.[40] (The motivation-related findings of this study were reported in Chapter 12.) The leadership-related portion of this study sought to determine whether these managers were basically traditional (Theory X, or system 1/2) or democratic-participative (Theory Y, or system 3/4) in their approach. Specifically, the researchers investigated four areas relevant to leadership:

1. *Capacity for leadership and initiative.* Does the leader believe that employees prefer to be directed and have little ambition (Theory X), or does the leader believe that characteristics such as initiative can be acquired by most people regardless of their inborn traits and abilities (Theory Y)?
2. *Sharing of information and objectives.* Does the leader believe that detailed, complete instructions should be given to subordinates and that subordinates need only this information to do their jobs, or does the leader believe that general directions are sufficient and that subordinates can use their initiative in working out the details?
3. *Participation.* Does the leader support participative leadership practices?
4. *Internal control.* Does the leader believe that the most effective way to control employees is through rewards and punishment or that employees respond best to internally generated control?

Overall Results of Research on Attitudes of European Managers Responses by managers to the four areas covered in the Haire, Ghiselli, and Porter study, as noted in Chapter 12, are quite dated but remain the most comprehensive available and are relevant to the current discussion of leadership similarities and differences. The clusters of countries studied by these researchers are shown in Table 13–2. Results indicate that none of the leaders from various parts of the world, on average, were very supportive of the belief that individuals have a capacity for leadership and initiative. The researchers put it this

Table 13–2
Clusters of Countries in the Haire, Ghiselli, and Porter Study

NORDIC-EUROPEAN COUNTRIES	ANGLO-AMERICAN COUNTRIES
Denmark	England
Germany	United States
Norway	
Sweden	**DEVELOPING COUNTRIES**
	Argentina
LATIN-EUROPEAN COUNTRIES	Chile
Belgium	India
France	
Italy	**Japan**
Spain	

way: "In each country, in each group of countries, in all of the countries taken together, there is a relatively low opinion of the capabilities of the average person, coupled with a relatively positive belief in the necessity for democratic-type supervisory practices."[41]

An analysis of standard scores compared each cluster of countries against the others, and it revealed that Anglo leaders tend to have more faith in the capacity of their people for leadership and initiative than do the other clusters. They also believe that sharing information and objectives is important; however, when it comes to participation and internal control, the Anglo group tends to give relatively more autocratic responses than all the other clusters except developing countries. Interestingly, Anglo leaders reported a much stronger belief in the value of external rewards (pay, promotion, etc.) than did any of the other clusters except that of the developing countries. These findings clearly illustrate that attitudes toward leadership practices tend to be quite different in various parts of the world.

The Role of Level, Size, and Age on European Managers' Attitudes toward Leadership The research of Haire and associates provided important additional details within each cluster of European countries. These findings indicated that in some countries, higher-level managers tended to express more democratic values than lower-level managers; however, in other countries, the opposite was true. For example, in England, higher-level managers responded with more democratic attitudes on all four leadership dimensions, while, in the U.S., lower-level managers gave more democratically oriented responses on all four. In the Scandinavian countries, higher-level managers tended to respond more democratically; in Germany, lower-level managers tended to have more democratic attitudes.

Company size also tended to influence the degree of participative-autocratic attitudes. There was more support among managers in small firms than in large ones regarding the belief that individuals have a capacity for leadership and initiative; however, respondents from large firms were more supportive of sharing information and objectives, participation, and use of internal control.

There were findings that age also had some influence on participative attitudes. Younger managers were more likely to have democratic values when it came to capacity for leadership and initiative and to sharing information and objectives, although in the other two areas of leadership practices older and younger managers differed little. In specific countries, some important differences were found. For example, younger managers in both the U.S. and Sweden espoused more democratic values than did their older counterparts; in Belgium, the opposite was true.

Japanese Leadership Approaches

Japan is well known for its paternalistic approach to leadership. As noted in Figure 12–7, Japanese culture promotes a high safety or security need, which is present among home country–based employees as well as MNC expatriates. For example, one study examined the cultural orientations of 522 employees of 28 Japanese-owned firms in the U.S. and found that the native Japanese employees were more likely than their U.S. counterparts to value paternalistic company behavior.[42,43] Another study found that Koreans also value such paternalism.[44] However, major differences appear in leadership approaches used by the Japanese and those in other locales.

For example, the comprehensive Haire, Ghiselli, and Porter study found that Japanese managers have a much greater belief in the capacity of subordinates for leadership and initiative than do managers in most other countries.[45] In addition, the leadership process used by Japanese managers places a strong emphasis on ambiguous goals. Subordinates are typically unsure of what their manager wants them to do. As a result, they spend a great deal of time overpreparing their assignments. Some observers believe that this leadership approach is time-consuming and wasteful. However, it has a number of important benefits. One is that the leader is able to maintain stronger control of the followers because the latter do not know with certainty what is expected of them. So they

prepare themselves for every eventuality. Second, by placing the subordinates in a position where they must examine a great deal of information, the manager ensures that the personnel are well prepared to deal with the situation and all its ramifications. Third, the approach helps the leader maintain order and provide guidance, even when the leader is not as knowledgeable as the followers.

Japanese managers operate this way because they usually have less expertise in a division's day-to-day business than their subordinates do. It is the manager's job to maintain harmony, not to be a technical expert. Consequently, a senior manager doesn't necessarily realize that the very particular aspects of a job or task are important to know. He or she gives ambiguous directions to the subordinates so that they can use their superior expertise to go beyond specific, technical questions or issues. One middle manager explained it this way: "When my boss asks me to write a report, I infer what he wants to know and what he needs to know without being told what he wants." Another interviewee added that subordinates who receive high-performance evaluations are those who know what the boss wants without needing to be told.[46]

Some researchers believe that this paternalistic approach may have impeded and constrained Toyota's ability to respond quickly to vehicle quality safety problems, resulting in major recalls in 2010, 2012, 2014, 2018, and 2022. The *Financial Times* reported that in response, Toyota has shifted more responsibility to non-Japanese managers by promoting North Americans and Europeans to run factories outside Japan. Toyota officials concluded that poor communication between local managers and their bosses in Japan contributed to the crisis. In the U.S. especially, warnings from local managers about the outcry were either passed on too slowly or not at all.[47]

Differences between Japanese and U.S. Leadership Styles

Japanese leadership styles differ from those in the U.S. in a number of ways. For example, the Haire and associates study found that except for internal control, large U.S. firms tend to be more democratic than small ones, while in Japan the profile is quite different.[48] A second difference is that younger U.S. managers appear to express more democratic attitudes than their older counterparts on all four leadership dimensions, but younger Japanese fall into this category only for sharing information and objectives and in the use of internal control.[49]

A number of reasons have been cited for the differences. One of the most common is that Japanese and U.S. managers have basically different philosophies of managing people. Table 13–3 provides a comparison of seven key characteristics that come from

Table 13–3
Japanese versus U.S. Leadership Styles

Philosophical Dimension	Japanese Approach	U.S. Approach
Employment	Often for life; layoffs are rare	Usually short-term; layoffs are common
Evaluation and promotion	Very slow; big promotions may not come for the first 10 years	Very fast; those not quickly promoted often seek employment elsewhere
Career paths	Very general; people rotate from one area to another and become familiar with all areas of operations	Very specialized; people tend to stay in one area (accounting, sales, etc.) for their entire careers
Decision making	Carried out via group decision making	Carried out by the individual manager
Control mechanism	Very implicit and informal; people rely heavily on trust and goodwill	Very explicit; people know exactly what to control and how to do it
Responsibility	Shared collectively	Assigned to individuals
Concern for employees	Management's concern extends to the whole life, business and social, of the worker.	Management concerned basically with the individual's work life only

Source: Ouchi, William G. "*Theory Z: How American Business Can Meet the Japanese Challenge.*" Addison-Wesley, 1981.

Ouchi's Theory Z, which combines Japanese and U.S. assumptions and approaches. Note in the table that the Japanese leadership approach is heavily group-oriented, paternalistic, and concerned with the employees' work and personal lives. The U.S. leadership approach is almost the opposite.[50]

Another difference between Japanese and U.S. leadership styles is how senior-level managers process information and learn. Japanese executives are taught and tend to use **variety amplification**, which is the creation of uncertainty and the analysis of many alternatives regarding future action. By contrast, U.S. executives are taught and tend to use **variety reduction**, which is the limiting of uncertainty and the focusing of action on a limited number of alternatives.[51] Through acculturation, patterning, and mentoring, as well as formal training, U.S. managers tend to limit the scope of questions and issues before them, emphasize one or two central aspects of that topic, identify specific employees to respond to it, and focus on a goal or an objective that is attainable. Japanese managers, in contrast, tend to be inclusive in their consideration of issues or problems, seek a large quantity of information to inform the problem, encourage all employees to engage in solutions, and aim for goals that are distant in the future.

variety amplification
The creation of uncertainty and the analysis of many alternatives regarding future action.

variety reduction
The limiting of uncertainty and the focusing of action on a limited number of alternatives.

Further, this research found that the Japanese focused very heavily on problems, while the U.S. managers focused on opportunities.[52] The Japanese were more willing to allow poor performance to continue for a time so that those who were involved would learn from their mistakes, but the Americans worked to stop poor performance as quickly as possible. Finally, the Japanese sought creative approaches to managing projects and tried to avoid relying on experience, but the Americans sought to build on their experiences.

Still another major reason for the differences in leadership styles is that the Japanese tend to be more ethnocentric than their U.S. counterparts. The Japanese think of themselves as Japanese managers who are operating overseas; most do not view themselves as international managers. As a result, even if they do adapt their leadership approach on the surface to that of the country in which they are operating, they still believe in the Japanese way of doing things and are reluctant to abandon it.

Despite these differences, managerial practices indicate that there may be more similarities than once believed. For example, at Google, located in the U.S., employees are given the freedom to innovate and take the lead in developing new products. The company has adopted a policy of "20 percent time," which gives employees the opportunity to spend a portion of their work day dedicated to projects that most interest them. Management allows employees to e-mail them directly for any reason, and cross-functional teams are encouraged to interact and build relationships outside of project work.[53] Japanese firms such as Sony use a similar approach, encouraging personnel to assume authority, use initiative, and work as a team. Major emphasis also is given to developing communication links between management and the employees and to encouraging people to do their best.

Another common trend is the movement toward team orientation and away from individualism. The International Management in Action box "Global Teams" illustrates this point.

Leadership in China

A growing amount of attention has been focused on leadership in China. In particular, international researchers are interested in learning if the country's economic progress is creating a new cadre of leaders whose styles are different from the styles of leaders of the past. In one of the most comprehensive studies to date, Ralston and his colleagues found that, indeed, a new generation of Chinese leaders is emerging and they are somewhat different from past leaders in work values.[54]

The researchers focused their attention on the importance the respondents assigned to three areas: individualism, collectivism, and Confucianism. Individualism was measured by the importance assigned to self-sufficiency and personal accomplishments. Collectivism was measured by the person's willingness to subordinate personal goals to those of the workgroup with an emphasis on sharing and group harmony. Confucianism was measured

Global Teams

Institutional productivity used to involve a cavalcade of employees manning factory floors, where meetings with international subsidiaries had to be carefully planned. As technology continues to evolve and the window for decision-making periods quickly closes, the need to instantly connect and coordinate with regional and transnational offices becomes imperative to stay competitive. But how is this implemented? International leaders now put increasing focus on developing global teams that are capable of overcoming cultural barriers and working together in an efficient, harmonious manner. This has become particularly important in the post-COVID-19 world as both, companies and employees are looking to leverage the new technological innovations for remote collaboration. The international effort in the development of COVID-19 vaccines is a classic example of how global teams leveraged technology and worked together during different stages, from research to development to production and delivery at a scale not seen before.

In developing effective global teams, companies are finding there are four phases in the process. In phase one, the team members come together with their own expectations, culture, and values. In phase two, members go through a self-awareness period, during which they learn to respect the cultures of the other team members. Phase three is characterized by developing trust among members, and, in phase four, team members begin working in a collaborative way.

How are MNCs able to create the environment that is needed for this metamorphosis? Several specific steps are implemented by management:

1. The objectives of the group are carefully identified and communicated to the members.
2. Team members are carefully chosen so that the group has the necessary skills and personnel to reinforce and complement each other.
3. Each person learns what he or she is to contribute to the group, thus promoting a feeling of self-importance and interdependency.
4. Cultural differences between the members are discussed so that members can achieve a better understanding of how they can work together effectively.
5. Measurable outcomes are identified so that the team can chart its progress and determine how well it is doing. Management also continually stresses the team's purpose and its measurable outcomes, so that the group does not lose sight of its goals.
6. Specially designed training programs are used to help the team members develop interpersonal, and intercultural skills.
7. Lines of communication are spelled out so that everyone understands how to communicate with other members of the group.
8. Members are continually praised and rewarded for innovative ideas and actions.

MNCs now find that global teams are critical to their ability to compete successfully in the world market. As a result, leaders who are able to create and lead interdisciplinary, culturally diverse groups are finding themselves in increasing demand by MNCs.

Source: Li, Jitao, Katherine R. Xin, Anne Tsui, and Donald C. Hambrick. "Building Effective International Joint Venture Leadership Teams in China." *Journal of World Business* 34, no. 1 (1999): 52–68; Solomon, Charlene Marmer. "Global Teams: The Ultimate Collaboration." *Personnel Journal* (September 1995): 49–58; Barczak, Gloria, and Edward F. McDonough III. "Leading Global Product Development Teams." *Research Technology Management* 46, no. 6 (November/December 2003): 14–18; Marquard, Michael J., and Lisa Horvath. *Global Teams.* Palo Alto, CA: Davies-Black, 2001; Claire Klobucista, "A guide to global COVID-19 vaccine efforts," *Council on Foreign relations,* July 19, 2022, https://www.cfr.org/backgrounder/guide-global-covid-19-vaccine-efforts.

by the importance assigned to societal harmony, virtuous interpersonal behavior, and personal and interpersonal harmony.

The researchers found that the New Generation group scored significantly higher on individualism than did the Current and Older Generation groups. In addition, the New Generation leaders scored significantly lower than the other two groups on collectivism and Confucianism. These values appear to reflect the period of relative openness and freedom, often called the "Social Reform Era," during which these new managers grew up. They have had greater exposure to Western societal influences, and this may be resulting in leadership styles similar to those of Western managers.

These research findings show that leadership is culturally influenced, but, as the economy of China continues to change and the country moves more and more toward capitalism, the work values of managers may also change. As a result, the new generation of leaders may use leadership styles similar to those in the West, something that has also occurred in Japan, as seen in Figures 13–3 and 13–4.

Leadership in the Middle East

Research has also been conducted on Middle Eastern countries to determine the similarities and differences in managerial attitudes toward leadership practices. A study on midlevel managers from Arab countries found that managers in Arab countries have higher attitude scores for capacity for leadership and initiative than those from any of the other countries or clusters reported in Table 13–2.[55] The Arab managers' scores for sharing information and objectives, participation, and internal control, however, all were significantly lower than the scores of managers in the other countries and clusters reported in Table 13–2. The researcher concluded that the results were accounted for by the culture of the Middle East region. Table 13–4 summarizes not only the leadership differences between Middle Eastern and Western managers but also other areas of organization and management.

More recent research provides some evidence that there may be much greater similarity between Middle Eastern leadership styles and those of Western countries.[56] In particular, the observation was made that Western management practices are very evident in the Arabian Gulf region because of the close business ties between the West and this oil-rich area and the increasing educational attainment, often in Western universities, of Middle Eastern managers. A study on decision-making styles in the United Arab Emirates showed that organizational culture, level of technology, level of education, and management responsibility were good predictors of decision-making styles in such an environment. Also, results indicated a tendency toward participative leadership styles among young Arab middle management, as well as among highly educated managers of all ages.[57] These findings were consistent with similar studies in Western environments.

Leadership Approaches in India

India is developing at a rapid rate as MNCs increase investment. India's workforce is quite knowledgeable in the high-tech industry, and society as a whole is moving toward

Table 13–4
Differences between Middle Eastern and Western Management

Management Dimensions	Middle Eastern Management	Western Management
Leadership	Highly authoritarian tone, rigid instructions. Too many management directives.	Less emphasis on leader's personality, considerable weight on leader's style and performance.
Organizational structures	Highly bureaucratic, overcentralized, with power and authority at the top. Vague relationships. Ambiguous and unpredictable organization environments.	Less bureaucratic, more delegation of authority. Relatively decentralized structure.
Decision making	Ad hoc planning, decisions made at the highest level of management. Unwillingness to take high risk inherent in decision making.	Sophisticated planning techniques, modern tools of decision making, elaborate management information systems.
Performance evaluation and control	Informal control mechanisms, routine checks on performance. Lack of vigorous performance evaluation systems.	Fairly advanced control systems focusing on cost reduction and organizational effectiveness.
Personnel policies	Heavy reliance on personal contacts and getting individuals from the "right social origin" to fill major positions.	Sound personnel management policies. Candidates' qualifications are usually the basis for selection decisions.
Communication	The tone depends on the communicants. Social position, power, and family influence are ever-present factors. Chain of command must be followed rigidly. People relate to each other tightly and specifically. Friendships are intense and binding.	Stress usually on equality and a minimization of difference. People relate to each other loosely and generally. Friendships not intense and binding.

Source: Badawy, M. K. "Styles of Mideastern Managers." *California Management Review* 22, no. 3 (Spring 1980): 51-58.

higher education. However, India is still bound by old traditions. This raises the question, what kind of leadership style does India need to satisfy its traditional roots while heading into a high-tech future? One study showed that Indian workers were more productive when managers took a high-people and high-task approach (participative). Meanwhile, the less productive workers were managed by individuals who showed a high-people orientation but low focus on task-related objectives.[58] These findings may indicate that it is important in India to focus on the individual, but, in order to be efficient and produce results, managers need to maintain awareness of the tasks that need to be completed.

Because of India's long affiliation with Great Britain, leadership styles in India would seem more likely to be participative than those in the Middle East or in other developing countries. Haire and associates found some degree of similarity between leadership styles in India and Anglo-American countries, but it was not significant. The study found the Indians to be similar to the Anglo-Americans in managerial attitudes toward a capacity for leadership and initiative, participation, and internal control. The difference was in sharing information and objectives. The Indian managers' responses tended to be quite similar to those of the managers in other developing countries.[59] These findings from India show that a participative leadership style may be more common and more effective in developing countries than reported previously. Researchers have suggested there may be some unique management and leadership styles that emerge from the polyglot nature of India's population and some of the unique challenges of doing business there. For example, some suggest that Indian leaders can improvise quickly to overcome hurdles, a concept sometimes referred to as *jugaad*.[60]

Leadership Approaches in Africa

There have been relatively fewer studies on leadership in African countries, However, the limited evidence that we have points to the contextual nature of leadership styles, as has been found in other contexts as well. A study in Nigeria identified a model of virtuous leadership based on four African virtues—truthfulness, courage, humility, and humanity.[61] Commenting on the organizational culture, one middle manager said, "I think they have that spirit of Fellowship, of friendliness here . . . We have a fellowship center downstairs . . . that is the culture here . . . people are open and there is nobody that is too big, everybody's cordial. The MD can come here now, they can even eat with you, very simple, it's a really nice place."[62] This leadership style has more similarities with participative and paternalistic leadership than with authoritative leadership.

Other leadership studies in African countries have also highlighted how local traditions influence leaders' behavior and effectiveness. The Ubuntu philosophy, which emphasizes values and practices that make people more authentic human beings sets forth the characteristics of an ideal leader in the African context.[63] At the same time, many African societies also emphasize in-group collectivism based on family, religious or ethnic ties, which may lead to less favorable attitudes towards out-groups.[64] This puts a unique challenge for African leaders as they try to balance the interests of in-group versus out-group stakeholders. In such situations, being more authentic with a humanist approach, as is advocated by the Ubuntu philosophy, often helps leaders become more effective in their settings.[65]

Leadership Approaches in Latin America

Research pertaining to leadership styles in Latin America has indicated that as globalization increases, so does the transitional nature of managers within these regions. One study that compared Latin American leadership styles reviewed past research indicating an initial universality among the countries.[66] In Mexico, leaders tended to have a combination of authoritarian and participative behaviors, while Chile, Argentina, and Bolivia also showed signs of authoritarian behaviors. Typically, Mexican managers who welcomed input from subordinates were viewed as incompetent and weak. This may be the reason that in Mexico, as well as in Chile, managers tend to be socially distant from those working below them. Romero found that Mexican managers who worked close to the U.S.

border, however, exhibited even more participative behavior, and that trend was enhanced as globalization increased.[67] Overall, the study found that Mexico is moving toward a modern leadership style, while other Latin American countries continue to lead based on tradition. However, this is not the only viewpoint.

As in the case of managers in other contexts, these findings in South America indicate that there indeed may be more similarities in international leadership styles than previously assumed. As countries become more economically advanced, participative styles may gain in importance. Of course, this does not mean that MNCs can use the same leadership styles in their various locations around the world. There still must be careful contingency application of leadership styles (different styles for different situations); however, many of the more enlightened participative leadership styles used in the U.S. and other economically advanced countries, such as Japan, also may have value in managing international operations even in developing countries as well as in the emerging Eastern European countries.

Research Findings and Insights about Leadership

In recent years, researchers have begun raising the question of universality of leadership behavior. Do effective leaders, regardless of their country culture or job, act similarly? A second, and somewhat linked, research inquiry has focused on the question, are there a host of specific behaviors, attitudes, and values that leaders in the 21st century will need in order to be successful? Thus far, the findings have been mixed. Some investigators have found that there is a trend toward universalism for leadership; others have concluded that culture continues to be a determining factor and that, for example, an effective leader in Sweden will not be as effective in Italy if he or she uses the same approach, most likely due to different motivational factors (see Chapter 12). One of the most interesting efforts has been conducted by Bass and his associates, focusing on the universality and effectiveness of transformational, charismatic, and transactional leadership.

Transformational, Charistmatic, and Transactional Leadership

Transformational leaders are visionary agents with a sense of mission who are capable of motivating their followers to accept new goals and new ways of doing things. A variant on transformational leadership focuses on the individual's charismatic traits and abilities. This research stream, known as the study of **charismatic leaders,** has explored how the individual abilities of an executive work to inspire and motivate her or his subordinates.[68] **Transactional leaders** are individuals who exchange rewards for effort and performance and work on a "something for something" basis.[69] Do these types of leaders exist worldwide, and is their effectiveness consistent in terms of performance? Drawing on an analysis of studies conducted in Canada, India, Italy, Japan, New Zealand, Singapore, and Sweden, as well as in the U.S., Bass discovered that very little of the variance in leadership behavior could be attributed to culture and that there was far more universalism in leadership than had been believed previously. In fact, in many cases he found that national differences accounted for less than 10 percent of the results.[70]

transformational leaders
Leaders who are visionary agents with a sense of mission and who are capable of motivating their followers to accept new goals and new ways of doing things.

charismatic leaders
Leaders who inspire and motivate employees through their charismatic traits and abilities.

transactional leaders
Individuals who exchange rewards for effort and performance and work on a "something for something" basis.

Additionally, after studying thousands of international cases, he found that the most effective managers were transformational leaders and they were characterized by four interrelated factors. For convenience, the factors are referred to as the "4 I's," and they can be described this way:

1. *Idealized influence*. Transformational leaders are a source of charisma and enjoy the admiration of their followers. They enhance pride, loyalty, and confidence in their people, and they align these followers by providing a common purpose or vision that the latter willingly accept.
2. *Inspirational motivation*. These leaders are extremely effective in articulating their vision, mission, and beliefs in clear-cut ways, thus providing an easy-to-understand sense of purpose regarding what needs to be done.

3. *Intellectual stimulation*. Transformational leaders are able to get their followers to question old paradigms and to accept new views of the world regarding how things now need to be done.
4. *Individualized consideration*. These leaders are able to diagnose and elevate the needs of each of their followers through individualized consideration, thus furthering the development of these people.[71]

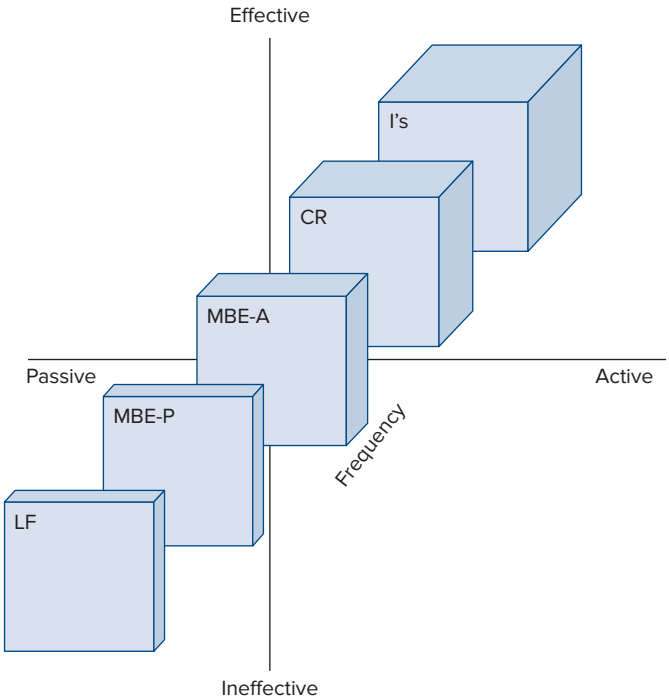
Bass also discovered that there are four other types of leaders. All of these are less effective than the transformational leader, although the degree of their effectiveness (or ineffectiveness) varies. The most effective of the remaining four types was labeled the *contingent reward (CR) leader* by Bass. This leader clarifies what needs to be done and provides both psychic and material rewards to those who comply with his or her directives. The next most effective manager is the *active management-by-exception (MBE-A) leader*. This individual monitors follower performance and takes corrective action when deviations from standards occur. The next manager in terms of effectiveness is the *passive management-by-exception (MBE-P) leader*. This leader takes action or intervenes in situations only when standards are not met. Finally, there is the *laissez-faire (LF) leader*. This person avoids intervening or accepting responsibility for follower actions.

Bass found that through the use of higher-order factor analysis, it is possible to develop a leadership model that illustrates the effectiveness of all five types of leaders: I's (transformational), CR, MBE-A, MBE-P, and LF. Figure 13–5 presents this model. The higher the box in the figure and the farther to the right on the shaded base area, the more effective and active is the leader. Notice that the 4 I's box is taller than any of the others in the figure and is located more to the right than any of the others. The CR box is second tallest and second closest to the right, on down to the LF box, which is the shortest and farthest from the right margin.

Does this mean that effective leader behaviors are the same regardless of country? Bass concluded that this statement is not quite true—but there is far more universalism than people believed previously. In putting his findings in perspective, he concluded that there certainly would be differences in leadership behavior from country to country.[72] For example, he noted that transformational leaders in Honduras would have to be more directive than their counterparts in Norway. Moreover, culture can create some problems in using universal leadership concepts in countries such as Japan, where the use of contingent

Figure 13–5

An Optimal Profile of Universal Leadership Behaviors



Source: Bass, Bernard M. "Is There Universality in the Full Range Model of Leadership?." *International Journal of Public Administration* 16, no. 6 (1996): 731–61.

reward systems is not as widespread as in the West. These reward systems can also become meaningless in Arab and Turkish cultures, where there is a strong belief that things will happen "if God wills" and not because a leader has decided to carry them out. Yet, even after taking these differences into consideration, Bass contends that universal leadership behavior is far more common than many people realize.[73]

Qualities for Successful Leaders

Another research approach that has been used to address the issue of international leadership is that of examining the characteristics that companies are looking for in their new executive hires. Are all firms seeking the same types of behaviors or qualities, or, for example, are companies in Sweden looking for executives with qualities that are quite different from those being sought by Italian firms? The answer to this type of question can help shed light on international leadership because it helps focus attention on the behaviors that organizations believe are important in their managerial workforce. It also helps us examine the impact, if any, of culture on leadership style.

Tollgerdt-Andersson examined thousands of advertisements for executives in the European Union (EU). She began by studying ads in Swedish newspapers and journals, noting the qualities, characteristics, and behaviors that were being sought. She then expanded her focus to publications in other European countries, including Denmark, Norway, Germany, Great Britain, France, Italy, and Spain. The results are reported in Table 13–5. Based on this analysis, she concluded,

> Generally, there seem to be great differences between the European countries regarding their leadership requirements. Different characteristics are stressed in the various countries. There are also differences concerning how frequently various characteristics are demanded in each country. Some kind of personal or social quality is mentioned much more often in the Scandinavian countries than in the other European countries. In the Scandinavian advertisements, you often see many qualities mentioned in a single advertisement. This can be seen in other European countries too, but it is much more rare. Generally, the characteristics mentioned in a single advertisement do not exceed three and fairly often, especially in Mediterranean countries (in 46–48% of the advertisements) no personal or social characteristics are mentioned at all.[74]

At the same time, Tollgerdt-Andersson did find that there were similarities between nations. For example, Italy and Spain had common patterns regarding desirable leadership characteristics. Between 52 and 54 percent of the ads she reviewed in these two countries stated specific personal and social abilities that were needed by the job applicant. The same pattern was true for Germany and Great Britain, where between 64 and 68 percent of the advertisements set forth the personal and social abilities required for the job. In the Scandinavian countries, these percentages ranged between 80 and 85 percent.

Admittedly, it may be difficult to determine the degree of similarity between ads in different countries (or cultural clusters) because there may be implied meanings in the messages or it may be the custom in a country not to mention certain abilities but simply to assume that applicants know that these will be assessed in making the final hiring decision. Additionally, Tollgerdt-Andersson found that all the countries expected executive applicants to have good social and personal qualities. So some degree of universalism in leadership behaviors was uncovered. On the other hand, the requirements differed from country to country, showing that effective leaders in northern Europe may not be able to transfer their skills to the southern part of the continent with equal results. This led Tollgerdt-Andersson to conclude that multicultural understanding will continue to be a requirement for effective leadership. More recent studies have also emphasized the importance of multicultural managers as a strategic resource for multinational companies.[75]

Culture Clusters and Leader Effectiveness

Although there is research to support universalism in leadership behavior, research also shows that effective leader behaviors tend to vary by cultural cluster. Brodbeck and his associates conducted a large survey of middle managers (n = 6,052) from 22 European countries.[76] Some of the results, grouped by cluster, are presented in Table 13–6. A close

Table 13–5
Qualities Most Demanded in Advertisements for European Executives

Quality	Sweden ($n = 225$)	Denmark ($n = 175$)	Norway ($n = 173$)	Germany ($n = 190$)
Ability to cooperate (interpersonal ability)	25	42	32	16
Independence	22	22	25	9
Leadership ability	22		16	17
Ability to take initiatives	22	12	16	
Aim and result orientation	19	10	42	
Ability to motivate and inspire others	16	11		
Business orientation	12			
Age	10	25		13
Extrovert personality/ contact ability	10	8	12	11
Creativity	9	10	9	9
Customer ability	9			
Analytic ability		10		
Ability to communicate		12	15	
High level of energy/drive			12	
Enthusiasm and involvement			14	14
Organization skills				7
Team builder				
Self-motivated				
Flexibility				
Precision				
Dynamic personality				
Responsibility				

Quality	Great Britain ($n = 163$)	France ($n = 164$)	Italy ($n = 132$)	Spain ($n = 182$)
Ability to cooperate (interpersonal ability)	7	9	32	18
Independence			16	4
Leadership ability	10		22	16
Ability to take initiatives			10	8
Aim and result orientation	5			2
Ability to motivate and inspire others		9	26	20
Business orientation				8
Age		12	46	34
Extrovert personality/ contact ability				
Creativity	5			4
Customer ability				2
Analytic ability			10	
Ability to communicate	23			8
High level of energy/drive	8			20
Enthusiasm and involvement				
Organization skills		6	12	12
Team builder	10	5		
Self-motivated	10			
Flexibility				2
Precision			7	
Dynamic personality			6	6
Responsibility				10

Source: Tollgerdt-Andersson, Ingrid, "Attitudes, Values and Demands on Leadership—A Cultural Comparison among Some European Countries," in *Managing Across Cultures,* ed. Joynt, Pat and Warner, Malcolm (London: International Thomson Business Press, 1996): 172.

Table 13–6
Rankings of the Most Important Leadership Attributes by Region and Country Cluster

North/West European Region

Anglo Culture (Great Britain, Ireland)	Nordic Culture (Sweden, Netherlands, Finland, Denmark)	Germanic Culture (Switzerland, Germany, Austria)	Czech Republic	France
Performance-oriented	Integrity	Integrity	Integrity	Participative
Inspirational	Inspirational	Inspirational	Performance-oriented	Nonautocratic
Visionary	Visionary	Performance-oriented	Administratively skilled	
Team integrator	Team integrator	Nonautocratic	Inspirational	
Decisive	Performance-oriented	Visionary	Nonautocratic	

South/East European Region

Latin Culture (Italy, Spain, Portugal, Hungary)	Central Culture (Poland, Slovenia)	Near East Culture (Turkey, Greece)	Russia	Georgia
Team integrator	Team integrator	Team integrator	Visionary	Administratively skilled
Performance-oriented	Visionary	Decisive	Administratively skilled	Decisive
Inspirational	Administratively skilled	Visionary	Inspirational	Performance-oriented
Integrity	Diplomatic	Integrity	Decisive	Visionary
Visionary	Decisive	Inspirational	Integrity	Integrity

Source: Brodbeck, Felix C., Frese, Michael, Akerblom, Staffan, Audia, Giuseppe, Bakacsi, Gyula, Bendova, Helena and Bodega, Domenico, et.al. "Cultural Variation of Leadership Prototypes Across 22 European Countries." *Journal of Occupational and Organizational Psychology* 73, no. 1 (2000): 15.

look at the data shows that while there are similarities between some of the cultures, none of the lists of leadership attributes are identical. For example, managers in the Anglo cluster reported that the five most important attributes of an effective manager were having a performance orientation, possessing an inspirational style, having a vision, being a team integrator, and being decisive. Managers in the Nordic culture ranked these five attributes as the most important, but not in that order. Moreover, although the rankings of clusters in the North/West European region were fairly similar, they were quite different from those in the South/East European region, which included the Latin cluster, countries from Eastern Europe that were grouped by the researchers into a Central cluster and a Near East cluster, and Russia and Georgia, which were listed separately.

Leader Behavior, Leader Effectiveness, and Leading Teams

Culture is also important in helping explain how leaders ought to act in order to be effective. A good example is provided by the difference in effective behaviors in Trompenaars' categories (covered in Chapter 4) of affective (or emotional) cultures and neutral cultures. In affective cultures, such as the U.S., leaders tend to exhibit their emotions. In neutral cultures, such as Japan and China, leaders do not tend to show their emotions. Moreover, in some cultures people are taught to exhibit their emotions but not let emotion affect their rational decision making, while in other cultures the two are intertwined.

Researchers have also found that the way in which managers speak to their people can influence the outcome. For example, in Anglo cultures it is common for managers to raise their voices in order to emphasize a point. In Asian cultures, managers generally speak at the same level throughout their communication, using a form of self-control that shows respect for the other person. Latin American managers, meanwhile, vary their tone of voice continually, and they view this form of exaggeration as showing that they are very interested in what they are saying and committed to their point of view. Knowing how to communicate can greatly influence leadership across cultures. Here is an example:

Table 13–7
Leadership Tips for Doing Business in Affective and Neutral Cultures

When Managing or Being Managed In . . .	
Affective Cultures	**Neutral Cultures**
Avoid a detached, ambiguous, and cool demeanor because this will be interpreted as negative behavior.	Avoid warm, excessive, or enthusiastic behaviors because these will be interpreted as a lack of personal control over one's feelings and be viewed as inconsistent with one's high status.
Find out whose work and enthusiasm are being directed into which projects, so that you are able to appreciate the vigor and commitment they have for these efforts.	Extensively prepare the things you have to do and then stick tenaciously to the issues.
Let people be emotional without personally becoming intimidated or coerced by their behavior.	Look for cues regarding whether people are pleased or angry and then amplify their importance.
When Doing Business with Individuals In . . .	
Affective Cultures (for those from neutral cultures)	**Neutral Cultures (for those from affective cultures)**
Do not be put off stride when others create scenes and get histrionic; take time-outs for sober reflection and hard assessments.	Ask for time-outs from meetings and negotiations where you can patch each other up and rest between games of poker with the "impassive ones."
When others are expressing goodwill, respond warmly.	Put down as much as you can on paper before beginning the negotiation.
Remember that the other person's enthusiasm and readiness to agree or disagree do not mean that the individual has made up his or her mind.	Remember that the other person's lack of emotional tone does not mean that the individual is uninterested or bored, only that the person does not like to show his or her hand.
Keep in mind that the entire negotiation is typically focused on you as a person and not so much on the object or proposition that is being discussed.	Keep in mind that the entire negotiation is typically focused on the object or proposition that is being discussed and not on you as a person.
Recognize the Way in Which People Behave In . . .	
Affective Cultures	**Neutral Cultures**
They reveal their thoughts and feelings both verbally and nonverbally.	They often do not reveal what they are thinking or feeling.
Emotions flow easily, vehemently, and without inhibition.	Emotions are often dammed up, although they may occasionally explode.
Heated, vital, and animated expressions are admired.	Cool and self-possessed conduct is admired.
Touching, gesturing, and strong facial expressions are common.	Physical contact, gesturing, or strong facial expressions are not used.
Statements are made fluently and dramatically.	Statements are often read out in a monotone voice.

Source: Trompenaars, Fons and Hampden-Turner, Charles. "*Riding thhe Waves of Culture: Understanding Cultural Diversity in Global Business.*" New York: McGraw-Hill, 1998: 80-82.

A British manager posted to Nigeria found that it was very effective to raise his voice for important issues. His Nigerian subordinates viewed that unexpected explosion by a normally self-controlled manager as a sign of extra concern. After success in Nigeria he was posted to Malaysia. Shouting there was a sign of loss of face; his colleagues did not take him seriously and he was transferred.[77]

One of the keys to successful global leadership is knowing which style and which behavior work best in a given culture and adapting appropriately. In the case of affective and neutral cultures, for example, Trompenaars and Hampden-Turner have offered the specific tips provided in Table 13–7.

Cross-Cultural Leadership: Insights from the GLOBE Study

As discussed in Chapter 4, the GLOBE (Global Leadership and Organizational Behavior Effectiveness) research program, a 20-year, multimethod, three-phased study, is examining the relationships among societal and organizational culture, societal and organizational

effectiveness, and leadership. In addition to the identification of the nine major dimensions of culture described in Chapter 4, the GLOBE program also includes the classification of leadership behaviors. Through a qualitative and quantitative analysis, GLOBE researchers determined that leadership behaviors can be summarized into six culturally endorsed implicit leadership (CLT) dimensions:

- *Charismatic/value-based* leadership captures the ability of leaders to inspire, motivate, and encourage high-performance outcomes from others based on a foundation of core values.
- *Team-oriented* leadership places emphasis on effective team building and implementation of a common goal among team members.
- *Participative* leadership reflects the extent to which leaders involve others in decisions and their implementation.
- *Humane-oriented* leadership comprises supportive and considerate leadership.
- *Autonomous* leadership refers to independent and individualistic leadership behaviors.
- *Self-protective* leadership "focuses on ensuring the safety and security of the individual and group through status-enhancement and face-saving."[78]

As is the case in the classification of culture dimensions, these categories build on and extend classifications of leadership styles described earlier in this chapter.

Phases 1 and 2 of the GLOBE study, like earlier research, found that certain attributes of leadership were universally endorsed, while others were viewed as effective only in certain cultures. Among the leadership attributes found to be effective across cultures are being trustworthy, just, and honest (having integrity); having foresight and planning ahead; being positive, dynamic, encouraging, and motivating and building confidence; and being communicative and informed and being a coordinator and a team integrator.[79] Several attributes were also found to be universally undesirable in leadership; descriptors such as irritable, malevolent, and ruthless were rated as inhibitors of strong leadership across all cultures.[80]

In linking the cultural dimensions of the GLOBE study with the leadership styles described previously, the GLOBE researchers investigated the association between cultural values and leadership attributes, as well as cultural practices and leadership attributes. With regard to the relationship between cultural values and leadership attributes, the GLOBE researchers concluded the following:

- Collectivism I values, as found in Sweden and other Nordic and Scandinavian countries, were likely to view participative and self-protective leadership behaviors favorably while viewing autonomous leadership behaviors negatively.[81]
- In-Group Collectivism II values, as found in societies such as the Philippines and other East Asian countries, were positively related to charismatic/value-based leadership and team-oriented leadership.[82]
- Gender Egalitarian values, as found in countries such as Hungary, Russia, and Poland, were positively associated with participative and charismatic/value-based leader attributes.[83]
- Performance Orientation values, as found in countries such as Switzerland, Singapore, and Hong Kong, were positively associated with participative and charismatic/value-based leader attributes.[84]
- Future Orientation values, as found in societies such as Singapore, were positively associated with self-protective and humane-oriented leader attributes.[85]
- Societal Uncertainty Avoidance values, as found in Germany, Denmark, and China, were positively associated with team-oriented, humane-oriented, and self-protective leader attributes.[86]
- Societal Humane Orientation values, as found in countries such as Zambia, the Philippines, and Ireland, were positively associated with participative leader attributes.[87]

- Societal Assertiveness values, as found in countries such as the U.S., Germany, and Austria, were positively associated with humane-oriented leader attributes.[88]
- Societal Power Distance values, as found in countries such as Morocco, Nigeria, and Argentina, were positively correlated with self-protective and humane-oriented leader attributes.[89]

One of the most influential and possibly universal leadership attributes is future orientation. An extension of the GLOBE project compared the future orientation of select countries and surprisingly found that "the greater a society's future orientation, the higher its average GDP per capita and its levels of innovativeness, happiness, confidence, and . . . competitiveness."[90] Canada, Denmark, Finland, the Netherlands, and Singapore are all relatively high on future orientation and are among the most competitive countries in the world.

Phase 3 of the GLOBE project, which was completed in 2012, expanded on the middle-management studies of phases 1 and 2 by exploring the relationship between the leadership behavior of CEOs and the effectiveness of their companies. It had been long assumed, yet unproven, that successful executives behave and lead in a manner that is consistent with the preferred leadership style of that particular culture; phase 3 was intended to fill in this gap in the research.[91]

Using a survey of over 1,000 CEOs and 5,000 direct reports, phase 3 determined that CEOs tend to lead in a way that is consistent with the culturally desired leadership dimensions of that society. For example, in societies that prefer participative leadership (such as Germany), CEOs tend to lead in a participatory manner. In southern Asia, where the society prefers more humane leadership, CEOs act in a humane way. If the ideal type of leadership of a society is known, the actions and behaviors of the CEOs in that society can likely be predicted. Furthermore, the study found that CEOs tend to lead in the culturally desired style of their society not just because they were raised in that particular culture but because leading in the desired manner of the society leads to success. In the most successful companies, leaders exceeded the cultural expectations of their society. In the least productive and inefficient companies, CEOs fell short of the idealized leadership style. Across all cultures, CEOs who exhibited charismatic, value-based, and team-oriented leadership traits were more likely to also exhibit the desired leadership characteristics of their society.[92] In the most recent phase of Globe project that started in 2020, the scope has been expanded to collect data form a large number of countries in Africa and the Middle East.

In summarizing the GLOBE findings, researchers suggest that cultural values influence leadership preferences. Specifically, societies that share particular values prefer leadership attributes or styles that are congruent with or supportive of those values, with some exceptions. The studies also resulted in some unexpected findings. For example, societies that valued assertiveness were positively correlated with valuing humane-oriented leadership. According to one interpretation, some of these contradictions may reflect desires by societies to make up for or mitigate some aspects of cultural values with seemingly opposing leadership attributes. In the case of societies that value assertiveness, a preference for humane-oriented leader attributes may reflect a desire to provide a social support structure in an environment characterized by high competition.[93]

A recent study that used GLOBE data explored preferred leadership styles and approaches and their effectiveness across gender. As reported in Chapter 4 and elsewhere in Part Two, gender roles differ greatly in various cultures around the world, although there is some evidence of convergence among many of these cultures. One study showed that preferred leadership prototypes held by female leaders differed from the prototypes held by male leaders, and that these prototype differences varied across countries, cultures, and especially industries. In general, female managers preferred participative, team-oriented, and charismatic leadership prototype dimensions more than males. Contrary to popular belief, both males and females valued humane-oriented leadership equally.

Gender egalitarianism and industry type were important moderators of the gender-leadership prototype relationship. Gender egalitarianism increased females' desire for participative leadership, while prototype differences between genders were magnified in the finance and food sectors. Interestingly, gender differences were surprisingly consistent across most of the countries studied.[94]

Authentic Leadership

What makes a leader "authentic"? Researchers have sought to explain what makes a leader authentic and why leaders are important to today's organizations.

As indicated throughout the chapter, leaders tend to be dynamic and forward-thinking, pioneers in setting new standards. Therefore, individuals who are stagnant or meet the status quo without reaching for higher realms could be considered ineffectual, or inauthentic, leaders. Just as with positive organizational scholarship, authentic leadership accentuates the positive. Authentic leaders are defined by an all-encompassing package of personality traits, styles, behaviors, and credits. Many interpretations exist as to what makes a leader authentic. For example, authentic leaders can be defined as "those who are deeply aware of how they think and behave and are perceived by others as being aware of their own and others' values/moral perspectives, knowledge, and strengths; aware of the context in which they operate; and who are confident, hopeful, optimistic, resilient, and of high moral character."[95] An interpretation by Shamir and Eilam suggests that authentic leaders have four distinct characteristics: (1) Authentic leaders do not fake their actions; they are true to themselves and do not adhere to external expectations; (2) authentic leaders are driven from internal forces, not external rewards; (3) authentic leaders are unique and guide based on personal beliefs, not others' orders; and (4) authentic leaders act based on individual passion and values.[96] However, the authors did not accentuate personal moral drive, which is elsewhere considered to be of great importance to the authentic leader.

Authentic leaders must possess several interrelated qualities. First, they must have positive psychological aspects, such as confidence and optimism. Next, leaders should have positive morals to guide them through processes. However, these aspects are not effective unless the leader is self-aware, as it is essential for leaders to be cognizant of their duties and be true to themselves. This also means that leaders should periodically check their actions and make sure they are congruous with ultimate goals, and that they do not stray from internal standards or expected outcomes. Authentic leaders are expected to lead by example, and therefore their processes and behaviors should be virtuous and reflect the positive moral values inherent in the leader. However, a leader cannot exist without followers, and, if the methods are effective, then the open communication and functionality will motivate followers to exhibit the same characteristics. In other words, followers will become self-aware, and a new clarity will be created in relation to values, morals, and drivers.[97] This could eventually result in followers being indirectly molded into leaders, as inspiration is quite effective. Furthermore, followers will tend toward a sense of trust in their leader, actively engage in processes, and experience a sense of overall workplace well-being.[98] Environment also plays a role in leadership development, and, in order for an authentic leader to succeed, the organization should be evaluated. An optimal situation is one in which the organization values open communication and sharing, where leaders can both promote the company values and still have room to improve through learning and continued self-development. Finally, an authentic leader consistently performs above expected standards. Future orientation and personal drives will motivate the leader to perform above expectations, as long as he or she remains true to him- or herself and is not simply acting out a part for superiors.[99]

How are authentic leaders different from traditional leaders? We discussed transformational leadership earlier in the chapter. Authentic leadership and transformational leadership are similar but with one important difference. Authentic leadership focuses mainly on the internal aspects of the leader, such as morals, values, motivators, and so forth.

While transformational leaders may have all the characteristics of an authentic leader, the key to transformational leadership is how the leader motivates others, which is a secondary concern with authentic leadership. In other words, transformational leaders may very well be authentic, but not all authentic leaders are inherently transformational. Charismatic leadership, on the other hand, does not seem to encompass a sense of self-awareness, with either the leader or the follower. Because this is an important component of authentic leadership, it is also a key point of differentiating between the charismatic and authentic leader. Again, charismatic leaders may have attributes similar to those of the authentic cohorts, but the individual is just not aware of it.[100]

Table 13–8 outlines some other areas where these may differ and where they overlap.

Table 13–8
Comparative Leadership Styles

Components of Authentic Leadership Development Theory	TL	CL(B)	CL(SC)	SVT	SP
Positive psychological capital	×	×	×		×
Positive moral perspective	×	×	×	×	×
Leader self-awareness					
Values	×	×	×	×	×
Cognitions	×	×	×	×	×
Emotions	×	×	×	×	×
Leader self-regulation					
Internalized	×		×		×
Balanced processing	×				
Relational transparency	×				
Authentic behavior	×	×	×	×	
Leadership processes/behaviors					
Positive modeling	×	×	×	×	×
Personal and social identification	×	×	×	×	×
Emotional contagion					
Supporting self-determination	×	×	×	×	×
Positive social exchanges	×	×	×	×	×
Follower self-awareness					
Values	×		×	×	×
Cognitions	×		×		×
Emotions	×		×		×
Follower self-regulation					
Internalized	×	×	×	×	×
Balanced processing	×				
Relational transparency	×		×		
Authentic behavior	×		×		×
Follower development				×	×
Organizational context					
Uncertainty	×	×	×		
Inclusion	×				×
Ethical	×				
Positive, strengths-based				×	
Performance					
Veritable					
Sustained	×	×			
Beyond expectations	×	×			×

Note: ×—Focal Component. ×—Discussed.
Key: TL—Transformational Leadership Theory. CL(B)—Behavioral Theory of Charismatic Leadership. CL(SC)—Self-Concept Based Theory of Charismatic Leadership. SVT—Servant Leadership Theory. SP—Spiritual Leadership Theory.
Source: Avolio, Bruce J. and Gardner, William L. "Authentic Leadership Development: Getting to the Root of Positive Forms of Leadership." *The Leadership Quarterly* 16, no. 3 (June 2005): 315–338.

Authentic leadership, while similar to traditional leadership, is becoming more important in today's globally marketed world. Through a sense of higher awareness, authentic leadership can create a better understanding within the organization. As cohesive relationships form, understanding is created, and the authentic leaders' drive to reach new standards will motivate all employees to attain their future-oriented goals.

Ethical, Responsible, and Servant Leadership

Related to the concept of authentic leadership is ethically responsible leadership. As discussed in Part One, globalization and MNCs have come under fire from a number of areas. Criticisms have been especially sharp in relation to the activities of companies—such as Nike, Levi's, and United Fruit—whose sourcing practices in developing countries have been alleged to exploit low-wage workers, take advantage of lax environmental and workplace standards, and otherwise contribute to social and economic degradation. Companies have also been accused of turning a blind eye to human rights violations in their supply chains. Major fashion brands, including H&M and Burberry, have had to rethink their sourcing of cotton from the Xinjiang province in China, where there are alleged human rights violations against the Uighur minority population, and multinational firms have also grappled with deciding whether or not to do business in Myanmar amidst human rights concerns. Ethical principles provide the philosophical basis for responsible business practices, and leadership defines the mechanism through which these principles become actionable.

The COVID-19 pandemic, with more than 6 million deaths and unprecedented levels of financial hardships, has led to a significant decrease in the trust of global leaders. The 2021 Edelman Trust survey found a high level of distrust for the governments (40 percent drop in the U.S. and 30 percent drop in China), as well as among fellow citizens. The survey also reported an all-time low for CEO's credibility scores in several countries.[101] The decline in trust in leaders is prompting some companies to go on the offensive and to develop more ethically oriented and responsible leadership practices in their global operations. Some researchers link transformational leadership and corporate social responsibility, arguing that transformational leaders exhibit high levels of moral development, including a sense of obligation to the larger community.[102] According to this view, authentic charismatic leadership is rooted in strong ethical values, and effective global leaders are guided by principles of altruism, justice, and humanistic notions of the greater good.

On a more instrumental basis, another research effort linking leadership and corporate responsibility defines "responsible global leadership" as encompassing (1) values-based leadership, (2) ethical decision making, and (3) quality stakeholder relationships.[103] According to this view, global leadership must be based on core values and credos that reflect principled business and leadership practices, high levels of ethical and moral behavior, and a set of shared ideals that advance organizational and societal well-being. The importance of ethical decision making in corporations, governments, not-for-profit organizations, and professional services firms is omnipresent. In addition, the quality of relationships with internal and external stakeholders is increasingly critical to organizational success, especially to governance processes. Relationships involving mutual trust and respect are important within organizations, between organizations and the various constituencies that they affect, and among the extended networks of individuals and their organizational affiliates.

Leaders at many companies have dedicated themselves to responsible global leadership with apparent benefits for their companies' reputations and bottom lines. British Petroleum (BP), whose drilling practices in the Gulf of Mexico resulted in the worst oil spill in history in 2010, has attempted to accentuate responsible global leadership. BP will have to work harder now than ever, but keeping a socially responsible and clear objective will certainly aid in its continued global success. Another strong example is provided by outdoor recreation company REI. The company focuses on promoting volunteerism and environmental stewardship, purchases green energy, and volunteers its retail spaces for community use. Additionally, company profits are shared with employees through a cooperative program.[104,105]

A concept related to ethical and responsible leadership is *servant-leadership*. Servant-leaders achieve results for their organizations by giving priority attention to the needs of

their colleagues and those they serve. Servant-leaders are often seen as humble stewards of their organization's resources (human, financial, and physical). In order to be a servant-leader, one needs the following qualities: listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, growth, and community building. Acquiring these qualities tends to give a person authority versus power. Some trace the concept of servant-leadership to ancient Indian and Chinese thought. In the fourth century BC, Chanakya wrote the following in his book *Arthashastra:* "the king [leader] shall consider as good, not what pleases himself but what pleases his subjects [followers]"; "the king [leader] is a paid servant and enjoys the resources of the state together with the people." The following statement appears in the *Tao Te Ching,* attributed to Lao-Tzu, who is believed to have lived in China sometime between 570 and 490 BC: "The highest type of ruler is one of whose existence the people are barely aware. Next comes one whom they love and praise. Next comes one whom they fear. Next comes one whom they despise and defy. When you are lacking in faith, others will be unfaithful to you. The Sage is self-effacing and scanty of words. When his task is accomplished and things have been completed, all the people say, 'We ourselves have achieved it!'"[106]

More recently, an intellectual movement, led by Robert Greenleaf but with many followers, has proposed servant-leadership as an underlying philosophy of leadership, demonstrated through specific characteristics and practices. Larry Spears, one of Greenleaf's disciples, identifies 10 characteristics of servant-leaders in the writings of Greenleaf. The 10 characteristics are listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of others, and community buillding. Kent Keith, author of *The Case for Servant Leadership* and the current CEO of the Greenleaf Center, states that servant-leadership is ethical, practical, and meaningful. He identifies seven key practices of servant-leaders: having self-awareness, listening, changing the pyramid, developing your colleagues, coaching not controlling, unleashing the energy and intelligence of others, and having foresight. Unlike leadership approaches with a top-down hierarchical style, servant-leadership instead emphasizes collaboration, trust, empathy, and the ethical use of power. At heart, the individual is a servant first, making the conscious decision to lead in order to better serve others, not to increase his or her own power. The objective is to enhance the growth of individuals in the organization and increase teamwork and personal involvement. Large MNCs, such as Starbucks, have adopted aspects of servant-leadership in their global operations.[107]

Entrepreneurial Leadership and Mindset

As discussed in Chapter 8, an increasing share of international management activities is occurring in entrepreneurial new ventures. But, given the high failure rate for international new ventures, what leadership characteristics are important for such ventures to succeed?

Promising start-ups fail for many reasons, including lack of capital, absence of clear goals and objectives, and failure to accurately assess market demand and competition. For international new ventures, these factors are significantly complicated by differences in cultures; national political and economic systems; geographic distance; and shipping, tax, and regulatory costs. A critical factor in the long-term success of a new venture—whether domestic or international—is the personal leadership ability of the entrepreneurial CEO.

Entrepreneurship research has examined some of the key personal characteristics of entrepreneurs, some of which coincide with those of strong leaders. In comparison to non-entrepreneurs, entrepreneurs appear to be more creative and innovative. They tend to break the rules and do not need structure, support, or an organization to guide their thinking. They are able to see things differently and add to a product, s system, or an idea value that amounts to more than an adaptation or a linear change. They are more willing to take personal and business risks and to do so in visible and salient ways. They are opportunity seekers—solving only those problems that limit their success in reaching the vision—and are comfortable with failure, rebounding quickly to pursue another opportunity.[108] Others characterize them as adventurous, ambitious, energetic, domineering, and self-confident.

In addition to these traits, entrepreneurial leaders operating internationally must also possess the cultural sensitivity, international vision, and global mindset to effectively lead their venture as it confronts the challenges of doing business in other countries. Well-known corporate leaders such as Tim Cook (Apple), Richard Branson (Virgin Group), Jeff Bezos (Amazon), and Robert Iger (Disney) have all been successful in leading their companies on a global scale while preserving the integrity and values of the host country.[109,110,111] As Lenovo CEO Yang Yuanqing has shown, this is a growing trend, and soon we may see more entrepreneurs emerge from countries where such ventures are not common practice.



The World of International Management—Revisited

The World of International Management that opens this chapter underscores the importance and value of understanding differences in leadership styles and approaches across cultures. It also emphasizes the related need to prepare prospective international managers, so that they can be successful in these varying environments. A number of global companies—including Roche and others—have developed comprehensive and challenging programs to help provide their employees with experiences to understand when consistent, "universalist" approaches may be appropriate and when adaptation to local practices, norms, and expectations is called for.

In this chapter, it was noted that effective leadership is often heavily influenced by culture. The approach that is effective in Europe is different from approaches used in the U.S. or Latin America. For example, according to one Roche employee, defining success may mean different things in different contexts. Even so, there are threads of universalism evident, for example, in the case of Japanese and U.S. leadership styles in managing both high- and low-achieving workers. The research by Bass also lends support to universalism. But can Roche rely on the leadership style that has served it well in Europe to oversee operations in other countries as it looks to expand? In most cases, leadership styles need to be adjusted to fit the cultural subtleties of disparate markets.

After reviewing the chapter and considering the experience of Roche and other companies mentioned in the chapter, respond to the following questions: (1) Do the leadership programs developed by Roche emphasize the development of managerial characteristics, leadership characteristics, or a combination of the two? (2) How do Roche's programs prepare prospective leaders to manage in differing cultural contexts? (3) How might a deeper understanding of the GLOBE dimensions and the different leadership behaviors across countries help Roche in developing future leaders?

SUMMARY OF KEY POINTS

1. Leadership is a complex and controversial process that can be defined simply as influencing people to direct their efforts toward the achievement of some particular goal or goals. While some claim that managers and leaders conduct two separate job functions, the lack of a universal definition of leadership allows both terms to be used interchangeably, especially as the world moves toward a manager-leader model. Two areas warrant attention as a foundation for the study of leadership in an international setting: philosophical assumptions about people in general and leadership styles. The philosophical foundation is heavily grounded in Douglas McGregor's Theories X and Y and William Ouchi's Theory Z. Leadership styles relate to how managers treat their subordinates and incorporate authoritarian, paternalistic, and participative approaches. These styles can be summarized in terms of the managerial grid shown in Figure 13–2 (1,1 through 9,9).
2. The attitudes of European managers toward dimensions of leadership practice, such as the capacity for leadership and initiative, sharing information and objectives, participation, and internal control, were examined in a classic study by Haire, Ghiselli, and Porter. They found that Europeans, as a composite, had a relatively low opinion of the capabilities of the average person coupled with a relatively positive belief in the necessity for participative leadership styles. The study also found that these European managers' attitudes were affected by hierarchical level, company size, and age. Overall, however, European managers espouse a Participative leadership style.

3. The Japanese managers in the Haire and associates study had a much greater belief in the capacity of subordinates for leadership and initiative than managers in most other countries. The Japanese managers also expressed a more favorable attitude toward a participative leadership style. In terms of sharing information and objectives and using internal control, the Japanese responded above average but were not distinctive. In a number of ways, Japanese leadership styles differed from those of U.S. managers. Company size and age of the managers are two factors that seem to affect these differences. Other reasons include the basic philosophy of managing people, how information is processed, and the high degree of ethnocentrism among the Japanese. However, some often overlooked similarities are important, such as how effective Japanese leaders manage high-achieving and low-achieving subordinates.
4. Leadership research in China shows that the New Generation of managers tends to have a leadership style that is different from the styles of both the Current Generation and the Older Generation. In particular, New Generation managers assign greater importance to individualism as measured by such things as self-sufficiency and personal accomplishments. They also assign less importance to collectivism as measured by subordination of personal goals to those of the group and to Confucianism as measured by such things as societal harmony and virtuous interpersonal behavior.
5. Leadership research in the Middle East traditionally has stressed the basic differences between Middle Eastern and Western management styles. Other research, however, shows that many managers in multinational organizations in the Persian Gulf region operate in a Western-oriented participative style. Such findings indicate that there may be more similarities in leadership styles between Western and Middle Eastern parts of the world than has previously been assumed.
6. Leadership research also has been conducted among managers in India and Latin American countries. These studies show that Indian managers have a tendency toward participative leadership styles, while Latin America wavers between participative and authoritarian styles. Although there always will be important differences in styles of leadership between various parts of the world, participative leadership styles may become more prevalent as countries develop and become more economically advanced.
7. There have been research efforts to explore new areas in international leadership. In particular, Bass has found that there is a great deal of similarity from culture to culture and that transformational leaders, regardless of culture, tend to be the most effective. In addition, the GLOBE study has confirmed earlier research that specific cultural values and practices are associated with particular leadership attributes. Moreover, there is increasing pressure for MNCs to engage in globally responsible leadership that incorporates (a) values-based leadership, (b) ethical decision making, and (c) quality stakeholder relationships. Leaders of international new ventures face particularly challenging obstacles; however, the integration of a global orientation and entrepreneurial flair can contribute to successful "born-global" leaders and firms.

KEY TERMS

authoritarian leadership, *475*
charismatic leaders, *487*
leadership, *472*
participative leadership, *476*
paternalistic leadership, *476*
Theory X manager, *473*
Theory Y manager, *474*
Theory Z manager, *474*
transactional leaders, *487*
transformational leaders, *487*
variety amplification, *483*
variety reduction, *483*

REVIEW AND DISCUSSION QUESTIONS

1. What cultures would be the most likely to perceive differences between managerial and leadership duties? What cultures would view them as the same? Use evidence to support your answer.
2. Using the results of the classic Haire and associates study as a basis for your answer, compare and contrast managers' attitudes toward leadership practices in Nordic-European and Latin-European countries. (The countries in these clusters are identified in Table 13–2.)
3. Is there any relationship between company size and European managers' attitude toward participative leadership styles?
4. Using the GLOBE study results and other supporting data, determine what Japanese managers believe about their subordinates. How are these beliefs similar to those of U.S. and European managers? How are these beliefs different?
5. A U.S. firm is going to be opening a subsidiary in Japan within the next six months. What type of leadership style does research show to be most effective for leading high-achieving Japanese? Low-achieving Japanese? How are these results likely to affect the way that U.S. expatriates should lead their Japanese employees?

6. What do U.S. managers need to know about leading in the international arena? Identify and describe three important guidelines that can be of practical value.
7. Is effective leadership behavior universal, or does it vary from culture to culture? Explain.
8. What is authentic leadership? What is ethically responsible leadership?

INTERNET EXERCISE: TAKING A CLOSER LOOK

Over the last three decades, one of the most successful global firms has been General Electric (GE). Although GE has faced challenges and has shed many of its businesses, including its stake in broadcaster NBC Universal to Comcast in 2013 and its biopharma unit to Danaher Corp. in 2019, it remains a global powerhouse in energy and power systems, health care, finance, and appliances. Go to the company's website at **http://www.ge.com** and review its latest annual report. Pay close attention to the MNC's international operations and to its product lines. Also read about the new members on the board of directors and look through the information on the company's Six Sigma program. Then, aware of what GE is doing worldwide as well as in regard to its quality efforts, answer these questions:

On how many continents does the company currently do business? Based on this answer, is there one leadership style that will work best for the company, or is it going to have to choose managers on a country-by-country basis? Additionally, if there is no one universal style that is best, how can current CEO Larry Culp effectively lead so diverse a group of worldwide managers? In what way would an understanding of the managerial grid be useful in explaining leadership behaviors at GE? Finally, if GE were advertising for new managers in England, Italy, and Japan, what qualities would you expect the firm to be seeking in these managers? Would there be a universal list, or would lists differ on a country-by-country basis?

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In the International Spotlight

Australia

Slightly smaller than the U.S. contiguous 48 states, Australia is the seventh largest country in the world by land area. The continent of Australia is the smallest continent in the world, including mainland Australia, its largest landmass, and surrounding islands. Australia is rich in natural resources including opal, coal, iron ore, nickel, gold, uranium, diamonds, zinc, silver, and rare earth minerals. Minerals including iron ore and coal contribute its largest share of exports.[112,113]

The country's earliest occupants, the Aboriginal people, now constitute less than 3 percent of its nearly 25.69 million population. The population is ethnically very diverse: 36 percent are English, just over 33 percent are Australian, 11 percent are Irish, about 9 percent are Scottish, and the rest are mostly Chinese, Italian, German, Greek, and Dutch. Linguistically, the country is equally diverse. Over 72 percent of the population speaks English, but other languages, including Mandarin, Arabic, Cantonese, Vietnamese, Italian, and Greek, are also used. By religion, the population is predominantly Christian: approximately 23 percent are Protestant, 23 percent are Roman Catholic, and over 4 percent represent other Christians. A third of the population does not identify with any religion. With a median age of approximately 37 years, the largest demographic is the 25-to-54-year-old group, accounting for over 40 percent of the population. The net migration rate ranks 11th in the world.[114,115]

The government of Australia has been a federal parliamentary democracy under a constitutional monarchy, and a Commonwealth realm since the country gained independence from the United Kingdom in 1901. The Prime Minister is the head of the government, and the Queen is the chief of the state. The country follows the common law system similar to the United Kingdom. It is an open market and a member of many bilateral and multilateral trade agreements.[116]

Australia's economy has had a remarkable run propelled by natural resources and mining booms, open trade, immigration, and a skilled workforce. Going for nearly three decades without a recession, and even avoiding a recession during the 2008 global financial crisis that impacted most other major economies, Australia slipped into its first recession since 1991 in 2020 at the onset of the COVID-19 pandemic. At US$1.36 trillion, the country's GDP fell by nearly −2.4 percent in 2020, a greater decline than during the 1991 recession.[117,118]

You Be the International Management Consultant

Two of the biggest mining giants operating in Australia are BHP Group, headquartered in Melbourne, Australia, and Rio Tinto Group, headquartered in London, in the United Kingdom. In recent years, both firms have faced criticism over their destruction of sacred Aboriginal sites. Jakob Stausholm, a Danish businessman, took over as the CEO of Rio Tinto in January 2021 following the resignation of Jean-Sébastien Jacques because of the firm's controversial destruction of Juukan Gorge, a 46,000-year-old Aboriginal heritage and mining site. After public protests in 2020, BHP Group decided to halt its plans to destroy 40 Aboriginal sites in Pilbara as part of an expansion of its iron ore mine.[119]

Workplace harassment and bullying, rampant in the mining industry in Australia, have also plagued the two firms and added to reputational costs. Under the leadership of Jakob Stausholm, Rio Tinto commissioned an external investigation into its workplace culture. The report produced from the investigation revealed that nearly half the firm's employees had experienced bullying over the past five years, including sexual harassment, assault, rape, and racism. Fearing for their jobs, many employees had not been willing to speak out. As corporate leadership, as well as investors, had turned a blind eye, many of the harassing behaviors had become common practice, and many perpetrators had been promoted for their work achievements.[120,121]

Questions

1. What is the responsibility of companies in protecting the environment in industries such as mining and oil and natural gas?
2. What should Rio Tinto and BHP do to offer a more equitable and fun workplace to the employees?
3. What could a country like Australia that is heavily reliant on natural resources do to grow its economy in a more sustainable manner?

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Chapter 14

HUMAN RESOURCE SELECTION AND DEVELOPMENT ACROSS CULTURES

OBJECTIVES OF THE CHAPTER

Firms conducting international business need to be particularly concerned with human resource management issues—including selection, training, and development—to better prepare their personnel for overseas assignments. This chapter focuses on potential sources of human resources that can be employed for overseas assignments, procedures that are used in their selection process, and compensation issues. In this chapter, we discuss training and development and the various types of training that are commonly offered. The specific objectives of this chapter are

1. **IDENTIFY** the three basic sources that MNCs can tap when filling management vacancies in overseas operations in addition to options of subcontracting and outsourcing.
2. **DESCRIBE** the selection criteria and procedures used by organizations and individual managers when making final decisions.
3. **DISCUSS** the reasons people return from overseas assignments and some of the strategies used to ensure a smooth transition back into the home-market operation.
4. **DESCRIBE** the training process, the most common reasons for training, and the types of training that often are provided.
5. **EXPLAIN** how cultural assimilators work and why they are so highly regarded.

The World of International Management

The Challenge of Talent Retention in India

As advancements in artificial intelligence, machine learning, and blockchain technologies dynamically impact the world of international business, the demand for highly skilled employees with a high appetite for innovation and creative problem-solving abilities will continue to increase. The employment landscape is transforming rapidly across the globe and India is not untouched. Technology is reshaping the workplace and the rapid adoption of Industry 4.0-based emerging technologies such as robotics and Artificial Intelligence (AI) have automated many jobs and made human involvement minimal in many. According to WEF's Future of Jobs—2020, it is expected that 85 million jobs will be displaced globally in the next five years, leading to reduced demand for manual labor.[1] However, this revolution has further created the demand for new skilled workforce. With the adoption of newer technologies, 97 million new jobs are expected to emerge. The aforementioned technology-based transformation together with COVID-19 pandemic has disrupted the HR landscape. Skill gaps continue to be high due to rapidly changing nature of the jobs and technological disruptions.

With the emerging reality, finding and retaining talented employees has become a challenge for organizations around the world. Somewhat to the surprise of MNCs, this challenge has become particularly acute in India. By 2027, India will have the world's largest workforce, with 1 billion people aged between 15 and 64 years. According to the Reimagining Work and Rewards survey by Willis Towers Watson (WTW), talent acquisition and retention was a challenge respectively for 29 and 26 percent of organizations in 2020, however, these numbers have increased to 78 and 64 percent respectively in 2022.[2] Eighty-five percent of the organizations stated significant challenge in attracting and retaining talent with digital skills like artificial intelligence, machine learning, and analytics.[3]

In another recent study, by Michael Page (India Talent Trends 2021) 75 percent of those employed currently will be scouting for newer job opportunities in 2022.[4] There is an overwhelming

quest among employees to be open to, or actively looking out to change job. This has presented a never before rush among employers to retain talent and competition among hiring managers to attract top performers. Even though there is an excess supply of candidates in the job market, finding employees with the right combination of experience and soft skills remains a major challenge. Post COVID-19 pandemic, Indian HR managers felt employees' influence over organizations have increased. As per EY's 2022 Work Reimagined Survey, flexible working has emerged as the most important criteria driving employee decision to move. As per this survey, 79 percent of surveyed employees believe that changes should be made to total rewards, given the impacts of the pandemic.[5]

Such high employee turnover has a cost. Shyamal Majumdar of India's Business Standard explained that frontline employees in a top company cost 40 percent of their salaries to replace and top managers cost 150–200 percent of their salaries to replace.[6]

Right Management's Executive Overview described the business implications of high Indian employee turnover:

> In IT, for example, it is important for clients to develop close relationships with employees working on projects. Frequent turnover means continually building new relationships with replacements, thereby slowing down projects and harming both efficiency and client trust. In manufacturing, high attrition results in the expensive and time-consuming exercise of training recent hires about new technologies.[7]

Because of the cost of hiring and retraining employees, MNCs in India may not be able to secure the cost savings that led them to India in the first place. To navigate the challenge, organizations in India have started leveraging gig economy and the internal talent market to fill vacancies. HR managers are also increasingly relying on artificial intelligence and machine learning-based solutions to bridge future skill gaps.

More Than Money

Discussing retaining talent in India, Elena Groznaya points out that MNCs sometimes mistakenly use the same methods to try to retain employees in India as in the home country. These methods are often compensation-driven. In India's relationship-oriented culture, however, employees are motivated not just by compensation but also need a sense of "family" in their companies. Groznaya states, "Traditional Indian companies often play the role of a family extension for their staff" and give employees a feeling of belonging.[8]

A comprehensive talent management and HR practices study in India supported the conclusion that compensation is not the main factor in retaining Indian employees. Villanova School of Business and Right Management conducted a survey of 4,811 individuals from 28 Indian companies in five industries. According to Right Management's Executive Overview, the researchers found the following:

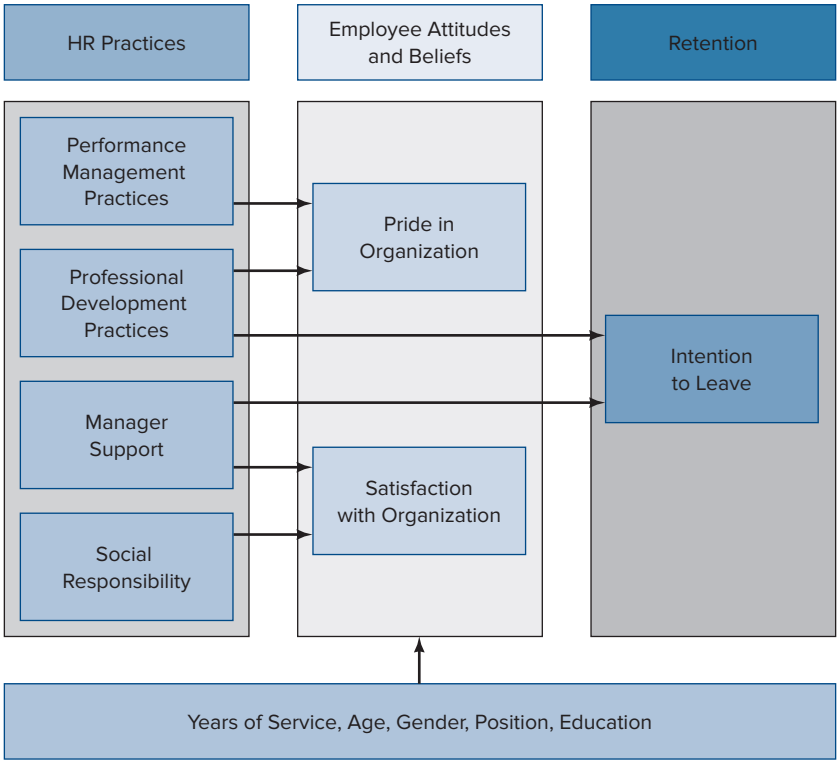
> While the common perception is that pay is the key element in attracting and retaining talent in India, as well as other emerging countries, our results showed a more complex array of factors played a significant role. Most notably, they included the value of intrinsic rewards—the employees' sense of progress, competence, influence/choice, and opportunity to do meaningful work. Compensation was not the most significant factor in either retention or engagement, a phenomenon that held true across all industries. Among respondents who indicated an intent to stay, only 30 percent were "very satisfied" with their compensation.[9]

The key to high retention is keeping employees engaged. The researchers discovered that "lack of engagement was by far the strongest single factor leading to intent to leave an organization. The lesson is clear: The more engaged an employee, the likelier he or she will stay."[10]

Four Factors Correlated to Employee Engagement

What steps can managers take to keep employees engaged? The researchers identified four HR practices that are correlated with employee engagement, as measured by employees' feelings of pride and satisfaction in the organization. These factors are performance management, professional development, manager support, and an organizational commitment to a larger social purpose.[11]

> *Performance management*. The researchers found a significant relationship between retention and a favorable assessment of a firm's performance management system. Of employees who were in the top third of those who rated their company's performance management practices highly, "56.1 percent had strong pride in the organization, 65.9 percent had strong satisfaction with the organization, and only 23.5 percent indicated a strong intention to leave." In contrast, of the bottom third, "only 17.3 percent had strong pride in the organization, 11.1 percent had strong satisfaction, and 48.8 percent expressed a strong intention to leave."[12] When setting up performance management systems at Indian firms, managers need to be coached on how to provide constructive feedback.



Indian managers are often hesitant to criticize their employees, but, with coaching, they can learn how to use criticism to help employees improve their performance.[13]

Professional development. Employees who are satisfied with their firm's professional development opportunities are more likely to remain at the firm. For instance, the researchers found that of those respondents who did not like the professional development practices at their companies, "52.3 percent indicated intent to leave within 12 months versus 18.7 percent in organizations that strongly supported those practices." Employees are more engaged when they have clear opportunities for growth in their career. A typical career path may involve the opportunity to work on different projects, participate in overseas assignments, and eventually take on a managerial role.[14] Employee assessments should be an important part of the development process. These assessments "can ensure that companies hire the right people for the right jobs and . . . will also help to pinpoint those people with the potential to move into management roles."[15]

Management support. The researchers found that "due to the urgent need for managerial level personnel, employees in India are often promoted to supervisory roles before they're ready to assume such responsibilities." Furthermore, many respondents in the study were dissatisfied with their manager's ability to engage with their team: "Only 47 percent of respondents agreed that their immediate supervisor was able to provide support and develop his or her team effectively." This gap in management skills has a negative impact on employee retention. If employees are working for a supervisor who lacks management skills, they are more likely to leave the company.[16] Thus, Indian firms need to train new managers in the basics of management, such as how to reach team objectives and how to mentor employees. Mentoring is an essential management skill in India, where leaders often act as personal advisers. Having effective managers to support their employees is critical to increasing employee retention.[17]

Social responsibility. Many Indian employees highly value commitment to the community. Firms can engage employees by providing them with opportunities to participate in initiatives to help social causes, such as alleviating poverty. These initiatives should be highlighted in annual reports.[18]

Start on the First Day

The highlights of the research study mentioned were published in an article in *MIT Sloan Management Review*. According to the article, "the best companies drive employee satisfaction and pride by providing management support, training, and professional opportunities early on. . . . Employers should start an employee's professional development plan on his or her *first day*."[19]

One of the researchers in the study, Jonathan Doh, told the *MIT Sloan Management Review*, "Our findings suggest that even six months from the start date is probably too late. [At that point] the employee is already making decisions about whether to stay

around or not." MNCs can make the decision to stay an easy one by offering employees effective professional development, performance management systems, and manager support.[20]

Once, India was seen as a source of never-ending talent. Today, India poses some of the same challenges in attracting, hiring, and retaining talent as do many developed countries, with some issues that are particular to the Indian context. Originally, MNCs searched overseas for inexpensive labor, but, as countries become more developed and education levels increase and employers in home countries worry about a diminishing labor force, the search has shifted. As more highly skilled workers become available in other countries, MNCs have a growing number of sources for their human resources; however, as more MNCs and local firms vie for this talent, a "talent war" may ensue. MNCs may also be able to access foreign human resources by hiring them on a temporary or permanent basis in the home country. Often, they subcontract or outsource work to foreign employees in home and host countries. This complex web of relationships creates significant managerial challenges and opportunities and suggests that there will always be a need for highly skilled, culturally sensitive, and geographically mobile managerial talent.

In this chapter, we explore the procedure of international human resource (HR) selection and training and examine the difficulties of developing a global HR management process in the presence of dissimilar cultural norms. At the same time, we survey emerging trends in international HR management, including the increasing use of temporary and contingent staffing to fill the growing global HR needs of MNCs. We also review training and development programs designed to help employees prepare for and succeed in their foreign assignments and adjust to conditions once they return home.

The Importance of International Human Resources

Human resources is an essential part of any organization because it provides the human capital that keeps operations running. Human resource management is also key to an efficient, productive workplace. We discussed in Chapter 12 how financial compensation can motivate employees, but creative human resource management can play an even more important role. By focusing on the employees, or the human resources themselves, organizations have found that positive organizational structure leads to company success in the market.[21] Sometimes this is recognized through compensation, such as competitive salaries, good benefits, promotions, training, education opportunities, and so forth, which have been known to motivate employees and reduce turnover because there are further incentives to strive for. Other times, companies provide employees with daily comforts such as meals where an employee's family is welcome to attend, the ability to bring pets to work, access to fitness centers and laundry rooms, or even services such as oil changes while at work. More recently, allowing flexible work schedules, including work-from-home options, has become a important factor for many employees. Showing the employees that they are not simply cogs in a machine, but that their time is valued and they are thanked for it, often builds morale and can increase company sales through a shared drive to succeed. Furthermore, recognizing the potential in employees and encouraging teamwork can lead to greater risk-taking and innovations.[22,23]

Getting the Employee Perspective

Whether managers are trying to increase productivity or decrease turnover rates, it is good to get a sense of how the employees feel they are being treated. Times continue to change, and, while employees in the past could be considered one unit, today people are realizing their individual talents and their need to be recognized. For instance, global companies are experiencing a labor shortage as skilled workers are in high demand.[24] In essence, skilled workers can almost walk in and request the kind of compensation they desire, and companies may be willing to accept the terms. Even outside this context of labor shortages, firms are restructuring how they look at employees for many good reasons. By segmenting the workforce into categories (but avoiding differentiation based on age or gender because that may imply a form of discrimination) and by offering choices, flexibility, and a personal touch to each employee package, employers are able to provide an underlying sense of commitment because the employee is getting what he or she wants. In other words, by focusing on employees and tailoring human resource management to the individual, people are naturally influenced to stay longer and be more committed to the organization they have joined.[25] However, before a company can keep the employee, it must first hire.

Employees as Critical Resources

Attracting the most qualified employees and matching them to the jobs for which they are best suited is important for the success of any organization. For international organizations, the selection and development of human resources are especially challenging and vitally important. As prevalent and useful as e-mail and web- and teleconferencing are, and despite the increasing incidence of subcontracting and outsourcing, face-to-face human contact will likely remain an important means of communication and transfer of "tacit" knowledge—knowledge that cannot be formalized in manuals or written guidelines. Hence, most companies continue to strategically deploy human resources around the world as needed, although the range of options for filling human resource needs is expanding.

Investing in International Assignments

Most MNCs still find it necessary to send expatriate ("expat") managers overseas, no matter how good "virtual" communications have become. There are quite a few costs involved, including pre-assignment training and potential costs due to failure. According to a recent study, a three-year expatriate assignment can cost a company up to US$1 million. Furthermore, 42 percent of expatriate projects are deemed as failures, adding to the overall cost of doing business.[26] Given these high costs, many MNCs are increasingly turning to locally engaged employees or third-country nationals.[27] In addition, the improved education of many populations around the world gives MNCs more options when considering international human resource needs. The emergence of highly trained technical and scientific employees in emerging markets and the increased prevalence of MBA-type training in many developed and developing countries have dramatically expanded the pool of talent from which MNCs can draw. Yet some companies are still having difficulty in winning the "war for talent." A report from China noted that despite much greater levels of advanced education, there is still a shortage of skilled management. "We need a lot more people than we have now, and we need a higher caliber of people," said Guo Ming, Coca-Cola's human resource director for Greater China.[28]

Adjustment problems of expats undertaking international assignments can be reduced through careful selection and training. Language training and cross-cultural training are especially important, but they are often neglected by MNCs in a hurry to deploy resources to meet critical needs.[29] The demand for globally adept managers will likely grow, and MNCs will need to continue to invest in recruiting and training the best future leaders.

MNCs are also under increasing pressure to keep jobs at home, and their international HR practices have come under close scrutiny. In particular, the "importing" of programmers from India at a fraction of domestic wages, combined with the offshore outsourcing of work to high-tech employees in lower-cost countries, has created political and social challenges for MNCs seeking to manage their international human resources efficiently and effectively. All of this suggests an ongoing need for attention to and investment in this challenging area.

Economic Pressures

It is important to note that the human resource function within MNCs is itself evolving as a result of ongoing pressures for reduced costs and increased efficiencies. There was a time when human resource departments handled every staffing need at a company, from hiring and firing to administering benefits and determining salaries. Today, HR departments spend more time addressing topics like data security, flexible employee work plans, and updating of performance management programs.[30] The demand for HR professionals remains high, however.

HR managers played a major role in bringing about a smooth transition post the COVID-19 pandemic, figuring out how employees could work virtually from home, and provisioning for physical and mental support to employees. HR managers ensured employees and organizations remain engaged, productive, and resilient. Post the COVID-19

response phase, the role of HR managers became even more crucial in shaping organizational culture to keep employees engaged while working remotely. While reskilling has always been central to HR function's role, introducing new structures to enhance worker flexibility and productivity has become equally important. As per a survey by PwC, COVID-19 has led organizations to undertake large-scale competency mapping of employees and as a result, many employees are being redeployed to newer roles and domains.[31]

What is unique in the current scenario is the accelerated pace of digital transformation that organizations are undertaking. In this emerging reality, it is critical to upskill and reskill the employees to meet the demand of their newer roles. However, according to PwC's Hopes and Fears Survey, only 23 percent of the employees have undertaken employer sponsored training to learn digital skills.[32] These challenges have made the role of HR function critical and propelled it as the fastest growing occupational field in the U.S. in 2021. According to a recent study by Research Drive, the global workforce management market is forecasted to grow at a CAGR of 10.6 percent to generate revenue of $ 9.5 billion by 2027.[33] LinkedIn's 2022 study highlighted talent acquisition specialist was in the top 20 jobs in European countries like France, Germany, and the UK.[34] As per Janine Chamberlin, head of LinkedIn UK, After another tumultuous year for businesses, it's no surprise that HR and Talent professionals are in high demand. People in these roles are playing a crucial part in helping businesses adapt to a new world of work and changing employee priorities and expectations."[35]

As discussed previously, while the role of HR function is expanding, more companies are participating in selective outsourcing of HR functions to extract value from market and cut costs. Companies have reported positive benefits from HR outsourcing. The global HR outsourcing market size was estimated at US$32.8 billion in 2020 and is expected to reach the size of US$45.8 billion by 2027, growing at a CAGR of 4.9 percent.[36]

The actions that companies take during an economic recession, in regard to employee compensation and benefits, vary based on a multitude of factors. However, looking back to the 2009–2010 global recession can provide some clues as to how companies may react during future economic downturns. Pay freezes or reductions, along with hiring freezes, were quite common during the global recession. A survey taken during the global recession by Towers Perrin (now Willis Towers Watson) found that 42 percent of organizations were planning hiring freezes and reductions as well as pay cuts. Another survey, an update to ECA International's Salary Trends Survey, conducted annually for more than 50 countries, found that 40 percent of companies planned to freeze pay. On average, salary increases were half as high as anticipated before the economic crisis set in. In Canada, increases dropped from 4 to 1 percent. Salary increases in Western Europe averaged around 2 percent, according to the survey, while those in Eastern Europe were just under 5 percent. Russia, Romania, and Latvia saw the greatest increases, while workers in Lithuania, the Irish Republic, and Switzerland were expected to receive the smallest pay raises in the region.

Likely due in part to the pay and hiring freezes utilized by many companies to improve financial metrics, employers expressed concern over long-term talent retention during the global recession. Sixty-two percent of companies in the Towers Perrin survey stated that they were worried about the potential impact on their ability to keep high-performing talent or those in pivotal roles. In response, organizations reserved their salary increases and cash rewards for their most talented and top-performing employees, even while pay is cut for the rest of the workforce.

Sources of Human Resources

MNCs can tap four basic sources for positions: (1) home-country nationals, (2) host-country nationals, (3) third-country nationals, and (4) inpatriates. In addition, many MNCs are outsourcing aspects of their global operations and, in so doing, are engaging temporary or contingent employees. The following sections analyze each of these major sources.

Home-Country Nationals

home-country nationals
Expatriate managers who are citizens of the country where the multinational corporation is headquartered.

expatriates
Managers who live and work outside their home country. They are citizens of the country where the multinational corporation is headquartered.

Home-country nationals are managers who are citizens of the country where the MNC is headquartered. In fact, sometimes the term *headquarters nationals* is used. These managers commonly are called **expatriates**, or simply "expats," which refers to those who live and work outside of their home country. Historically, MNCs have staffed key positions in their foreign affiliates with home-country nationals or expatriates. For many companies and for the most senior positions, that trend persists. Major U.S. and European companies such as Accenture, Cisco Systems, and IBM have been sending expats to India, China, and a variety of other countries.

Some research has shown that in many instances, home-country nationals may be better suited for the job than local talent. Gaur, Delios, and Singh, for example, investigated staffing practices of Japanese MNCs and found that Japanese MNCs rely more on expatriates in less familiar countries for more efficient transfer of Japanese management practices and other intangible resources. They also found that a greater reliance on expatriates leads to improved subsidiary productivity, especially in distant locations.[37]

There are a variety of reasons for using home-country nationals. One of the most common is to start up operations. Another is to provide technical expertise. A third is to help the MNC maintain financial control over the operation.[38] Other commonly cited reasons include the desire to provide the company's more promising managers with international experience to equip them better for more responsible positions; the need to maintain and facilitate organizational coordination and control; the unavailability of managerial talent in the host country; the company's view of the foreign operation as short-lived; the host country's multiracial population, which might mean that selecting a manager of either race would result in political or social problems; the company's conviction that it must maintain a foreign image in the host country; and the belief of some companies that a home-country manager is the best person for the job.[39]

A 2018 study found that expatriate positions remain appealing to many managers due to the increased financial compensation and ability to progress one's career.[40] However, COVID-19 had a devastating impact on the lives of expatriate workers. Expat workers faced many challenges like mass termination, reduced pay, delayed pay, travel bans, workplace shutdown, embassy closures, and furloughs. Migrant workers were stranded due to the global lockdown and border closures. Expats were stigmatized and subject to discrimination in many parts of the world. It was observed that in many countries expat workers were excluded from the social protection packages offered against job and wage losses. The standstill of the immigration regulation in Europe and the U.S. made the situation more precarious for expat workers who wanted to return back to work. Embassies in many countries were still closed post the pandemic and have stopped processing visas outright. These situations created an immense amount of uncertainty, anxiety and stress for expat workers.

Host-Country Nationals

host-country nationals
Local managers who are hired by the MNC.

Host-country nationals are local managers who are hired by the MNC. For a number of reasons, many MNCs use host-country managers at the middle- and lower-level ranks. One reason, in particular, is that many countries expect the MNC to hire local talent, and the use of host-country nationals is a good way to meet this expectation. Also, even if an MNC wanted to staff all management positions with home-country personnel, it would be unlikely to have this many available managers, and the cost of transferring and maintaining them in the host country would be prohibitive.[41]

Host-country nationals also help MNCs gain local legitimacy. In a study of Korean MNCs' staffing practices, Gaur and colleagues found that in countries with strong institutions such as the rule of law and a high level of trust, Korean MNCs rely more on host-country nationals. This is because a high level of societal trust and strong institutions reduce the likelihood that host-country nationals would not work to serve the interests of the MNC. As these fears subside, MNCs can rely on host-country nationals to derive more value from the local context.[42]

International Management in Action

Important Tips on Working for Foreigners

http://www.overseasjobs.com

As the Japanese, South Koreans, and Europeans continue to expand their economic horizons, increased employment opportunities will be available worldwide. Is it a good idea to work for foreigners? Those who have done so have learned that there are both rewards and penalties associated with this career choice. Following are some useful tips that have been drawn from the experiences of those who have worked for foreign MNCs.

First, most U.S. managers are taught to make fast decisions, but most foreign managers take more time and view rapid decision-making as unnecessary and sometimes bad. In the U.S., we hear the cliché "The effective manager is right 51 percent of the time." In Europe, this percentage is perceived as much too low, which helps explain why European managers analyze situations in much more depth than most U.S. managers do. Americans working for foreign-owned firms have to focus on making slower and more accurate decisions.

Second, most Americans are taught to operate without much direction. In Latin countries, managers are accustomed to giving a great deal of direction, and, in East Asian firms, there is little structure and direction. Americans have to learn to adjust to the decision-making process of the particular company.

Third, most Americans go home around 5 p.m. If there is more paperwork to do, they take it with them. Japanese managers, in contrast, stay late at the office and often view those who leave early as being lazy. Americans either have to adapt or have to convince the manager that they are working as hard as their peers but in a different physical location.

Fourth, many international firms say that their official language is English. However, important conversations always are carried out in the home country's language, so it is important to learn that language.

Fifth, many foreign MNCs make use of fear to motivate their people. This is particularly true in manufacturing work, where personnel are under continuous pressure to maintain high output and quality. For instance, those who do not like to work under intense conditions would have a very difficult time succeeding in Chinese auto assembly plants. Americans have to understand that humanistic climates of work may be the exception rather than the rule.

Finally, despite the fact that discrimination in employment is outlawed in the U.S., it is practiced by many MNCs, including those operating in the U.S. Women seldom are given the same opportunities as men, and top-level jobs almost always are reserved for home-office personnel. In many cases, Americans have accepted or accommodated to this ethnocentric (nationalistic) approach.

Nevertheless, as Chapter 3 discussed, ethics and social responsibility are becoming a major issue in the international arena, and these moral challenges must be met now and in the future.

Source: Axtell, Roger E., ed. *Do's and Taboos around the World*. New York: Wiley, 1990; Gannon, Martin J. *Understanding Global Cultures*, 2nd ed. Thousand Oaks, CA: Sage, 2001; Lewis, Richard D. *When Cultures Collide*. London: Nicholas Brealey, 1999; Holusha, John. "No Utopia but to Workers, It's a Job." *New York Times*, January 29, 1989, sec. 3, 1, 10; Rice, Faye. "Should You Work for a Foreigner?" *Fortune,* August 1, 1988, 123–24; Whalen, Jeanne. "American Finds Himself Atop Russian Oil Giant in Turmoil." *Wall Street Journal*, October 30, 2003, B1.

In some cases, government regulations dictate selection practices and mandate at least some degree of "nativization." In Brazil, for example, two-thirds of the employees in any foreign subsidiary traditionally have to be Brazilian nationals. Additionally, the Brazilian Labor Code states that pay to foreigners must not exceed one-third of the company's total payroll. Brazil is not alone; many countries exert real and subtle pressures to staff the upper-management ranks with nationals. In the past, these pressures by host countries have led companies such as ExxonMobil to change their approach to selecting managers. These regulations have substantial costs in that shielding local employees from international competition may create a sense of entitlement and result in low productivity.

Sony is trying the host-country approach in the U.S. Employees are encouraged to accept or decline styles that emerge from Japanese headquarters, depending on American tastes. Furthermore, innovative creations are birthed at the U.S. site, all with an American flavor. Sony believes that local citizens are the best qualified for the job, as opposed to Japanese managers, because they already have a working knowledge of the language and culture, and it may be difficult for Sony to understand preferred styles otherwise.[43] The International Management in Action box "Important Tips on Working for Foreigners" gives examples of how Americans can better adapt to foreign bosses.

third-country nationals (TCNs)
Managers who are citizens of countries other than the country in which the MNC is headquartered or the one in which the managers are assigned to work by the MNC.

Third-Country Nationals

Third-country nationals (TCNs) are managers who are citizens of countries other than the country in which the MNC is headquartered or the one in which they are assigned to

work by the MNC. Available data on third-country nationals are not as extensive as those on home- and host-country nationals.

A number of advantages have been cited for using TCNs. One is that the salary and benefits package usually is less than that of a home-country national, although in recent years the salary gap between the two has begun to diminish. A second reason is that the TCN may have a very good working knowledge of the region or speak the same language as the local people. This helps explain why many U.S. MNCs hire English or Scottish managers for top positions at subsidiaries in former British colonies such as Jamaica, India, the West Indies, and Kenya. It also explains why successful MNCs such as Gillette, Coca-Cola, and IBM recruit local managers and train them to run overseas subsidiaries. Other cited benefits of using TCNs include

1. TCN managers, particularly those who have had assignments in the headquarters country, can often achieve corporate objectives more effectively than expatriates or local nationals. In particular, they frequently have a deep understanding of the corporation's policies from the perspective of a foreigner and can communicate and implement those policies more effectively to others than can expats.
2. During periods of rapid expansion, TCNs can not only substitute for expatriates in new and growing operations but also offer different perspectives that can complement and expand on the sometimes narrowly focused viewpoints of both local nationals and headquarters personnel.
3. In joint ventures, TCNs can demonstrate a global or transnational image and bring unique cross-cultural skills to the relationship.[44]

inpatriates
Individuals from a host country or third-country nationals who are assigned to work in the home country.

In recent years, a new term has emerged in international management—inpatriates. An **inpatriate**, or inpat, is an individual from a host country or a third-country national who is assigned to work in the home country.

Inpats could be very helpful for MNCs in developing their global core competencies. As a result, a new breed of multilingual, multi-experienced, so-called global managers or transnational managers is truly emerging.[45] These new managers are part of a growing group of international executives who can manage across borders and do not fit the traditional third-country nationals mold. With a unified Europe and other such developments in North America and Asia, these global managers are in great demand. Additionally, with labor shortages developing in certain regions, there is a wave of migration from regions with an abundance of personnel to those where the demand is strongest.

Subcontracting and Outsourcing

Other potential sources of international management talent are subcontracting and offshore outsourcing (introduced in Chapter 1). Offshore outsourcing is made possible by the increasing organizational and technological capacity of companies to separate, coordinate, and integrate geographically dispersed human resources—whether employed directly by the firm or contracted out—across distant geographic borders. The development of this capacity can be traced to the earlier growth of international subcontracting as well as to the international diffusion of lean production systems (which originated with Japanese auto manufacturers) to other manufacturing and service sectors. In particular, service industries are exploiting inexpensive telecommunications to transmit engineering, medical, legal, and accounting services to be performed in locations previously viewed as remote. Rising levels of educational attainment in developing countries such as China, India, and the Philippines, especially in the scientific and technical fields, make offshoring increasingly attractive for a range of international human resource needs.

These developments are not without controversy, however. On the one hand, offshore outsourcing, as well as the hiring of temporary workers from abroad on special visas, similar to inpatriates, presents significant opportunities for cost savings and lower overhead. On the other hand, the recent wave of media attention has focused on the widespread concern that in an age of cheap telecommunications, almost any job—professional or blue-collar—can be performed in India for a fraction of U.S. wages.[46] In particular, as discussed in Chapter 1, union groups, politicians, and NGOs have challenged MNCs' right to engage in labor "arbitrage."

Offshoring is reaching a new era, and, while the top reason that MNCs look to other countries for labor is still to save money, there has been a decline all around in qualified personnel, which has brought about an emerging focus on other factors, notably access to qualified personnel.

Moreover, although the cost for a computer programmer or a middle manager in India remains a small fraction of the cost of a similar employee in the U.S. (a software developer makes a little over US$40,000 in India but about US$110,000 in the U.S., according to a 2020 HackerRank Developer Skills Report), the wage savings do not necessarily translate directly into overall savings because the typical outsourcing contract between an American company and an Indian vendor saves less than half as much as the wage differences would imply.[47] Microsoft faced this challenge when it hired two Indian outsourcing companies, Infosys and Satyam, to provide skilled software architects for its projects. In this case, the work of software architects and developers was being done by employees of the Indian companies working at Microsoft facilities in the U.S. Although the actual employees were paid much less than their U.S. counterparts (US$30,000 to US$40,000), Microsoft was billed US$90 an hour for software architects, or at a yearly rate of more than US$180,000. The onsite work was done by Indian software engineers who came to the U.S. on H-1B visas, which allow foreign workers to be employed in the U.S. for up to six years. Microsoft also contracted work in India through the firms, with billing rates of US$23 to US$36 an hour.[48]

Though politically controversial, outsourcing can save companies significant costs and is very profitable for firms that specialize in providing these services on a contract basis. U.S.-based firms such as IBM and Deloitte have developed specific competencies in global production and HR coordination, including managing the HR functions that must support it. These firms combine low labor costs, specialized technical capabilities, and coordination expertise.

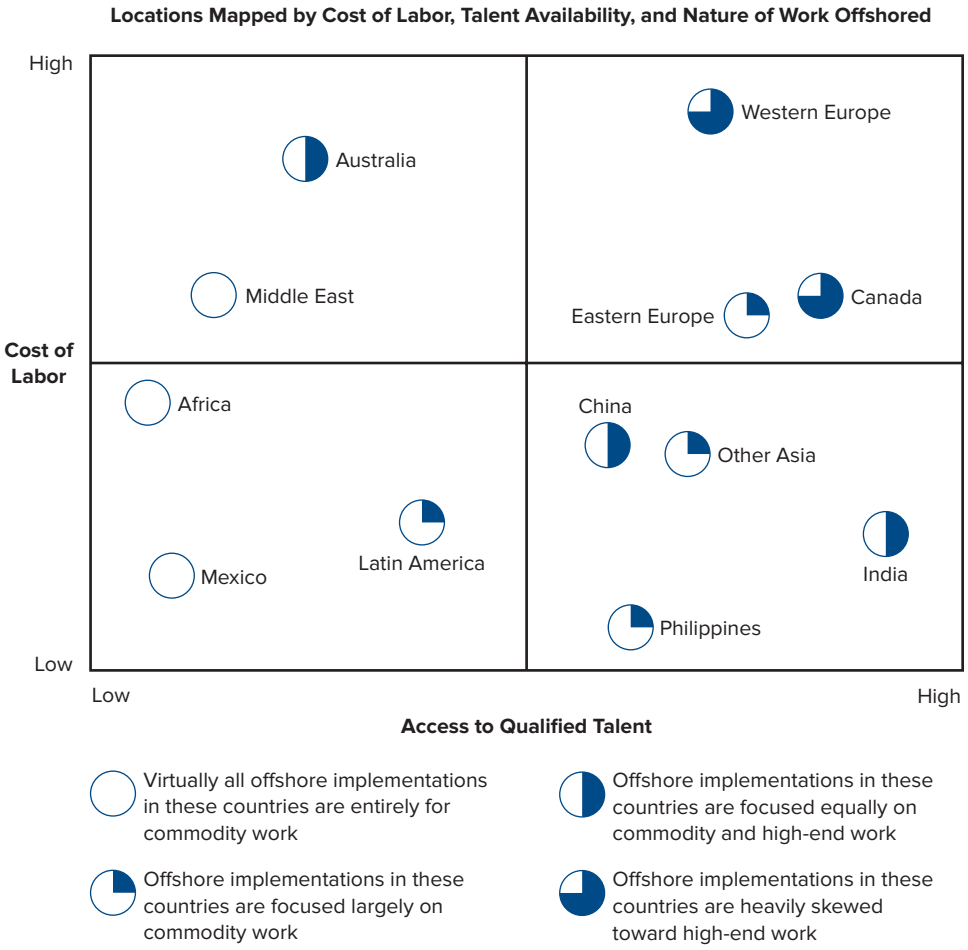
Outsourcing can also create quality control problems for some companies, as demonstrated in 2020 when some of the top European companies that had outsourced work to Indian companies started recalling jobs back on fear of quality and data leaks due to remote work during COVID-19 pandemic.[49] A major reason for this recall was also attributed to the different laws for data protection in both countries with Indian companies falling short of meeting the European regulations.

Additionally, the recent implementation of protectionist policies in many countries has led to an increased repatriation of outsourced positions from places like India. For example, the 2021 American Jobs Plan envisages limiting the outsourcing of U.S. jobs. The new plan targeted to implement tax codes that would ensure that U.S. companies can no longer benefit from tax breaks when outsourcing domestic jobs overseas. The headwind against outsourcing can be seen in the fact that the number of non-immigrant U.S. visas issued recorded a fourth consecutive drop from 10.9 million in 2015 to 8.7 million in 2019, leading to major job losses in emerging markets like India.[50] A 2021 survey found that more than 60 percent of the employees of the top four largest Indian IT firms in the U.S. were U.S. citizens in 2021.[51]

Despite the limitations, offshore subcontracting will remain an important tool for managing and deploying international human resources. Even in the U.S., with the Trump administration's emphasis on the repatriation of jobs, more than 90,000 positions were offshored in 2019.[52]

Although subcontracting provides important flexibility in the human resource practices of MNCs operating globally, it also requires skilled international managers to coordinate and oversee the complex relationships that arise from it. This is especially true as offshoring begins a new generation. In a survey by Duke University's Offshoring Research Network, significant differences were found in the perspectives of home (source) and host (destination) countries. Specifically, individuals in home countries were often worried about losing jobs to host countries, exacerbated by the fact that higher-end jobs are now being shipped overseas.[53] This is not the case from the organizations' point of view. It is becoming increasingly difficult for managers to find the appropriate talent. More and

Figure 14–1
Skills MNCs Seek within Countries



Source: Lewin, Arie Y., and Vinay Couto. *Next Generation Offshoring: The Globalization of Innovation.* Durham, NC: Duke University Center for International Business Education and Research, 2007.

more, companies are looking overseas in areas such as R&D and procurement to supplement the lack of experts in the home country. This does not take jobs away from home countries; it simply opens jobs globally as managers attempt to fit the skills of the worker to the job itself.[54] Furthermore, companies are very specific about which country they search when looking to fill particular job functions. Figure 14–1 depicts this reality. Overall, offshoring is a trend that does not appear to be on its way out but, instead, is evolving through alternative motivators and continuing to innovatively help the company grow.

■ Selection Criteria for International Assignments

international selection criteria
Factors used to choose personnel for international assignments.

Making an effective selection decision for an overseas assignment can prove to be a major problem. Typically, this decision is based on **international selection criteria**, which are factors used to choose international managers. These selections are influenced by the MNC's experience and often are culturally based. Sometimes as many as a dozen criteria are used, although most MNCs give serious consideration to only five or six.[55] Table 14–1 reports the importance of some of these criteria as ranked by Australian, expatriate, and Asian managers from 60 leading Australian, New Zealand, British, and U.S. MNCs with operations in South Asia.[56]

General Criteria

Some selection criteria are given a great deal of weight; others receive, at best, only lip service. A company sending people overseas for the first time often will have a much longer list of criteria than will an experienced MNC that has developed a "short list." Typically, both technical and human criteria are considered. Firms that fail to consider both

Table 14–1
Rank of Criteria in Expatriate Selection

	Australian Managers ($n = 47$)	Expatriate Managers* ($n = 52$)	Asian Managers ($n = 15$)
1. Ability to adapt	1	1	2
2. Technical competence	2	3	1
3. Spouse and family adaptability	3	2	4
4. Human relations skill	4	4	3
5. Desire to serve overseas	5	5	5
6. Previous overseas experience	6	7	7
7. Understanding of host-country culture	7	6	6
8. Academic qualifications	8	8	8
9. Knowledge of language of country	9	9	9
10. Understanding of home-country culture	10	10	10

*U.S., British, Canadian, French, New Zealand, or Australian managers working for an MNC outside their home countries.
Source: Stone, Raymond J. "Expatriate Selection and Failure." *Human Resource Planning* 14, no.1, 1991: 9–18.

often find that their rate of failure is quite high. The following sections examine some of the most commonly used selection criteria for overseas assignments in more depth.

Adaptability to Cultural Change

Overseas managers must be able to adapt to change. They also need a degree of cultural toughness. Research shows that many managers are exhilarated at the beginning of their overseas assignment. After a few months, however, a form of culture shock creeps in, and they begin to encounter frustration and feel confused in their new environment. This may be a good sign because it shows that the expatriate manager is becoming involved in the new culture and not just isolating him- or herself from the environment.

As this initial and trying period comes to an end, expatriates tend to identify more with the host-country culture, which only increases as managers become more adept at the position. As seen in Figure 14–2, upon first arrival, the expatriates identify almost

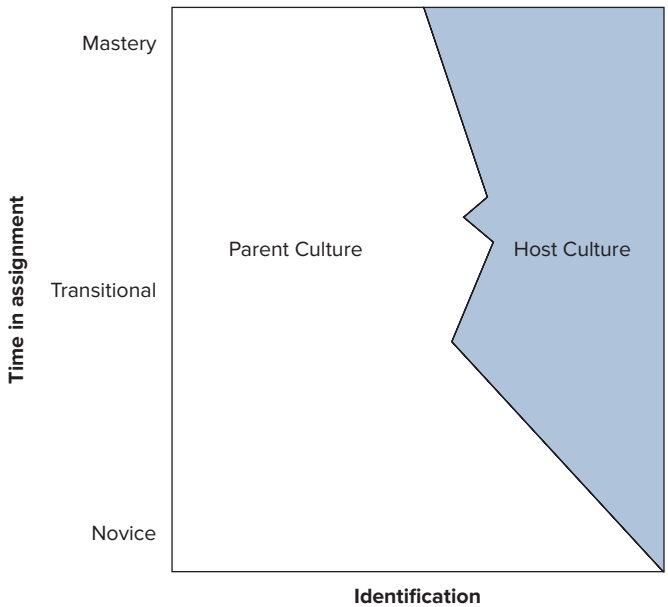


Figure 14–2
Evolution of Parent and Host Culture Identification

Source: Sanchez, Juan I., Paul E. Spector, and Cary L. Cooper. "Adapting to a Boundaryless World: A Developmental Expatriate Model." *Academy of Management* 14, no. 2 (2000): 96–106.

wholly with the home country. Over time, they become more familiar with their surroundings and become more of an integral part of the environment. This integration can lead to a higher sense of satisfaction with the job and a lessening of stress and alienation.[57]

Organizations examine a number of characteristics to determine whether an individual is sufficiently adaptable. Examples include work experiences with cultures other than one's own, previous overseas travel, knowledge of foreign languages (fluency generally is not necessary), and recent immigration background or heritage. Others include (1) the ability to integrate with different people, cultures, and types of business organizations; (2) the ability to sense developments in the host country and accurately evaluate them; (3) the ability to solve problems within different frameworks and from different perspectives; (4) sensitivity to the fine print of differences of culture, politics, religion, and ethics, in addition to individual differences; and (5) flexibility in managing operations on a continuous basis despite lack of assistance and gaps in information.

In research conducted among expatriates in China, Selmar found that those who were best able to deal with their new situation had developed coping strategies characterized by sociocultural and psychological adjustments, including (1) feeling comfortable that their work challenges can be met, (2) being able to adjust to their new living conditions, (3) learning how to interact well with host-country nationals outside of work, and (4) feeling reasonably happy and being able to enjoy day-to-day activities.[58]

Physical and Emotional Health

Most organizations require that their overseas managers have good physical and emotional health. Some examples are fairly obvious. An employee with a heart condition or a nervous disorder would not be considered. The psychological ability of individuals to withstand culture shock, if this could be discerned, would be an issue, as would the current marital status as it affected an individual's ability to cope in a foreign environment. For example, one U.S. oil company operating in the Middle East considers middle-aged men with grown children to be the best able to cope with culture shock, and for some locations in the desert, considers people from Texas or southern California to be a better fit than those from New England.

Age, Experience, and Education

Most MNCs strive for a balance between age and experience. There is evidence that younger managers are more eager for international assignments. These managers tend to be more "worldly" and have a greater appreciation of other cultures than older managers do. By the same token, young people often are the least developed in management experience and technical skills; they lack real-world experience. To gain the desired balance, many firms send both young and seasoned personnel to the same overseas post. Many companies consider an academic degree, preferably a graduate degree, to be of critical importance to an international executive; however, universal agreement regarding the ideal type of degree is nonexistent. MNCs, of course, use formal education only as a point of departure for their own training and development efforts. For example, Siemens of Germany gives members of its international management team specific training designed to help them deal more effectively with the types of problems they will face on the job.

Language Training

The ability to speak the language of the country in which a manager is doing business can be extremely valuable. One recognized weakness of many MNCs is that they do not give sufficient attention to the importance of language training. English is the primary language of international business, and most expatriates from all countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English-speaking countries, however. In other words, language can be a critical factor.

Traditionally, managers from English-speaking countries have done very poorly in the language area. However, in recent years, expatriates have made an effort to improve their conversational skills. According to the Expat Insider 2021 survey, expats found it hard to live in countries like Japan, France, and Germany without knowledge of local languages.[59] Fifty four percent of the expat respondents in Tokyo reported that it is hard to live there without the knowledge of the local language against the global average of 29 percent. Similarly, expats find Germany to be a hard place to work without the knowledge of German.[60]

For many expatriates, being able to speak with locals in their own language is a major milestone in finally feeling connected to the foreign country. This is especially important for countries like China and South Korea, where successful integration is heavily dependent on being able to converse in the local language.

Motivation for a Foreign Assignment

Although individuals being sent overseas should have a desire to work abroad, this usually is not sufficient motivation. International management experts contend that the candidate also must believe in the importance of the job and even have something of an element of idealism or a sense of mission. Applicants who are unhappy with their current situation at home and are looking to get away seldom make effective overseas managers.

Some experts believe that a desire for adventure or a pioneering spirit is an acceptable reason for wanting to go overseas. In a 2021 study, Azarova and colleagues examined the expatriates who are given particularly hard postings in inter-governmental organizations. They found that even in hardship assignments, expatriates are satisfied if they are dedicated to the cause and motivated to take on such challenges.[61] Other motivators that often are cited include the desire to increase one's chances for promotion and the opportunity to improve one's economic status. For example, many U.S. MNCs regard international experience as being critical for promotion to the upper ranks. In addition, thanks to the supplemental wage and benefit package, U.S. managers sometimes find that they can make, and especially save, more money than if they remained stateside.

And, while many may romanticize the expatriate life, it is clear that the travel mystique continues to motivate professionals to desire and seek an assignment abroad. A recent survey found that at least 40 percent of Britons say that they would like to work or retire abroad. And, according to a report in the British *Daily Telegraph*,

> And it's not just about the sunshine. Becoming an expatriate is an adventure, a new beginning, a fresh start, and it is in human nature to want to explore. Global mobility is as old as humankind itself. In more recent times entire civilizations have been influenced by explorers such as Marco Polo, Christopher Columbus, Captain Cook, and the Pilgrim Fathers. So moving across continents is nothing new but its continued rise has been underpinned by the drive towards globalization aided by the revolution in communication throughout the 20th century. Technologies have allowed companies to globalize in ways which were simply unimaginable in earlier times.[62]

Spouses and Dependents or Work-Family Issues

Spouses and dependents are another important consideration when a person is to be chosen for an overseas assignment. If the family is not happy, the manager often performs poorly and may either be terminated or simply decide to leave the organization. Shaffer and her associates collected multisource data from 324 expatriates in 46 countries and found that the amount of organizational support an expatriate feels he or she is receiving and the interplay between the person's work and family domains have a direct and unique influence on the individual's intentions regarding staying with or leaving the enterprise.[63] For this reason, some firms interview both the spouse and the manager before deciding whether to approve the assignment. This can be a very important decision for the firm because it focuses on the importance of family as a critical issue to a successful assignment. One popular approach in appraising the family's suitability for an overseas assignment is called **adaptability screening**.

adaptability screening
The process of evaluating how well a family is likely to stand up to the stress of overseas life.

This process evaluates how well the family is likely to stand up to the rigors and stress of overseas life. The company looks for a number of things in this screening, including how closely knit the family is, how well it can withstand stress, and how well it can adjust to a new culture and climate. The reason this family criterion receives so much attention is that MNCs have learned that an unhappy executive will be unproductive on the job and the individual will want to transfer home long before the tour of duty is complete.

These findings indicate that organizations cannot afford to overlook the role of the spouse in the expat selection decision process. What, in particular, can be done to address their concerns?[64] Table 14–2 provides some insights into this answer. Additionally, the table adds a factor often overlooked in this process—situations in which the wife is being assigned overseas and the husband is the "other" spouse. Although many of the concerns of the male spouse are similar to those of spouses in general, a close look at Table 14–2 shows that some of the concerns of the males are different in their rank ordering.

Table 14–2
Activities That Are Important for Expatriate Spouses
(scale: 1–5, 5 = Very important)

Mean Score	Activity
Average from All Respondents	
4.33	Company help in obtaining necessary paperwork (permits, etc.) for spouse
4.28	Adequate notice of relocation
4.24	Predeparture training for spouse and children
4.23	Counseling for spouse regarding work/activity opportunities in foreign location
4.05	Employment networks coordinated with other international networks
3.97	Help with spouse's re-entry into home country
3.93	Financial support for education
3.76	Compensation for spouse's lost wages and/or benefits
3.71	Creation of a job for spouse
3.58	Development of support groups for spouses
3.24	Administrative support (office space, secretarial services, etc.) for spouse
3.11	Financial support for research
3.01	Financial support for volunteer activities
2.90	Financial support for creative activities
Average from Male Spouses	
4.86	Employment networks coordinated with other international organizations
4.71	Help with spouse's re-entry into home country
4.71	Administrative support (office space, secretarial services, etc.) for spouse
4.57	Compensation for spouse's lost wages and/or benefits
4.29	Adequate notice of relocation
4.29	Counseling for spouse regarding work/activity opportunities in foreign location
3.86	Predeparture training for spouse and children
3.71	Creation of a job for spouse
3.71	Financial support for volunteer activities
3.43	Financial support for education
3.14	Financial support for research
3.14	Financial support for creative activities
3.00	Development of support groups for spouses

Source: Punnett, Betty Jane. "Towards Effective Management of Expatriate Spouses." *Journal of World Business* 32, no. 3, (1997): 243–257.

Leadership Ability

The ability to influence people to act in a particular way—leadership—is another important criterion in selecting managers for an international assignment. Determining whether a person who is an effective leader in the home country will be equally effective in an overseas environment can be difficult, however. When determining whether an applicant has the desired leadership ability, many firms look for specific characteristics, such as maturity, emotional stability, the ability to communicate well, independence, initiative, creativity, and good health. If these characteristics are present and the person has been an effective leader in the home country, MNCs assume that the individual also will do well overseas.

Other Considerations

Applicants also can take certain steps to prepare themselves better for international assignments. Tu and Sullivan suggest the applicant can carry out a number of different phases of preparation.[65] In phase one, they suggest focusing on self-evaluation and general awareness. This includes answering the question, Is an international assignment really for me? Other questions in the first phase include finding out if one's spouse and family support the decision to go international and collecting general information on the available job opportunities.

Phase two is characterized by a concentration on activities that should be completed before a person is selected. Some of these include (1) conducting a technical skills match to ensure that one's skills are in line with those that are required for the job; (2) starting to learn the language, customs, and etiquette of the region where one will be posted; (3) developing an awareness of the culture and value systems of this geographic area; and (4) making one's superior aware of this interest in an international assignment.

The third phase consists of activities to be completed after being selected for an overseas assignment. Some of these include (1) attending training sessions provided by the company; (2) conferring with colleagues who have had experience in the assigned region; (3) speaking with expatriates and foreign nationals about the assigned country; and, (4) if possible, visiting the host country with one's spouse before the formally scheduled departure.

International Human Resource Selection Procedures

MNCs use a number of selection procedures. The two most common are tests and interviews. Some international firms use one; a smaller percentage employ both. Theoretical models containing the variables that are important for adjusting to an overseas assignment have been developed. These adjustment models can help contribute to more effective selection of expatriates. The following sections examine traditional testing and interviewing procedures and then present an adjustment model.

Testing and Interviewing Procedures

Some evidence suggests that although some firms use testing, it is not extremely popular. For example, an early study found that almost 80 percent of the 127 foreign operations managers who were surveyed reported that their companies used no tests in the selection process.[66] This contrasts with the more widespread testing that these firms use when selecting domestic managers. Many MNCs report that the costs, questionable accuracy, and poor predictive record make testing of limited value.

Many firms do use interviews to screen people for overseas assignments. One expert notes, "It is generally agreed that extensive interviews of candidates (and their spouses) by senior executives still ultimately provide the best method of selection."[67] Tung's research supports these comments. For example, 52 percent of the U.S. MNCs she surveyed

reported that in the case of managerial candidates, MNCs conducted interviews with both the manager and his or her spouse, and 47 percent conducted interviews with the candidate alone.[68]

The Adjustment Process

International human resource management specialists have developed models that help explain the factors involved in effectively adjusting to overseas assignments.[69,70] These adjustment models help identify the underpinnings of the effective selection of expatriates.

There are two major types of adjustments that an expatriate must make when going on an overseas assignment: anticipatory and in-country adjustments. Anticipatory adjustment is carried out before the expat leaves for the assignment and is influenced by a number of important factors. One factor is the predeparture training that is provided. This often takes the form of cross-cultural seminars or workshops, and it is designed to acquaint expats with the culture and work life of the country to which they will be posted. Another factor affecting anticipatory adjustment is the previous experience the expat may have had with the assigned country or with countries with similar cultures. The organizational input into anticipatory adjustment is most directly related and concerned with the selection process. Traditionally, MNCs relied on only one important selection criterion for overseas assignments: technical competence. Obviously, technical competence is important, but it is only one of a number of skills that will be needed. If the MNC concentrates only on technical competence as a selection criterion, then it is not properly preparing the expatriate managers for successful adjustment in overseas assignments. As a result, expats are going to go abroad believing that they are prepared to deal with the challenges awaiting them, and they will be wrong.

In-country adjustment takes place once the expatriate is on site, and a number of factors will influence his or her ability to adjust effectively. One factor is the expat's ability to maintain a positive outlook in the face of a high-pressure situation, to interact well with host nationals, and to perceive and evaluate the host country's cultural values and norms correctly. A second factor is the job itself, as reflected by the clarity of the role the expat plays in the host management team, the authority the expat has to make decisions, the newness of the work-related challenges, and the amount of role conflict that exists. A third factor is the organizational culture and how easily the expat can adjust to it. A fourth is nonwork matters, such as the toughness with which the expatriate faces a whole new cultural experience and how well his or her family can adjust to the rigors of the new assignment. A fifth and final factor identified in the adjustment model is the expat's ability to develop effective socialization tactics and to understand "what's what" and "who's who" in the host organization.

Another model of expatriate adjustment emphasizes the formation of network ties in the host country to obtain critical informational and emotional support resources, proposing a five-stage process model that delineates how expatriates form adjustment-facilitating support ties in a culturally unfamiliar context:

- Stage 1: factors influencing expatriates' motivation to seek support from actors in the host country
- Stage 2: factors influencing expatriates' selection of and support seeking toward actors
- Stage 3: factors influencing contacted actors' ability and willingness to provide support
- Stage 4: factors influencing expatriates' utilization of received support
- Stage 5: factors influencing expatriates' addition of actors to network[71]

These anticipatory and in-country factors will influence the expatriate's mode and degree of adjustment to an overseas assignment. They can help explain why effective selection of expatriates is multifaceted and can be very difficult and challenging. But, if

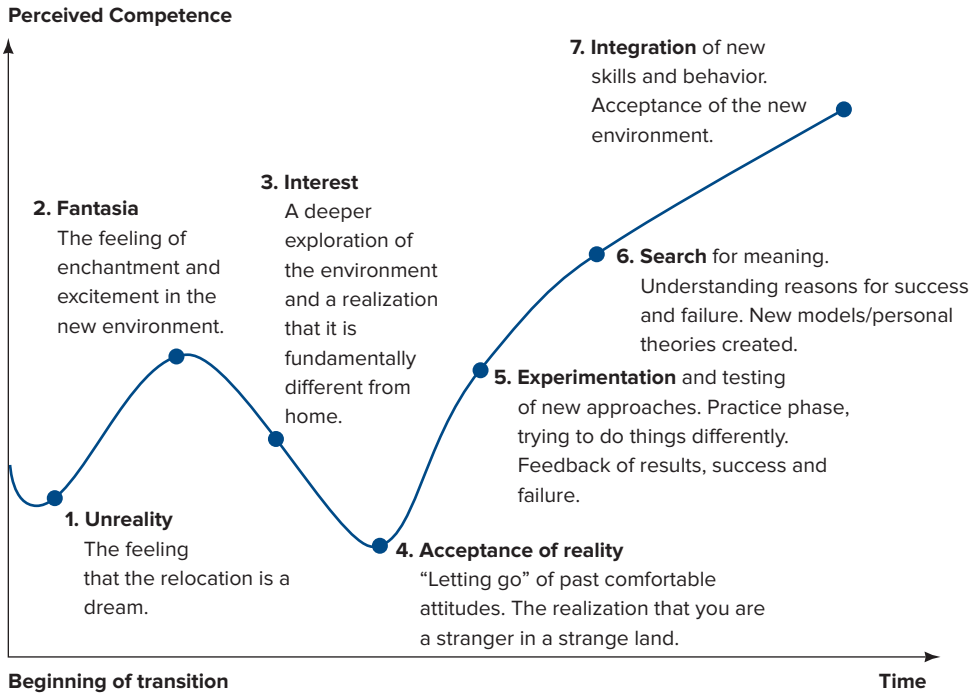


Figure 14–3
The Relocation Transition Curve

Source: McCormick, Iain, and Tony Chapman. "Executive Relocation: Personal and Organizational Tactics." In *Managing Across Cultures: Issues and Perspectives*, edited by Pat Joynt and Malcolm Warner, 368. London: International Thomson Business Press, 1996.

all works out well, the individual can become a very important part of the organization's overseas operations. McCormick and Chapman illustrated this by showing the changes that an expat goes through as he or she seeks to adjust to the new assignment.[72] As seen in Figure 14–3, early enthusiasm often gives way to cold reality, and the expat typically ends up in a search to balance personal and work demands with the new environment. In many cases, fortunately, everything works out well. Additionally, one of the ways in which MNCs often try to put potential expats at ease about their new assignment is by presenting an attractive compensation package.

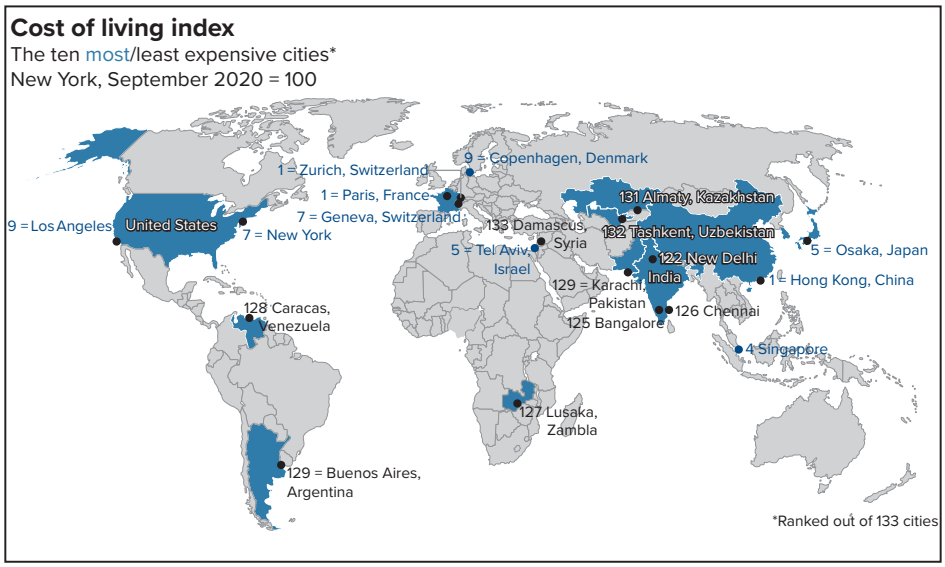
Compensation

One of the reasons there has been a decline in the number of expats in recent years is that MNCs have found that the expense can be prohibitive. Reynolds estimated that on average, "expats cost employers two to five times as much as home-country counterparts and frequently ten or more times as much as local nationals in the country to which they are assigned."[73] Cost of living in some major cities is extremely high, and these expenses must be included somewhere in the compensation package. Figure 14–4 shows the ten most and least expensive global cities, as of 2018.

As per the HSBC Expat's survey 2021, moving overseas can provide a boost to salary.[74] The report found that 63 percent of the respondents had their disposable income increase since moving abroad. However, the recession of the late 2000s and the more recent COVID-19 pandemic placed additional pressure on firms to control costs associated with expatriate assignments. During the height of the crisis in 2009, Mercer reported that nearly 40 percent of MNCs were planning on revising their current international assignment policy in the face of declining corporate growth and profitability, as well as an uncertain economic environment. The increasing trend toward localization reflects companies' efforts to either tap into the local talents or to offer less generous packages to locally hired foreign workers. This localization approach was quite consistent among regions and countries around the world, including for companies operating in emerging markets (such as China, India, and Vietnam), where the local compensation

Figure 14–4

Cost-of-Living Index, 10 Most and Least Expensive Cities, 2020



Source: "Where are the World's Most Expensive Cities?" *The Economist*, November 18, 2020. https://www.economist.com/graphic-detail/2020/11/18/where-are-the-worlds-most-expensive-cities. Note: cities with the same ranking are tied.

and benefits packages are less generous than home-country plans. In terms of expatriate benefits and allowances, the elements that are least likely to be eliminated for localized employees are housing allowances and education benefits. Mercer did find that localization is practiced in Europe and in North America more than in Latin America and Asia Pacific. In recent years, however, localization has picked up in the Asia Pacific region, particularly as companies want to tap into the regional talent pool and contain costs.[75]

Common Elements of Compensation Packages

The overall compensation package often varies from country to country. As Bailey noted,

> Compensation programs implemented in a global organization will not mirror an organization's domestic plan because of differences in legally mandated benefits, tax laws, cultures, and employee expectation based on local practices. The additional challenge in compensation design is the requirement that excessive costs be avoided and at the same time employee morale be maintained at high levels.[76]

There are five common elements in the typical expatriate compensation package: base salary, benefits, allowances, incentives, and taxes.

Base Salary Base salary is the amount of money an expatriate normally receives in the home country. In the U.S., this has often been in the range of US$200,000–US$300,000 for upper-middle managers in recent years, and this rate is similar to that paid to managers in both Japan and Germany. Before the COVID-19 pandemic, expatriates from the U.S. could expect a base salary that was, on average, US$21,000 more than they would receive if working the same job in the U.S.[77] The exchange rates, of course, also affect the real wages.

Expatriate salaries typically are set according to the base pay of the home countries. Therefore, a German manager working for a U.S. MNC and assigned to Spain would have a base salary that reflected the salary structure in Germany. U.S. expatriates have salaries tied to U.S. levels. The salaries usually are paid in home currency, local currency, or a combination of the two. The base pay also serves as the benchmark against which bonuses and benefits are calculated.

Benefits Approximately one-third of the compensation for regular employees is benefits. These benefits compose a similar, or even larger, portion of expat compensation. A number of thorny issues surround compensation for expatriates, however. These include

1. Whether MNCs should maintain expatriates in home-country benefit programs, particularly if these programs are not tax-deductible
2. Whether MNCs have the option of enrolling expatriates in host-country benefit programs or making up any difference in coverage
3. Whether host-country legislation regarding the termination of employment affects employee benefits entitlements
4. Whether the home or host country is responsible for the expatriates' social security benefits
5. Whether benefits should be subject to the requirements of the home or host country
6. Which country should pay for the benefits
7. Whether other benefits should be used to offset any shortfall in coverage
8. Whether home-country benefits programs should be available to local nationals

Most U.S.-based MNCs include expatriate managers in their home-office benefits program at no additional cost to the expats. If the host country requires expats to contribute to their social security program, the MNC typically picks up the tab. Fortunately, several international agreements between countries recently have eliminated such dual coverage and expenses.

Additionally, MNCs often provide expatriates with extra vacation and with special leaves. The MNC typically will pay the airfare for expats and their families to make an annual visit home, for emergency leave, and for expenses when a relative in the home country is ill or dies.

Allowances Allowances are an expensive feature of expatriate compensation packages. One of the most common parts is a cost-of-living allowance—a payment for differences between the home country and the overseas assignment. This allowance is designed to provide the expat with the same standard of living that he or she enjoyed in the home country, and it may cover a variety of expenses, including relocation, housing, education, and hardship.

Relocation expenses typically involve moving, shipping, and storage charges that are associated with personal furniture, clothing, and other items that the expatriate and his or her family are (or are not) taking to the new assignment. Related expenses also may include cars and club memberships in the host country, although these perks commonly are provided only to senior-level expats.

Housing allowances cover a wide range. Some firms provide the expat with a residence during the assignment and pay all associated expenses. Others give a predetermined housing allotment each month and let expats choose their own residence. Additionally, some MNCs help those going on assignment with the sale or lease of the house they are leaving behind; if the house is sold, the company usually pays closing costs and other associated expenses.

Education allowances for the expat's children are another integral part of the compensation package. These expenses cover costs such as tuition, enrollment fees, books, supplies, transportation, room, board, and school uniforms. In some cases, expenses to attend postsecondary schools also are covered.

Hardship allowances are designed to induce expats to work in hazardous areas or in an area with a poor quality of life. Those who are assigned to Eastern Europe, China, and some Middle Eastern countries sometimes are granted a hardship premium. These payments may be in the form of a lump sum ($10,000 to $50,000) or a percentage (15 to 50 percent) of the expat's base compensation.

Table 14–3
Employer Incentive Practices around the World

Percent of MNCs Paying for Moves within Continents				
Type of Premium	**Asia**	**Europe**	**North America**	**Total**
Ongoing	62%	46%	29%	42%
Lump-sum	21	20	25	23
None	16	27	42	32
Percent of MNCs Paying for Moves between Continents				
Type of Premium	**Asia**	**Europe**	**North America**	**Total**
Ongoing	63%	54%	39%	49%
Lump-sum	24	18	30	26
None	13	21	27	22

Source: Latta, Geoffrey W. "Expatriate Incentives: Beyond Tradition." *HR Focus,* March 1998.

Incentives In recent years, some MNCs have also been designing special incentive programs for keeping expats motivated. In the process, a growing number of firms have dropped the ongoing premium for overseas assignments and replaced it with a one-time, lump-sum premium. For example, in the early 1990s, over 60 percent of MNCs gave ongoing premiums to their expats. However, in more recent years, companies are attracting expats through perks like covering immigration-related costs such as relocation, housing, and travel, and also offering dependent support.[78] A 2018 survey highlighted that 92 percent of the companies offer dependent support, primarily in green card application processing, cultural assimilation and language instruction.[79]

The specific incentive program that is used will vary, and expats like this. Researchers, for example, have found that some of the factors that influence the type and amount of incentive include whether the person is moving within or between continents and where the person is being stationed. Table 14–3 provides survey information related to worldwide employer incentive practices.

Finally, it is important to recognize that growing numbers of MNCs are beginning to phase out incentive premiums. Instead, they are focusing on creating a cadre of expats who are motivated by nonfinancial incentives.

Taxes Another major component of expatriate compensation is tax equalization. For example, an expat may have two tax bills, one from the host country and one from the U.S. Internal Revenue Service, for the same pay. As of 2022, IRS Code Section 911 permitted a deduction of up to US$112,000 on foreign-earned income. Top-level expats often earn far more than this, however; thus, they may pay two tax bills for the amount by which their pay exceeds US$112,000.

Usually, MNCs pay the extra tax burden. The most common way is by determining the base salary and other extras (e.g., bonuses) that the expat would make if based in the home country. Taxes on this income then are computed and compared with the taxes due on the expat's income. Any taxes that exceed what would have been imposed in the home country are paid by the MNC, and any windfall is kept by the expat as a reward for taking the assignment.

Tailoring the Package

Working within the five common elements just described, MNCs tailor compensation packages to fit the specific situation. For example, senior-level managers in Japan are paid only around four times as much as junior staff members. This is in sharp contrast to the

U.S., where the multiple is much higher. A similar situation exists in Europe, where many senior-level managers make far less than their U.S. counterparts and stockholders, politicians, and the general public oppose U.S.-style affluence. Can a senior-level U.S. expat be paid a salary that is significantly higher than local senior-level managers in the overseas subsidiary, or would the disparity create morale problems? This is a difficult question and must be given careful consideration. One solution is to link pay and performance to attract and retain outstanding personnel.

In formulating the compensation package, a number of approaches can be used. The most common is the **balance-sheet approach**, which involves ensuring that the expat is "made whole" and does not lose money by taking the assignment. A second and often complementary approach is negotiation, which involves working out a special, ad hoc arrangement that is acceptable to both the company and the expat. A third approach, **localization**, involves paying the expat a salary that is comparable to the salaries of local nationals. This approach most commonly is used with individuals early in their careers who are being given a long-term overseas assignment. A fourth approach is the **lump-sum method**, which involves giving the expat a predetermined amount of money and letting the individual make his or her own decisions regarding how to spend it. A fifth is the **cafeteria approach**, which entails giving expats a series of options and letting them decide how to spend the available funds. For example, expats who have children may opt for private schooling; expats who have no children may choose a chauffeur-driven car or an upscale apartment. A sixth method is the **regional system**, under which the MNC sets a compensation system for all expats who are assigned to a particular region, so that (for example) everyone going to Europe falls under one particular system and everyone being assigned to South America is covered by a different system.[80,81] The most important thing to remember about global compensation is that the package must be cost-effective and fair. If it meets these two criteria, it likely will be acceptable to all parties.

As a result of the 2008–2010 recession, many companies made permanent changes to their expatriate staffing and compensation practices. While many companies have developed short-term assignment and business-travel policies to more efficiently fill their staffing needs, more comprehensive measures, such as shifting home-country employees working in foreign locations from expatriate to "local plus" packages, are becoming more common.[82] Participants in two surveys by HR consultancy ORC Worldwide—Survey on Local-Plus Packages in Hong Kong and Singapore and Survey on Local-Plus Packages for Expatriates in China—report a growing trend toward expatriate "light" or "local-plus" packages. "These alternative packages often base the assignee's salary on host country pay structures," says Phil Stanley, managing director of ORC Worldwide's Asia-Pacific region, "but then tack on a few expatriate type benefits, such as some form of housing assistance and possibly an allowance to partially cover children's education."[83]

balance-sheet approach
An approach to developing an expatriate compensation package that ensures the expat is "made whole" and does not lose money by taking the assignment.

localization
An approach to developing an expatriate compensation package that involves paying the expat a salary comparable to that of local nationals.

lump-sum method
An approach to developing an expatriate compensation package that involves giving the expat a predetermined amount of money and letting the individual make his or her own decisions regarding how to spend it.

cafeteria approach
An approach to developing an expatriate compensation package that entails giving the individual a series of options and letting the person decide how to spend the available funds.

regional system
An approach to developing an expatriate compensation package that involves setting a compensation system for all expats who are assigned to a particular region and paying everyone in accord with that system.

Individual and Host-Country Viewpoints

Until now, we have examined the selection process mostly from the standpoint of the MNC: What will be best for the company? However, two additional perspectives for selection warrant consideration: (1) that of the individual who is being selected and (2) that of the country to which the candidate will be sent. Research shows that each has specific desires and motivations regarding the expatriate selection process.

Candidate Motivations

Why do individuals accept foreign assignments? One answer is a greater demand for their talents abroad than at home. For example, a growing number of senior U.S. managers have moved to Mexico because of Mexico's growing need for experienced executives.

The findings of one early study grouped the participating countries into clusters: Anglo (Australia, Austria, Canada, India, New Zealand, South Africa, Switzerland, United Kingdom, and U.S.), Northern European (Denmark, Finland, Norway), French (Belgium and France), Northern South American (Colombia, Mexico, and Peru), Southern South American (Argentina and Chile), and Independent (Brazil, Germany, Israel, Japan, Sweden, and Venezuela).[84] Within these groupings, researchers were able to identify major motivational differences. Some of their findings included

1. The Anglo cluster was more interested in individual achievement and less interested in the desire for security than any other cluster.
2. The French cluster was similar to the Anglo cluster, except that less importance was given to individual achievement and more to security.
3. Countries in the Northern European cluster were more oriented to job accomplishment and less to getting ahead; considerable importance was assigned to jobs not interfering with personal lives.
4. In the South American clusters, individual achievement goals were less important than in most other clusters. Fringe benefits were particularly important to the South American groups.
5. The Germans were similar to those in the South American clusters, except that they placed a greater emphasis on advancement and earnings.
6. The Japanese were unique in their mix of desires. They placed high value on earnings opportunities but low value on advancement. They were high on challenge but low on autonomy. At the same time, they placed strong emphasis on working in a friendly, efficient department and having good physical working conditions.

Another interesting focus of attention has been on those countries that expatriates like best. A study conducted by Ingemar Torbiorn found that the 1,100 Swedish expatriates surveyed were at least fairly well satisfied with their host country and in some cases were very satisfied. Five of the countries that they liked very much were Switzerland, Belgium, England, the U.S., and Portugal.[85] These countries are still popular today, which makes sense because they are included in the top tier of countries with the highest quality of life. The criteria include such things as family life, economic life, unemployment rates, and political stability to determine how safe or attractive the country is.

Host-Country Desires

Although many MNCs try to choose people who fit in well, little attention has been paid to the host country's point of view. Whom would it like to see put in managerial positions? One study that compared U.S., Indonesian, and Mexican managers found that behaviors can distinguish them from one another and that host countries would prefer a managerial style similar to that of their country.[86] For example, positive managerial behaviors, such as honesty and follow-through with employees, distinguish Indonesian and U.S. managers from Mexican managers. As seen in Chapter 4, this could partially be due to the power distance suggested by Hofstede. Furthermore, negative managerial behaviors, such as public criticism and discipline toward employees, also distinguish Indonesian and U.S. managers from Mexican managers. It has been suggested that the dynamic in the workplace has to do with the familial structure, namely that Mexican workers place a higher value on family over work than do their U.S. or Indonesian counterparts. This can be a factor in how the positive and negative behaviors are expressed in each country, as outlined in Figures 14–5 and 14–6. Overall, it is important for managers to take the host-country perspectives into consideration, or it could result in an ineffectual endeavor.

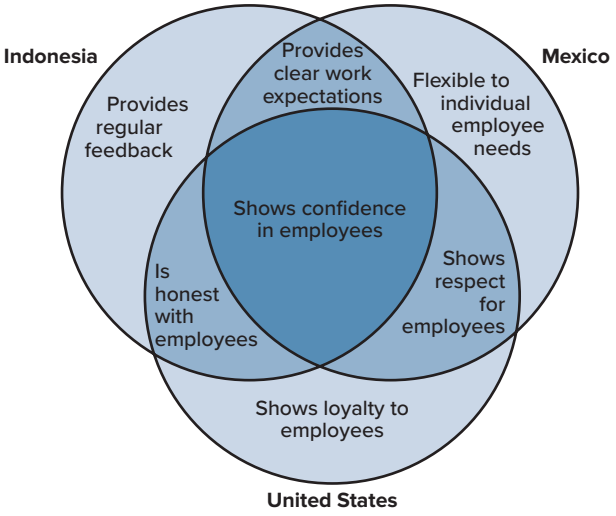


Figure 14–5
Comparative Positive Managerial Behavior by Country

Source: Vance, Charles M., and Yongsun Paik. "One Size Fits all in Expatriate Pre-Departure Training?" *Journal of Management Development* 21, no. 7 (2002): 557–71.

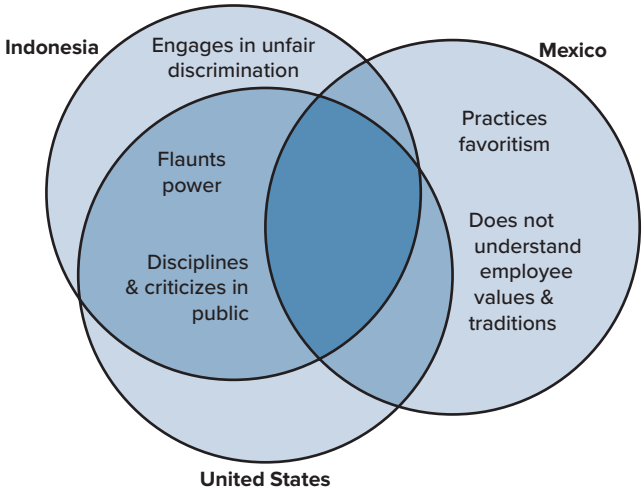


Figure 14–6
Comparative Negative Managerial Behavior by Country

Source: Vance, Charles M., and Yongsun Paik. "One Size Fits all in Expatriate Pre-Departure Training?" *Journal of Management Development* 21, no. 7 (2002): 557–71.

Repatriation of Expatriates

For most overseas managers, **repatriation**, the return to one's home country, occurs within five years of the time they leave. Few expatriates remain overseas for the duration of their stay with the firm.[87] When they return, these expatriates often find themselves facing readjustment problems, and some MNCs are trying to deal with these problems through the use of transition strategies.

repatriation
The return to one's home country from an overseas management assignment.

Reasons for Returning

The most common reason that expatriates return home from overseas assignments is that their formally agreed-on tour of duty is over. Before they left, the expatriates were told that they would be posted overseas for a predetermined period, often two to three years, and they are returning as planned. This is considered a successfully completed assignment. According to a recent study by Brookfield Global Relocation Services, 94 percent of all expatriate assignments were completed as intended.[88]

Though infrequent, early returns do occur. The most common reason, accounting for 23 percent of all terminated assignments, is family concerns. This encompasses a variety of

issues common to many expatriate families, including spouses who have difficulty acclimating to a new culture and expatriates who want their children educated in a home-country school.[89] The second most common reason for expatriates to return early is company restructuring. Business opportunities change rapidly, and the usefulness of an overseas assignment might decline if a company changes strategy. In these instances, the expatriate may have had every intent on staying and completing his or her full assignment. Per Brookfield Global Relocation Services, this accounts for about 19 percent of all early returns.[90]

Common fears that many expatriates and their families have before embarking on an overseas assignment rarely pose an issue once the expatriate arrives in the host country. For example, only 3 percent of all failed assignments are due to security concerns, and just 5 percent of expatriates face cultural challenges that result in an early leave. Over the last several decades, MNCs have continually improved their selection process of suitable employees for expatriate experiences; as a result, the overwhelming majority of international assignments succeed.[91]

Readjustment Problems

Many companies that say they want their people to have international experience often seem unsure of what to do with these managers when they return. One recent survey of midsize and large firms found that 80 percent of these companies send people abroad and more than half of them intend to increase the number they have on assignment overseas. However, responses from returning expats point to problems. Three-quarters of the respondents said that they felt their permanent position upon returning home was a demotion. Over 60 percent said that they lacked the opportunities to put their foreign experience to work, and 60 percent said that their company had not communicated clearly about what would happen to them when they returned. Perhaps worst of all, within a year of returning, 25 percent of the managers had left the company.[92] These statistics are not surprising to those who have been studying repatriation problems. In fact, one researcher reported the following expatriate comments about their experiences:

> My colleagues react indifferently to my international assignment. . . . They view me as doing a job I did in the past; they don't see me as having gained anything while overseas.
>
> I had no specific reentry job to return to. I wanted to leave international and return to domestic. Working abroad magnifies problems while isolating effects. You deal with more problems, but the home office doesn't know the details of the good or bad effects. Managerially, I'm out of touch.
>
> I'm bored at work. . . . I run upstairs to see what [another returning colleague] is doing. He says, "Nothing." Me, too.[93]

Other readjustment problems are more personal in nature. Many expatriates find that the salary and fringe benefits to which they became accustomed in the foreign assignment now are lost, and adjusting to this lower standard of living is difficult. In addition, those who sold their houses and now must buy new ones find that the monthly cost often is much higher than when they left. The children often are placed in public schools, where classes are much larger than in the overseas private schools. Many also miss the cultural lifestyles, as in the case of an executive who is transferred from Paris, France, to a medium-sized city in the U.S. or from any developed country to an underdeveloped country. Additionally, many returning expatriates have learned that their international experiences are not viewed as important.

Other research supports these findings and offers operative recommendations for action. Based on questionnaires completed by 174 respondents who had been repatriated from four large U.S. MNCs, Black found the following:

1. With few exceptions, individuals whose expectations were met had the most positive levels of repatriation adjustment and job performance.
2. In the case of high-level managers in particular, expatriates whose job demands were greater, rather than less, than expected reported high levels of repatriation adjustment and job performance. Those having greater job demands may have put in more effort and had better adjustment and performance.

3. Job performance and repatriation adjustment were greater for individuals whose job constraint expectations were undermet than for those individuals whose expectations were overmet. In other words, job constraints were viewed as an undesirable aspect of the job, and having them turn out to be less than expected was a pleasant surprise that helped adjustment and performance.
4. When living and housing conditions turned out to be better than expected, general repatriation adjustment and job performance were better.
5. Individuals whose general expectations were met or overmet had job evaluations that placed them 10 percent higher than those whose general expectations were unmet.[94]

Transition Strategies

To help smooth the adjustment from an overseas to a stateside assignment, some MNCs have developed **transition strategies**, which can take a number of forms. One is the use of **repatriation agreements**, whereby the firm tells an individual how long she or he will be posted overseas and promises to give the individual, on return, a job that is mutually acceptable. This agreement typically does not promise a specific position or salary, but the agreement may state that the person will be given a job that is equal to, if not better than, the one held before leaving.[95]

transition strategies
Strategies used to help smooth the adjustment from an overseas to a stateside assignment.

repatriation agreements
Agreements whereby the firm tells an individual how long he or she will be posted overseas and promises to give the individual, on return, a job that is mutually acceptable.

Some firms also rent or otherwise maintain expatriates' homes until they return. Metals manufacturer Alcoa and Dow Chemical subsidiary Union Carbide both developed such plans for managers going overseas. This plan helps reduce the financial shock that often accompanies home shopping by returning expatriates. A third strategy is to use senior executives as sponsors of managers abroad.

Still another approach is to keep expatriate managers apprised of what is going on at corporate headquarters and to plug these managers into projects at the home office whenever they are on leave in the home country. This helps maintain the person's visibility and ensures the individual is looked on as a regular member of the management staff.

One study surveyed 99 employees and managers with international experience in 21 corporations.[96] Some of the main problems of repatriation identified in this study include (1) adjusting to life back home, (2) facing a financial package that is not as good as that overseas, (3) having less autonomy in the stateside job than in the overseas position, and (4) not receiving any career counseling from the company. To the extent that the MNC can address these types of problems, the transition will be smooth, and the expatriate's performance effectiveness once home will increase quickly. Some additional steps suggested by experts in this area include

1. Arrange an event to welcome and recognize the employee and family, either formally or informally.
2. Establish support to facilitate family reintegration.
3. Offer repatriation counseling or workshops to ease the adjustment.
4. Assist the spouse with job counseling, résumé writing, and interviewing techniques.
5. Provide educational counseling for the children.
6. Provide the employee with a thorough debriefing by a facilitator to identify new knowledge, insights, and skills and to provide a forum to showcase new competencies.
7. Offer international outplacement to the employee and re-entry counseling to the entire family if no positions are possible.
8. Arrange a postassignment interview with the expatriate and spouse to review their view of the assignment and address any repatriation issues.[97]

Hammer and his associates echo these types of recommendations. Based on research that they conducted in two multinational corporations among expats and their spouses, they concluded the following:

> The findings from the present study suggest that one of the key transitional activities for returning expatriates and their spouses from a corporate context should involve targeted communication from the home environment concerning the expectations of the home office toward the return of the repatriate executive and his/her family (role relationships). Further, reentry training should focus primarily on helping the repatriate manager and spouse align their expectations with the actual situation that will be encountered upon arrival in the home culture both within the organizational context as well as more broadly within the social milieu. To the degree that corporate communication and reentry training activities help the returning executive and spouse in expectation alignment, the executive's level of reentry satisfaction should be higher and the degree of reentry difficulties less.[98]

Additionally, many MNCs have begun using inpatriates to supplement their home-office staff and some of the same issues discussed here with repatriation come into play.

Training in International Management

training
The process of altering employee behavior and attitudes in a way that increases the probability of goal attainment.

Training is the process of altering employee behavior and attitudes in a way that increases the probability of goal attainment. Training is particularly important in preparing employees for overseas assignments because it helps ensure that their full potential will be tapped.[99,100,101] One of the things that training can do is to help expat managers better understand the customs, cultures, and work habits of the local culture. The simplest training, in terms of preparation time, is to place a cultural integrator in each foreign operation. This individual is responsible for ensuring that the operation's business systems are in accord with those of the local culture. The integrator advises, guides, and recommends actions needed to ensure this synchronization.[102]

Unfortunately, although using an integrator can help, it is seldom sufficient. Experience clearly reveals that in creating an effective global team, the MNC must assemble individuals who collectively understand the local language; have grown up in diverse cultures or neighborhoods; have open, flexible minds; and will be able to deal with high degrees of stress.[103] In those cases where potential candidates do not yet possess all these requisite skills or abilities, MNCs need a well-designed training program that is administered before the individuals leave for their overseas assignment (and, in some cases, also onsite) and then is evaluated later to determine its overall effectiveness. One review of 228 MNCs found that cross-cultural training, which can take many forms, is becoming increasingly popular:

1. Of organizations with cultural programs, 58 percent offer training only to some expatriates, and 42 percent offer it to all of them.
2. Ninety-one percent offer cultural orientation programs to spouses, and 75 percent offer them to dependent children.
3. The average duration of the cultural training programs is three days.
4. Cultural training is continued after arrival in the assignment location 32 percent of the time.
5. Thirty percent offer formal cultural training programs.
6. Of those without formal cultural programs, 37 percent plan to add such training.[104]

The most common topics covered in cultural training are social etiquette, customs, economics, history, politics, and business etiquette. However, the MNC's overall philosophy of international management and the demands of the specific cultural situation are the starting point. This is because countries tend to have distinctive human resource management (HRM) practices that differentiate them from other countries. For example, the HRM practices that are prevalent in the U.S. are quite different from those in France and Argentina. This was clearly illustrated by Sparrow and Budhwar, who compared data from 13 countries on the basis of HRM factors. Five of these factors were the following:

1. Structural empowerment that is characterized by flat organization designs, wide spans of control, the use of flexible cross-functional teams, and the rewarding of individuals for productivity gains
2. Accelerated resource development that is characterized by the early identification of high-potential employees, the establishment of both multiple and parallel career paths, the rewarding of personnel for enhancing their skills and knowledge, and the offering of continuous training and development education
3. Employee welfare emphasis that is characterized by firms offering personal family assistance, encouraging and rewarding external volunteer activities, and promoting organizational cultures that emphasize equality in the workplace
4. An efficiency emphasis in which employees are encouraged to monitor their own work and to continually improve their performance
5. Long-termism, which stresses long-term results such as innovation and creativity rather than weekly and monthly short-term productivity[105,106]

When Sparrow and Budhwar used these HRM approaches on a comparative country-by-country basis, they found that there were worldwide differences in human resource management practices. Table 14–4 shows the comparative results after each of the 13 countries was categorized as being either high or low on the respective factors. These findings reveal that countries are unique in their approach to human resource management. What works well in the U.S. may have limited value in France. In fact, a close analysis of Table 14–4 shows that none of the 13 countries had the same profile; each was different. This was true even in the case of Anglo nations such as the U.S., Canada, Australia, and the United Kingdom, where differences in employee welfare emphasis, accelerated resource development, efficiency emphasis orientation, and long-termism resulted in unique HRM profiles for each. Similarly, Japan and Korea differed on two of the factors, as did Germany and France; and India, which many people might feel would be more similar to an Anglo culture, because of the British influence, than to an Asian one, differed on two factors with Canada, on three factors with both the U.S. and the United Kingdom, and on four factors with Australia.

Table 14–4
Human Resource Management Practices in Select Countries

	Structural Empowerment		Accelerated Resource Development		Employee Welfare Emphasis		Efficiency Emphasis		Long-Termism	
	High	Low	High	Low	High	Low	High	Low	High	Low
United States	X		X		X		X			X
Canada	X		X		X			X		X
United Kingdom	X		X			X		X		X
Italy		X	X			X		X		X
Japan		X	X		X		X		X	
India		X	X		X			X	X	
Australia	X		X			X	X		X	
Brazil	X		X		X			X	X	
Mexico	X		X		X			X		X
Argentina		X	X		X			X		X
Germany		X	X			X		X	X	
Korea		X	X			X	X		X	
France		X	X			X	X			X

Source: Sparrow, Paul R., and Budhwar, Pawan S. "Competition and Change: Mapping the Indian HRM Recipe Against World-Wide Patterns." *Journal of World Business* 32, no. 3 (Autumn 1997): 224-242.

These findings point to the fact that MNCs will have to focus increasingly on HRM programs designed to meet the needs of local personnel. Multinational human resource management is now becoming much more of a two-way street: Both employees and managers need to continually adjust to emerging demands.

The Impact of Overall Management Philosophy on Training

The type of training that is required of expatriates is influenced by the firm's overall philosophy of international management. For example, some companies prefer to send their own people to staff an overseas operation; others prefer to use locals whenever possible.[107] Briefly, four basic philosophical positions of multinational corporations can influence the training program:

ethnocentric MNC
An MNC that stresses nationalism and often puts home-office people in charge of key international management positions.

polycentric MNC
An MNC that places local nationals in key positions and allows these managers to appoint and develop their own people.

regiocentric MNC
An MNC that relies on local managers from a particular geographic region to handle operations in and around that area.

geocentric MNC
An MNC that seeks to integrate diverse regions of the world through a global approach to decision making.

1. An **ethnocentric MNC** puts home-office people in charge of key international management positions. The MNC headquarters group and the affiliated world company managers all have the same basic experiences, attitudes, and beliefs about how to manage operations. Many Japanese firms follow this practice.
2. A **polycentric MNC** places local nationals in key positions and allows these managers to appoint and develop their own people. MNC headquarters gives the subsidiary managers authority to manage their operations just as long as these operations are sufficiently profitable. Some MNCs use this approach in East Asia, Australia, and other markets that are deemed too expensive to staff with expatriates.
3. A **regiocentric MNC** relies on local managers from a particular geographic region to handle operations in and around that area. For example, production facilities in France would be used to produce goods for all EU countries. Similarly, advertising managers from subsidiaries in Italy, Germany, France, and Spain would come together and formulate a "European" advertising campaign for the company's products. A regiocentric approach often relies on regional group cooperation of local managers. The Gillette MNC uses a regiocentric approach.
4. A **geocentric MNC** seeks to integrate diverse regions of the world through a global approach to decision-making. Assignments are based on qualifications, and all subsidiary managers throughout the structure are regarded as equal to those at headquarters. IBM is an excellent example of an MNC that attempts to use a geocentric approach.

All four of these philosophical positions can be found in the multinational arena, and each puts a different type of training demand on the MNC.[108] For example, ethnocentric MNCs will do all training at headquarters, but polycentric MNCs will rely on local managers to assume responsibility for seeing that the training function is carried out.

The Impact of Different Learning Styles on Training and Development

learning
The acquisition of skills, knowledge, and abilities that result in a relatively permanent change in behavior.

Another important area of consideration for development is learning styles. **Learning** is the acquisition of skills, knowledge, and abilities that result in a relatively permanent change in behavior.[109] Over the last decade, growing numbers of multinationals have tried to become "learning organizations," continually focused on activities such as training and development. This learning focus applied to human resource development may go beyond learning organizations to "teaching organizations." For example, Tichy and Cohen, after conducting an analysis of world-class companies such as General Electric, PepsiCo, Allied-Signal, and Coca-Cola, found that teaching organizations are even more relevant than learning organizations because they go beyond the belief that everyone must continually acquire new knowledge and skills and focus on ensuring that everyone in the organization, especially the top management personnel, passes the learning on to others. Here are their conclusions:

> In teaching organizations, leaders see it as their responsibility to teach. They do that because they understand that it's the best, if not only, way to develop throughout a company people who can come up with and carry out smart ideas about the business. Because people in teaching organizations see teaching as critical to the success of their business, they find ways to do it every day. Teaching every day about critical business issues avoids the fuzzy focus that has plagued some learning organization efforts, which have sometimes become a throwback to the 1960s and 1970s style of self-exportation and human relations training.[110]

Of course, the way in which training takes place can be extremely important. Prud'homme van Reine and Trompenaars, commenting on the development of expats, noted that national cultural differences typically affect the way MNCs train and develop their people. For example, Americans like an experiential learning style, while Germans prefer a theoretical-analytical learning approach.[111] Moreover, there can be sharp learning preferences between groups that are quite similar in terms of culture. Hayes and Allinson, after studying cultural differences in the learning styles of managers, reported, "Two groups can be very similar in ecology and climate and, for example, through a common legacy of colonialism, have a similar language and legal, educational and governmental infrastructure, but may be markedly different in terms of beliefs, attitudes, and values."[112] Moreover, research shows that people with different learning styles prefer different learning environments, and, if there is a mismatch between the preferred learning style and the work environment, dissatisfaction and poor performance can result.

In addition to these conclusions, those responsible for training programs must remember that even if learning does occur, the new behaviors will not be used if they are not reinforced. For example, if the head of a foreign subsidiary is highly ethnocentric and believes that things should be done the way they are in the home country, new managers with intercultural training likely will find little reward or reinforcement for using their ideas. This cultural complexity also extends to the way in which the training is conducted.

Reasons for Training

Training programs are useful in preparing people for overseas assignments for many reasons. These reasons can be put into two general categories: organizational and personal.

Organizational Reasons Organizational reasons for training relate to the enterprise at large and its efforts to manage overseas operations more effectively.[113] One primary reason is to overcome **ethnocentrism**, the belief that one's way of doing things is superior to that of others. Ethnocentrism is common in many large MNCs where managers believe that the home office's approach to doing business can be exported intact to all other countries because this approach is superior to anything at the local level. Training can help home-office managers understand the values and customs of other countries, so that when they are transferred overseas, they have a better understanding of how to interact with local personnel. This training also can help managers overcome the common belief among many personnel that expatriates are not as effective as host-country managers. This is particularly important, given that an increasing number of managerial positions now are held by foreign managers in U.S. MNCs.[114]

ethnocentrism
The belief that one's own way of doing things is superior to that of others.

Another organizational reason for training is to improve the flow of communication between the home office and the international subsidiaries and branches. Quite often, overseas managers find that they are not adequately informed regarding what is expected of them, although the home office places close controls on their operating authority. This is particularly true when the overseas manager is from the host country. Effective communication can help minimize these problems.

Finally, another organizational reason for training is to increase overall efficiency and profitability. Research shows that organizations that closely tie their training and human resource management strategy to their business strategy tend to outperform those that do not.[115] Stroh and Caligiuri conducted research on 60 of the world's major multinationals and found that effective HRM programs pay dividends in the form of higher profits.

Additionally, their data showed that the most successful MNCs recognized the importance of having top managers with a global orientation. One of the ways in which almost all these organizations did this was by giving their managers global assignments that not only filled technical and managerial needs but also provided developmental experiences for the personnel.[116]

Personal Reasons The primary reason for training overseas managers is to improve their ability to interact effectively with local people in general and with their personnel in particular. Increasing numbers of training programs now address social topics such as how to take a client to dinner, effectively apologize to a customer, appropriately address one's overseas colleagues, communicate formally and politely with others, and learn how to help others "save face."[117] These programs also focus on dispelling myths and stereotypes by replacing them with facts about the culture. For example, in helping expatriates better understand Arab executives, the following guidelines are offered:

1. There is a close relationship between Arab executives and their environment. They are looked on as community and family leaders, and there are numerous social pressures on them because of this role. They are consulted on all types of problems, even those far removed from their position.
2. With regard to decision making, Arab executives likely will consult with their subordinates, but they will take responsibility for their decisions themselves, rather than arriving at them through consensus.
3. Arab executives likely will try to avoid conflict. If there is an issue that they favor but that subordinates oppose, the executives tend to impose their authority. If it is an issue favored by the subordinates but opposed by the executives, they will likely let the matter drop without taking action.
4. Arab executives' style is very personal. They value loyalty over efficiency. Although some executives find that the open-door tradition consumes a great deal of time, they do not feel that the situation can be changed. Many executives tend to look on their employees as family and will allow them to bypass the hierarchy to meet them.
5. Arab executives, contrary to popular beliefs, put considerable value on the use of time. One thing they admire most about Western or expatriate executives is their use of time, and they would like to encourage their own employees to make more productive use of their time.[118]

A particularly big personal problem that managers have in an overseas assignment is arrogance. This is the so-called Ugly American problem that U.S. expatriates have been known to have. Many expatriate managers find that their power and prestige are much greater than they were in their job in the home country. This arrogance takes a number of forms, including rudeness to personnel and inaccessibility to clients.

Another common problem is expatriate managers' overruling of decisions, often seen at lower levels of the hierarchy. When a decision is made by a superior who is from the host country and the expatriate does not agree with it, the expatriate may appeal to higher authority in the subsidiary. Host-country managers obviously resent this behavior because it implies that they are incompetent and can be second-guessed by expatriate subordinates. Such problems could also arise due to cultural misunderstandings, leading to friction between the expatriates and local managers.[119]

Still another common problem is the open criticism by expatriate managers of their own country or the host country. Many expatriates believe that this form of criticism is regarded as constructive and shows them to have an open mind. Experience has found, however, that most host-country personnel view such behavior negatively and feel that the manager should refrain from such unconstructive criticism. It creates bad feelings and lack of loyalty.

In addition to helping employees deal with these types of personal problems, training can be useful in improving the overall management style. Research shows that many

host-country nationals would like to see changes in some of the styles of expatriate managers, including their leadership, decision making, communication, and group work. In terms of leadership, the locals would like to see their expatriate managers be more friendly, accessible, receptive to subordinate suggestions, and encouraging to subordinates to make their best efforts. In decision making, they would like to see clearer definition of goals, more involvement in the process by those employees who will be affected by the decision, and greater use of group meetings to help make decisions. In communication, they would like to see more exchange of opinions and ideas between subordinates and managers. In group work, they would like to see more group problem solving and teamwork.

Types of Training Programs

There are many different types of multinational management training programs. Some last only a few hours; others last for months. Some are fairly superficial; others are extensive in coverage. Organizations can decide what training program works best by determining the effectiveness of the program and altering it accordingly. Typically, a combination of standardized and tailor-made training and development approaches is used.

Standardized versus Tailor-Made

Some management training is standard, or generic. For example, participants often are taught how to use specific decision-making tools, such as quantitative analysis, and, regardless of where the managers are sent in the world, the application is the same. These tools do not have to be culturally specific. Research shows that small firms usually rely on standard training programs. Larger MNCs, in contrast, tend to design their own. Some of the larger MNCs are increasingly turning to specially designed video and PowerPoint programs for their training and development needs.

Tailor-made training programs are created for the specific needs of the participants. Input for these offerings usually is obtained from managers who currently are working (or have worked) in the country to which the participants will be sent, as well as from local managers and personnel who are citizens of that country. These programs often are designed to provide a new set of skills for a new culture. For example, MNCs are now learning that in managing in China, there is a need to provide directive leadership training because many local managers rely heavily on rules, procedures, and orders from their superiors to guide their behaviors.[120] So training programs must explain how to effectively use this approach. Quite often, the offerings are provided before the individuals leave for their overseas assignment; however, there also are postdeparture training programs that are conducted onsite. These often take the form of systematically familiarizing the individual with the country through steps such as meeting with government officials and other key personnel in the community; becoming acquainted with managers and employees in the organization; learning the host-country nationals' work methods, problems, and expectations; and taking onsite language training.

The specific training approach used must reflect both the industrial and the cultural environment. Training approaches that are successful in one geographic region of the world may need to be heavily modified if they are to be as effective elsewhere. Sergeant and Frenkel conducted interviews with expatriate managers with extensive experience in China in order to identify HRM issues and the ways in which they need to be addressed by MNCs going into China.[121] As seen in Table 14–5, many of the human resource management approaches that are employed are different from those used in the U.S. or other developed countries because of the nature of Chinese culture and China's economy.

Some organizations have extended cross-cultural training to include training for family members, especially children who will be accompanying the parents. The International Management in Action box "U.S.-Style Training for Expats and Their Teenagers" explains how this approach to cultural assimilation is carried out.

Table 14–5
Human Resource Management Challenges Facing MNCs in China

Human Resource Management Function	Comments/Recommendations
Employee recruitment	The market for skilled manual and white-collar employees is very tight and characterized by rapidly rising wages and high turnover rates. Nepotism and overhiring remain a major problem where Chinese partners strongly influence HR policies; and transferring employees from state enterprises to joint ventures can be difficult because it requires approval from the employee's old work unit.
Reward system	New labor laws allow most companies to set their own wage and salary levels. As a result, there is a wide wage disparity between semiskilled and skilled workers. However, these disparities must be balanced with the negative effect they can have on workers' interpersonal relations.
Employee retention	It can be difficult to retain good employees because of poaching by competitive organizations. In response, many American joint-venture managers are learning to take greater control of compensation programs in order to retain high-performing Chinese managers and skilled workers.
Work performance and employee management	Local managers are not used to taking the initiative and are rarely provided with performance feedback in their Chinese enterprises. As a result, they tend to be risk averse and are often unwilling to innovate. In turn, the workers are not driven to get things done quickly and they often give little emphasis to the quality of output. At the same time, it is difficult to dismiss people.
Labor relations	Joint-venture regulations give workers the right to establish a trade union to protect employee rights and to organize. These unions are less adversarial than in the West and tend to facilitate operational efficiency. However, there is concern that with the changes taking place in labor laws and the possibility of collective bargaining, unions may become more adversarial in the future.
Expatriate relations	Many firms have provided little cross-training to their people and family, education, and health issues limit the attractiveness of a China assignment. Some of the major repatriation problems include limited continuity in international assignments and difficulties of adjusting to more specialized and less autonomous positions at home, lack of career prospects, and undervaluation of international experience. Management succession and the balancing of local and international staff at Chinese firms are also problematic.

Source: Sergeant, Andrew, and Frenkel, Stephen. "Managing People in China: Perceptions of Expatriate Managers." *Journal of World Business* 33, no. 1 (1998): 17–34.

In addition to training expats and their families, effective MNCs also are developing carefully crafted programs for training personnel from other cultures who are coming into their culture. These programs, among other things, have materials that are specially designed for the target audience. Some of the specific steps that well-designed cultural training programs follow include

1. Local instructors and a translator, typically someone who is bicultural, observe the pilot training program or examine written training materials.
2. The educational designer then debriefs the observation with the translator, curriculum writer, and local instructors.
3. Together, the group examines the structure and sequence, ice breaker, and other materials that will be used in the training.
4. The group then collectively identifies stories, metaphors, experiences, and examples in the culture that will fit into the new training program.
5. The educational designer and curriculum writer make the necessary changes in the training materials.
6. The local instructors are trained to use the newly developed materials.
7. After the designer, translator, and native-language trainers are satisfied, the materials are printed.
8. The language and content of the training materials are tested with a pilot group.[122]

International Management in Action

U.S.-Style Training for Expats and Their Teenagers

One of the major reasons expatriates have trouble with overseas assignments is that their teenage children are unable to adapt to the new culture, and this has an impact on the expat's performance. To deal with this acculturation problem, many U.S. MNCs are developing special programs for helping teenagers assimilate into new cultures and adjust to new school environments. A good example was provided by General Electric Medical Systems Group (GEMS), a Milwaukee-based firm that had expatriates in France, Japan, and Singapore. As soon as GEMS designated an individual for an overseas assignment, this expat and his or her family were matched up with those who had recently returned from this country. If the family going overseas had teenage children, the company teamed them up with a family who had teenagers during its stay abroad. Both groups then discussed the challenges and problems that were likely to be faced. In the case of teenagers, they were able to talk about their concerns with others who already had encountered these issues, and the latter were able to provide important information regarding how to make friends, learn the language, get around town, and turn the time abroad into a pleasant experience. Coca-Cola uses a similar approach. As soon as someone is designated for an overseas assignment, the company helps initiate cross-cultural discussions with experienced personnel. Coke also provides formal training through the use of external cross-cultural consulting firms that are experienced in working with all family members.

A typical concern of teenagers going abroad is that they will have to go away to boarding school. In Saudi Arabia, for example, national law forbids expatriate children's attending school past the ninth grade, so most expatriate families will look for European institutions for these children. GEMS addresses these types of problems with a specially developed education program. Tutors, schools, curricula, home-country requirements, and host-country requirements are examined, and a plan and specific program of study are developed for each school-age child before he or she leaves.

Before the departure of the family, some MNCs will subscribe to local magazines about teen fashions, music, and other sports or social activities in the host country, so that the children know what to expect when they get there. Before the return of the family to the U.S., these MNCs provide similar information about what is going on in the U.S. so that when the children return for a visit or come back to stay, they are able to quickly fit into their home-country environment once again.

An increasing number of MNCs now give teenagers much of the same cultural training they give their own managers; however, there is one area in which formal assistance often is not as critical for teens as for adults: language training. While most expatriates find it difficult and spend a good deal of time trying to master the local language, many teens find that they can pick it up quite easily. They speak it at school, in their social groups, and out on the street. As a result, they learn not only the formal language but also clichés and slang that help them communicate more easily. A Coca-Cola manager recently drove home this point when he declared, "One girl we sent insisted that, although she would move, she wasn't going to learn the language. Within two months she was practically fluent."

A major educational benefit of this emphasis on teenagers is that it leads to an experienced, bicultural person. So, when the young person completes college and begins looking for work, the parent's MNC often is interested in this young adult as a future manager. The person has a working knowledge of the MNC, speaks a second language, and has had overseas experience in a country where the multinational does business. This type of logic is leading some U.S. MNCs to realize that effective cross-cultural training can be of benefit for their workforces of tomorrow as well as today.

Source: Anfuso, Dawn. "HR Unites the World of Coca-Cola." *Personnel Journal* (November 1994): 112–21; Harris, Philip R., and Robert T. Moran. *Managing Cultural Differences: High-Performance Strategies for a New World of Business*, 3rd ed. Houston: Gulf, 1991, Chapter 9; Hodgetts, Richard M., and Fred Luthans. "U.S. Multinationals' Expatriate Compensation Strategies." *Compensation and Benefits Review* (January/February 1993): 61; Stuart, Karen Dawn. "Teens Play a Role in Moves Overseas." *Personnel Journal* (March 1992): 72–78.

Cultural Assimilators

The cultural assimilator has become one of the most effective approaches to cross-cultural training. A **cultural assimilator** is a programmed learning technique that is designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs, and values of another culture. These assimilators are developed for each pair of cultures. For example, if an MNC were going to send three U.S. managers from Chicago to Caracas, a cultural assimilator would be developed to familiarize the three Americans with Venezuelan customs and cultures. If three Venezuelan managers from Caracas were to be transferred to Singapore, another assimilator would be developed to familiarize the managers with Singapore customs and cultures.

cultural assimilator
A programmed learning technique designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs, and values of another culture.

In most cases, these assimilators require the trainee to read a short episode of a cultural encounter and choose an interpretation of what has happened and why. If the trainee's choice is correct, he or she goes on to the next episode. If the response is incorrect, the trainee is asked to reread the episode and choose another response.

Choice of Content of the Assimilators

One of the major problems in constructing an effective cultural assimilator is deciding what is important enough to include. Some assimilators use critical incidents that are identified as being important. To be classified as a critical incident, a situation must meet at least one of the following conditions:

1. An expatriate and a host national interact in the situation.
2. The situation is puzzling or likely to be misinterpreted by the expatriate.
3. The situation can be interpreted accurately if sufficient knowledge about the culture is available.
4. The situation is relevant to the expatriate's task or mission requirements.[123]

These incidents typically are obtained by asking expatriates and host nationals with whom they come in contact to describe specific intercultural occurrences or events that made a major difference in their attitudes or behavior toward members of the other culture. These incidents can be pleasant, unpleasant, or simply nonunderstandable occurrences.

Validation of the Assimilator

validity
The quality of being effective, of producing the desired results. A valid test or selection technique measures what it is intended to measure.

The term **validity** refers to the quality of being effective, of producing the desired results. It means that an instrument—in this case, the cultural assimilator—measures what it is intended to measure. After the cultural assimilator's critical incidents are constructed and the alternative responses are written, the process is validated. Making sure that the assimilator is valid is the crux of its effectiveness. One way to test an assimilator is to draw a sample from the target culture and ask these people to read the scenarios that have been written, choosing the alternative they feel is most appropriate. If a large percentage of the group agrees that one of the alternatives is preferable, this scenario is used in the assimilator. If more than one of the four alternatives receives strong support, however, either the scenario or the alternatives are revised until there is general agreement or the scenario is dropped.

After the final incidents are chosen, they are sequenced in the assimilator booklet and can be put online to be taken electronically. Similar cultural concepts are placed together and presented, beginning with simple situations and progressing to more complex ones. Most cultural assimilator programs start out with 150 to 200 incidents, of which 75 to 100 eventually are included in the final product.

Positive Organizational Behavior

positive organizational behavior (POB)
The study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace.

We discussed in Chapter 13 how leaders can increase motivation and morale if they focus on the positives, or strengths, of individuals. The positive internal traits of the leader, along with the other factors, tend to lead to consistent positive behaviors. Luthans has done extensive research on **positive organizational behavior (POB)**. He defines it as

> the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace.[124]

Positivity in the workplace has been connected to employee satisfaction. The positive environment, however, consists of many layers. Luthans and Youssef postulated that in order for an organization to be the most efficient and innovative, it must have positive

traits, states, and systems in order to promote positive behavior. The positive traits were covered in Chapter 13 and consist of conscientiousness, emotional stability, extroversion, agreeableness, openness to experience, core self-evaluations, and positive psychological traits. A positive state is domain-specific, and reactions and behaviors may change depending on the environment. Research has shown that other "states" are self-efficacy, hope, optimism, resiliency, and psychological capital.[125]

Finally, positive organizations focus on the selection, development, and management of human resources. This positive approach attempts to match employee skills and talents with organizational goals and expectations. When employees are treated well, they will be motivated to give back to the institution. Therefore, when these individual traits, internal and external states, and organizations all focus on the positive, the resulting organizational citizenship behavior (OCB) also will be positive. Furthermore, altruism, conscientiousness, and courtesy will be inadvertently emphasized.[126]

As with most examples, the description in this section is culturally specific. That is, what seem to be positive internal or external factors in one country may not be the same in another. However, human resources are essential to an organization no matter its location, and MNCs should do all they can to focus on the power of human capital to drive organizational success.

Future Trends

The coming decades will be important and transformational ones for international human resources. Despite the economic stagnation in many markets across the globe, MNCs continue to make overseas assignments. Post-COVID-19 mobility strategies are getting reshaped with HR leaders as they contemplate the right balance between globally mobile talent and leveraging local resources to meet business objectives. As per the 2021 Talent Mobility Trends Survey conducted by Brookfield Global Relocation Services (BGRS), 80 percent of respondents feel physical mobility will remain at the same level or increase in the period between 2022–2023.[127] The survey results indicated that 45 percent of the companies reported the talent mobility volumes to remain the same in coming years while 35 percent expected an increased volume during 2022–2023.[128] However, many companies are still in wait and watch mode when it comes to deploying resources for international mobility due to uncertainty caused by different national regulations in opening up of borders. As per a recent study by Mercer, two-thirds of the surveyed companies delayed all or some international assignments.[129] Similarly, 56 percent canceled all or some short-term international assignments and have their international assignees perform their jobs temporarily from another country.

COVID-19 pandemic brought with it a rise in virtual mobility with an unprecedented increase in employees working remotely. Companies are expected to support virtual mobility in areas like the development of global talent pools and skills transfer. However, physical mobility is likely to increase for developing a presence in new markets, manage foreign subsidiaries, and developing global leaders. Remote working and virtual mobility is expected to get mainstreamed as 66 percent and 63 percent of the survey respondents anticipated an increase in remote working and virtual mobility respectively.[130]

Some companies are questioning the basic decision of supporting expensive international assignments. In the 2015 BGRS survey, three-quarters of the companies surveyed stated that they were facing increasing pressure to reduce the overall cost of their expatriate programs.[131] Part of this pressure may be due to the fact that traditional financial metrics, such as return on investment, are not utilized by the overwhelming majority of companies when evaluating the success or failure of their overseas program. The primary objectives of most international assignments are not directly profit-based, and more than half of the employers surveyed indicated that return on investment would be difficult to quantify.

Employees are also questioning the personal and professional value of an overseas assignment, especially if such assignments have little influence in helping them advance

Lessons in Global Leadership Development: The PWC Ulysses Program

PricewaterhouseCoopers (PwC), one of the "Big 4" global accounting firms, had for several years sent top midcareer talent to the developing world for eight-week service projects under its "Ulysses" program. After the merger of Price Waterhouse and Coopers Lybrand in 1998, the combined firm decided it needed a new model for a global professional services organization. Executives recognized that global problems were not increasing or decreasing, but changing and reshaping, the way business is done. In response, the firm created Project Ulysses, which sent a number of emerging leaders each year to a developing nation for two and a half months to work on service projects and programs. The purpose was not only to aid those in need but also to develop leadership skills on an individual level by taking executives out of their comfort zone, on a team level by pairing two to three partners together from different nations, and on the organizational level by creating stakeholder networks on a much broader level. For a relatively modest investment—about US$15,000 per person, plus salaries—Ulysses both tested the talent and expanded the world view of the accounting firm's future leaders. The program quickly attracted the attention of Johnson & Johnson, Cisco Systems, and other big companies considering their own programs.

The projects, which ranged from helping an ecotourism collective in Belize to AIDS work in Namibia and organic farming in Zambia, took the participants out of their comfort zones and forced them to build upon their leadership skills in a new and challenging environment. The benefit of pairing partners from three different places was that they drew upon their own cultures to make decisions. As one participant noted, "You realize that perhaps the way you see things isn't necessarily the best way." For example, PwC partner Tahir Ayub was assigned a consulting gig unlike anything he had done before: helping village leaders in the Namibian outback grapple with their community's growing AIDS crisis. Faced with language barriers, cultural differences, and scant access to electricity, Ayub, 39, and two colleagues had to scrap their PowerPoint presentations in favor of a more low-tech approach: face-to-face discussion. The village chiefs learned that they needed to garner community support for programs to combat the disease, and Ayub learned an important lesson as well: Technology isn't always the answer. "You better put your beliefs and biases to one side and figure out new ways to look at things," he said.

Although traditional business education and training have historically focused on helping firms improve financial performance, increasingly, business schools and training programs are adding social responsibility to their curriculum. Further, graduates are increasingly signaling they want to work for firms with a positive reputation for social responsibility and service. According to a *Wall Street Journal* article, top corporate executives are now pairing with MBA programs across the country to help students gain a better understanding of responsible global leadership. In fact, a recent study showed that 75 percent of Americans consider a company's commitment to social issues when deciding where to work, and that 6 out of 10 employees wish their companies did more to help globally. According to Liz Maw, executive director of Net Impact, a corporate nonprofit dedicated to social responsibility, "The companies most involved in corporate social responsibility are the ones that have already seen their bottom line and brand awareness increase."

The Ulysses program had strong returns for PwC. All two dozen of the initial graduates remained working at the company, with half of them having been promoted and almost all having new responsibilities. Just as important, all 24 people stated that they had a stronger commitment to PwC—in part because of the commitment the firm made to them and in part because of their new vision of the firm's values. Says global managing partner Willem Bröcker, "We get better partners from this exercise." The Ulysses program was PwC's first attempt at answering one of the biggest challenges confronting professional services companies: identifying and training up-and-coming leaders who can find unconventional answers to intractable problems. By tradition and necessity, new PwC leaders are nurtured from within. With thousands of partners, identifying those with the necessary business savvy and relationship-building skills isn't easy. But just as the program gave partners a new view of PwC, it also gave PwC a new view of them, particularly their ability to hold up under pressure.

Although PwC has since discontinued the Ulysses program, it has adapted the positive lessons learned into its newer, leaner international immersion programs. These programs, like PwC's Oasis program, still aim to give participants a broad, international perspective that is crucial for a company that does business around the world. Traditional executive education programs turn out leaders who have specific job skills but little familiarity with issues outside their narrow specialty, according to Douglas Ready, director of the International Consortium for Executive Development Research. PwC believes that its new Ulysses-inspired programs help prepare participants for challenges that go beyond the strict confines of accounting or consulting and instill values such as community involvement that are essential to success in any field.

Ulysses gave PwC a very positive name in the accounting and broader professional services community. The project taught the partners to understand risks more holistically, to consider all the stakeholders that are involved, and to realize that doing business is not about one goal but many.

Source: Dizik, Alina. "Sustainability Is a Growing Theme." *Wall Street Journal*, March 4, 2010, https://www.wsj.com/articles/SB10001424052748704541304575099514203847820; Global Giving Matters. "PricewaterhouseCoopers' Project Ulysses—Linking Global Leadership Training to a Community Development." Synergos, September/October 2004, https://www.synergos.org/globalgivingmatters/features/0409ulysses.htm; Hempel, Jessi, and Seth Porges. "It Takes a Village—and a Consultant; PricewaterhouseCoopers Tests Partners by Sending Them to Work in Poor Nations." *Businessweek*, September 6, 2004, https://www.bloomberg.com/news/articles/2004-09-05/it-takes-a-village-and-a-consultant; Marquez, Jessica. "Companies Send Employees on Volunteer Projects Abroad to Cultivate Leadership Skills." *Workforce Management*, November 21, 2005, 50–51, https://www.workforce.com/2005/12/02/companies-send-employees-on-volunteer-projects-abroad-to-cultivate-leadership-skills; Pless, Nicola M., Thomas Maak, and Günter K. Stahl. "Developing Responsible Global Leaders through International Service Learning Programs: The Ulysses Experience." *Academy of Management Learning and Education* 10, no. 2 (2011): 237–60.

in their careers. In the 2021 BGRS survey, many companies indicated their intention to better align their business functions and increase their investment in technology as they redesign and improve mobile assignments for future employees. The COVID-19 crisis has made a compelling case for digital enhancements to support virtual mobility.[132]

Another trend is the emergence of "cross-border" commuters, employees who regularly move back and forth between countries. Commuter assignments, as an alternative to short-term (and even long-term) assignments, have begun to take a larger role, especially in Europe, given the deepening integration of the European Union and the resultant cross-border employee mobility.[133]

One of the most profound trends, first explored in Chapter 1, is the dramatic rise and growth of emerging markets. An earlier Brookfield survey noted that emerging locations run the spectrum of countries from those that are long-time assignment destinations to those that are just this year appearing as locations for expatriate assignments.[134] To some degree, this trend may offset the effects of the other trends, suggesting that although the particular structure and duration may evolve, expatriate assignments are likely to continue as part of the arsenal of MNCs seeking to leverage talent for global success.



The World of International Management—Revisited

The World of International Management that opened this chapter illustrated how the desire to source and retain talent has become a global phenomenon, affecting most major markets, including India. In a time of increased globalization, firms must be able to source talent from a range of locations. Given the increasing presence of foreign MNCs in India—and the dramatic growth of India's domestic offshore outsourcing sector—employee retention has become a critical issue. One interesting observation is that employees are motivated by intrinsic rewards that go beyond financial compensation. Attracting and retaining talent turns out be a complex process in which both financial and nonfinancial issues come into play.

As outlined in this chapter, MNCs are realizing the intense challenges associated with the selection, development, and training of international human resources. MNCs have a range of options when selecting employees for overseas assignments, and increasing numbers of tools and resources are available to help develop, train, and deploy those individuals. Human resource selection and development across cultures cannot be taken lightly. Firms that do not invest in their human resource processes will face additional costs related to poor labor relations, quality control, and other issues. Now that you have read the chapter and reflected back on the chapter opening World of International Management about employee retention in India, answer the following questions: (1) What are the costs and benefits of hiring home-, host-, and third-country nationals for overseas assignments? (2) What skill sets are important for international assignments, and how can employees be prepared for such assignments? (3) What are the implications of offshore outsourcing for the management of human resources globally and in India in particular?

SUMMARY OF KEY POINTS

1. MNCs can use four basic sources for filling overseas positions: home-country nationals (expatriates), host-country nationals, third-country nationals, and inpatriates. The most common reason for using home-country nationals, or expatriates, is to get the overseas operation underway. Once this is done, many MNCs turn the top management job over to a host-country national who is familiar with the culture and language and who often commands a lower salary than the home-country national. The primary reason for using third-country nationals is that these people have the necessary expertise for the job. The use of inpatriates (a host-country or third-country national assigned to the home office) recognizes the need for diversity at the home office. This movement builds a transnational core competency for MNCs. In addition, MNCs can subcontract or outsource to take advantage of lower human resource costs and increase flexibility.
2. Many criteria are used in selecting managers for overseas assignments. Some of these include adaptability,

independence, self-reliance, physical and emotional health, age, experience, education, knowledge of the local language, motivation, the support of spouse and children, and leadership.

3. Individuals who meet selection criteria are given some form of screening. Some firms use psychological testing, but this approach has lost popularity in recent years. More commonly, candidates are given interviews. Theoretical models that identify important anticipatory and in-country dimensions of adjustment offer help in effective selection.
4. Compensating expatriates can be a difficult problem because there are many variables to consider. However, most compensation packages are designed around five common elements: base salary, benefits, allowances, incentives, and taxes. Working within these elements, the MNC will tailor the package to fit the specific situation. In doing so, five approaches can be used: the balance-sheet approach, localization, the lump-sum method, the cafeteria approach, and the regional method. Whichever one (or combination) is used, the package must be both cost-effective and fair.
5. A manager might be willing to take an international assignment for a number of reasons: increased pay, promotion potential, the opportunity for greater responsibility, the chance to travel, and the ability to use his or her talents and skills. Research shows that most home countries prefer that the individual who is selected to head the affiliate or subsidiary be a local manager, even though this often does not occur.
6. Most expatriates return home, usually when their predetermined tour is over. Sometimes, managers return because they want to leave early; at other times, they return because of poor performance on their part. In any event, readjustment problems can arise back home, and, the longer a manager has been gone, the bigger the problems usually are. Some firms are developing transition strategies to help expatriates adjust to their new environments.
7. Training is the process of altering employee behavior and attitudes to increase the probability of goal attainment. Many expatriates need training before (as well as during) their overseas stay. A number of factors influence a company's approach to training. One is the basic type of MNC: ethnocentric, polycentric, regiocentric, or geocentric. Another factor is the learning style of the trainees.
8. There are two primary reasons for training: organizational and personal. Organizational reasons include overcoming ethnocentrism, improving communication, and validating the effectiveness of training programs. Personal reasons include improving the ability of expatriates to interact locally and increasing the effectiveness of leadership styles. There are two types of training programs: standard and tailor-made. Research shows that small firms usually rely on standard programs and larger MNCs tailor their training. Common approaches to training include elements such as cultural orientation, cultural assimilators, language training, sensitivity training, and field experience.
9. A cultural assimilator is a programmed learning approach designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs, and values of another. Assimilators have been developed for many different cultures. Their validity has resulted in the improved effectiveness and satisfaction of those being trained as compared with other training methods.

KEY TERMS

adaptability screening, *519*
balance-sheet approach, *527*
cafeteria approach, *527*
cultural assimilator, *539*
ethnocentric MNC, *534*
ethnocentrism, *535*
expatriates, *512*
geocentric MNC, *534*
home-country nationals, *512*
host-country nationals, *512*
inpatriates, *514*
international selection criteria, *516*
learning, *534*
localization, *527*
lump-sum method, *527*
polycentric MNC, *534*
positive organizational behavior (POB), *540*
regiocentric MNC, *534*
regional system, *527*
repatriation, *529*
repatriation agreements, *531*
third-country nationals (TCNs), *513*
training, 532
transition strategies, *531*
validity, *540*

REVIEW AND DISCUSSION QUESTIONS

1. A New York–based MNC is in the process of staffing a subsidiary in New Delhi, India. Why would it consider using expatriate managers in the unit? Local managers? Third-country managers?
2. What selection criteria are most important in choosing people for an overseas assignment? Identify and describe the four that you judge to be of most universal importance and defend your choice.
3. What are the major common elements in an expat's compensation package? Besides base pay, which would be most important to you? Why?
4. Why are individuals motivated to accept international assignments? Which of these motivations would you rank as positive reasons? Which would you regard as negative reasons?
5. Why do expatriates return early? What can MNCs do to prevent this from happening? Identify and discuss three steps they can take.
6. What kinds of problems do expatriates face when returning home? Identify and describe four of the most important. What can MNCs do to deal with these repatriation problems effectively?
7. How do the following types of MNCs differ: ethnocentric, polycentric, regiocentric, and geocentric? Which type is most likely to provide international management training to its people? Which is least likely to provide international management training to its people?
8. IBM is planning on sending three managers to its Zurich office, two to Madrid, and two to Tokyo. None of these individuals have any international experience. Would you expect the company to use a standard training program or a tailor-made program for each group?
9. Zygen Inc., a medium-sized manufacturing firm, is planning to enter into a joint venture in China. Would training be of any value to those managers who will be part of this venture? If so, what types of training would you recommend?
10. Hofstadt & Hoerr, a German-based insurance firm, is planning on expanding out of the EU and opening offices in Chicago and Buenos Aires. How would a cultural assimilator be of value in training the MNC's expatriates? Is the assimilator a valid training tool?
11. Ford is in the process of training managers for overseas assignments. Would a global leadership program be a useful approach? Why or why not?
12. Microsoft is weighing setting up an R&D facility in India to develop new software applications. Should it staff the new facility with Microsoft employees? Indian employees? Or should it subcontract with an Indian firm? Explain your answer and some of the potential challenges in implementing it.

INTERNET EXERCISE: COKE GOES WORLDWIDE

As seen in this chapter, the recruiting and selecting of managers are critical to effective international management. This is particularly true in the case of firms that are expanding their international operations or currently do business in a large number of countries. These MNCs are continually having to replace managers who are retiring or moving to other companies. Coca-Cola is an excellent example. Go to the company's website at https://us.coca-cola.com and look at the career opportunities it offers overseas. In particular, pay close attention to current opportunities in Europe, Africa, and Asia. Read what the company has to say, and then contact one of the individuals whose e-mail address is provided.

Ask this company representative about the opportunities and challenges of working in that country or geographic area. Then, using this information, coupled with the chapter material, answer these questions: (1) From what you have learned from the Coca-Cola inquiry, what types of education or experience would you need to be hired by the company? (2) What kinds of international career opportunities does Coke offer? (3) If you were hired by Coke, what type of financial package could you expect? (4) In what areas of the world is Coke focusing more of its attention? (5) What kinds of management and leadership training programs does Coke offer?

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Brazil

In the International Spotlight

Brazil is located in eastern South America along the Atlantic Ocean. With a land area just smaller than that of the U.S., the country possesses abundant natural resources, including bauxite, gold, iron ore, manganese, nickel, phosphates, platinum, tin, rare earth elements, uranium, petroleum, hydropower, and timber. The country also features a number of globally competitive manufacturing companies. Embraer, one of the world's leading producers of mid-range passenger and military aircraft, and Odebrecht, a diversified conglomerate that develops and installs mass transit systems, sports stadiums, chemical production facilities, and other infrastructure projects, are both located in Brazil.[135]

Gaining its independence from Portugal in 1822, Brazil adopted a federative republic system of government. This governmental process includes compulsory voting requirements for those between the ages of 18 and 70. With more than 212 million people, Brazil is one of the most populous countries in the world. The country has moved toward urbanization over the last 50 years; nearly 20 percent of its population now lives in either Sao Paulo or Rio de Janeiro, and over 87 percent of all Brazilians live in an urbanized area. Brazil is a diverse place culturally and ethnically. The primary and official language is Portuguese, but Spanish, German, Japanese, and English are also spoken with some regularity. The country is predominantly Christian, with two-thirds of all Brazilians identifying as Roman Catholic. Like most growing developing nations, the vast majority of the population is younger than 55 years old and the median age is only 33.[136,137]

Brazil has the largest economy in all of South America and at over US$1.444 trillion its economy was the 12th largest in the world in 2020. GDP shrunk by over 4 percent in 2020 amidst political uncertainty and the Covid-19 pandemic, the largest decline of the decade. However, this dip was considerably less than that experienced by most other emerging markets. The economy has faced other serious challenges both recently and historically, including multiple recessions, high inflation, and currency volatility. After a deep economic recession in 2016, the annual GDP growth rate was steadily recovering but erratic even prior to 2020. As of 2022, while the economy has recovered considerably from the recessionary impact of the Covid-19 pandemic, high inflation and elections weigh on the economy.[138,139]

The country's main agricultural products include coffee, soybeans, wheat, rice, corn, sugarcane, cocoa, citrus, and beef. Textiles, shoes, chemicals, cement, lumber, iron ore, tin, steel, aircraft, and motor vehicles constitute its main manufactured products. In the global industrial and manufacturing sectors, Brazil has been suffering largely due to its reliance on commodity exports, which have seen demand fall. Brazil is frequently ranked as a difficult place to conduct business (the country finished 124 out of 190 in the 2020 Ease of Doing Business rankings). In 2018, Brazil's debt rating was downgraded to below investment grade, making it even more difficult to find foreign investors and international credit markets.[140] Despite several challenges, Brazil has managed to bring in a number of important reforms in recent years. A law formalizing central bank independence was passed in 2021, and tax and public sector reforms are advancing.[141]

You Be the International Management Consultant

Economic recessions, corruption, volatile oil and commodity prices, and a controversial pension reform plan approved in 2019 have given foreign investors reasons to doubt the strength of the country's economy, and many investors have fled. The country was recovering from a bribery scandal involving the state-owned oil company, Petrobras, that broke a few years earlier (and ultimately brought down Brazil's president) before Covid-19 and the policies of President Jair Bolsonaro further strained the economy and global supply chain disruptions added to inflation.

One organization that has pulled out is Ford Motor Co. One of the earliest foreign companies to enter Brazil, Ford decided to leave after manufacturing cars in the country for more than 100 years. In 2021, the company announced plans to close its factories and cease production of three Brazil-made models: the Ecosport, Ka, and T4. While Ford's exit is part of a broader corporate restructuring plan, the motive partly stemmed from its difficulties operating in Brazil. High costs of doing business, complicated taxes, and low productivity are among the factors that contributed to the company's average annual pre-tax losses of over US$800 million in Brazil from 2014.[142,143]

Questions

1. As an international management consultant, what advice would you give to a foreign company looking to move operations into Brazil?
2. Do you think Brazil still holds the potential for future growth?
3. As an investor, do you think that the 'buy low' mindset applies to Brazil? If not, what changes would you like to see before making any investment in the country?
4. How could companies like Ford avoid costly exits from foreign markets?

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Brief Integrative Case 4.1

IKEA's Global Renovations

In October 2021, Swedish furniture retailer IKEA announced a record revenue of US$48.51 billion for 2021, which is 5.8 percent higher than the numbers for 2020. Despite many highly publicized setbacks over the years, including high-profile product recalls in 2017, a scandal regarding the use of horse meat in its iconic meatballs in 2013, and accusations of forced labor in the 1980s, IKEA continues to prosper in markets around the world. Since expanding outside of Europe over 30 years ago, IKEA has attempted to balance its unique approach to both the retail shopping experience and its own expansion as it has sought to achieve a reputation for social responsibility and sustainability.

IKEA's Humble Beginnings

The idea of IKEA began in 1935 in the small province of southern Sweden, Smaland. Ingvar Kamprad, a nine-year-old boy with a strong entrepreneurial spirit, began by selling fish and Christmas decorations to those in the local community. By age 17, using a gift of money from his father, Kamprad established the company IKEA. Kamprad created the name IKEA by combining his initials, the initials of his hometown farm, and the initials of a nearby village. During that period, he sold everything from pens to gadgets to stockings, and within a short time, he was able to put together a mail-order catalog. By 1947, Kamprad decided to introduce home furnishings to the product mix and by 1951, eliminated all other product lines, focusing solely on the home furniture market.

Kamprad built his empire on the foundation of offering a "wide range of home furnishings of good design and functionality at a price low enough to be affordable to most people."[1] With this idea in hand, he set out to build a business that met the needs of the Swedish people, showing no differentiation between rich and poor.

Around this time, he was seeing a great deal of pressure from other furniture providers in his direct market. In 1956, with his suppliers facing pressure to boycott due to increased competition, Kamprad decided to design his own furniture and have a manufacturer produce it. This seemingly small decision led IKEA to offer low prices and efficient packaging, which are still the capstones of the business today.

It is universally believed that IKEA's growth and success are a direct result of Kamprad's vision, values, and culture, which he cultivated in all aspects of IKEA's business model. His openness to change, his drive for innovation, and his focus on his stakeholders have made IKEA what it is today: the largest and most successful furniture retailer in the world.

Growth and Expansion

The first IKEA store opened in Almhult, Sweden, in 1958. In 1963, IKEA opened its first international store in Oslo, Norway, and two years later, another one near Stockholm. In a short time, IKEA spread to mainland Europe, opening stores in Switzerland and Germany in 1973, in Australia in 1977 and in the Netherlands in 1979. The first store in the United States did not arrive until 1985, which is surprising given IKEA's record-breaking US$5.9 billion in revenue in the U.S. in 2020. The U.S. opening was quickly followed by the first one in the United Kingdom. See Figure 1 for a more detailed timeline of IKEA's expansion.

IKEA now operates over 465 stores (including IKEA stores, IKEA small stores, IKEA planning studios, IKEA shops, and IKEA pick-up points) in 32 countries, with 174,255 employees as of 2021.[2] The fast growth was primarily organic, with IKEA maintaining full control over the company, as it still does today. Several "business format franchises" currently exist, where local entrepreneurs took on the capital investment and the management, and left the merchandising and marketing to IKEA. Since 1982, IKEA has been owned by a foundation, and remaining private is a keystone of success to ensure that the culture and values remain intact.

Specifically, the Netherlands-based company Inter IKEA Systems BV owns the franchise, and Ingka holding company, of which Kamprad was the senior advisor, operates over 300 stores worldwide. In addition, a separate company, Ikano, manages the Kamprad fortune and owns several other IKEA stores in its own right.

IKEA's success cannot be ignored in today's turbulent market, with IKEA being commended for entering and remaining in traditionally difficult markets. What keeps the IKEA group going strong is its corporate initiatives embedded in Swedish heritage. These corporate initiatives are visually apparent throughout the stores and have been considered a "significant force of competitive advantage."[3]

The Swedish lifestyle incorporates a "fresh, healthy way of life" with bright colors and textiles even though Sweden does not see a great amount of sunlight. The high-quality, stress-free furniture and the caring employees represent a Swedish tradition where "rich and poor alike were well looked after."[4] Also, the do-it-yourself requirement of

Figure 1 **Timeline of Major Events in IKEA's History**

1926	Founder Ingvar Kamprad is born in Smaland, Sweden.
1931	Kamprad begins selling matches to nearby neighbors.
1933–1935	Kamprad uses his bicycle to expand territory and begins selling flower seeds, greeting cards, Christmas tree decorations.
1943	Using money from his father, Kamprad founds IKEA, selling pens, wallets, picture frames, table runners, watches, jewelry, and nylon stockings.
1945	First IKEA advertisement is in a local newspaper.
1948	IKEA begins selling furniture.
1951	First IKEA catalog is published and Kamprad decides to focus solely on selling furniture.
1953	First showroom opens in Almhult, Sweden.
1956	IKEA decides to design its own furniture and flat pack it for self-assembly.
1958	First IKEA opens in Sweden.
1960	First IKEA restaurant opens at the Almhult location.
1963	IKEA enters Oslo, Norway.
1969	IKEA enters Copenhagen, Denmark.
1973	IKEA enters Zurich, Switzerland.
1975	IKEA enters Sydney, Australia.
1976	IKEA enters Vancouver, Canada.
1977	IKEA enters Vienna, Austria.
1979	IKEA enters Rotterdam, Netherlands.
1981	IKEA enters Paris, France.
1982	The IKEA Group is formed.
1984	IKEA enters Brussels, Belgium.
1985	IKEA enters Philadelphia, USA.
1986	A new president and CEO, Anders Moberg, takes over.
1987	IKEA enters Manchester, UK.
1989	IKEA enters Milan, Italy.
1990	The IKEA Group develops its first environmental policy.
1990	IKEA enters Budapest, Hungary.
1991	IKEA enters Prague, Czech Republic, and Poznan, Poland.
1993	IKEA Group becomes a member of the global forest certification organization Forest Stewardship Council (FSC).
1996	IKEA enters Madrid, Spain.
1997	Global website is launched.
1997	IKEA's sustainable approach to shipping, titled "IKEA, Transport and the Environment," is created.
1998	IKEA enters Shanghai, China.
1999	New president and CEO, Anders Dahlvig, is named.
2000	IKEA enters Moscow, Russia, Kamprad's "last big hobby."
2000	IKEA code of conduct, IWAY, is launched.
2000	Online shopping begins.
June 2004	IKEA enters Lisbon, Portugal.
July 2004	The 200th store opens.
December 2004	Opening ceremonies in Moscow are cancelled due to protracted disputes with the government over corruption.
2006	IKEA enters Tokyo, Japan; IKEA Food is launched.
2009	IKEA halts further investment in Russia.
October 2012	IKEA is criticized for removing women from Saudi Arabia ads.
November 2012	IKEA publicly apologizes for forced labor practices in East Germany 25–30 years prior.
February 2013	IKEA is under attack for horsemeat found in European meatballs.
March 2013	IKEA now admits to contamination of chocolate cake in China.
March 2013	IKEA announces future partnership with Marriott for budget hotel chains in Europe.
July 2015	IKEA issues a warning regarding its popular "Malm" line of dressers after it is revealed that dressers had a tendency to tip over, killing two infants. Later, it recalls its "Malm" line of dressers, after an additional four infants were killed.
2018	IKEA opens first stores in India, Latvia and Bahrain.
2020	IKEA opens first store in Kyiv, Ukraine, and Mexico City.
2021	IKEA enters the Philippines, opening the largest store in the world, occupying 700,000 sq. ft.
2022	IKEA suspends its operations in Russia; enters Muscat, Oman.

customers to perform some of the work by putting together and/or transporting the furniture facilitates low prices.

One of the biggest reasons for IKEA's success on a global level has been its ability to enter new international markets yet keep its core values and brand image consistent. This is something that other companies have not been able to tackle as successfully, and a brief look into IKEA's international strategy will provide a strong understanding of why the company has been so successful with global expansion while at the same time maintaining a positive corporate image.

Vision, Core Values, Brand

IKEA is a unique case, not only because its founder wrote a vision and a set of core values over 60 years ago that are still in use today, but also because the founder was still a part of everyday management until 2018, when he passed away at the age of 91 years.[5] Kamprad began with his vision to offer "a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them."[6] From this vision came the three defining values that drive operations to this day "common sense and simplicity," "dare to be different," and "working together."[7]

Common sense and simplicity, created as a value in 1943, follows the belief that "complicated rules paralyze!" The principle that simplicity prevails both internally and externally has been a major driving force in operations since IKEA's inception. Simplicity can be seen in large warehouse stores; in interactions between management, suppliers, and customers; and in cost cutting.

Dare to be different, also created in 1943, is about always finding a new path by asking the question, "why?" By constantly questioning the status quo, IKEA has found success in innovation and in its ability to continually change and evolve. For instance, Ingvar Kamprad, when conceiving IKEA, asked himself, "Why must well-designed furniture always be so expensive? Why do the most famous designers always fail to reach the majority of people with their ideas?"[8]

Kamprad believed that it is more difficult now than ever before to find new ways to solve problems and, in the face of strong competition, will allow IKEA to differentiate even further from the competition.

Working together was added to IKEA's values in 1956 when the furniture was recreated for self-assembly by customers. IKEA even released this statement in 1999: "You (the customer) do your part. We (IKEA) do our part. Together we save money."[9] It is very representative of its belief to work together in every aspect of the business and help each other along the way.

Corporate brand is a construct of "intangible nature," built through relationships, perceptions, and behaviors. It involves all stakeholders, including "customers, competitors, employees, and other business actors."[10] By taking the values created by Ingvar Kamprad years ago and embedding them in all company stakeholders, IKEA has developed strong corporate brand values that have led them to success both domestically and internationally.

Global Expansion

Internationalization Strategies

As the number of stakeholders increases, especially across country borders, the more difficult it is to maintain a uniform brand image and goals. IKEA has found success when expanding internationally by staying consistent with the global values described while still allowing some room for a unique local flare.

"Employees become the ambassadors of the brand values," as they are the salesmen of the firm. If employees do not believe in the values and live them, the customers surely won't either. IKEA succeeds by bringing in a staff of experienced IKEA employees, traditionally Swedish, to train and reshape the culture in each new market. An IKEA HR corporate manager was quoted as saying, "Our goal is to employ co-workers who understand and embrace our core values and will reflect and reinforce those."[11] By focusing heavily on the recruitment process, IKEA is able to ensure it hires the right type of employee who can potentially change his or her own personal traditional values and become a believer and salesperson of the IKEA brand.

Another important stakeholder that plays a strong role in internationalization is the supplier. The global supplier plays a large role because it needs to act as a firm base for the company when entering new markets, to continually support IKEA in order to avoid the necessity of constantly forming new relationships. Just as important, though, is the need for local suppliers, who are very beneficial and most often necessary within each market, but who typically hold views contradictory to Swedish values.

In 2000, IKEA created a code called "The IKEA Way," or "IWAY," that puts forth standards of acceptable working conditions for suppliers. The code touches on many aspects such as child labor, forestry, and corruption, with the main goal to make "sustainable development the core business value."[12]

With nearly 1,600 suppliers in 55 countries, IKEA focuses on long-term relationships with suppliers who not only produce low-cost, high-quality goods, but who positively impact working conditions, commodities, and the environment as well. "On a global scale, IKEA has more than 1,000 employees involved in purchasing. Purchasing is divided into 16 regional 'trading areas,' encompassing 43 trading service offices in 33 countries."[13]

Every supplier is chosen based on his or her ability to meet predetermined standards set forth in the IWAY, focusing specifically around management style, financial situation, sourcing of materials, equipment, impact on the environment, and location. The IWAY is made up of 19 areas

containing over 90 issues that must be met. It is revised every two years and IKEA has a staff of internal auditors selected to research the suppliers' ability to meet the IWAY requirements. Once a supplier makes it to the final stage of approval, goals and plans are set in place to further improve working conditions.

When entering a new market, IKEA chooses and trains local suppliers similarly to its processes for recruiting and hiring employees. For instance, when entering Russia in 2000, IKEA's strategy was to build a local supplier base through "active cooperation in the Russian wood industry." IKEA's proactive strategy was difficult, given that IKEA bases its strategy for long-term commitments on feelings of trust, which was very uncommon for Russians, who "operate under great uncertainty and are reluctant to enter into long-term commitments."[14] However, IKEA took the time to understand the Russian positions and invested heavily to change their opinions and behavior. IKEA suspended all of its operations in Russia, including local sourcing in March 2022 in the aftermath of the Russian invasion of Ukraine, despite Russia being the fourth market by revenue after Germany, the U.S., and Sweden.

Global expansion has proven historically difficult, yet IKEA has found a way to not only balance the entire customer experience, but also achieve a reputation for social responsibility and sustainability in the process. One of its greatest impacts thus far has been on the environment. In 1997, before the IWAY was even finalized, IKEA sought to increase the efficiency of transportation by writing "IKEA, transport and the environment."[15] Its purpose was to limit pollution from travel and strategically place all stakeholders geographically. Based on responses gathered by a University of Bari study, 60 percent of stakeholders lived less than 20 km from the store. According to one author, "IKEA's intuition was not so much to involve some vendors in this program, but more to formalize this synergy through the sharing of an ethical code."

According to IKEA's Sustainability Report for FY20, the overall goal for the company is to become a people and planet positive retailer that enables many people to live better everyday lives within the boundaries of the planet by 2030. Some of their commitments for the next decade include but are not limited to creating a movement in society around better everyday living, transforming into a circular business, regenerating resources, protecting ecosystems, improving biodiversity and being an inclusive business that supports decent and meaningful work across the value chain. As of today, IKEA has already achieved a great deal when it comes to sustainability. In 2020 IKEA reached its forestry goal where more than 98 percent of wood used in Ikea products are either Forest Stewardship Council certified or recycled. They have also come closer to their goal of relying on 100 percent renewable energy.[16]

IKEA's dedication to the environment and strong network of stakeholders has been yet another point of success when entering international markets. A look into a few internationalization examples will provide further information on IKEA's global practices.

China Entry and Expansion

IKEA entered China in 1998 and initially moved slower than it had in other locations. By 2006, it had opened three stores, and there were a total of 27 stores by 2019. The Beijing location, which opened in 2006, has been tagged as IKEA's largest-volume store globally, with over 6 million visitors annually.

IKEA originally entered China as a joint venture with the Chinese government. In 2004, China entered the World Trade Organization and, as a result, the third location in QuaGuangzhous able to be wholly owned by IKEA, as well as all subsequent openings.

Asia has been a difficult market for IKEA, notably because of the extreme cultural differences between Asia and Sweden. It has not been an easy road for IKEA, yet even in difficult times, Asia cannot be ignored, given its sheer size.

Asia makes up 30 percent of IKEA's sourcing, and the large population results in daily visitors, for instance, on a Saturday in Beijing equaling the number of weekly visitors to a store in the West. The size and population, though, also come at a price for the company that created a successful business based on principles of standardization with local adaptation.

China is vastly different from all Western markets in size, culture, and tastes, and has forced IKEA to alter its marketing strategies to meet demand. The core strategy of the company is to offer low-cost, high-quality furniture, meaning the cost must be low in comparison to other furniture providers in the country. Other businesses in China, though, are traditionally providing the lowest cost options. Therefore, IKEA, faced with extreme competition and copycats, had to alter its emphasis to the higher-income population, who see its furniture as more of a luxury purchase.

IKEA has also seen challenges in the open-showroom-selling environment, which is designed to allow customers to envision the design of a room and touch the furniture. The Chinese are not accustomed to this and view it as a hangout. Customers can often be found reading, lounging, and napping on the furniture, or gathering around looking for freebies. In fact, during a 2015 heat wave, IKEA had to issue a formal policy prohibiting customers from sleeping in the air-conditioned bed section of the store. Furthermore, several China locations have now become hotspots for senior citizen romance.

The seniors show up in groups, sit for hours in the cafeteria, and bring their own food and tea. To deal with these groups taking up all the space without actually making a purchase, IKEA has added guards and created special seating areas for those patrons who only want to sit and not shop. Because of these situations, IKEA had to adapt

each store to its unique surroundings and cultural differences in order to successfully meet the needs of the Chinese economy.

Russia Entry, Setbacks, and Exit

IKEA entered Russia in 2000 as a "last big hobby" for founder Ingvar Kamprad, then age 81. Amid large changes in culture and a great deal of training, IKEA was a huge success with its "mega-mall" business model. Before suspending its operations in March 2022, IKEA was operating 17 stores with approximately 200 million visitors each year.

Although IKEA has seen success in Russia, the road to getting there was not always easy. Like China, Russia's culture is extremely different from Sweden's, and changing a culture without changing the IKEA brand values proved to be extremely difficult. For instance, when hiring, IKEA wants its employees to have a personality that lends to the IKEA business model rather than a comprehensive resume, whereas Russians place a great deal of emphasis on education and experience.

Training was also an issue for the Russian employees, who value academic training and had a negative perception of the "shop floor training" provided by IKEA trainers. However, the IKEA trainers stuck to the IKEA model and began reaching their new Russian counterparts by altering the Russians' previously held views.

In 1998, after the currency devaluation and economic collapse seen throughout Russia, IKEA stood by its side, refusing to abandon the country IKEA worked so hard to enter. This dedication created a strong outlook among the Russian population. However, IKEA's challenges in Russia did not diminish following this symbol of perseverance. After entering Russia in 2000, IKEA invested $4 billion in ten years. This amount would seem to be a plan that would pay in dividends when looking at the original statistics, but, according to Kamprad, IKEA "had been 'cheated' out of $190 million" due to the rampant corruption running through Russia.

What is a company dedicated to fair business practices supposed to do in an opportunistic market flooded with corruption? IKEA played fair and dealt with blow after blow from the Russian government. In 2004, the opening ceremonies of a new store in Moscow were cancelled at the last minute due to the location being too near a gas pipeline. Following that, in 2007, the company planned on opening a Samara, Russia, location, which a year and a half later still remained closed.

In June 2009, IKEA announced it would suspend all further investment in the country due to the troubles it previously faced with the government. And in 2010, the company announced that two expatriate executives were fired for taking part in bribes involving the Russian utility company, Lenenergo, in the prior year.[17]

Although IKEA is driven by a positive social mission and proactively seeks out stakeholders who support its core values, it does not always work out ideally. The difficulties IKEA faced in Russia highlight why the company must stay on its toes in the midst of ubiquitous information, social networks, and media and governments eager to take advantage of companies in general. Following the Russian invasion of Ukraine, IKEA decided to shut down its offices in Moscow and Minsk, permanently close its 17 stores and put up its four factories for sale.[18]

Recent Challenges and Opportunities

COVID-19 Pandemic

The COVID-19 pandemic altered life for the common people along with many corporations and IKEA was not one that was spared from the challenges and opportunities that presented themselves in the height of the pandemic. In the FY21 annual summary, INGKA, the parent company of IKEA noted "Life at home has taken on a different meaning since the beginning of 2020. As homes have had to flex in functionality, many people turned to Ikea for home furnishing solutions."[19] IKEA reported a 25 percent increase in total sales for goods and services during the financial year 2020, making it IKEA's biggest sales year ever. Their top sold products included living room storage, bedroom storage, children's storage, and dining furniture.

While there was a significant push for furniture needs due to the pandemic, IKEA still faced challenges like many other retailers when lockdowns were first announced. The FY20 Sustainability report states, "During spring 2020, about 75 percent of IKEA stores were closed for seven weeks on average. A majority of IKEA suppliers also had to close in periods. For these reasons, some IKEA units furloughed or let go of co-workers despite their best efforts. As sales improved and co-workers returned to work, some franchisees reimbursed co-workers for lost income during the furloughed period."[20]

IKEA took on the responsibility to bring much needed materials and resources to those in need during the pandemic. The retailer donated more than 1.7 million products, like face masks, gloves, beds, bedding, food, and toys to hospitals, medical centers and shelters.

Delayed Expansion into India

Despite plans to expand into India for over a decade, IKEA finally opened its first store in August 2018 in Hyderabad with expansion plans for 25 new stores by 2025. However, thus far, the company has faced significant red tape and limiting bureaucracy.

In 2007, when IKEA first tried to expand into India, the company sought to bypass the legal regulations that require foreign companies to work with a local company in a joint venture. IKEA believed that it would be far more successful operating on its own, and the company believed that it could lobby the Indian government into agreeing. Unfortunately for IKEA, the lobbying efforts took over five years until the

government finally waived the joint venture requirements, significantly delaying IKEA's proposed timeline.

In 2016, IKEA ran into further problems after failing to find suitable local suppliers that meet IKEA's standards. Per Indian law and IKEA's agreement with the government, one-third of all products sold in India must be produced in India. After an extensive search across the country for local products that the company could add to its Indian catalog, IKEA came up empty-handed. Local rugs were discovered to have been woven by child labor, tables contained unsafe levels of toxic materials, and plates were found to leak chemicals into food.

Finally, after investing over US$670 million in establishing the infrastructure to operate in the country, IKEA's Hyderabad location opened for business in 2018. With the success that IKEA has achieved in other emerging markets, India holds great potential for the company, if IKEA is able to successfully navigate the country's infamous red tape to begin opening more stores.

Images in Saudi Arabia

IKEA came under attack in October 2012 for removing pictures of women from catalogs destined for Saudi Arabia. That year alone, IKEA planned to produce over 200 million copies of its catalog in 62 different versions. However, it admitted to tailoring the images "to suit fashion-related tastes of local markets."[21]

IKEA publicly apologized for altering the Saudi images in a statement, noting that such self-censorship was inconsistent with its values. "We're deeply sorry for what has happened,"[22] Ulrika Englesson Sandman said, "It's not the local franchisee that has removed the photos. The error has occurred in the process of producing the proposal to Saudi Arabia, and that is ultimately our responsibility."[23]

Catalogs still remain the primary source of marketing for IKEA, and it comes at a time when Saudi Arabia is in a political firestorm over its treatment of women. The same photographs had been published in 27 languages for 37 countries with the women present, leaving many to wonder about IKEA's stance on gender equality.

Forced Labor Practices

IKEA publicly apologized in November 2012 for having profited by the use of prisoners in East Germany 25 to 30 years prior. The issue was publicized when, earlier in the year, the media began reporting on the connection. In response to the accusation, IKEA hired Ernst & Young, which researched 20,000 pages of internal records and 80,000 pages of state and federal documents in addition to interviews of 90 former employees and witnesses.

It was realized that political prisoners were, in fact, used in the production of IKEA merchandise during that time, even though IKEA initially questioned the use of prisoners by suppliers. Jeanette Skjelmose, sustainability manager, showed her remorse in a public statement: "We deeply regret that this could happen. . . . The use of political prisoners in production has never been acceptable to the IKEA Group. At the time, we didn't have today's well-developed control systems and obviously didn't do enough to prevent such production conditions among our former G.D.P. suppliers."[24]

When speaking of their current control systems, Skjelmose was probably referring to the previously mentioned IWAY code of conduct standards. In addition to placing provisions on working conditions, touched on in the code, IKEA also conducts audits on suppliers over 1,000 times every year just to ensure a situation like this will not arise again.

This news comes as a large surprise to those who follow IKEA and its traditionally positive social impact. IKEA has even been commended many times over the years for its strong stance on social issues, such as child labor. Susan Bissell of UNICEF (the United Nations Children's Fund) in South Asia was quoted as saying,

> The risk of falling into disrepute and becoming the victim of consumer boycotts has driven many companies to move production from South Asia to areas which are easier to control. Those companies which stay on do everything they can to conceal their presence. I wish more companies had the courage to follow IKEA's example: stay on and actively work on the problems and take genuine social responsibility. IKEA is a sponsor of UNICEF [. . .] but we regard IKEA as a cooperation partner rather than a contributor [. . .].[25]

Many commended IKEA for how it handled this situation. IKEA is not the only company to have profited from such actions, but one of the few that took action against its prior role. In fact, Christian Sachse, a Berlin historian, spoke of how common this act was, and said it would "take years of research to properly understand the field."[26]

For now, IKEA has accepted its wrongdoing and is moving forward while trying to make things right. The company has vowed its commitment to donate funds and provide an effort to research the issue of forced labor in East Germany, and stands as one of the only companies that is coming forward and taking action to turn the negative into a positive.

Horsemeat Scandal

In light of the horsemeat scandal raging across Europe, inspectors from the Czech Republic found traces of the meat in IKEA's European signature meatballs in February 2013. Although the United States' supply remained unaffected, customer morale is likely to have been impacted. One customer was even quoted as saying, "I am more trusting of Swedish companies and it makes me wonder about corporate integrity in a way I never have questioned Swedes before."

In a public statement, IKEA reassured communities and supporters across the world that they are committed to high-quality, safe food and will not stand for any ingredients other than those listed in the recipe. The company guaranteed the public that it is taking all concerns very seriously,

and assured all that no product is actually harmful if eaten. The real issue is the discrepancy in labeling.

Five percent of IKEA's total revenue comes from food, and meatballs in 13 countries were temporarily removed during the investigation. It is a situation affecting many of Europe's leading food companies, including Nestlé SA and ABP Food Group's Silvercrest Food. As IKEA worked to resolve the issues internally, the company attempted to ease the nerves of the disheartened public. In August of 2020, IKEA launched their plant-based version of the meatball called HUVUDROLL. By 2025, 50 percent of the main meals offered at IKEA restaurants will be plant-based (like the veggie dog and the plant ball), and 80 percent of the main meals offered will be non-red meat. In addition, 80 percent of the total packaged food range will be plant-based.[27]

Cake Contamination

Just one month after the horsemeat scandal took place, IKEA again found itself in the news for chocolate cake that was discovered to contain traces of coliform bacteria, a contaminant found in the environment and in the feces of humans and warm-blooded animals, according to *The Wall Street Journal*.[28] Although the cakes posed no true health hazards, as the issue was caught before the cakes hit stores, it came at a bad time publicly.

The Shanghai quarantine bureau destroyed two tons of the cake, and IKEA performed a formal investigation and removed the cakes from restaurants in 23 countries. The company has released a formal apology for all concerns raised regarding the issue.

IKEA has emerged as a socially responsible company that places a high value on sustainability in every market it enters. The company is investing heavily in core products, particularly in the U.S. market, to battle the predisposition that the product line is primarily for those in their "starting-up phase." IKEA has also begun offering delivery services in some markets and plans on putting other strategies into place to further highlight itself as a quality brand that not only acts responsibly, but also listens to its customers.

There has also been a shift in leadership structure globally at IKEA over the last few years, with Jesper Brodin as the Chairman and CEO of INGKA holding and Jon Abrahamsson Ring as the Chairman and CEO of Inter IKEA Holding. Founder Ingvar Kamprad's three sons, though not involved in the day-to-day operations of the company, have promised to maintain their father's vision for the company and foundation going forward.

Questions for Review

1. How would you describe IKEA's overall approach to international expansion? What were some of the important successes and challenges it experienced along the way?
2. What macro- and micro-political risks did IKEA face when it first considered entry into Russia? What kinds of preemptive and/or proactive political strategies might it have pursued to mitigate these risks?
3. How should IKEA respond to some of the recent scandals concerning product contamination, sourcing, working conditions, and product safety?
4. What motivation, leadership, and international HR approaches has IKEA pursued to achieve its international success? What additional steps might it consider given its expanding global reach and impending change in leadership?

This case was prepared by Deborah Zachar of Villanova University under the supervision of Professor Jonathan Doh with additional input from Professor Ajai Gaur. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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In-Depth Integrative Case 4.1

Chiquita's Global Turnaround

On January 12, 2004, Chiquita named Fernando Aguirre as the company's new president and CEO, replacing Cyrus Freidhem, who had held the position since the company's emergence from bankruptcy in March 2002. In his 23 years with Cincinnati-based Procter & Gamble (P&G), Aguirre served in a variety of positions, including president of P&G Brazil and president of P&G Mexico. In his first remarks to Chiquita employees and investors, Aguirre reiterated the importance of corporate responsibility: "In terms of managing businesses and people, while I am profit-conscious, I make decisions first and foremost based on values and principles. In that respect, I'm proud to be joining a company with Core Values that guide day-to-day operations and one where corporate responsibility is an important part of our company culture."[1]

Over the past several years, social responsibility has become the watchword of this traditional company with midwestern roots but checkered history. In 2004, Chiquita scarcely resembled the company that once held a reputation as cold, uncaring, and indifferent, frustrated with mediocre returns, a lack of innovation, and a demoralized workforce. Throughout the 20th century, hostile relationships with its labor unions and employees and a reputation for immorality solidified by the actions of its predecessor company, United Fruit, helped to slow Chiquita's growth. In addition, by the late 1990s, consumption of bananas had declined in major markets, and Chiquita's position in Europe had been compromised by the European Union's preferential import relationships with its members' former colonies in the Caribbean, Africa, and the Pacific. These factors helped push Chiquita to seek Chapter 11 bankruptcy protection in November 2001.

Through a serious and dedicated internal analysis, a thorough reevaluation of its core mission and business principles, and a concerted effort to reach out to some of its primary stakeholders—such as employees—who had become disenchanted and alienated, by early 2003, Chiquita had engineered the beginnings of a turnaround. One of the most impressive aspects of this recovery was Chiquita's success in redirecting and redefining its reputation through a more open and transparent approach to its global operations and to the various stakeholder groups with which it interacted. In 2020, Chiquita reported annual revenue of $3 billion with operations spanning 70 countries.[2]

In addition, Chiquita had substantially reformed its labor practices and relations and initiated a set of projects in sustainable development and community action in its various locations around the world. Both labor unions and nongovernmental organizations (NGOs) lauded these steps.

Yet despite Chiquita's apparent turnaround, lingering problems remained in financial performance, organizational efficiency, and a strategy for the future. How could Chiquita sustain the positive momentum from its turnaround in reputation and employee relations to deliver improved and sustainable business performance in a global industry environment plagued by low margins and intense competition?

Chiquita's Background

Chiquita Brands International Inc. is a multinational producer, distributor, and marketer of bananas and other fresh produce. The company also distributes and markets fresh-cut fruit and other branded, value-added fruit products. Approximately 60 percent of its 2003 revenues of $2.6 billion came from bananas. Since adding new products and acquiring Fresh Express, the U.S. market leader in fresh salads, in 2005, bananas have totaled 43 percent of Chiquita's net sales. In 2003, the banana division consisted of 19,000 employees, mainly working on more than 100 banana farms in countries throughout Latin America, including Guatemala, Honduras, Nicaragua, Ecuador, Costa Rica, Panama, and Colombia. Approximately 45 percent of all bananas sold by Chiquita are from Chiquita-owned farms; independent suppliers in Latin America produce the remainder. Chiquita is one of the global market leaders in banana supply and production. Because Chiquita's exports are often a substantial part of the foreign trade of the Latin American countries in which the company operates, relationships with suppliers, workers' unions, and communities are critical elements for success.

Chiquita sources bananas from many developing Latin American countries, countries that historically have struggled with poverty, literacy, access to affordable health care, and limited infrastructure. The image of the banana industry has long been tarnished by its historical support of the failed U.S. invasion of Cuba in 1961, child labor, unsafe working conditions, sexual discrimination, low wages, and accusations of serious brutality against unionizing workers. Chiquita's reputation was damaged by past events, notably those associated with its predecessor company, United Fruit. These included allegations of the company's participation in labor rights suppression in Colombia in the 1920s, the use of company ships in the U.S. government-backed

overthrow of the Guatemalan government in 1954, and involvement in a bribery scandal in Honduras in 1975. In the 1980s and 1990s, Chiquita clearly projected a defensive and protective culture, conveying a closed-door impression of its policies and practices.

Because bananas are produced all year long, local communities are closely tied together by the performance of farms. Many employees live in houses owned by the company, most of which are located on the farms themselves. In many areas, Chiquita provides electricity, potable water, medical facilities, and other basic services. However, labor relations remained strained throughout the 1980s and 1990s.

Chiquita's Downward Spiral

Although Chiquita improved its environmental procedures throughout the 1990s, many human rights groups, including Banana Link and US/Labor Education in the Americas, organized an outspoken campaign against all banana companies to improve social conditions on their plantations. One morning in early 1998, executives at Chiquita were devastated to see their company splashed all over the newspapers after an undercover investigation into "dangerous and illegal business practices" throughout Chiquita's Latin American operations. This was a watershed moment for the company.

The *Cincinnati Enquirer*, a paper based in the same town as Chiquita's corporate headquarters, printed an exposé contending that Chiquita was guilty of "labor, human rights, environmental and political violations in Central America." Although the newspaper was later forced to retract the series after it was discovered that a reporter had illegally penetrated Chiquita's voicemail system, the damage was done. Corporate image was further damaged when the firm emphasized the violation of its privacy instead of addressing the possible validity of the claims made. According to Jeff Zalla, the then corporate responsibility officer at Chiquita, the strategy backfired. "It left some people with an unsavory impression of our company," he said.[3]

Damaging media coverage and a renewed desire to evaluate its own ethics performance and gain support for a common set of values and standards for environmental and social performance served as catalysts for the institution of corporate social responsibility policies at Chiquita. After recognizing the need for a complete corporate makeover, Chiquita's then-CEO Steve Warshaw declared his commitment to leading in the area of corporate responsibility and pledged that the company would do much more than just repair previous damage. Four years later, despite changes in the executive management group, Chiquita's corporate social responsibility programs were a positive example of leading responsibility change in today's multinational business environment.

In January 2001, Chiquita announced that it could no longer pay the interest on its $862 million debt. The fiercely competitive banana industry, downward trends in prices due to excess supply, EU restrictive trade quotas, poor labor-union relations, and the market view of bananas as a low-margin commodity all contributed to Chiquita's bankruptcy filing. Chiquita attributed much of the responsibility to the European Union. In 1993, the EU imposed quotas that gave preferential treatment to banana imports from ACP (Africa, Caribbean, and Pacific) countries that were former European colonies, ostensibly to help these former European colonies boost their international trade and commerce. Before the 1993 act, 70 percent of the bananas sold in Europe came from Latin America, and Chiquita had a 22 percent share of the world's banana market. After the quotas were imposed, Chiquita claimed that its European market share was cut in half, costing $200 million a year in lost earnings.

Although many of its difficulties were intensified by the EU policy, Chiquita's problems had begun to develop before the 1993 decision. Most important, miscalculations of increases in European demand in the 1990s resulted in an oversupply, leading to depressed banana prices worldwide. Although prices recovered somewhat, CEO Keith Linder blamed $284 million in losses in 2001 on a "decline in product quality resulting from an extraordinary outbreak of disease and unusual weather patterns."[4] At the end of 2006, Chiquita still faced financial difficulties as a result of a "perfect storm" of higher tariffs, increased competition in the EU banana market, U.S. consumer concerns about the safety of fresh spinach (another Chiquita product), and higher industry costs overall. While the company expressed dissatisfaction with 2006 results, it also stated that "we firmly believe our 2006 results are not indicative of the underlying strengths of Chiquita's business or our long-term potential."[5] Table 1 provides a comprehensive summary of key developments in Chiquita's history.

Dispute over Access to European Banana Markets

Chiquita has long claimed that its recent struggles are a direct result of the 1993 EU decision to put restrictive quotas on imports from Latin American suppliers. Immediately after the decision by the EU in 1993 to extend preferential quotas to its former Caribbean and African colonies, Chiquita took the issue to the U.S. trade representative, suggesting violations of free trade. In 1994, a General Agreement on Tariffs and Trade (GATT) panel ruled that the new regime violates GATT obligations, but the EU blocked the adoption of the ruling by the full GATT. In 1996, the United States, along with Ecuador, Guatemala, Honduras, and Mexico, challenged the new regime under the new World Trade Organization (WTO) dispute-settlement mechanism, which came into force after the Uruguay Round of GATT negotiations.

In May 1997, a WTO panel ruled that the EU's banana import regime violated WTO obligations under the

Table 1 Key Developments in Chiquita's History

1899	United Fruit Company is created through a merger of fruit companies.
1903	The company is listed on the New York Stock Exchange; it builds refrigerated ships.
1918	Thirteen banana ships are lost after being commissioned by Allied forces in World War I.
1941	Allied forces in World War II commission company ships, and the banana industry nearly shuts down.
1945	Twenty-seven ships and 275 men on company ships are lost serving Allied forces.
1950	The company starts massive postwar banana-planting projects.
1961	Company ships provide support for failed U.S. invasion of Cuba.
1964	The company begins a large-scale branding program for produce and starts using banana stickers bearing the Chiquita name.
1970	United Fruit merges with AMK Corp. and becomes United Brands Company.
1975	United Brands is involved in a Honduran bribery scandal, which leads to enactment of U.S. Foreign Corrupt Practices Act. Company stocks plunge, and CEO Eli Black commits suicide.
1990	United Brands changes name to Chiquita Brands International.
1993	EU banana regulations cut Chiquita's market share by more than 50 percent. Chiquita begins working with Rainforest Alliance and Better Banana Project.
1994	Start of the "banana wars" between the EU and WTO. Follows complaints by Chiquita that EU favors Caribbean banana suppliers over Latin American importers.
1998	Chiquita becomes largest U.S. private-label fruit canner. Becomes first large company to meet with COLSIBA, an affiliation of Latin American banana unions.
1999	Faces possible auction proposed by large shareholder American Financial Group.
2000	Adopts expanded code of conduct. All 115 Chiquita-owned farms achieve Better Banana certification.
2001	Restructures debt after stopping payments on $862 million loan; cites prejudiced trade pacts by EU.
2001	Files for Chapter 11 bankruptcy protection.
2001	Issues first (2000) corporate responsibility report.
2002	Chiquita shareholders and bondholders support reorganization plan.
2002	Issues 2001 corporate responsibility report.
2003	Chiquita reports positive net income under reorganized company.
2003	SustainableBusiness.com names Chiquita one of the top 20 sustainable stock picks for the second year in a row.
2004	Maintained market leadership in the growing EU.
2005	Acquires Fresh Express, U.S. market leader in fresh salads.
2006	Awarded the Contribution to the Community Award by the American-Costa Rican Chamber of Commerce for its Nature & Community Project in Costa Rica.
2007	Faces a $25 million fine from the U.S. Department of Justice for payments made to Colombian paramilitary groups for the protection of its employees.
2012	After a few years of strong sales, revenue growth begins to stall.
2014	Following 3 years of losses, Chiquita is acquired and privatized by Brazilian holding company Cutrale-Safra.
2015	Start of container fleet upgrade, replacing 4,570 older containers with 5,700 new ones, reducing energy consumption by 35 percent to 58 percent.
2015	Chiquita launched the Just Smile! campaign as the creative platform to connect Chiquita bananas and consumers.
2017	Launch of a new campaign 'We Are Bananas' in partnership with creative agency Wieden+Kennedy. The campaign was recognized by The Drum® Creative Out of Home Awards with first place in the copywriting category in the US.
2018	Chiquita went for out-of-court settlements for Families of six U.S. citizens who were kidnapped and killed by Colombia's FARC guerrillas for an undisclosed sum.
2019	Launch of new integrated container service to transport organic bananas resulting in longer shelf-life. The new service is expected to be 50 percent more energy efficient.
2019	Chiquita launched fitness stickers to boost health and wellness - a collection of 10 fitness stickers with simple and quick exercise challenges to help promote a healthy diet and lifestyle
2020	Chiquita in partnership with Rainforest Alliance on Better Banana Project (BBP) got 100 percent of its owned banana farms in Latin America certified for higher environmental and social standards on banana farms
2020	EARTHRIGHTS International representing more than 200 Colombian plaintiffs, whose family members were murdered or who themselves suffered violence by paramilitary death squads, filed a new lawsuit against Chiquita Brands International
2020	Chiquita and Warner Bros. Pictures have come together for the launch of THE LEGO® MOVIE 2: THE SECOND PART
2021	Workers at Chiquita's banana plantation in Panama started a strike against Chiquita's decision to install cameras on the plantation and packing warehouses. The strike was called-off after Chiquita decided to take back its decision.
2021	Launch of the "30BY30" program to reduce Carbon Emissions in its operations by 30 percent by the end of 2030.

General Agreement on Trade in Services and the Agreement on Import Licensing Procedures. In September 1997, the WTO Appellate Body upheld the panel ruling, granting the EU 15 months, until January 1, 1999, to comply with the ruling. In January 1999, the deadline for EU compliance expired, and the United States sought WTO authorization to impose retaliatory tariffs. In April 1999, the WTO Dispute Settlement Body authorized U.S. retaliatory tariffs amounting to $191.4 million a year—the level of damage to U.S. companies calculated by

arbitrators—and the United States immediately began steps to withhold liquidation of European imports, the first step in the imposition of the tariffs.

In April 2001, the United States and the European Commission announced that they had reached agreement resolving their dispute. The agreement took effect on July 1, 2001, at which time the United States suspended the retaliatory sanctions imposed on EU imports in 1999. Import volumes of bananas were returned to levels comparable to those prior to 1993, and the EU committed to moving to a tariff-only system in 2006 as part of its overall WTO obligations.

The dispute has taken its toll on the banana trade by creating uncertainty for smaller producers reliant on EU markets under the quota system and for large producers such as Chiquita that were forced to expend considerable financial and other resources in the course of the dispute. High tariffs in the EU continue to be a financial burden for Chiquita.

Corporate Responsibility

Chiquita had begun to initiate corporate responsibility projects in 1992 when it adopted Better Banana Project standards designed to improve environmental and worker conditions on its farms. Then, after the 1998 exposé in the *Cincinnati Enquirer*, Chiquita management began to conduct a series of broader companywide reviews of its conduct, policies, and internal and external operations and relationships, all designed to integrate corporate responsibility throughout the company's operations.

In 1998, Chiquita initiated several projects aimed at implementing its corporate responsibility efforts worldwide. Two internal groups were formed: the Senior Management Group and the Corporate Responsibility Steering Committee. The former consists of eight top managers of Chiquita's global businesses, including the president/CEO and COO of banana operations. The Senior Management Group is ultimately responsible for providing strategic vision and leadership for corporate responsibility. The Steering Committee, also consisting of eight members, was constructed to help streamline corporate social responsibility policies throughout each operational area of the firm.

In August 1999, Chiquita adopted the four key values that now guide all strategic business decision-making worldwide. After a year of discussions, interviews, and debates on the merits of an internal corporate social responsibility policy, Chiquita defined the following four core values:

> *Integrity:* We live by our Core Values. We communicate in an open, honest, and straightforward manner. We conduct our business ethically and lawfully.
> *Respect:* We treat people fairly and respectfully. We recognize the importance of family in the lives of our employees. We value and benefit from individual and cultural differences. We foster individual expression, open dialogue, and a sense of belonging.
> *Opportunity:* We believe the continuous growth and development of our employees is key to our success. We encourage teamwork. We recognize employees for their contributions to the company's success.
> *Responsibility:* We take pride in our work, in our products, and in satisfying our customers. We act responsibly in the communities and environments in which we live and work. We are accountable for the careful use of all resources entrusted to us and for providing appropriate returns to our shareholders.[6]

In support of the four core values, Chiquita undertook reforms to link its corporate governance and corporate responsibility policies. These reforms included expanding the role of the board's Audit Committee to oversee the firm's corporate responsibility (CR) mission and to evaluate whether the firm had the right people, policies, and programs in place to properly advance the CR agenda. In addition, in May 2000, Chiquita appointed a full-time vice president and CR officer responsible for all aspects of corporate social responsibility. According to Chiquita, the four core values, supported by the senior management group and CR committee, have helped drive responsible change throughout the entire organization. Each business decision must be evaluated through the lens of CR policies.

Chiquita also began to realize that a corporate social responsibility platform could mean a competitive advantage in the banana market. Dennis Christou, vice president of marketing-Europe, explained: "Bananas are, by definition, a commodity and U.K. consumers do not generally see fruit as branded. Chiquita is trying to change this. We have a brand because we own certain values and a relationship with consumers. And we communicate with them. They have expectations about Chiquita."[7] In particular, environmental and social performance are of keen interest to some leading European customers. In 2002, 56 percent of Chiquita's sales in northern European markets were to customers who had either inspected farms or formally asked questions about environmental and social performance. This was a 5 percent increase—about 13,000 forty-pound boxes per week—over the prior year.

Chiquita also strengthened its commitment to the Better Bananas Project. Under this program, external auditors audit all Chiquita farms annually. Chiquita has made an important partnership with Rainforest Alliance, which has been integral in assessing Chiquita's environmental practices, especially related to deforestation. The Rainforest Alliance, which claims that the world's rainforests are being deforested at a rate of 1 percent per year (or two U.S. football fields every second), has annually accredited every Chiquita farm since 2000. Chiquita also encourages its independent producers, which supply Chiquita with about 50 percent of its bananas, to achieve Rainforest Alliance certification. In 2002, the volume of bananas purchased from certified farms rose from 33 to 46 percent, and farms certified through June 2003 brought the total to 65 percent. As of August 2006, all of the farms owned by the Chiquita Company are certified by the Rainforest Alliance. Along with all of Chiquita's farms, the Rainforest Alliance has also certified the majority

Table 2 Better Banana Project Principles

1. **Ecosystem Conservation.** Protect existing ecosystems; recovery of damaged ecosystems in plantation areas.
2. **Wildlife Conservation.** Protect biodiversity, especially endangered species.
3. **Fair Treatment and Good Conditions for Workers.** Comply with local and international labor laws/norms; maintain a policy of nondiscrimination; support freedom of association.
4. **Community Relations.** Be a "good neighbor," contributing to the social and economic development of local communities.
5. **Integrated Pest Management.** Reduction in use of pesticides; training for workers in pesticide use/management/risks.
6. **Integrated Waste Management.** Reduction of the production of wastes that contaminate the environment and harm human health; institute recycling.
7. **Conservation of Water Resources.** Reduce and reuse the water used in production; establish buffer zones of vegetation around waterways; protect water from contamination.
8. **Soil Conservation.** Control erosion; promote soil conservation and replenishment.
9. **Planning and Monitoring.** Plan and monitor banana cultivation activities according to environmental, social, and economic measures.

Source: Rainforest Alliance, Normas Generales Para la Certificacion del Cultivo de Banano, May 2002. https://www.rainforest-alliance.org.

of the independent farms connected to Chiquita. TreeHugger .com also contends that "Chiquita now recycles 100 percent of its plastic bags into paving stones and has reduced pesticide use by 26 percent."[8] Table 2 presents the nine principles of the Better Banana Project. According to insiders, the adoption of third-party standards has helped Chiquita drive a stronger internal commitment to achieving excellence—and to cut costs. In 2003, the Rainforest Alliance estimated that Chiquita reduced production spending by $100 million as a result of a $20 million investment to reduce agrochemical use. In a more recent effort to increase its corporate responsibility profile, Chiquita Bananas pledged to boycott oil from Canada's tar sands in November 2011.

Chiquita is receiving increasing recognition for its efforts. In 2005, SustainableBusiness.com, publisher of *The Progressive Investor* newsletter, named Chiquita to its list of the world's top 20 sustainable stock picks, known as the SB20, for the fourth year in a row. SustainableBusiness.com identifies its picks by asking leading investment advisers to recommend companies that stand out as world leaders in both sustainability and financial strength. In April 2004, the Trust for the Americas, a division of the Organization of Americas, selected Chiquita Brands as the winner of the 2004 Corporate Citizen of the Americas Award for Chiquita's Nuevo San Juan Home-Ownership Project in Honduras. Also in 2004, Chiquita earned the Ethics Award from the AGEPE Editorial Group and KPMG in Italy for its initiatives in the field of ethics, environmental protection, and workplace improvements.

One recent setback for Chiquita's corporate responsibility profile involved its banana-producing subsidiary in Colombia. After a 2003 probe into the company's finances, Chiquita self-reported to the U.S. Department of Justice (DOJ) that it had made payments to left- and right-wing paramilitary groups in Colombia such as the AUC, ELN, and FARC. These payments, beginning in 1997, were made in order to protect the lives of its employees. Colombia has one of the highest kidnapping rates in the world and a murder rate 11 times that of the United States. "It's certainly a common understanding that in order to do business in Colombia, payments have to be made for at best security, or at worst extortion," explained Ron Oswald, general secretary of the International Union of Food workers, which represents Chiquita workers in Latin America (including many in Colombia).

The U.S. 1996 Anti-Terrorism Act makes it illegal to support any organizations identified as a terrorist threat. As of September 2001, the list of terrorist threats included the Colombian paramilitary groups. In a company press release, Chiquita chairman and CEO Fernando Aguirre explained, "The payments . . . were always motivated by our good faith concern for the safety of our employees. Nevertheless, we recognized—and acted upon—our legal obligation to inform the DOJ of this admittedly difficult situation."[9] Officially announced in 2007, Chiquita faced a $25 million fine for the payments it made in Colombia. In anticipation of the decision, the company set aside funds in 2006 to pay the fine. Chiquita does not believe the fines will hurt its operations. Perhaps as a result of the pending DOJ investigation and decision, Chiquita sold its Colombian subsidiary in 2004. However, the issue continues to haunt Chiquita even today with new litigation filed against it. In 2020, nonprofit EarthRight International filed a lawsuit against Chiquita Brands International for funding paramilitary groups in Columbia. EarthRight was representing 200 Columbian families of trade unionists, banana workers, political organizers, social activists, and others allegedly threatened, tortured, and killed by paramilitary organizations.[10]

Global Codes of Conduct, Standards, and Labor Practices

In late 2001, Ron Oswald, general secretary of the International Union of Food Workers, was asked if he had seen improvements in Chiquita's internal and external corporate policies. He responded, "Yes. It is a company that is totally unrecognizable from five years ago."[11] Clearly Chiquita had come a long way.

Traditionally, relations between Chiquita and labor unions in Latin America were mired in conflict and mistrust. In 1998, after recognizing the need for change in the way it deals with its line, Chiquita began striving to adhere to SA8000, the widely accepted international labor rights standard. Management struggled with the decision of whether to adopt an outside standard or to develop an internal measurement gauge for corporate responsibility. After much deliberation, management concluded that adopting the SA8000 standard would yield the most credibility with external stakeholders because SA8000 gives detailed

requirements for the adequacy of management systems for implementation. Having an external standard forces Chiquita to push CR change down through each organizational level so that the firm is able to meet third-party requirements.

In May 2000 Chiquita expanded its code of conduct to include SA8000. Standards now included areas such as food safety, labor standards, employee health and safety, environmental protection, and legal compliance. Recognizing the importance of labor support and its resounding effect on corporate image, Chiquita began an open dialogue with the International Union of Food Workers and the Coalition of Latin American Banana Workers' Unions (COLSIBA). By June 2001, the firm had reached an agreement with both organizations, pledging to respect worker rights as elaborated in ILO conventions, address long-standing health and safety concerns for workers, and ensure that its independent suppliers did likewise. This made Chiquita the first multinational corporation in the agricultural sector to sign a worker rights agreement. Management credits this agreement as having helped to build a positive image, improving relations with both internal and external stakeholders. In mid-2001, Chiquita published its first corporate responsibility report detailing the firm's future CR strategies and goals. Both stakeholders and media outlets have been impressed with the complete turnaround in the transparency of Chiquita's corporate agenda, which has led to a much more favorable impression of the company.

In order to adhere to the organization's own core values and to the SA8000 labor standard, Chiquita routinely performs internal audits in all of its Latin American operations. NGOs also conduct external audits. After the audits are completed, each local management team plans corrective actions using the firm's code of conduct and core values as decision-making guides. At year-end 2003, independent auditors certified Chiquita's operations in Costa Rica, Colombia, and Panama to the SA8000 standard. Chiquita's operations were the first ever to earn SA8000 certification in each of these countries. In its 2006 corporate responsibility report, Chiquita announced that it has maintained 100 percent certification of its banana farms in Latin America in accordance with the Rainforest Alliance, Social Accountability 8000, and EurepGAP standards (environmental, labor, and human rights and food safety standards, respectively).

Marketing the Message

Although it would seem advantageous for Chiquita to communicate and leverage the great strides it has made through its corporate responsibility effort, management seems reluctant to promote its achievements through the typical mass communication vehicles. Indeed, when Chiquita attempted to advertise its certification process with commercials in Denmark that equated its Central American banana farms with a "glorious rainforest," the ads were met with skepticism and thought to be unrealistic.

Instead of mass advertising, the firm has opted for a longer-term marketing strategy based on educating leading opinion makers and critics alike. According to Dennis Christou, vice president of marketing in Europe, there is a natural suspicion among consumers about commercially driven messages. He believes that customers feel more trust in the message if it's delivered by an external body rather than by the company or by a paid advocate of the business. That is the main reason why the firm is relying on viral marketing tactics and third-party testimonials as the means of spreading its message. Retailers are treated differently: They must be exposed to improvements at Chiquita because they determine which exclusive brand to carry on an annual basis. However, Christou believes that creating brand recognition with consumers is possible through non-obtrusive, reputable means. In this direction, Chiquita has been partnering with popular movie brands like Warner Bros. Pictures, and Universal Pictures to feature in their popular movies such as Lego 2, Despicable Me and Minions. Chiquita's focus has been to market it's image as fun, caring and collaborative enterprise.

Defining and conveying a brand's differences in a commodities marketplace is difficult. Nevertheless, Chiquita believes it can carve out its own niche by distinguishing itself as a leader in corporate responsibility. Instead of positioning itself solely on the basis of price, Chiquita is hoping that its distinctive competency in CR will help it stand out from the pack. The company got a boost in this regard in April 2003, when Chiquita, along with Ben and Jerry's, received the first Award for Outstanding Sustainability Reporting presented by the Coalition for Environmentally Responsible Economies (CERES) and the Association of Chartered Certified Accountants. In 2006, Chiquita won Costa Rica's Contribution to the Community Award for its Nature and Community Project, which preserves biodiversity and promotes nature conservation awareness. Building on the foundation of the brand's "Behind the Blue Sticker" approach, Chiquita is releasing its sustainability report for over two decades, highlighting its efforts to maintain sustainability from farm to table. As Peter Stedman, Chiquita's Sustainability Director, mentioned, "Built around three pillars, the "Farmer's Code", "Being a Good Neighbor," and "For the Greater Good," we believe that creating shared value for the much-loved Chiquita brand, our customers, suppliers, associates and the entire community will help build a brighter future."[12] In March 2021, Chiquita announced a "30 by 30" sustainability program, which is a major initiative aiming to reduce carbon emissions across its operations by 30% by the end of 2030.[13]

Transition to Privatization and Future Path

Chiquita drastically shifted its strategic decision-making models and broader corporate operating principles in the wake of its reorganization. Debt repayments and other reorganization costs resulted in significant losses. Chiquita made

Table 3 Chiquita Brands Balance Sheet as of December 31, 2014, 2013, 2012, 2011 (in thousands)

	2014	2013	2012	2011
Assets				
Cash and equivalents	$ 47,160	$ 54,017	$ 2,601	$ —
Other current assets	535,904	575,178	987	266
Total current assets	583,064	629,195	3,588	266
Investments in and accounts with subsidiaries	110,220	108,077	647,471	1,071,132
Other assets	918,754	921,866	18,919	23,332
Total assets	$1,612,038	$1,659,138	$669,978	$1,094,730
Liabilities and Shareholders' Equity				
Accounts payable and accrued liabilities	$ 374,241	$ 406,307	$ 15,363	$ 15,354
Total current liabilities	378,944	408,578	15,363	15,354
Long-term debt	637,518	629,353	259,520	249,805
Total liabilities	1,288,704	1,284,700	299,576	294,660
Shareholders' equity	323,334	374,438	370,402	800,070
Total liabilities and shareholders' equity	$1,612,038	$1,659,138	$669,978	$1,094,730

Source: Chiquita Brands International Inc, Company reports.

Table 4 Chiquita Brands International Income Statement, 2012–2014 (in thousands)

	Year Ended 12/31/2014	Year Ended 12/31/2013	Year Ended 12/31/2012
Net sales	$3,090,224	$3,057,482	$3,078,337
Cost of sales	2,735,117	2,708,428	2,743,040
SG&A	218,061	233,706	275,231
Equity in earnings of subsidiaries (loss)	(2,750)	(258)	33,433
Operating income (loss)	27,404	49,845	(253,834)
Interest expense	(61,896)	(61,144)	(45,299)
Interest income	2,715	2,856	3,131
Loss on debt extinguishment	(521)	(6,275)	—
Other income (expense), net	(9,906)	3,522	(1,793)
Income (loss) before income taxes	(42,204)	(11,196)	(297,795)
Income tax (expense) benefit	(20,332)	(4,619)	(105,239)
Net income (loss)	(62,536)	(15,815)	(405,017)

Source: Chiquita Brands International Inc, Company reports.

great strides in improving its financial performance by cutting costs and streamlining its local and global operations. In 2003, the year after it filed for bankruptcy, Chiquita's net sales were $2.6 billion, up from $1.6 billion the year before. In 2006, net sales reached a record $4.5 billion (due in part to the acquisition of Fresh Express).

In 2011 the Chiquita Company celebrated its fourth consecutive year of increasing profitability. Chair and CEO Fernando Aguirre stated that Chiquita "had a much better year in bananas driven by higher pricing and volume in North America, and initial recovery in Europe. Our salads business did not perform as well as expected and we've taken a number of corrective actions and adapted our structure and strategy to be more successful and profitable."[14]

Beginning in 2012, however, Chiquita's sales and profitability began to stall. With global banana sales decreasing, Chiquita's revenue fell to US$3 billion, and the company posted losses for three consecutive years (see Tables 3 and 4). In 2014, following three years of flat sales, Chiquita's management began looking externally for new solutions for cutting costs and increasing revenue.

In early 2014, Chiquita reached a preliminary merger agreement with Ireland-based fruit and produce company Fyffes. The deal would have created the largest banana distributor in the world, with an estimated 160 million boxes of bananas sold annually. Around the same time, Brazilian holding company Cutrale-Safra offered Chiquita shareholders a buyout deal worth around US$14 per share. In October

2014, shareholders for Chiquita unexpectedly rejected the merger with Fyffes and accepted a slightly revised takeover bid by Cutrale-Safra. With the close of the deal, Chiquita became a privately held Brazilian company.

Chiquita's new ownership faces the challenging task of bringing financial success back to the company. Future financial stability depends, in part, on external market factors such as steady or rising international banana prices and consumer demand. Internally, the company's performance will result from the effectiveness of financial controls on the cost side, and successful marketing, emphasizing differentiation and value-added production, on the revenue side. Although Chiquita has gone to impressive lengths to turn around its reputation and performance, it continues to face a challenging and competitive international business environment and must make continuous progress in its management and operations in order to achieve a healthy and sustainable financial future. For example, Chiquita needs to cope with the rising concerns of greener farm standards. The EU's ban on a widely-used fungicide called mancozeb, crucial for banana production, is emerging as the first concrete test of how far Brussels is willing to go to green up the global agri-food trade. As a result of the ban, The European Food Safety Authority (EFSA) is reviewing risks to consumers from mancozeb residues in imported food. These new regulations will have a significant effect on global fruit producers such as Chiquita. Whether and how companies like Chiquita adjust to these new challenges will determine which players emerge as the top suppliers of the world's most widely consumed fruit.

Questions for Review

1. How would you characterize Chiquita's historical approach to global management?
2. Describe Chiquita's approach to human resource management in its global supply chain. What particular human resource challenges does Chiquita face as the purchaser, producer, and supplier of a commodity?
3. Does Chiquita's global corporate responsibility (CR) program create a conflict between owners and other stakeholders? Who are Chiquita's main stakeholders in the United States and around the world, and how are they affected by Chiquita's CR program?
4. How would you characterize Chiquita's past and present leadership? How does leadership affect a company's overall reputation?
5. Do you believe Chiquita would have changed its policies without the presence of damaging stories in the media? If not, what does this say about Chiquita's old management style?
6. What challenges does Chiquita's new ownership face in continuing to turn the company around and bring profitability back to its operations?

Exercise

Chiquita's management, represented by the CEO, is considering input from various groups about its strategic direction and continued reorganization. Your group represents one of the following interests:

1. Shareholders of the previous company who lost most of the value of the shares after the company declared bankruptcy.
2. Shareholders in the Safra Group.
3. Employees and union representatives of North American operations.
4. Employees and union representatives of South American operations.
5. Representatives of the nongovernmental organization Rainforest Action Network.

Spend five minutes preparing two or three requests to the management team about your group's interests and priorities for the company. Then conduct an open forum in which you discuss these requests among the different groups.

This case was prepared by Professor Jonathan Doh and Erik Holt of Villanova University. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation or challenge. The case was compiled from published sources.

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SKILL-BUILDING AND EXPERIENTIAL EXERCISES

- **Personal Skill-Building Exercises**
- **In-Class Simulations (Available in Connect, connect.mheducation.com)**

1. The Culture Quiz

Objectives

- To stimulate awareness of cultural differences
- To promote consideration of the impact of cultural differences in a global economy
- To stimulate dialogue between domestic and international students
- To explore issues raised by culturally diverse workforces

Background

Few, if any, traditions and values are universally held. Many business dealings have succeeded or failed because of a manager's awareness or lack of understanding of the traditions and values of his or her foreign counterparts. With the world business community so closely intertwined and interdependent, it is critical that managers today become increasingly aware of the differences that exist.

How culturally aware are you? Try the following questions.

Instructions

Working alone or with a small group, answer the questions (without peeking at the answers). When you do look at the answers, be sure to read the explanations. If you are taking the quiz with students from countries other than your own, explore what the answer might be in your country and theirs.

1. In Japan, loudly slurping your soup is considered to be
   a. rude and obnoxious.
   b. a sign that you like the soup.
   c. okay at home but not in public.
   d. something only foreigners do.

2. In Korea, business leaders tend to
   a. encourage strong commitment to teamwork and cooperation.
   b. encourage competition among subordinates.
   c. discourage subordinates from reporting directly, preferring information to come through well-defined channels.
   d. encourage close relationships with their subordinates.

3. In Japan, virtually every kind of drink is sold in public vending machines except for
   a. beer.
   b. diet drinks with saccharine.
   c. already sweetened coffee.
   d. soft drinks from U.S. companies.

4. In Latin America, managers
   a. are most likely to hire members of their own families.
   b. consider hiring members of their own families to be inappropriate.
   c. stress the importance of hiring members of minority groups.
   d. usually hire more people than are actually needed to do a job.

5. In Latin America, businesspeople
   a. consider it impolite to make eye contact while talking to one another.
   b. always wait until the other person is finished speaking before starting to speak.
   c. touch each other more than North Americans do under similar circumstances.
   d. avoid touching one another, as it is considered an invasion of privacy.

6. The principal religion in Malaysia is
   a. Buddhism.
   b. Judaism.
   c. Christianity.
   d. Islam.

7. In Thailand
   a. it is common to see men walking along holding hands.
   b. it is common to see a man and a woman holding hands in public.
   c. it is rude for men and women to walk together.
   d. men and women traditionally kiss each other on meeting in the street.

8. When eating in India, it is appropriate to
   a. take food with your right hand and eat with your left.
   b. take food with your left hand and eat with your right.
   c. take food and eat it with your left hand.
   d. take food and eat it with your right hand.

9. Pointing your toes at someone in Thailand is
   a. a symbol of respect, much like the Japanese bow.
   b. considered rude even if it is done by accident.
   c. an invitation to dance.
   d. the standard public greeting.

10. American managers tend to base the performance appraisals of their subordinates on performance,

while, in Iran, managers are more likely to base their performance appraisals on

a. religion.
b. seniority.
c. friendship.
d. ability.

11. In China, the status of every business negotiation is

a. reported daily in the press.
b. private, and details are not discussed publicly.
c. subjected to scrutiny by a public tribunal on a regular basis.
d. directed by the elders of every commune.

12. When rewarding a Hispanic worker for a job well done, it is best not to

a. praise him or her publicly.
b. say "thank you."
c. offer a raise.
d. offer a promotion.

13. In some South American countries, it is considered normal and acceptable to show up for a social appointment

a. 10 to 15 minutes early.
b. 10 to 15 minutes late.
c. 15 minutes to an hour late.
d. 1 to 2 hours late.

14. In France, when friends talk to one another,

a. they generally stand about 3 feet apart.
b. it is typical to shout.
c. they stand closer to one another than Americans do.
d. it is always with a third party present.

15. When giving flowers as gifts in Western Europe, be careful not to give

a. tulips and jonquils.
b. daisies and lilacs.
c. chrysanthemums and calla lilies.
d. lilacs and apple blossoms.

16. The appropriate gift-giving protocol for a male executive doing business in Saudi Arabia is to

a. give a man a gift from you to his wife.
b. present gifts to the wife or wives in person.
c. give gifts only to the eldest wife.
d. not give a gift to the wife at all.

17. If you want to give a necktie or a scarf to a Latin American, it is best to avoid the color

a. red.
b. purple.
c. green.
d. black.

18. The doors in German offices and homes are generally kept

a. wide open to symbolize an acceptance and welcome of friends and strangers.
b. slightly ajar to suggest that people should knock before entering.
c. half-opened, suggesting that some people are welcome and others are not.
d. tightly shut to preserve privacy and personal space.

19. In the area that was formerly West Germany, leaders who display charisma are

a. not among the most desired.
b. the ones most respected and sought after.
c. invited frequently to serve on boards of cultural organizations.
d. pushed to get involved in political activities.

20. American managers running businesses in Mexico have found that by increasing the salaries of Mexican workers, they

a. increased the number of hours the workers were willing to work.
b. enticed more workers to work night shifts.
c. decreased the number of hours workers would agree to work.
d. decreased production rates.

21. Chinese culture teaches people

a. to seek psychiatric help for personal problems.
b. to avoid conflict and internalize personal problems.
c. to deal with conflict with immediate confrontation.
d. to seek help from authorities whenever conflict arises.

22. A wedding gift that should not be given to a Chinese couple would be

a. a jade bowl.
b. a clock.
c. a basket of oranges.
d. shifts embroidered with dragon patterns.

23. In Venezuela, New Year's Eve is generally spent

a. in quiet family gatherings.
b. at wild neighborhood street parties.
c. in restaurants with horns, hats, and live music and dancing.
d. at pig roasts on the beach.

24. If you order "bubble and squeak" in a London pub, you will get

a. two goldfish fried in olive oil.
b. a very cold beer in a chilled glass, rather than the usual warm beer.
c. Alka Seltzer and a glass of water.
d. chopped cabbage and mashed potatoes fried together.

25. When a stranger in India wants to know what you do for a living and how much you earn, he will
   a. ask your guide.
   b. invite you to his home and, after getting to know you, will ask.
   c. come over and ask you directly, without introduction.
   d. respect your privacy above all.

26. When you feel you are being taken advantage of in a business exchange in Vietnam, it is important to
   a. let the anger show in your face but not in your words.
   b. say that you are angry but keep your facial expression neutral.
   c. not show any anger in any way.
   d. end the business dealings immediately and walk away.

27. When a taxi driver in India shakes his head from side to side, it probably means
   a. he thinks your price is too high.
   b. he isn't going in your direction.
   c. he will take you where you want to go.
   d. he doesn't understand what you're asking.

28. In England, holding your index and middle fingers up in a V with the back of your hand facing another person is seen as
   a. a gesture of peace.
   b. a gesture of victory.
   c. a signal that you want two of something.
   d. a vulgar gesture.

Answers to the Culture Quiz

1. *b.* Slurping your soup or noodles in Japan is good manners in both public and private. It indicates enjoyment and appreciation of the quality. [Source: Eiji Kanno and Constance O'Keefe, *New Japan Solo* (Tokyo: Japan National Tourist Organization, 1990), 20.]

2. *b.* Korean managers use a "divide-and-rule" method of leadership that encourages competition among subordinates. They do this to ensure that they can exercise maximum control. In addition, they stay informed by having individuals report directly to them. This way, they can know more than anyone else. [Source: Richard M. Castaldi and Tjipyanto Soerjanto, "Contrasts in East Asian Management Practices," *Journal of Management in Practice* 2, no. 1 (1990): 25–27.]

3. *b.* Saccharine-sweetened drinks may not be sold in Japan by law. On the other hand, beer, a wide variety of Japanese and international soft drinks, and so forth are widely available from vending machines along the streets and in buildings. You're supposed to be at least 18 to buy the alcoholic ones, however. [Source: Eiji Kanno and Constance O'Keefe, *New Japan Solo* (Tokyo: Japan National Tourist Organization, 1990), 20.]

4. *a.* Family is considered to be very important in Latin America, so managers are likely to hire their relatives more quickly than hiring strangers. [Source: Nancy J. Adler, *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991).]

5. *c.* Touching one another during business negotiations is common practice. [Source: Nancy J. Adler, *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991).]

6. *d.* Approximately 45 percent of the people in Malaysia follow Islam, the country's "official" religion. [Source: Hans Johannes Hoefer, ed., *Malaysia* (Englewood Cliffs, NJ: Prentice Hall, 1984).]

7. *a.* Men holding hands is considered a sign of friendship. Public displays of affection between men and women, however, are unacceptable. [Source: William Warren, Star Black, and M. R. Priya Rangsit, eds., *Thailand* (Englewood Cliffs, NJ: Prentice Hall, 1985).]

8. *d.* In India, as in many Asian countries, toilet paper is not used. Instead, water and the left hand are used, after which the left hand is thoroughly cleaned. Still, the left hand is considered to be polluted and therefore inappropriate for use during eating or touching another person. [Source: Gitanjali Kolanad, *Culture Shock! India* (Portland, OR: Graphic Arts Center, 1996), 117.]

9. *b.* This is especially an insult if it is done deliberately because the feet are the lowest part of the body. [Source: William Warren, Star Black, and M. R. Priya Rangsit, eds., *Thailand* (Englewood Cliffs, NJ: Prentice Hall, 1985).]

10. *c.* Adler suggests that friendship is valued over task competence in Iran. [Source: Nancy J. Adler, *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991).]

11. *b.* Public discussion of business dealings is considered inappropriate. Kaplan et al. report that "the Chinese may even have used a premature announcement to extract better terms from executives" who were too embarrassed to admit that there was never really a contract. [Source: Frederic Kaplan, Julian Sobin, and Arne de Keijzer, *The China Guidebook* (Boston: Houghton Mifflin, 1987).]

12. *a.* Public praise for Hispanics and Asians is generally embarrassing because modesty is an important cultural value. [Source: Jim Braham, "No, You Don't Manage Everyone the Same," *Industry Week*,

February 6, 1989.] In Japan, being singled out for praise is also an embarrassment. A common saying in that country is "The nail that sticks up gets hammered down."

13. *d.* Though being late is frowned upon in the U.S., being late is not only accepted but expected in some South American countries. [Source: Lloyd S. Baird, James E. Post, and John F. Mahon, *Management: Functions and Responsibilities* (New York: Harper & Row, 1990).]

14. *c.* Personal space in most European countries is much smaller than in the U.S. Americans generally like at least 2 feet of space around themselves, while it is not unusual for Europeans to be virtually touching. [Source: Lloyd S. Baird, James E. Post, and John F. Mahon, *Management: Functions and Responsibilities* (New York: Harper & Row, 1990).]

15. *c.* Chrysanthemums and calla lilies are both associated with funerals. [Source: Theodore Fischer, *Pinnacle: International Issue*, March/April 1991, 4.]

16. *d.* In Arab cultures, it is considered inappropriate for wives to accept gifts or even attention from other men. [Source: Theodore Fischer, *Pinnacle: International Issue*, March/April 1991, 4.]

17. *b.* In Argentina and other Latin American countries, purple is associated with the serious fasting period of Lent. [Source: Theodore Fischer, *Pinnacle: International Issue*, March/April 1991, 4.]

18. *d.* Private space is considered so important in Germany that partitions are erected to separate people from one another. Privacy screens and walled gardens are the norm. [Source: Julius Fast, *Subtext: Making Body Language Work* (New York: Viking Penguin Books, 1991), 207.]

19. *a.* Though political leaders in the U.S. are increasingly selected on their ability to inspire, charisma is a suspect trait in what was West Germany, where Hitler's charisma is still associated with evil intent and harmful outcomes. [Source: Nancy J. Adler, *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991), 149.]

20. *c.* Paying Mexican workers more means, in the eyes of the workers, that they can make the same amount of money in fewer hours and thus have more time for enjoying life. [Source: Nancy J. Adler, *International Dimensions of Organizational Behavior*, 2nd ed. (Boston: PWS-Kent, 1991), 30, 159.]

21. *b.* Psychological therapy is not an accepted concept in China. In addition, communism has kept most Chinese from expressing opinions openly. [Source: James McGregor, "Burma Road Heroin Breeds Addicts, AIDS along China's Border," *Wall Street Journal*, September 29, 1992, 1.]

22. *b.* The Chinese regard a clock as a bad omen because the word for clock, pronounced *zhong*, is phonetically similar to another Chinese word that means "the end." Jade is highly valued as symbolizing superior virtues, and oranges and dragon patterns are also auspicious symbols. [Source: Dr. Evelyn Lip, "Culture and Customs," *Silver Kris*, February 1994, 84.]

23. *a.* Venezuelans do the reverse of what most people in other countries do on Christmas and New Year's. On Christmas, they socialize. While fireworks are shot off on both nights, most restaurants are closed and the streets are quiet. [Source: Tony Perrottet, ed., *Venezuela* (Boston: Houghton Mifflin, 1994), 97.]

24. *d.* Other popular pub food includes bangers and mash (sausages and mashed potatoes), ploughman's lunch (bread, cheese, and pickled onions), and cottage pie (baked minced meat with onions and topped with mashed potatoes). [Source: Ravi Desai, ed., *Let's Go: The Budget Guide to Britain and Ireland* (London: Pan Books, 1990), 83.]

25. *c.* Indians are generally uninhibited about staring at strangers and asking them about personal details in their lives. Social distance and personal privacy are not common social conventions in India. [Source: Frank Kusy, *India* (Chester, CT: The Globe Pequot Press, 1989), 27.]

26. *c.* Vernon Weitzel of the Australian National University advises never to show anger when dealing with Vietnamese officials or businesspeople. Showing anger causes you to lose face and is considered rude. Weitzel also recommends always smiling, not complaining or criticizing anyone, and not being inquisitive about personal matters. [Source: Daniel Robinson and Joe Cummings, *Vietnam, Laos & Cambodia* (Australia: Lonely Planet Publications, 1991), 96.]

27. *c.* What looks to Westerners like a refusal is really an Indian way of saying yes. It can also express general agreement with what you're saying or suggest that an individual is interested in what you have to say. [Source: Gitanjali Kolanad, *Culture Shock! India* (Portland, OR: Graphic Arts Center, 1996), 114.]

28. *d.* In England, this simple hand gesture is considered vulgar and obscene. In a report to *The Boston Globe*, an American who had been working in London wrote, "I wish someone had told me before I emphatically explained to one of the draftsmen at work why I needed two complete sets of drawings." [Source: "Finger Gestures Can Spell Trouble," *The Berkshire Eagle*, January 26, 1997, E5.]

Source: Moorhead, Gregory, and Janet W. Wohlberg. *OB in Action: Cases and Exercises*. New York: Houghton Mifflin, 1998.

2. "When in Bogotá . . ."

As Jim Reynolds looked out the small window of the Boeing 757, he saw the glimmer of lights in the distance. After a five-hour flight, he arrived in Bogotá, Colombia, at 9:35 p.m. on a clear Friday evening. It had been nearly five years since Jim had seen his best friend, Rodrigo Cardozo. The two had met in college and kept in touch over the years. During their school years, Rodrigo would often accompany Jim when he went home to Chicago for the holidays.

Entering the main terminal, Jim found himself in what looked like a recently bombed building. Piles of debris were everywhere. Lights hung from the ceiling by exposed electrical wires, and the walls and floors were rough, unfinished concrete. "Certainly, aesthetics are not a major concern at the Bogotá International Airport," Jim thought.

As he came to the end of the long, dimly lit corridor, an expressionless customs official reached out his hand and gestured for Jim's travel documents.

"Passaporte, por favor. Bienvenidos a Bogotá, Señor Reynolds. Estás en vacacciones?"

"Sí," Jim replied.

After a few routine questions, Jim was allowed to pass through customs feeling relatively unscathed.

"Loquillo! Loquillo! Estamos aquí! Jim, Jim," a voice shouted.

Trying to find the origin of the voice among the dense crowd, Jim finally spotted Rodrigo. "Hey, man. How've you been? You look great!"

"Jim, it's so good to see you. How've you been? I would like you to meet my wife, Eva. Eva, this is my best friend, Jim. He's the one in all those pictures I've shown you."

Late Night Begins the Day

Close to an hour later, Jim, Rodrigo, and Eva arrived at Rodrigo's parents' house on the other side of Bogotá from the airport. As Jim was aware, it is customary for couples to live with their parents for a number of years after their marriage, and Rodrigo and Eva were following that custom.

Darío, Rodrigo's father, owned an import/export business in Bogotá. He was a knowledgeable and educated man and, from what Jim knew, a master of business negotiations. Over the years, Darío had conducted business with people in nearly every country in Central and South America, the U.S., Europe, Hong Kong, and some parts of Africa. Jim had first met Darío with Rodrigo in Boston in 1989.

"Jim, welcome to my house," Darío boomed effusively as the group walked in. "I am so pleased that you're finally in Bogotá. Would you like something to drink—whiskey, bourbon, Aguardiente?"

"Aguardiente!" Rodrigo urged.

"Yes, Jim would like some Aguardiente. I understand you're going to Bahía tonight," Darío added.

"Where?" Jim asked, looking around. "I didn't know we were going anywhere tonight."

"Don't worry, Jim, todo bien, todo bien," Rodrigo assured him. "We're going dancing, so get dressed. Let's go."

The reality of being in Colombia hit Jim at about 11:15 that night when he and his friends entered Bahía, a Bogotá nightclub. The rhythms of salsa and merengue filled the club. Jim's mind flashed back to the Latin dance parties he and Rodrigo had had in Boston with their friends from Central and South America.

"Jim, this is my cousin, Diana. She'll be your partner tonight," Rodrigo said. "You'll get to practice your Spanish too; she doesn't speak a word of English. Have fun."

For the next six hours, they danced and drank. This is the Colombian way. At 5:30 the next morning, Rodrigo decided it was time to leave to get something to eat. On the drive home, they stopped at an outdoor grill in the mountains where many people had congregated for the same reason. Everyone was eating arepas con queso and mazorca, and drinking Aguardiente.

Next, they continued to an outdoor party just down the street. Here, they danced and drank until the sun crested over the mountains of Bogotá. It was about 7:00 a.m. when they decided to conclude the celebration—for now.

Saturday was spent recovering from the previous evening and also touring some local spots in the country. However, Saturday night was a repeat of Friday. After being in Colombia for three days, Jim had slept a total of about four hours. Fortunately, Monday was a national holiday.

Business before Pleasure before Business?

Although Jim was having a great time, he had also scheduled a series of business meetings with directors of business schools at various Bogotá universities for the week to come. Jim worked as an acquisitions editor for Academia Press, a major publisher of college-level business textbooks. The purpose of the meetings was to establish business contacts in the Colombian market. It was hoped that these initial contacts would lead to others in Latin America.

At Academia Press headquarters in New York, Jim and Caroline Evans, his boss, had discussed the opportunities in Latin America. Although Academia Press routinely published international editions of its texts, total international sales never represented more than 15 percent of their gross. Consequently, international markets had never been pursued aggressively. Caroline, however, saw the Latin American markets as having a lot of potential within the next three to five years. She envisioned this market alone, in time, representing 15 to 20 percent of gross sales. Moreover, she felt that within the next ten years, international sales could reach 40 percent if developed properly. With numbers like

that, it was evident to Jim that this deal was important, not only to the company but to his career as well. If Jim was able to open these markets, he might receive a promotion and be able to continue to work in Central and South America.

Jim's first meeting was scheduled for 11:00 a.m. on Tuesday, the second on Wednesday at 11:00 a.m., and the third on Friday at 3:00 p.m. At precisely 11:00 a.m. on Tuesday, Jim arrived at Javeriana University, where he was to meet with Professors Emilio Muñoz, Diana Espitia, and Enrique Ronderos. When he arrived, Professor Muñoz was waiting for him in the conference room.

"Señor Reynolds, I am delighted to meet you. How was your flight?"

"Wonderful," Jim replied.

"And how do you like Bogotá so far? Have you been able to sightsee?"

"No, I haven't had the chance to get around the city yet. I hope to see some things later in the week."

"Well, before you leave, you must visit *El Museo de Oro*. It is the finest collection of gold artifacts from the various indigenous Indian tribes in Colombia. Although much of the gold was stolen by the Spanish, many pieces have survived." For the next 30 minutes, Professor Muñoz spoke of everything from the upcoming presidential elections to World Cup soccer.

Jim looked at his watch, concerned about the other professors who had not yet arrived and about the meeting for which he had prepared.

"Is there something wrong, Señor Reynolds?"

"No, no, I was just wondering about the others; it's 11:30."

"Don't worry. They'll be here shortly. Traffic in Bogotá at this hour is terrible. They're probably caught in a traffic jam."

Just then, Professors Espitia and Ronderos walked in. "Muy buenas, Señor Reynolds," Professor Espitia said warmly. "Please forgive us for the delay. Traffic is simply awful at this time of day."

"Oh, that's not necessary. I understand. Traffic in New York can be absolutely horrendous as well," Jim replied. "Sometimes it takes two hours to get from one end of the city to the other."

"Have you had lunch yet, Señor Reynolds?" asked Professor Ronderos.

Jim shook his head.

"Why don't we go to lunch, and we can talk there?" Professor Ronderos suggested.

After discussing the restaurants in the area, the professors decided on El Club Ejecutivo. It was nearly 12:30 p.m. when they arrived.

"It's been an hour and a half, and we haven't discussed anything," Jim thought. He was concerned that the Colombians were not very interested in what he had to offer. Throughout lunch, Jim grew increasingly concerned that the professors were more interested in his trying typical Colombian dishes and visiting the sights in Bogotá than in Academia's textbooks. They were fascinated that Jim knew how to dance salsa and merengue and impressed that he spoke Spanish with a slight Colombian accent; Señorita Espitia said she found it amusing. That seemed much more important than his knowledge of business textbooks and publishing in general.

By the end of lunch, Jim was nearly beside himself. It was now after 2:30 p.m. and nothing had been accomplished.

"Why don't we all go to Monserate tomorrow? It's absolutely beautiful up there, Señor Reynolds," Professor Ronderos suggested, going on to describe the mountain that overlooks Bogotá and the myths and traditions that surround it.

"That's a wonderful idea," Professor Espitia added.

"Monserate it is then. Jim, it has been a pleasure. I look forward to our meeting tomorrow," Professor Ronderos said with a slight bow.

"Señor Reynolds, would you like a ride home?" Professor Muñoz asked.

"Yes, if it's not too much trouble."

On the way home, Jim was relatively quiet.

"Do you feel okay?"

"It must be jet lag catching up to me. I'm sure it's nothing," Jim responded. Concerned about the way the meeting had gone, Jim realized that he had never even had a chance to mention Academia Press's various titles and how these texts could be used to create a new curriculum or supplement an existing curriculum at the professors' business school.

When in Bogotá

On arriving at the house, Jim went upstairs and sat in the living room glumly sipping a cup of aguapanela. "I just don't get it," he thought. "The Colombians couldn't have been happier with the way the meeting turned out, but we didn't do anything. We didn't even talk about one book. I just don't understand what went wrong."

In a short time, Darío arrived. "Muy buenas, Jim. How did your meetings go today with the directors?" he asked.

"I don't know. I don't know what to think. We didn't do anything. We didn't talk about business at all. We talked more about the sights I should see and the places I should visit before I leave Colombia. I'm supposed to call my boss this afternoon and tell her how the initial meeting went. What am I going to tell her? 'Sorry, we just decided to plan my vacation in Colombia instead of discussing business.' I can't afford to have this deal fall through."

Darío laughed.

"Señor, I'm serious."

"Jim, I understand. Believe me. Tell me about your meeting today."

Jim recounted every detail of the meeting to Darío, who smiled and nodded his head as he listened.

"Jim, you have to understand one thing before you continue negotiating with the directors."

"What's that?"

"You're in Colombia now," Darío said simply.

Jim stared at him with a puzzled look. "And?"

"And what, Jim?"

"Is there something else I should know?"

"That's where you need to start. You let the directors set the tone of the meeting. It's obvious they felt very comfortable with you, or they wouldn't have invited you to Monserate. Here in Colombia, Jim, we do business differently. Right now, you're building friendship. You're building their trust in you. This is very important in doing business in all of Latin America."

After a moment's pause, "Jim," Darío continued, "would you rather do business with a friend or someone you hardly know?"

As Darío went on to analyze the meeting, Jim realized that his perception of the situation had been formed by his experiences in the U.S. "When in Bogotá," he thought, "I guess I had better think like the Colombians."

"Jim, you've gained the respect and the trust of the directors. In my opinion, your first meeting was a complete success."

"What should I expect in the meetings to come?" Jim asked.

"Don't worry," he responded. "Just let the directors worry about that. You'll come to an agreement before the end of the week. I guarantee it."

Questions for Discussion

1. What differences does Jim notice between life in the U.S. and life in Colombia?
2. What differences does Jim notice between doing business in the U.S. and doing business in Colombia? How might these same factors differ in other countries?
3. What advice would you give Jim for closing his deals? Why?

Source: Shull, Matthew C.. "When in Bogota." twitter.com/Matthew_Shull.

3. The International Cola Alliances

Objectives

- To introduce some of the complexities involved in doing business across international borders
- To examine what happens when countries seek to do business with one another without the benefit of a common language and customs

Background

Even with a common language, communication can break down, and interpretations of words and actions often can confound understanding and incur negative attributions of purpose. Add to this the differences of personal needs that exist from individual to individual, as well as national and cultural needs that exist from country to country. These limitless variables make cooperation across borders even more complex.

The Story

You are a delegation from a country that would like to enter into a large cooperative effort with a number of other countries for the production and distribution of a popular soft drink produced by the American company International Cola. In the past, countries in your region of the world have been resistant to allowing foreign soft drinks into their markets, despite consumer demands. However, recent thinking is that the advantages of allowing this competition outweigh the disadvantages.

International Cola has expressed an interest in setting up a bottling plant, a regional corporate headquarters, and four distribution depots. Their goal, of course, is to do this in the most economically efficient way possible to maximize profits. However, because the executives at International Cola believe this area to be a rich new market with outstanding potential and are therefore eager to get in, they have ceded to the demands of the various governments in the proposed alliance. These require International Cola to allow for local control of the facilities; to maintain only 49 percent interest in the facilities with local partners holding 51 percent ownership; and to allow the participating governments to work out among themselves the details of where the facilities will be located.

For the countries involved, having one or more of these facilities located within their borders will bring jobs, revenue, and a certain amount of prestige. (It is possible for a single country to have all six of the facilities: regional headquarters, bottling plant, and four distribution depots.)

Each of the countries involved shares at least two borders with the other countries. This has not always been the most peaceful area. Border skirmishes are frequent, most stemming from minor misunderstandings that became inflated by vast cultural and religious differences.

These distinct cultural differences between your country and your neighbors will likely become even more evident as you pursue the negotiation. It will be up to you to decide how to respond to them. While it is important for you to retain your own cultural integrity—for example, when you first meet a delegate from another country you will likely greet him or her in the cultural style of your country—you understand the importance of being sensitive to one another. If you understand, for example, that the cultural style of another country is to bow on meeting, whereas you shake hands, you may wish to bow instead.

Because you are negotiating the venture across borders, and each country has a different primary language, you have agreed to negotiate in English, but none of you are entirely fluent. Therefore, a few phrases will creep in from your own languages.

Wear your country's flag in a visible place at all times.

Instructions

Step 1 ***(30–40 minutes—may be done before class)*** Working in small groups (5–7), develop a profile of your country and its people based on profile sheets 1 and 2.

After you have completed profile sheets 1 and 2, briefly discuss them to be sure there is mutual understanding of what the group's behavior and negotiating stance are to be during the negotiation.

Step 2 ***(20 minutes—may be done before class)*** Based on the profile sheets, decide which International Cola facilities you believe you should have in your country and why you believe they should be in your country rather than one of the others that will be represented. For example, if you have a highly educated population, you may argue that you should be the home of the regional corporate headquarters; be aware, however, that another country might argue that you should not have bottling and distribution facilities because these do not require a highly educated or skilled labor force.

On the negotiation sheet, make a list of the facilities you believe your country should have and some notes as to what your arguments will be for having them. Also, make some notes on what you believe the other countries' counterarguments will be and how you expect to respond to them.

Step 3 ***(30–45 minutes—in class)*** Everyone in your group should pin a copy of your country's flag and motto on himself or herself in a visible place. One to three representatives from your group (delegation) should negotiate the arrangements for International Cola's facilities with the representatives from the other delegations. Be sure to use the cultural norms of your country during the negotiation, but *do not tell* the others what your social norms are.

Representatives should introduce themselves to one another on an individual basis. After personal introductions, representatives should form a circle in the center of the room with their delegations behind them, briefly describe their countries, state their positions, and begin negotiations. During negotiations, representatives should make an effort to use their new language at least three times. They should not use English for any of the six phrases listed.

Delegation representatives and the other members of their groups may communicate with one another at any point during the negotiation, but only in writing. Group members may also communicate among themselves, but only in writing during the negotiation.

Any group or representative may ask for a side meeting with one or more of the other groups during the negotiation. Side meetings may not last more than five minutes. At any time in the negotiation, the delegation may change its representative. When such a change is made, the new representative and the other delegates must reintroduce themselves and greet one another.

Those members of each delegation who are not directly negotiating should be active observers. Use the observer sheet to record situations in which other groups insulted them, shamed them, or were otherwise offensive.

At the end of 45 minutes, the negotiation should be concluded whether or not an agreement has been reached.

Questions for Discussion

1. What role did cultural differences play in the various phases of the negotiation process? Be careful not to overlook the introductory phase. Was the negotiation frustrating? Satisfying? Other? Why?
2. At any time, did delegations recognize the cultural differences between themselves and the others? If so, was any attempt made to try to adapt to another country's norms? Why? Why not? Would there have been a benefit in doing so? Why?
3. What role did language differences play during the negotiation? What was the effect of lack of understanding or miscommunication on the process?
4. Did the delegations from various countries attempt to find mutual goals and interests despite their differences? In what ways were the best interests of the overall plan subjugated to the individual interests of each country? What rhetoric was used to justify the personal interests?
5. To what degree did groups construct their countries to best justify their position? In situations where this happened, did it work? Why? Why not?

Profile Sheet 1

1. Select a name for your country:

   _____

   Be sure that the name of your country appears on or around the flag (see below).

2. In the space below, design your country's flag or emblem. Make enough copies so that each member of your group has one to wear.
3. Write a slogan for your country that best embodies your country's ideals and goals. Include the slogan on or around the flag.

   _____

   _____

   _____

4. Make up a partial language with a vocabulary of up to twenty-five (25) words into which you should translate the following phrases for use during negotiations:

Phrase *Translation*

I agree. _____

I disagree. _____

This is unacceptable. _____

I don't understand your point. _____

_____

You have insulted me. _____

Please repeat that. _____

_____

5. Briefly describe how people in your country react when they have been insulted.

   _____

   _____

   _____

   _____

   _____

   _____

Profile Sheet 2

Describe your country by selecting one element from each of the following lists. After you have made your selections, list the elements that make up your country's description on a separate piece of paper and add any additional elements you wish.

Population Density

_____ high density with overpopulation a problem
_____ moderate density—high end
_____ moderate density—average
_____ moderate density—low end
_____ low density

Average Educational Level

_____ less than 3 years—large percent totally illiterate
_____ 3–6 years—widespread functional illiteracy
_____ 6–9 years—functional illiteracy a problem in scattered areas

_____ 9–12 years—most read and write at functional levels
_____ 12+ years—a highly educated and functioning population

Per Capita Income

_____ under $1,000 per year
_____ $1,000–5,000 per year
_____ $5,000–10,000 per year
_____ $10,000–20,000 per year
_____ $20,000–30,000 per year
_____ $30,000–40,000 per year
_____ $40,000+ per year

Climate

_____ tropical
_____ arctic
_____ mixed in different areas
_____ runs range from season to season

Form of Government

_____ socialist
_____ democratic
_____ communist
_____ monarchy
_____ dictatorship
_____ other (specify)

Dominant Racial-Ethnic Group

_____ Asian
_____ black
_____ white
_____ other (specify)

Dominant Religion

_____ animist
_____ atheist/agnostic
_____ Buddhist
_____ Catholic
_____ Hindu
_____ Islam
_____ Jewish
_____ Mormon
_____ Protestant (specify)_____
_____ other (specify)_____

Negotiation Sheet

1. What facilities do you believe your country should have?

2. What facilities of those listed above are you willing to relinquish to reach agreement? _____

3. On what bases will you justify your need or desire for having the facilities you have listed? _____

Observer Sheet

1. List actions taken by members of other delegations that were insulting, created shame for you and your delegation, or were otherwise offensive based on your country's norms. Include notes on the context in which the actions were taken.

2. Based on the above list, what happened to your interest in forming an alliance and your belief that a mutual agreement could be reached?

4. Whom to Hire?

Objectives

- To explore participants' cultural biases and expectations
- To examine cultural differences
- To consider the impact culture has on hiring decisions

Instructions

Step 1 (10–15 minutes) Read the background information and descriptions of each of the applicants. Consider the job and the cultures within which the individual to be hired will be operating. Rank the candidates from 1 to 5, with 1 being your first choice, and enter your rankings on the ranking sheet in the column marked "My Ranking." Briefly, list the reasons for each of your rankings.

Do not discuss your rankings with your classmates until told to do so.

Step 2 (30–40 minutes) Working with three to four of your classmates, discuss the applicants and rank them in the order of group preference. Do not vote.

Rank the candidates from 1 to 5, with 1 being the group's first choice, and enter your group rankings on the ranking sheet in the column marked "Group Ranking." Briefly list the reasons for each of the group's rankings.

If your group represents more than one culture, explore the ways in which each person's cultural background may have influenced his or her individual decisions.

Step 3 (open-ended) Report your rankings to the class, and discuss the areas of difference that emerged within your group while you were trying to reach consensus.

Questions for Discussion

1. Was your group able to explore openly any culturally based biases that came up—for example, feelings about homosexuality, religion, personality traits, politics?
2. Did you make any comments or observations that you feel would have been fully acceptable in your own culture but were not accepted by the group? Explain.
3. If the answer to question 2 was yes, how did the reaction of the group make you feel about your membership in it? How did you handle the situation?
4. What implications do you believe these cultural differences would have in business dealings?

Background

You are a member of the management committee of a multinational company that does business in 23 countries. While your company's headquarters are in Holland, your offices are scattered fairly evenly throughout the four hemispheres. Primary markets have been in Europe and North America; the strongest emerging market is the Pacific Rim. Company executives would like to develop what they see as a powerful potential market in the Middle East. Sales in all areas except the Pacific Rim have shown slow growth over the past two years.

At present, your company is seeking to restructure and revitalize its worldwide marketing efforts. To accomplish this, you have determined that you need to hire a key marketing person to introduce fresh ideas and a new perspective. There is no one currently in your company who is qualified to do this, and so you have decided to look outside. The job title is "vice president for international marketing"; it carries with it a salary well into six figures (US$), plus elaborate benefits, an unlimited expense account, a car, and the use of the corporate jet. The person you hire will be based at the company's headquarters and will travel frequently.

A lengthy search has turned up five people with good potential. It is now up to you to decide whom to hire. Although all the applicants have expressed a sincere interest in the position, it is possible that they may change their minds once the job is offered. Therefore, you must rank them in order of preference so that if your first choice declines the position, you can go on to the second, and so on.

Applicants: Park L., Age 41, Married with Three Children

Park L. is currently the senior vice president for marketing at a major Korean high-technology firm. You have been told by the head of your Seoul office that his reputation as an expert in international marketing is outstanding. The market share of his company's products has consistently increased since he joined the company just over 15 years ago. His company's market share is now well ahead of that of competing producers in the Pacific Rim.

Park started with his present company immediately after his graduation from the University of Seoul and has worked his way up through the ranks. He does not have a graduate degree. You sense that Park has a keen understanding of organizational politics and knows how to play them. He recognizes that because the company he works for now is family controlled, it is unlikely that he will ever move much higher than his present situation. Park has told you that he is interested in the growth potential offered at your company.

In addition to his native tongue, Park is able to carry on a reasonably fluent conversation in English and has a minimal working knowledge of German and French. His wife, who appears quiet and quite traditional, and his children speak only Korean.

Kiran K., Age 50, Widow with One Adult Child

Kiran K. is a Sikh woman living in Malaysia. She began her teaching career while finishing her DBA (doctorate in business administration) at the Harvard Business School and published her first book on international marketing ten months after graduation. Her doctoral dissertation was based on the international marketing of pharmaceuticals, but she has also done research and published on other areas of international marketing.

Two months after the publication of her book, Kiran went to work in the international marketing department of a Fortune 500 company, where she stayed for the next ten years. She returned to teaching when Maura University offered her a full professorship with tenure, and she has been there since that time. Her academic position has allowed her to pursue a number of research interests and to write authoritative books and papers in her field. At present, she is well published and internationally recognized as an expert on international marketing. In addition, she has an active consulting practice throughout Southeast Asia.

You have learned through your office in Kuala Lumpur that Kiran's only child, a 23-year-old son, is severely mentally and physically disabled. You sense that part of her interest in the job with your company is to have the income to guarantee his care should anything happen to her. Her son would go with her to Holland, should she be given the job, where he will need to be enrolled in special support programs.

In addition to fluency in Malay, English, and Hindi, Kiran speaks and writes German and Spanish and is able to converse in Japanese and Mandarin.

Peter V., Age 44, Single

Peter is a white South African. He had worked in a key position in the international marketing division of an American Fortune 100 company until the company pulled out of his country eight months ago. While the company wanted to keep him on, offering to move him from Johannesburg to its New York headquarters, Peter decided that it was time to look elsewhere. He had begun to feel somewhat dead-ended in his position and apparently sees the position at your company as an opportunity to try out new territory. Like your other candidates for the position, Peter has a long list of accomplishments and is widely recognized as outstanding in his field. People in your company who have had contacts with him say that Peter is creative, hardworking, and loyal. In addition, you have been told that Peter is a top-flight manager of people who is able to push his employees to the highest levels of performance. And, you are told, he is very organized.

Peter has a PhD in computer science from a leading South African university and an MBA from Purdue's Krannert School of Business.

Peter had been a vehement opponent of apartheid and is still very much a social activist. His high political visibility within South Africa had made his life there difficult, and even now, with the end of apartheid, he would like to get out. His constant male companion, P. K. Kahn, would be coming with him to Holland, and Peter would like your personnel office to help P. K. find an appropriate position.

Peter speaks and reads English, Dutch, Afrikaans, and Swahili and can converse in German.

Tex P., Age 36, Divorced with One Child

Tex is currently job hunting. His former job as head of marketing for a single-product, high-technology firm—highly specialized workstations for sophisticated artificial intelligence applications—ended when the company was bought out by Texas Instruments. Tex had been with his previous company virtually from the time the company was started six years earlier. Having to leave his job was an irony to Tex as it was largely due to the success of his efforts that the company was bought out. You sense that he is a little bitter, and he tells you that jobs offered to him by TI were beneath him and not worthy of consideration.

Tex has both his undergraduate and MBA degrees from Stanford University. In addition, he was a Rhodes Scholar and won a Fulbright scholarship, which he used to support himself while he undertook a two-year research project on the marketing of high-technology equipment to Third World countries.

You have learned through your New York office that Tex has a reputation for being aggressive and hard driving. Apparently he is a workaholic who has been known to work 18 to 20 hours a day, 7 days a week. He seems to have little time for his personal life.

In addition to his native English, Tex has a minimal command of French—which he admits he hasn't used since his college days.

Zvi C., Age 40, Married with Five Children

Zvi began his career after receiving his MBA from the Sloan School of Management at the Massachusetts Institute of Technology (MIT). His first job was as a marketing manager for a German company doing business in Israel.

Zvi's phenomenal success with this company led to his being hired away by an international office equipment company in England. Again, he proved to be outstanding, boosting the company's market share beyond all expectations within two years. After five years, Zvi was offered a chance to go back to Israel, this time to oversee and coordinate all the international marketing programs for an industrial park of 14 companies run as an adjunct to Israel's leading scientific research institution. It has been his responsibility to interface the research component with product development and sales as well as to manage the vast marketing department. Again, he has shown himself to be a master.

You have learned through your Haifa office that Zvi is highly respected and has extensive contacts in the scientific and high-tech worlds. He is exceptionally creative in his approach to marketing, often trying bold strategies that most of his peers would dismiss as too risky. Zvi, however, has made them work and work well.

Zvi is a religious man who must leave work by noon on Friday. He will not work Saturdays or any of his religion's major and minor holidays—about 18 a year. He will, however, work on Sundays.

In addition to his native language, Dutch (Zvi and his family moved to Israel from Holland when Zvi was six), he speaks and writes fluent Hebrew, English, German, and Arabic.

Ranking Sheet

Rank candidates from one to five with one as your first choice.

	My Ranking		Group Ranking	
Applicant	Rank	Reasons	Rank	Reasons
Park L.				
Kiran K.				
Peter V.				
Tex P.				
Zvi C.				

In-Class Simulation

1. "Frankenfoods" or Rice Bowl for the World: The U.S.-EU Dispute over Trade in Genetically Modified Organisms

This simulation is designed to develop skills in cross-cultural negotiations with an emphasis on multi-stakeholder dialogue and exchange.

Synopsis

On August 18, 2003, members of the World Trade Organization (WTO) met in Geneva to hear a U.S. request for a full-blown dispute-settlement proceeding regarding European Union (EU) restrictions on the import and sale of goods produced with or containing genetically modified organisms (GMOs). In late 1996, Monsanto exported the first genetically modified soybeans to Europe, assuming that consumers would accept them as Americans had. The timing was not good, however, as the GMO issue became linked in the minds of Europeans with "mad cow" disease, an outbreak that was first thought limited to animals but eventually killed several humans. Neither GMO companies nor European authorities were prepared for the reaction, as public sentiment immediately turned against the technology. Britain's *Daily Mirror* ran a front-page headline in 1998 warning against "Frankenfood." In 1998, five European countries said they wouldn't process any more applications for genetically modified crops, and the EU upheld this decision.[1]

In May 2003, the United States filed a complaint with the WTO in hopes of getting the ban lifted. In response, in the summer of 2003, the European Parliament passed groundbreaking legislation that would require detailed labeling of all food products containing as little as 0.9 percent of genetically modified ingredients, and would require origin tracing in order to gain approval. Although these steps were designed to move toward lifting the moratorium, many in the United States charged that these rules would be unworkable, would be discriminatory toward imports, and would violate WTO sanitary and phytosanitary (SPS) agreements.[2]

Paradoxically, both sides claimed to be concerned about public health and environmental safety. The U.S. government and industry argued that the EU was in violation of WTO provisions requiring nondiscriminatory treatment of like or similar goods. The Americans contended that uninformed Europeans were spreading unfounded fears about GMOs.[3] In addition, the U.S. government argued that requiring labels for GMO products would result in segregating GMO foods from non-GMO foods and, in so doing, limit their consumer appeal. Furthermore, the threshold of 0.9 percent was far too restrictive, according to U.S. officials.

Description of Exercise

This exercise provides an interactive case simulation in which you will be assigned to a group that will assume the role of one of several stakeholder groups in the actual dispute between the United States and the EU over trade in GMOs. In this case, the U.S. government, on behalf of U.S. farmers and the biotech industry, argued that the EU is in violation of global trading rules. Europe responded that it has the right to protect the health and safety of its population and domestic crops, given the uncertainties over the effects of GMOs on humans, animals, and plants.

This simulation assumes that the United States and the EU proceed through the WTO dispute-settlement procedures, and it places participants in the roles of the various disputants: the U.S. government, the European Union, a consortium of GMO companies, a group of interested developing countries, a group of NGOs, and a WTO Dispute Settlement Panel.

Genetically Modified Food

According to some estimates, over half the world's soy, a key ingredient in products ranging from candy bars to animal feed, comes from genetically modified strains. In 2005, about 8.5 million farmers in 21 countries were planting genetically altered seeds.[4] The global market value of genetically modified crops in 2006 was $6.15 billion. Yet genetically modified food has quickly become as controversial as cloning. The central feature of a GMO is human alteration of the DNA of an organism through the use of biotechnology. Proponents and opponents in the genetic-modification debate have been eager to weigh in on the benefits and risks associated with using GMOs. Each side has identified a number of key arguments to support its position:

Benefits

- Increased yields.
- Herbicide-tolerant crops encourage less tilling/soil erosion.
- Insecticidal crops encourage less use of harmful pesticides.
- Virus-resistant crops.
- Development of drought-resistant crops.

Risks

- Possible allergic or other health responses in humans/livestock.
- Creating new or more vigorous pests and pathogens.
- Harm to "nontarget" beneficial species.
- Unwanted gene flow.
- Irreparable changes in species diversity and in genetic diversity within a species.

Genetically engineered products are not new. Insulin used in medicine is an example of genetic engineering. The insulin gene from the intestines of pigs is inserted into bacteria.[5] The bacteria grow and produce insulin, which is then purified and used for medical purposes. Other genetically engineered products include the chemical compound aspartame, used as a sugar substitute, and the hepatitis B vaccine.

A large barrier to the acceptance of GMOs worldwide is the fuzzy international law regulating GMO trade. The Agreement on Sanitary and Phytosanitary Measures (SPS Agreement), part of the 1994 agreement that established the World Trade Organization, requires that food safety regulations be based on scientific risk assessments.[6] Most studies to date seem to point to the conclusion that foods containing GMOs are safe for human consumption. But the fact that a majority of these studies were conducted by or for U.S. biotech firms independent of any third-party overseers suggests to some that the findings are suspect. In 1997, the United States won a complaint with the WTO against the EU concerning an EU ban on hormone-treated beef, but the EU continued to enforce the broader ban on approval of newly introduced GMO products because a large majority of Europeans are steadfastly against the use of GMOs.

The United States, along with Canada and Argentina, filed another complaint with the WTO in 2003, claiming that the EU's ban on genetically modified products violates international trade rules. In 2006 the WTO ruled in favor of the United States, claiming that the EU had indeed violated recognized trade rules. Now the EU is seeking to limit GMO sales through tougher approval processes.

The U.S. Position

In the United States, 86 percent of soy and more than 40 percent of corn are genetically modified. The U.S. government argues that the EU ban on genetically modified food not only is hurting U.S. commerce but also is discouraging developing countries from growing genetically modified crops for export.

The U.S. government believes that genetically modified products could reduce hunger and poverty in the world's poorest nations, and that by restricting the use of GMOs, the EU is aggravating starvation in the developing world.[7] Biotechnology, according to U.S. policy makers and biotech executives, offers the prospect of crops that are more resilient, require less water, and give higher yields. Thus, the EU ban on genetically modified foods indirectly contributes to starvation by denying access to more efficient agricultural techniques.[8] Furthermore, according to Robert B. Zoellick, the U.S. trade representative, uninformed European attitudes continue to spread unfounded fears in developing countries, where the need for the increased yields offered by genetically modified foods is greatest.[9] In addition, according to the U.S. government, GMO technologies would help developing countries dramatically increase export earnings. The U.S. government is not only concerned that Europe will prevent the use of GMOs, but also that the EU model could serve as a blueprint for other countries, including those in the developing world, that plan to regulate GMOs.

In its recent WTO dispute with the EU, the United States argued that the EU's ban on GMOs violated international trade rules. In February 2006, the WTO dispute panel ruled in favor of the United States, Canada, and Argentina, deciding that the EU and six member states had broken trade rules by banning the import of genetically modified foods. The ban caused "undue delays" in the approval of GMO products, thereby violating the SPS Agreement.[10]

Along with continued criticism from Europe, the GMO cause has experienced some setbacks in the United States as well. For example, Aventis CropScience, developer of StarLink corn, was forced to pay $10 million to Iowa farmers and grain elevators in premiums and compensation for losses tied to growing and handling genetically modified grain that contaminated the grain supply. Although the government had approved StarLink for use in livestock feed, it was not cleared for human consumption after possibly allergic reactions were reported in people who consumed the protein that StarLink produces. Hundreds of food products were recalled in 2001 after testing showed residues of the StarLink protein in taco shells and other food. Some estimates suggest costs could eventually exceed $200 million.[11] Anti-GMO activists in the United States continue to make progress. In 2007, rice producers in California called for a moratorium on transgenic rice in the state, and a USDA ruling could stop the production of genetically modified alfalfa throughout the United States.[12]

The EU Position

For most Europeans, the debate over genetically modified foods is closely intertwined with cultural, environmental, and health issues. Earlier surveys suggested that nearly 80 percent of Europeans do not want to consume products with GMOs,[13] although European opinion about GMOs seems to be getting more optimistic. A 2006 Eurobarometer survey reported that, of those with a decided opinion on "green" biotechnology, only 58 percent discouraged it. This brings European opinion on GMOs close to that of Canada.[14]

At the heart of the debate over genetically modified products is the growing disagreement between the United States and Europe over what steps are necessary to protect public

health and the environment.[15] A major obstruction to settling this argument is deeply embedded in European culture. Food and culture are closely linked in Europe's historical and contemporary life. Many European regions celebrate their unique food traditions and local produce. Unlike Americans, whose food choices are driven by accessibility and convenience, Europeans try to limit the influence of corporate food companies on their food choices. Respecting their preferences, global food companies such as McDonald's, Burger King, and Coca-Cola have pledged to keep all products for sale in Europe free of GMOs.[16]

Another obstacle to the use of GMOs is the fact that, in recent years, Europe experienced several health crises—notably the outbreak of bovine spongiform encephalopathy (BSE), commonly known as "mad cow" disease—that alerted people to the possible dangers lurking in the food supply. Experts agreed that beef from cows with the disease was perfectly safe; then dozens of people died. Biotech firms will have difficulty convincing Europeans to consume GMOs in the absence of long-term statistical evidence from third parties supporting their safety claims.

Exacerbating the issue is the persistent view in Europe that the United States continues to engage in a unilateral—some would say imperial—foreign policy. Regardless of the ongoing battle over GMOs, many people in Europe support challenging U.S. positions as a matter of principle—as a demonstration of European strength and cultural unity. These strong views will continue to influence European consumer choices no matter the outcome of the current dispute. Resistance by European customers to all U.S. foods could overshadow any GMO benefits to the U.S. economy if, for example, the labeling provision is not upheld. The EU also argues that U.S. corporations are squeezing farmers around the world through their control of exporting and processing activities with the goal of developing a lower-cost, vertically integrated global supply chain.

European and North American protesters have been seen with banners calling genetically modified products "Frankenfoods," a label that deliberately associates them with frightening and unpredictable risks. Europe formally adopted a "precautionary principle" (described below) that takes a cautious approach to the approval of new bioengineered food, assuming that there may be unforeseen effects unless proven otherwise.

The EU argues the United States is motivated exclusively by economic considerations and that the U.S. government is responding only to the agribusiness and biotech firms that stand to gain financially if current restrictions are lifted. For example, in 2003, ten agricultural conglomerates, many of which are active in GMOs, owned almost 40 percent of the world's seed market.[17] According to Martin Rocholl, director of Friends of the Earth Europe, "The U.S. Administration, funded by the likes of GMO giant Monsanto, is using the undemocratic and secretive WTO to force-feed the world foods containing GMOs. Decisions about the food we eat should be made in Europe and not in the White House, the WTO or Monsanto's HQ. We welcome the European Commission's commitment to fight this aggressive U.S. policy and ensure that Europe's wildlife and people are protected from the threats of GM crops."[18]

Since the WTO's 2006 decision, which ruled the EU's ban on genetically modified products illegal, the EU has fought to control the presence of GMOs on its own turf. Under the SPS Agreement, the EU originally banned all genetically modified products on the grounds that they could not be proven "safe." However, the WTO decision claimed that enough evidence is now available to perform adequate risk assessments of genetically modified products and, furthermore, that most existing risk assessments do not provide enough of a reason for banning such products.[19] The EU's new authorization process will likely be the stage for new disputes regarding the international sale of genetically modified products.

GMOs are starting to become more prevalent in Europe, with GMO crop area expected to increase over the next decade. "It will be slow but within 10 years GMOs will have reached the point of no return," said Jean-Michel Duhamel, Monsanto's director for southern Europe.[20] But common anti-GMO sentiment is still strong. Some European companies, such as Unilever, produce genetically modified products, but they don't sell those products in Europe because of consumer opposition. Germany's Metro AG chain, like other major European grocery stores, doesn't allow bioengineered ingredients in its store brands.[21] Labeling rules proposed to replace the ban have generated heated responses from European GMO opponents. Greenpeace promised to marshal thousands of volunteers throughout Europe to police grocery stores in the weeks that follow the launch of labeling. "If consumers start buying it and get used to it, we will lose," says Dan Hindsgaul, the head of Greenpeace's effort. In 2006, Greenpeace sent a petition, calling all EU member states to alter their GMO-labeling rules to include products such as meat, eggs, and milk, which come from animals that are fed with genetically modified products. According to Greenpeace, the typical diet of a farm animal in Europe consists of up to 30 percent GMOs.[22]

Substantial Equivalence and the Precautionary Principle

The issue of scientific proof has been a major point of contention. At the heart of the debate are the concepts of substantial equivalence and the precautionary principle. The term *substantial equivalence* was first mentioned in a 1993 Organization for Economic Cooperation and Development (OECD) report on the safety of biotechnology. Members of the OECD agreed that the most practical approach to determining the safety of foods derived by biotechnology is to consider whether they represent a "substantial equivalent" to analogous traditional products. The term *substantial equivalence* was borrowed from the U.S. Food and Drug

Administration's (FDA) definition of a class of new medical devices that do not differ materially from their predecessors and thus do not raise new regulatory concerns. However, after considering the possible unseen effects of foods that contain GMOs, the EU argues that it is difficult to directly apply the FDA definition of *substantial equivalence* in this case. The concept of substantial equivalence was applied for the first time to a GMO in the safety assessment of the Flavr Savr tomato before it went to market in 1994. Data collected revealed that the modified tomato was equivalent to the nonmodified parent plant, and genetically modified tomatoes were accepted under FDA rules.

The EU adopted an approach to health and safety risks known as the "precautionary principle." In common parlance, this approach may be summed up as, "Better safe than sorry." Under this policy, new products are not assumed to be safe unless scientifically shown to be so. According to some in the EU, there is little scientific, third-party evidence that shows foods containing GMOs are safe for consumption. The precautionary principle thus provides justification for restricting GMOs unless they can be shown to be safe in all respects.

Biotech and Agricultural Firms

Because of their international reach, several large U.S. firms, including Monsanto and DuPont, that support biotech and use biotech crops in their products have pressed the U.S. government to take a strong stand on the issue. The United States is the largest agricultural exporter in the world, and U.S. officials argue that trade restrictions of any kind will only undermine an already sluggish global economy. At stake for large biotech multinationals is a substantial amount of future commerce. These firms have claimed huge losses since the EU ban was put into effect in 1998, projecting that the ban has cost them close to $300 million annually. U.S. government policy has been supportive of biotech firms and a strong advocate of their ability to help alleviate famine in developing countries by producing more abundant yields in areas notorious for infertile soil and a lack of other resources.

The reluctance of key foreign trading partners—the EU, Japan, and other nations—to import genetically modified products has become a significant problem for American farmers as they compete in the international marketplace. (In 2003, Australia joined the United States as a third-party supporter in the WTO dispute against the EU over the ban on GMO products. Australia is a minor producer of GMO crops, including cotton and carnations.[23] Support for GMOs in Australia primarily comes from the national government, while state governments and public opinion tend to oppose GMOs.) In the United States, genetically modified crops, including corn and soybeans, are now planted on millions of acres of farmland. If current restrictions on genetically modified foods aren't lifted, American farmers will lose millions of dollars from unusable crops. In March 2004, the American Soybean Association (ASA) stepped forward to take a lead role in preparing the WTO challenge of the EU's labeling ban. In addition, the ASA claims the labeling threshold of 0.9 percent is too stringent and lacks statistical backing. Also worsening the farmers' plight is the fact that worldwide commodity prices have dropped over the past decade.[24]

Developing Countries

In developing countries, farmers have been resisting pressure to grow bioengineered crops—even if they could improve their productivity and reduce hunger—for fear of losing their European market.

GMO supporters believe that the modified organisms can resist certain viruses and extreme temperatures, enabling crops to survive with less energy than is normally required with nonmodified seeds. This ability could be very useful in regions that don't have much fertile soil and lack other usable resources. More abundant yields would help feed the large population in most developing countries. For example, yields could be increased by growing insect-resistant crops in regions where bugs have seriously restricted outputs. Proponents believe that foods containing GMOs will be able to alleviate starvation and hunger in needy places. The United States insists that GMOs do not pose a risk to developing nations because the seeds are destined for consumption, not planting.[25] GMO crops are also considered by some to be better for regions such as Africa where lack of education and training in the use of fertilizers and other modern farming techniques hampers agricultural development. Transgenic crops make up for this lack of education because the technology to control insects is already packaged in the seeds and farmers just have to plant them.

Skeptics argue that the skewed food distribution system, not lack of access to GMOs, is responsible for food shortages in developing countries. According to this view, developing countries are underfed because most of the food that they generate is sold in the export market to the wealthy developed nations. Furthermore, they question how poor developing countries will be able to afford the genetically modified seeds. U.S. agricultural firms own the patents, and the suspicion is widespread that U.S. companies will limit the availability of nonmodified seeds in order to support the sale of modified ones. Also, many people in the developing world remain skeptical about the health effects. In late June 2002, Zambia's minister of commerce, trade, and industry, Dipak Patel, proclaimed that African nations would not accept genetically modified food until it has been proved safe for human consumption.[26]

South Africa, one of only a few African nations that allow the planting of genetically modified crops, is expected to test a strain of genetically modified maize in late 2007. The prospects for GMOs in Africa, especially maize, could be on the rise since the 2006 maize streak virus, which destroyed anywhere between 5 and 100 percent of African farmers' crops.[27]

In Brazil, controversy surrounded President Lula da Silva's Provisionary Measure 131, which authorized the commercialization of genetically modified soy. Opponents of GMOs in Brazil suggested that the governing administration, notorious for bribery and scandals, was influenced by its relationship with Monsanto, which owns the patent on the most popular genetically modified soy. Brazilian legislators agreed and proposed that genetically modified soy in Brazil be burned and replaced with conventional crops beginning in February 2004. Later, under pressure from some farming interests, the legislators reversed position, and genetically modified crops and seeds are now permitted.

The UN Cartagena Protocol, an agreement intended to educate emerging-market countries about the benefits and risks of genetically modified products, was activated in June 2003 when the Republic of Palau became the 50th country to ratify the bill. The agreement is designed to help educate emerging-market countries about the risks of proliferated GMOs.

Simulation Instructions

You will be assigned to one of six groups:

1. The U.S. government.
2. The European Union.
3. A consortium of companies that manufacture or use GMO products, including Monsanto and Cargill.
4. A group of interested developing countries.
5. A group of nongovernmental organizations (NGOs) opposed to the exchange of GMO products.
6. A WTO Dispute Settlement Panel.

Participants should spend 20 to 30 minutes reviewing the case and formulating arguments that advance the agenda of their group. Refer to the "GATT/WTO Principles" section below and to the background material above for information. After the initial session, groups whose interests may be similar may consult with each other for an additional 10 to 15 minutes to coordinate presentations and minimize duplication. For example, the consortium of GMO companies might consult with the U.S. government. The WTO Dispute Settlement Panel is composed of "judges" and should be treated respectfully. Each group should make an opening presentation of no more than 10 minutes to the WTO panel. The presentation should summarize the main points of the argument and urge a particular decision by the panel. Panel members may then ask questions of the groups for an additional 15 minutes. After each group presents its argument, the WTO panel will deliberate for 20 minutes and present its findings.

The issue for decision by the WTO Dispute Settlement Panel is whether the EU prohibition on imports of genetically modified products is consistent with WTO principles. Depending on the ruling in this matter, the WTO panel may offer specific remedies for how the ruling should be implemented. Further, the panel may wish to consider whether the proposed labeling and origin requirements (which in theory would allow the resumption of imports of genetically modified products) would or would not resolve the dispute, and whether this ban itself would be consistent with WTO principles.

GATT/WTO Principles: General Obligations

The General Agreement on Tariffs and Trade (now the World Trade Organization) was founded after World War II to establish rules for international trade practices and to resolve disputes among nations. Two fundamental principles govern most GATT/WTO provisions: most-favored-nation treatment and national treatment. *National treatment* refers to the obligations of the contracting parties to treat the nationals of foreign countries no less favorably than they treat the nationals of their own country. A more common term for this obligation is "nondiscrimination." The GATT/WTO also requires that the parties extend *most-favored-nation treatment* to other parties, so that some countries are not treated more favorably than others. Dispute settlement resolution (when one or more countries accuse another contracting party of violating GATT/WTO rules) is carried out by three- to five-member panels that render reports (decisions).

Exceptions

The GATT/WTO provides for limited exceptions to the above-mentioned obligations. For example, preferential trade agreements such as the EU and NAFTA are permitted to extend better than most-favored-nation treatment to their members under certain conditions. There are also "general" exemptions, which excuse otherwise illegal actions if they are designed to protect public morals, preserve national heritage, and limit commerce in goods made with prison labor. Although the word *environment* is never mentioned, the GATT/WTO does offer a basis for deviating from GATT/WTO principles in support of environmental protection. Specifically, Article XX holds that the GATT/WTO does not prevent contracting parties from taking actions (1) necessary to the protection of human, animal, or plant life or health and (2) relating to the conservation of exhaustible natural resources—provided trade measures affecting international commerce are joined by restrictions on domestic production or consumption.

The Uruguay Round agreement established agreements on the application of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). SPS measures are those necessary to safeguard human, animal, and plant health. Typically, when applied by an individual country, they are designed to safeguard its citizens, animal and plant industries, and environment against the risks posed by exotic pests and diseases, and against general threats to health entering from outside, and to control the incidence and spread of pests and diseases already present.

These agreements established the basis for reducing or eliminating nontariff regulatory barriers unless they respect scientifically substantiated and internationally recognized standards and conformance procedures and technical and labeling regulations. As applied to international trade, SPS protocols include a range of control measures—for example, import requirements; methods of treatment, manufacture, handling and packaging, and storage; inspection and certification requirements; and in some cases outright import bans on some products from certain areas. The major areas covered are plant quarantine measures, animal quarantine measures, and food safety standards. Thus, governments may restrict imports of products that have been found to pose health or safety risks, based on sound, scientific evidence. Specifically, SPS measures must be designed to accomplish one or more of the following objectives:

1. To protect animal or plant life or health within the territory of the member from risks arising from the entry, establishment, or spread of pests, diseases, disease-carrying organisms, or disease-causing organisms.
2. To protect human or animal life within the territory of the member from risks arising from additives, contaminants, toxins, or disease-carrying organisms in food, beverages, or feedstuffs.
3. To protect human life or health within the territory of the member from risks arising from diseases carried by animals, plants, or products thereof, or from the entry, establishment, or spread of pests.
4. To prevent or limit other damage within the territory of the member from the entry, establishment, or spread of pests.

Questions for Discussion after Conclusion of Simulation

1. How does your solution compare to your expectation of the likely actual outcome? What is different or similar in the two approaches?
2. How would you characterize the cultures of Europe (France and Germany) and the United States in terms of Hofstede's scheme? In what ways are the cultures similar, and in what ways do they differ? How might the differences influence approaches to disputes like this one?
3. Why would an approach emphasizing "substantial equivalence" result in an outcome different from the outcome of a policy driven by the "precautionary principle"?
4. How might the United States and EU resolve differences such as this in the future?

Source: © McGraw-Hill Irwin. This simulation was prepared by Professor Jonathan Doh as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

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In-Class Simulation

2. Cross-Cultural Conflicts in the Corning-Vitro Joint Venture

This simulation is designed to develop skills at international negotiation with an emphasis on cross-cultural communication and negotiation.

Case Summary

During the NAFTA negotiations, many U.S. firms were concerned about the reduction of U.S. tariffs on flat glass, which averaged 20 percent, and the perceived competitive advantages Mexican glass firms would have in the event these tariffs were removed. In the fall of 1991, in the midst of the NAFTA negotiations, Vitro S.A., the $3 billion Mexican glassmaker, signed a tentative $800 million joint venture with Corning Inc. Two mirror companies were established—Corning–Vitro and Vitro–Corning—and each company took an equity stake in each of these joint-venture firms. In addition, the two parent companies agreed to a series of marketing, sales, and distribution relationships to support the activities of each of the new companies.[1] Two years later, the joint venture was in distress, and some of the interested parties were suggesting that it be dissolved. This simulation provides participants with an opportunity to undertake negotiations designed to resolve these differences.

Background

Vitro Sociedad Anonima is a 100-year-old Mexican company with roughly $3.5 billion in sales and 40,000 employees. As Vitro positioned itself to take advantage of the emerging North American market, CEO Ernesto Martens Rebolledo described the tightrope the company must walk: "We don't want to lose our identity as a Mexican company with a unique culture and relationship with our employees, but we don't want to be battered in the world marketplace either."[2] In 1989, Vitro completed a hostile takeover of Anchor Glass Container Corporation, and in 1992, Vitro laid off some 3,000 workers, an unusual move in Mexico at that time, given traditional notions about labor-management relations and job security.

Corning, an upstate New York maker of glass, traces its roots back to the mid-1800s. In recent years, Corning has diversified into fiber optics and other high-technology applications of glass, ceramics, and composite materials. During the 1980s, Corning's business increasingly relied on sales of fiber optics to telecommunications firms. These firms were beginning construction of the new infrastructure to support high-speed voice and data transmission. At the same time, sales of household, flat glass, and other traditional glass products remained important to the company.

NAFTA and Glass

During the early part of NAFTA negotiations (1989–1991), U.S. makers of household and flat glass products expressed concern about their ability to compete against cheaper Mexican imports, and some even accused Corning S.A. of unfair trading practices. Michigan-based glass manufacturer Guardian Industries Corp. protested that Vitro, the sole producer of float glass in Mexico, was involved in illegal and unfair business practices. Guardian stated that Vitro actively intimidated other Mexican glass distributors that were considering purchasing float glass products from Guardian. In 1990, Vitro exported $120 million of float glass and other glass products to the United States. Despite a 20 percent tariff on household glassware imports to the United States from Mexico, the after-duty prices of the Mexican products were still cheaper than those of U.S. glassmakers, due mainly to lower labor and energy costs within Mexico.[3]

In February 1991, the International Trade Commission (ITC) issued a report on these allegations. Vitro Crisa (an operating subsidiary of Vitro S.A.) allegedly priced its glass beverageware at about 20 to 30 percent below that of U.S. producers in the U.S. market. Vitro Crisa's lower productivity relative to U.S. industry, said the ITC, was offset by considerably lower labor costs (about $1.50 an hour versus $15 an hour in 1987 in the United States), which constituted nearly half of the production costs of the U.S. household glassware industry. The cost of natural gas, another major production input, was about 15 percent lower in Mexico.[4]

Problems Arise

In the early days of the Corning-Vitro alliance, Vitro executive Julio Escamez stated that both "Vitro and Corning share a customer-oriented philosophy and remarkably similar corporate cultures."[5] This was especially true when it came to each company's long history of forming joint ventures to achieve success in the marketplace. Corning Inc. had been an innovative leader in foreign alliances for over 73 years. One of the company's first successes was an alliance with St. Gobain, a French glassmaker, to produce Pyrex cookware in Europe during the 1920s. Corning has formed approximately 50 ventures over the years. Only

nine failed (dissolved), an impressive number considering one recent study found that over one-half of foreign and national alliances do not succeed. From 1985 to 1990, Corning's sales from joint ventures were over $3 billion, contributing more than $500 million to its net income. Corning enters into joint ventures primarily to gain access to markets that it cannot penetrate quickly enough to obtain a competitive advantage. In addition, senior leadership at each company was still controlled by the original founding families, as was a globally-oriented expansion strategy.[6] Yet the joint venture became subject to a series of cultural and other conflicts that began to undermine this vision.

U.S.-Mexico Alliances

According to Richard Sinkin, managing director of Inter-American Holdings, a consultancy based in San Diego, California, that advises U.S. companies doing business in Mexico, U.S. and Mexican companies often get together for the wrong reasons. Unless the two partners contribute essential qualities to the marriage, the alliance soon dissipates. The second difficulty is corporate control. "Most Mexican firms are still run as family businesses," Sinkin says, "and these firms are often reluctant to share control with an outside investor."[7]

In the case of the Corning/Vitro JV, Corning managers said that they were sometimes left waiting for important decisions about marketing and sales because in the Mexican culture, only top managers could make them and at Vitro those people were busy with other matters. Vitro's sales approach was less aggressive than Corning's, the remnant of years in a closed economy, and was sometimes at odds with the pragmatic approach Corning had developed over decades of competition.

NAFTA and Alliances

Cultural conflicts have ultimately soured many mergers that emerged from the North American Free Trade Agreement. "Mexico initially appears to be the United States except that people speak Spanish," said labor economist Harley Shaiken. "That's just not the case, which everyone finds out in the short term rather than the long term."[8] NAFTA may have misguided business leaders in regards to the actual amount of cultural similarity between the United States and Mexico. People in Mexico and the United States have completely different approaches to every aspect of business, from design-making to scheduling.[9] The Mexican employees found the Corning managers to be too direct and too fast-paced. On the other hand, the American employees found the Vitro managers to be unaccepting of their mistakes and too slow-paced.

Even fundamental elements of business, such as contract law, have different cultural meanings between Mexico and the United States. While Americans view contracts as fully enforceable, legal documents, Mexicans tend to view contracts as idealist goals between two parties. As a result, some consultants find it difficult to receive their agreed-to payment for services while working in Mexico.[10] Additionally, formalities differ drastically between the United States and Mexico. In the United States, titles are less important and communication tends to be more informal. In Mexico, nearly everyone carries a formal title and is "licenciado," or has had some type of professional training; forgetting to mention the proper title can be perceived as an insult.[11]

While Mexican employees tend to give their business superiors blind loyalty, outsiders tend to be mistrusted. Horace E. Scherer, director general of Hobart Dayton Mexicana, noted that this mistrust results in a lengthy sales process for employees. Often, just making a single sale requires up to four in-person visits by a salesperson. For example, at Hobart Dayton Mexicana, salespeople often must first meet with the target company's highest-ranking executive. Once a sale is made, the delivery of goods is often made directly by Hobart Dayton Mexicana, as third-party delivery services are not trusted. Invoices for sales are often required to be hand-delivered at a follow-up visit, and the payment of the invoice occurs in-person at yet another scheduled appointment.[12]

Combining the company culture of both partners in a joint venture, in order to create a new universal corporate culture, is commonly attempted. A good example of this can be seen through Vitro-Whirlpool's assembly-line in Monterrey. Mexican workers have a history of taking extra time off of work around holidays to take vacations. This practice, called "el puente" or the bridge, is so widespread that factories often must shutdown on the days that are adjacent to planned holidays. In an effort to merge this cultural norm with the new American leadership, Vitro-Whirlpool still allows employees workers to take the "puente," but they must make up the time off by working an extra hour per day for eight days beforehand.[13]

Indirect communication, common in Mexico, can be difficult for employees from direct communication cultures to fully understand. Pleasantries tend to fill the conversations. As a result, Mexicans tend to write memos when expressing dissatisfaction. A good example of this can be seen through Labatt's (the Canadian brewer) Mexican alliance. When the company decided to reduce the lunch hour of its employees from two hours to one, executives drafted a memo. Employees then signed the memo to show their acceptance.[14]

Financial and Commercial Concerns

Added complications emerged from the relatively strong peso, increased overseas competition, and a reconsideration of marketing strategies by both companies. The joint

ventures suffered from the different administrative practices, accounting systems, and management culture of the two companies. Corning said the different needs of customers in the United States and Mexico complicated the integration of sales and distribution.[15] In the U.S., customers expect the timely and regular delivery of products packaged in a certain way; Mexican customers tend to be less demanding.

In 1992, Corning-Vitro had sales of approximately $700 million, and Vitro-Corning achieved turnover of about $230 million.

Issues for Decision

As a result of cultural clashes, failure to integrate complementary product lines, and disappointing sales, both Corning and Vitro are contemplating dissolving the joint ventures. Within the two companies, however, there are those who support maintaining the relationship, and others who oppose it. Corning and Vitro must first decide on whether they want to remain in the joint ventures and, if they do, under what conditions. If they decide to dissolve the relationship, they must negotiate the terms of the dissolution. If they decide to remain in the arrangement, some changes must be made to address the growing problems.

Simulation Instructions

You will be assigned to one of four groups.

The groups are ad hoc. Each group represents an ad-hoc committee appointed by the CEO of each company to make recommendations about the future of the alliance. The groups' initial positions can be characterized as follows:

1. Vitro—supports keeping JVs
2. Vitro—against keeping JVs
3. Corning—supports keeping JVs
4. Corning—against keeping JVs

Negotiation 1

The initial negotiation occurs *within* each company. Hence, Vitro Groups (1 and 2) discuss their differing positions, and Corning Groups (3 and 4) exchange their views with each other. Each pair of groups (1/2 + 3/4) should decide whether their company wants to remain within the joint venture or dissolve it. Each pair of groups has 45 minutes to negotiate *within* the respective companies over whether to stay in or dissolve the JV. Groups 1 and 3 should consider the following:

1. The logic and original rationale for the JV.
2. How that logic may still hold.
3. How the JV could be made to work better.

Groups 2 and 4 should consider the following:

1. What caused the JV relationship to sour.
2. Why the partner has not lived up to expectations.
3. What the terms of dissolution should be.

Each company agrees on a position to bring forward to the partner. This position need not necessarily be a demand to maintain the joint venture or to dissolve it; rather it could be a contingency laying the conditions for maintaining the relationship, or demands for how it should be dissolved. Once each company has decided on its position, representatives from each Corning group (two to four representatives total) will meet with their counterparts from the Vitro groups.

Negotiation 2

Each company must decide, collectively, through negotiation, whether to remain within the joint venture or dissolve it. The representatives from each company have 60 minutes to reach some resolution. *They must consult with the remainder of their company throughout the negotiation to ensure support for the outcome.* The main issues for consideration include:

1. The logic and original rationale for the JV.
2. How that logic may still hold.
3. How the JV could be made to work better.
4. What caused the JV relationship to sour.
5. Why the partner has not lived up to expectations.
6. Whether the JV should be terminated and, if so, what the terms of dissolution should be.

Ultimately, issue 3 or 6 must be resolved. Any solution, whether to maintain the JV, dissolve it, or some hybrid approach, should be comprehensive and address these elements:

- *Financial structure:* Terms for financing existing or new ventures under the arrangement or payments for dissolution of the relationship.
- *Governance:* Board, management, or other top-level changes in ownership and leadership under the present or revised relationship.
- *Marketing:* Agreements about marketing, distribution, and sales relationships either under the current arrangement or in any new structure.
- *Competition/cooperation:* Changes in the way in which each company operates in the other's territories or markets.

Questions for Discussion after Conclusion of Simulation

1. Compare your solution to the joint venture's problems with the actual outcome. What is different or similar in the two approaches?

Table 1
Hofstede's Cultural Ratings for the United States and Key Latin Countries

	Power Distance	Uncertainty Avoidance	Individualism	Masculinity
United States	**40**	**46**	**91**	**62**
Mexico	**81**	**82**	**38**	**69**
Canada	39	48	80	52
Argentina	49	86	46	56
Brazil	69	76	38	49
Colombia	67	80	13	64
Peru	64	87	16	42
Venezuela	81	76	12	73
Spain	57	86	51	42
Portugal	63	104	27	31

Source: Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Beverly Hills, CA: Sage, 1980).

2. How would you characterize the Mexican and U.S. culture in terms of Hofstede's scheme (see Table 1)? In what ways were the cultures similar and in what ways were they different?
3. Compare Corning-Vitro's problems to those of some of the other international joint ventures described in this simulation. How were they similar, different, and more or less challenging?
4. How have other companies in Mexico and Latin America addressed these cultural divisions in the recent past? How should they do so as they go forward with comprehensive regional Latin American strategies?

Source: © McGraw-Hill Irwin. This simulation was prepared by Jonathan Doh of Villanova University as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

ENDNOTES

1. "Glassmakers' Complaints Aired in NAFTA Hearings," *LDC Debt Report/Latin American Market,* September 9, 1999, p. 10.
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Glossary

achievement culture A culture in which people are accorded status based on how well they perform their functions.

achievement motivation theory A theory that holds that individuals can have a need to get ahead, to attain success, and to reach objectives.

act of state doctrine A jurisdictional principle of international law that holds that all acts of other governments are considered to be valid by U.S. courts, even if such acts are illegal or inappropriate under U.S. law.

adaptability screening The process of evaluating how well a family is likely to stand up to the stress of overseas life.

administrative coordination Strategic formulation and implementation in which the MNC makes strategic decisions based on the merits of the individual situation rather than using a predetermined economically or politically driven strategy.

alliance Any type of cooperative relationship among different firms.

ascription culture A culture in which status is attributed based on who or what a person is.

assessment center An evaluation tool used to identify individuals with the potential to be selected or promoted to higher-level positions.

authoritarian leadership The use of work-centered behavior designed to ensure task accomplishment.

balance-sheet approach An approach to developing an expatriate compensation package that ensures the expat is "made whole" and does not lose money by taking the assignment.

base of the pyramid strategy (BOP) Strategies to identify, target, adapt, and respond to needs among the lowest income consumer segments.

bicultural group A group in which two or more members represent each of two distinct cultures, such as four Mexicans and four Taiwanese who have formed a team to investigate the possibility of investing in a venture.

born-global firms Firms that engage in significant international activities shortly after being established.

cafeteria approach An approach to developing an expatriate compensation package that entails giving the individual a series of options and letting the person decide how to spend the available funds.

centralization A management system in which important decisions are made at the top.

chaebols Very large, family-held Korean conglomerates that have considerable political and economic power.

charismatic leaders Leaders who inspire and motivate employees through their charismatic traits and abilities.

chromatics The use of color to communicate messages.

chronemics The way in which time is used in a culture.

civil or code law Law that is derived from Roman law and is found in the non-Islamic and nonsocialist countries.

codetermination A legal system that requires workers and their managers to discuss major decisions.

collectivism The political philosophy that views the needs and goals of society as a whole as more important than individual desires (Chapter 2); the tendency of people to belong to groups, or collectives, and to look after each other in exchange for loyalty (Chapter 4).

common law Law that derives from English law and is the foundation of legislation in the U.S., Canada, and England, among other nations.

communication The process of transferring meanings from sender to receiver.

communitarianism People regard themselves as part of a group.

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) A trade agreement among 11 Pacific Rim countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

conglomerate investment A type of high-risk investment in which goods or services produced are not similar to those produced at home.

content theories Theories that explain work motivation in terms of what arouses, energizes, or initiates employee behavior.

context Information that surrounds a communication and helps convey the message.

controlling The process of evaluating results in relation to plans or objectives and deciding what action, if any, to take.

corporate governance The system by which business corporations are directed and controlled.

corporate social responsibility (CSR) The actions of a firm to benefit society beyond the requirements of the law and the direct interests of the firm.

cultural assimilator A programmed learning technique designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs, and values of another culture.

culture Acquired knowledge that people use to interpret experience and generate social behavior. This knowledge forms values, creates attitudes, and influences behavior.

decentralization Pushing decision making down the line and getting the lower-level personnel involved.

decision making The process of choosing a course of action from among alternatives.

democracy A political system in which the government is controlled by the citizens either directly or through elections.

diffuse culture A culture in which public space and private space are similar in size and individuals guard their public space carefully because entry into public space affords entry into private space as well.

direct controls The use of face-to-face or personal meetings for the purpose of monitoring operations.

distributive negotiations Bargaining that occurs when two parties with opposing goals compete over a set value.

doctrine of comity A jurisdictional principle of international law that holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens.

downward communication The transmission of information from manager to subordinate.

economic imperative A worldwide strategy based on cost leadership, differentiation, and segmentation.

Eiffel Tower culture A culture that is characterized by strong emphasis on hierarchy and orientation to the task.

emotional culture A culture in which emotions are expressed openly and naturally.

empowerment The process of giving individuals and teams the resources, information, and authority they need to develop ideas and effectively implement them.

environmental scanning The process of providing management with accurate forecasts of trends related to external changes in geographic areas where the firm currently is doing business or is considering setting up operations.

equity theory A process theory that focuses on how motivation is affected by people's perception of how fairly they are being treated.

esteem needs Needs for power and status.

ethics The study of morality and standards of conduct.

ethnocentric MNC An MNC that stresses nationalism and often puts home-office people in charge of key international management positions.

ethnocentric predisposition A nationalistic philosophy of management in which the strategic decisions are shaped by the culture of parent company's home country.

ethnocentrism The belief that one's own way of doing things is superior to that of others.

European Union (EU) A political and economic community consisting of 27 member states.

expatriates Managers who live and work outside their home country. They are citizens of the country where the multinational corporation is headquartered.

expectancy theory A process theory that postulates that motivation is influenced by a person's belief that (a) effort will lead to performance, (b) performance will lead to specific outcomes, and (c) the outcomes will be of value to the individual.

expropriation The seizure of businesses by a host country with little, if any, compensation to the owners.

extrinsic A type of determinant of motivation by which the external environment and result of the activity are of greater importance due to competition and compensation or incentive plans.

fair trade An organized social movement and market-based approach that aims to help producers in developing countries obtain better trading conditions and promote sustainability.

family culture A culture that is characterized by a strong emphasis on hierarchy and orientation to the person.

femininity A cultural characteristic in which the dominant values in society are caring for others and the quality of life.

Foreign Corrupt Practices Act (FCPA) An act that makes it illegal to influence foreign officials through personal payment or political contributions. It became U.S. law in 1977 because of concerns over bribes in the international business arena.

foreign direct investment (FDI) Investment in property, plant, or equipment in another country.

formalization The use of defined structures and systems in decision making, communicating, and controlling.

franchise A business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee.

geocentric MNC An MNC that seeks to integrate diverse regions of the world through a global approach to decision making.

geocentric predisposition A philosophy of management whereby the company tries to integrate a global systems approach to decision making.

global area division A structure under which global operations are organized on a geographic rather than a product basis.

global functional division A structure that organizes worldwide operations primarily based on function and secondarily on product.

global integration The production and distribution of products and services of a homogeneous type and quality on a worldwide basis.

global product division A structural arrangement in which domestic divisions are given worldwide responsibility for product groups.

global strategy Integrated strategy based primarily on price competition.

globalization imperative A belief that one worldwide approach to doing business is the key to both efficiency and effectiveness.

globalization The process of social, political, economic, cultural, and technological integration among countries around the world.

GLOBE Global Leadership and Organizational Behavior Effectiveness: a multicountry study and evaluation of cultural attributes and leadership behaviors among more than 17,000 managers from 951 organizations in 62 countries.

goal-setting theory A process theory that focuses on how individuals go about setting goals and responding to them and the overall impact of this process on motivation.

groupthink Social conformity and pressures on individual members of a group to conform and reach consensus.

guanxi In Chinese, "good connections."

guided missile culture A culture that is characterized by strong emphasis on equality in the workplace and orientation to the task.

haptics Communicating through the use of bodily contact.

home-country nationals Expatriate managers who are citizens of the country where the multinational corporation is headquartered.

homogeneous group A group in which members have similar backgrounds and generally perceive, interpret, and evaluate events in similar ways.

honne A Japanese term that means "what one really wants to do."

horizontal investment An MNC investment in foreign operations to produce the same goods or services as those produced at home.

horizontal specialization The assignment of jobs so that individuals are given a particular function to perform and tend to stay within the confines of this area.

host-country nationals Local managers who are hired by the MNC.

hygiene factors In the two-factor motivation theory, job-context variables such as salary, interpersonal relations, technical supervision, working conditions, and company policies and administration.

incubator culture A culture that is characterized by strong emphasis on equality and orientation to the person.

indigenization laws Laws that require nationals to hold a majority interest in an operation.

indirect controls The use of reports and other written forms of communication to control operations.

individualism The political philosophy that people should be free to pursue economic and political endeavors without constraint (Chapter 2); the tendency of people to look after themselves and their immediate family only (Chapter 4).

inpatriates Individuals from a host country or third-country nationals who are assigned to work in the home country.

integrative negotiations Bargaining that involves cooperation between two groups to integrate interests, create value, and invest in the agreement.

integrative techniques Techniques that help an overseas operation become a part of the host country's infrastructure.

international division structure A structural arrangement that handles all international operations out of a division created for this purpose.

international entrepreneurship A combination of innovative, proactive, and risk-seeking behavior that crosses national boundaries and is intended to create value for organizations.

international management The process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural environments.

international selection criteria Factors used to choose personnel for international assignments.

international strategy Mixed strategy combining low demand for integration and responsiveness.

intimate distance Distance between people that is used for very confidential communications.

intrinsic A type of determinant of motivation by which an individual experiences fulfillment through carrying out an activity and helping others.

Islamic law Law that is derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad and is found in most Islamic countries.

job design A job's content, the methods that are used on the job, and the way the job relates to other jobs in the organization.

job-content factors In work motivation, those factors internally controlled, such as responsibility, achievement, and the work itself.

job-context factors In work motivation, those factors controlled by the organization, such as conditions, hours, earnings, security, benefits, and promotions.

joint venture (JV) An agreement under which two or more partners own or control a business.

kaizen A Japanese term that means "continuous improvement."

karoshi A Japanese term that means "overwork" or "job burnout."

keiretsu In Japan, an organizational arrangement in which a large, often vertically integrated group of companies cooperate and work closely with each other to provide goods and services to end users. Members may be bound together by cross-ownership, long-term business dealings, interlocking directorates, and social ties.

key success factor (KSF) A factor necessary for a firm to effectively compete in a market niche.

kinesics The study of communication through body movement and facial expression.

leadership The process of influencing people to direct their efforts toward the achievement of some particular goal or goals.

learning The acquisition of skills, knowledge, and abilities that result in a relatively permanent change in behavior.

license An agreement that allows one party to use an industrial property right in exchange for payment to the owning party.

localization An approach to developing an expatriate compensation package that involves paying the expat a salary comparable to that of local nationals.

lump-sum method An approach to developing an expatriate compensation package that involves giving the expat a predetermined amount of money and letting the individual make his or her own decisions regarding how to spend it.

macro political risk analysis Analysis that reviews major political decisions likely to affect all enterprises in the country.

management The process of completing activities efficiently and effectively with and through other people.

maquiladora A factory, the majority of which are located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.

masculinity A cultural characteristic in which the dominant values in society are success, money, and things.

merger/acquisition The cross-border purchase or exchange of equity involving two or more companies.

micro political risk analysis Analysis directed toward government policies and actions that influence selected sectors of the economy or specific foreign businesses in the country.

Ministry of International Trade and Industry (MITI) A Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals.

mixed organizational structure A structure that is a combination of a global product, area, or functional arrangement.

MNC A firm having operations in more than one country, international sales, and a nationality mix of managers and owners.

monochronic time schedule A time schedule in which things are done in a linear fashion.

motivation A psychological process through which unsatisfied wants or needs lead to drives that are aimed at goals or incentives.

motivators In the two-factor motivation theory, job-content factors such as achievement, recognition, responsibility, advancement, and the work itself.

multicultural group A group in which there are individuals from three or more different ethnic backgrounds, such as three American, three German, three Uruguayan, and three Chinese managers who are looking into mining operations in South Africa.

multi-domestic strategy Differentiated strategy emphasizing local adaptation.

national responsiveness The need to understand the different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies.

nationality principle A jurisdictional principle of international law that holds that every country has jurisdiction over its citizens no matter where they are located.

negotiation Bargaining with one or more parties for the purpose of arriving at a solution acceptable to all.

neutral culture A culture in which emotions are held in check.

nongovernmental organizations (NGOs) Private, not-for-profit organizations that seek to serve society's interests by focusing on social, political, and economic issues such as poverty, social justice, education, health, and the environment.

nonverbal communication The transfer of meaning through means such as body language and the use of physical space.

North American Free Trade Agreement (NAFTA) A free trade agreement among the U.S., Canada, and Mexico that removed most barriers to trade and investment. It was renegotiated and replaced by the United States–Mexico–Canada Agreement (USMCA), signed in 2018.

oculesics The area of communication that deals with conveying messages through the use of eye contact and gaze.

offshoring The process by which companies undertake some activities at offshore locations instead of in their countries of origin.

operational risks Government policies and procedures that directly constrain management and performance of local operations.

organizational culture Shared values and beliefs that enable members to understand their roles and the norms of the organization.

outsourcing The subcontracting, or contracting out, of activities to endogenous organizations that had previously been performed by the firm.

ownership-control risks Government policies or actions that inhibit ownership or control of local operations.

parochialism The tendency to view the world through one's own eyes and perspectives.

participative leadership The use of both work- or task-centered and people-centered approaches to leading subordinates.

particularism The belief that circumstances dictate how ideas and practices should be applied and that something cannot be done the same everywhere.

paternalistic leadership The use of work-centered behavior coupled with a protective employee-centered concern.

perception A person's view of reality.

personal distance In communicating, the physical distance used for talking with family and close friends.

physiological needs Basic physical needs for water, food, clothing, and shelter.

political imperative Strategic formulation and implementation utilizing strategies that are country-responsive and designed to protect local market niches.

political risk The unanticipated likelihood that a business's foreign investment will be constrained by a host government's policy.

polycentric MNC An MNC that places local nationals in key positions and allows these managers to appoint and develop their own people.

polycentric predisposition A philosophy of management whereby strategic decisions are tailored to suit the cultures of the countries where the MNC operates.

polychronic time schedule A time schedule in which people tend to do several things at the same time and place higher value on personal involvement than on getting things done on time.

positive organizational behavior (POB) The study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace.

power distance The extent to which less powerful members of institutions and organizations accept that power is distributed unequally.

principle of sovereignty An international principle of law that holds that governments have the right to rule themselves as they see fit.

proactive political strategies Lobbying, campaign financing, advocacy, and other political interventions designed to shape and influence the political decisions prior to their impact on the firm.

process theories Theories that explain work motivation by how employee behavior is initiated, redirected, and halted.

profit The amount remaining after all expenses are deducted from total revenues.

protective and defensive techniques Techniques that discourage the host government from interfering in operations.

protective principle A jurisdictional principle of international law that holds that every country has jurisdiction over behavior that adversely affects its national security, even if the conduct occurred outside that country.

proxemics The study of the way people use physical space to convey messages.

public distance In communicating, the distance used when calling across the room or giving a talk to a group.

quality control circle (QCC) A group of workers who meet on a regular basis to discuss ways of improving the quality of work.

quality imperative Strategic formulation and implementation utilizing strategies of total quality management to meet or exceed customers' expectations and continuously improve products or services.

regiocentric MNC An MNC that relies on local managers from a particular geographic region to handle operations in and around that area.

regiocentric predisposition A philosophy of management whereby the firm tries to blend its own interests with those of its subsidiaries on a regional basis.

regional system An approach to developing an expatriate compensation package that involves setting a compensation system for all expats who are assigned to a particular region and paying everyone in accord with that system.

repatriation agreements Agreements whereby the firm tells an individual how long he or she will be posted overseas and promises to give the individual, on return, a job that is mutually acceptable.

repatriation The return to one's home country from an overseas management assignment.

return on investment (ROI) Return measured by dividing profit by assets.

ringisei A Japanese term that means "decision making by consensus."

safety needs Desires for security, stability, and the absence of pain.

self-actualization needs Desires to reach one's full potential, to become everything one is capable of becoming as a human being.

simplification The process of exhibiting the same orientation toward different cultural groups.

social distance In communicating, the distance used to handle most business transactions.

social needs Desires to interact and affiliate with others and to feel wanted by others.

socialism A moderate form of collectivism in which there is government ownership of institutions but profit is not the ultimate goal.

socialist law Law that comes from the Marxist socialist system and continues to influence regulations in countries formerly associated with the Soviet Union as well as China.

sociotechnical designs Job designs that blend personnel and technology.

specialization An organizational characteristic that assigns individuals to specific, well-defined tasks.

specific culture A culture in which individuals have a large public space they readily share with others and a small private space they guard closely and share with only close friends and associates.

strategic management The process of determining an organization's basic mission and long-term objectives, then implementing a plan of action for attaining these goals.

strategy implementation The process of providing goods and services in accord with a plan of action.

sustainability Development that meets humanity's needs without harming future generations.

tatemae A Japanese term that means "doing the right thing" according to the norm.

territoriality principle A jurisdictional principle of international law that holds that every nation has the right of jurisdiction within its legal territory.

terrorism The use of force or violence against others to promote political or social views.

Theory X manager A manager who believes that people are basically lazy and that coercion and threats of punishment often are necessary to get them to work.

Theory Y manager A manager who believes that under the right conditions, people not only will work hard but also will seek increased responsibility and challenge.

Theory Z manager A manager who believes that workers seek opportunities to participate in management and are motivated by teamwork and responsibility sharing.

third-country nationals (TCNs) Managers who are citizens of countries other than the country in which the MNC is headquartered or the one in which the managers are assigned to work by the MNC.

token group A group in which all members but one have the same background, such as a group of Japanese retailers and a British attorney.

total quality management (TQM) An organizational strategy and the accompanying techniques that result in the delivery of high-quality products or services to customers.

totalitarianism A political system in which there is only one representative party, which exhibits control over every facet of political and human life.

training The process of altering employee behavior and attitudes in a way that increases the probability of goal attainment.

transactional leaders Individuals who exchange rewards for effort and performance and work on a "something for something" basis.

transfer risks Government policies that limit the transfer of capital, payments, production, people, and technology in and out of the country.

transformational leaders Leaders who are visionary agents with a sense of mission and who are capable of motivating their followers to accept new goals and new ways of doing things.

transition strategies Strategies used to help smooth the adjustment from an overseas to a stateside assignment.

transnational network structure A multinational structural arrangement that combines elements of function, product, and geographic designs while relying on a network arrangement to link worldwide subsidiaries.

transnational strategy Integrated strategy emphasizing both global integration and local responsiveness.

two-factor theory of motivation A theory that identifies two sets of factors that influence job satisfaction: hygiene factors and motivators.

uncertainty avoidance The extent to which people feel threatened by ambiguous situations and have created beliefs and institutions that try to avoid these.

United States–Mexico–Canada Agreement (USMCA) A free trade agreement among the U.S., Canada, and Mexico that removed most barriers to trade and investment. This agreement replaces NAFTA.

universalism The belief that ideas and practices can be applied everywhere in the world without modification.

upward communication The transfer of meaning from subordinate to superior.

validity The quality of being effective, of producing the desired results. A valid test or selection technique measures what it is intended to measure.

values Basic convictions that people have regarding what is right and wrong, good and bad, and important and unimportant.

variety amplification The creation of uncertainty and the analysis of many alternatives regarding future action.

variety reduction The limiting of uncertainty and the focusing of action on a limited number of alternatives.

vertical investment The production of raw materials or intermediate goods that are to be processed into final products.

vertical specialization The assignment of work to groups or departments where individuals are collectively responsible for performance.

wholly owned subsidiary An overseas operation that is totally owned and controlled by an MNC.

work centrality The importance of work in an individual's life relative to other areas of interest.

World Trade Organization (WTO) The global organization of countries that oversees rules and regulations for international trade and investment.

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