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5
Global Management and Cultural Diversity
There are many faces in the neighborhood

CHAPTER QUICK START

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Our time of global change and turmoil makes the implications of globalization for managers, organizations, and everyday living ever more important to understand. Global corporations offer benefits and create controversies; cultural differences are a source of enrichment and the roots of misunderstandings for travelers, business executives, and government leaders. This chapter introduces the essentials of global management and cultural diversity with a focus on global learning.

Key Takeaways

- Discuss the implications of globalization for management and organizations.
- Describe global corporations and the issues they face and create.
- Define culture and identify ways to describe diversity in global cultures.
- Identify the benefits of global learning for management and organizations.

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Our dynamic, growing global community is rich with information, opportunities, controversies, and complications. We get real-time news from around the world on our smart mobile devices—giving us in the truest sense, the wherewithal to be true global citizens. When such crises as the Japanese tsunami or civil unrest like the Arab Spring occur, social media, including Twitter, Instagram, and Facebook, join major news organizations to get information and news out instantaneously. We play online games like World of Warcraft or Rift with people from around the world in actual time, and colleges and universities in the United States offer a vast array of international study-abroad programs for students.

As for traveling the globe, companies today really are travelers also. IBM has more employees in India than the U.S.¹ Anheuser-Busch, maker of “America’s King of Beers,” is owned by the Belgian firm InBev. Ben & Jerry’s is owned by the British-Dutch firm Unilever. India’s Tata Group owns Jaguar, Land Rover, Tetley, and Eight O’Clock. China’s Geely owns Volvo. Japan’s Honda, Nissan, and Toyota receive 80% to 90% of their profits from sales in America.² Components for Boeing planes come from 5,400 suppliers located in 40 countries!³

Management and Globalization

TAKEAWAY 1 What are the management challenges of globalization?

LEARN MORE ABOUT | Global management • Why companies go global • How companies go global
Global business environments

We live and work in the age of the **global economy** in which resources, supplies, product markets, and business competition have a worldwide—rather than a local or national—scope. It is a time heavily influenced by the forces of **globalization**, defined as the growing interdependence among the components in the global economy. Some see globalization as creating a “borderless world” where economic integration becomes so extreme that nation-states hardly matter anymore.⁴ But international management scholar Pankaj Ghemawat describes what he calls **World 3.0**, a form of globalization in which national identities remain strong even as countries cooperate in the global economy.⁵ National leaders try to balance economic gains from global integration with local needs and priorities.

In the **global economy**, resources, markets, and competition are worldwide in scope.

Globalization is the growing interdependence among elements of the global economy.

World 3.0 is a world where nations balance cooperation in the global economy with national identities and interests.

There’s no better way to illustrate the global economy than with the example of the clothes we wear. For example, where did you buy your favorite T-shirt? Where was it made? Where will it end up? In a

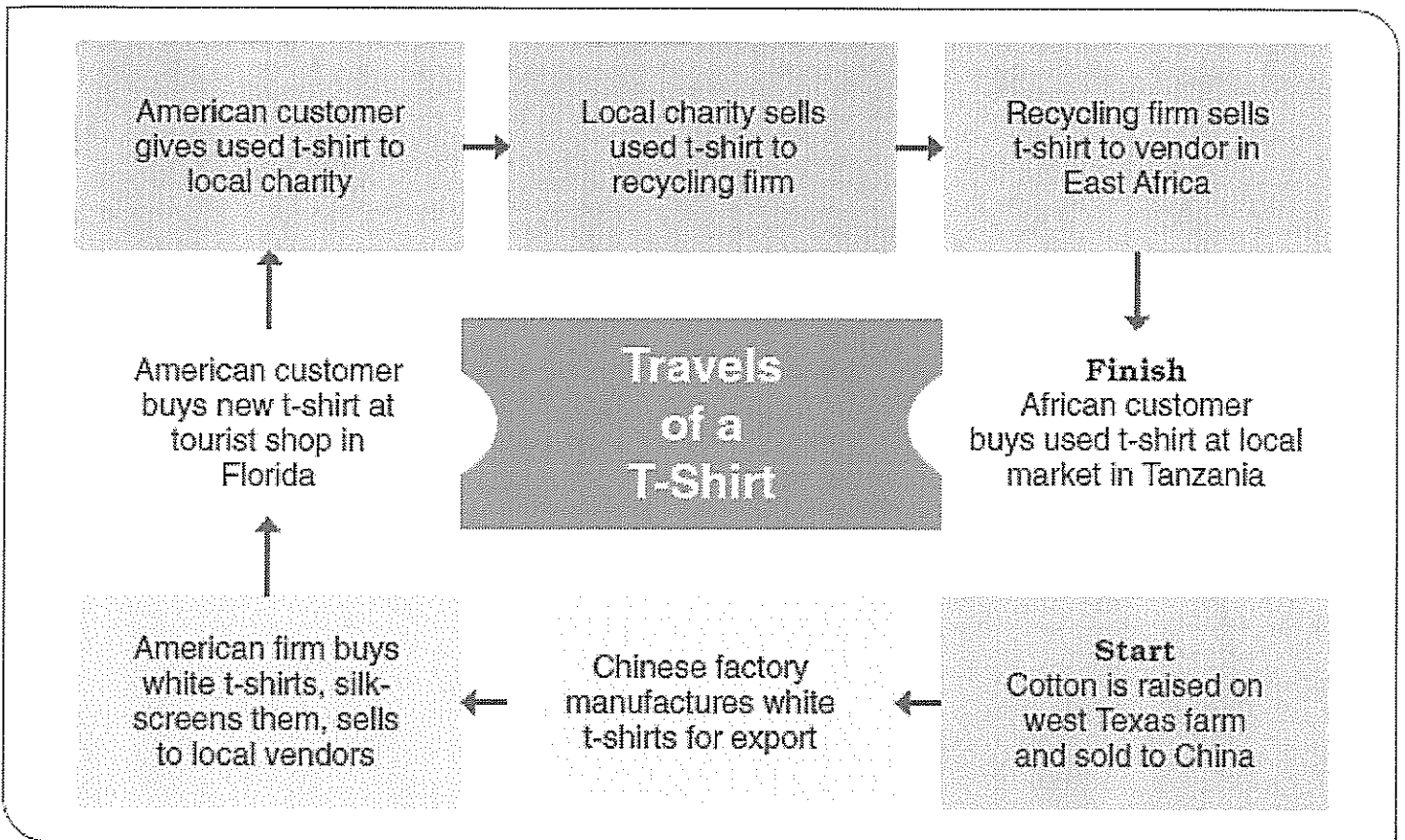
fascinating book titled *The Travels of a T-Shirt in the Global Economy*, economist Pietra Rivoli tracks the origins and disposition of a T-shirt that she bought while on vacation in Florida.⁶

As can be seen here, Rivoli's T-shirt lived a very complicated global life before she bought it. That life began with cotton grown in Texas. It then moved on to China where the cotton was processed and white T-shirts were manufactured. The T-shirts were then sold to a firm in the United States that silk-screened and sold them to retail shops for resale to American customers. These customers eventually donated the used T-shirts to a charity that sold them to a recycler. The recycler sold them to a vendor in Africa, who then distributed the T-shirts to local markets to be sold yet again to local customers.

It's quite an international story, as this T-shirt travels the global commercial highways and byways of the world. The Limited Brands story, and many other examples like it, leave

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little doubt as to why Harvard scholar and consultant Rosabeth Moss Kanter once described globalization as "one of the most powerful and pervasive influences on nations, businesses, workplaces, communities, and lives."⁷



Global Management

Honda in Ohio—Allen Kinzer, now retired, was the first American manager Honda hired for its Marysville, Ohio, plant. Many people were worried whether U.S. workers could adapt to the Japanese firm's production methods, technology, and style. Says Kinzer: "It wasn't easy blending the cultures; anyone who knew anything about the industry at the time would have to say it was a bold move." Honda now employs 4,200 workers, who produce 440,000 vehicles per year. It is one among literally hundreds of foreign firms offering employment opportunities to U.S. workers.⁸

Haier in South Carolina—The Haier Group is one of China's best-known appliance makers. CEO Zhang Ruimin built a factory in Camden, South Carolina, with the goal of taking a larger share of America's refrigerator market. But the plant was expensive and American workers resented Haier's organizational culture and top-down management style. Work hats that showed different ranks and seniority, for example, didn't go over well in South Carolina. But Zhang stayed with the project, saying, "First the hard, then smooth. That's the way to win."⁹

The prior vignettes introduce the opportunities and complexities of **global management**, which describes management in businesses and organizations with interests in more than one country. For many firms, global management is a way of life today. Procter & Gamble, for example, pursues a global strategy with customers in over 180 countries. The majority of McDonald's sales now come from outside the United States, with the "Golden Arches" prominent on city streets from Moscow to Tokyo to Budapest to Rio de Janeiro. Toyota has 14 plants employing more than 35,000 workers in North America. The success of firms like these depends on attracting and hiring truly **global managers** with a strong global perspective, who are culturally aware, and who are informed about current international issues and events.

Global management involves managing business and organizations with interests in more than one country.

A truly **global manager** is culturally aware and informed on international affairs.

Why Companies Go Global

John Chambers, chairman and CEO of Cisco Systems Inc., once said: "I will put my jobs anywhere in the world where the right infrastructure is, with the right educated workforce, with the right supportive government."¹⁰ Cisco, Honda, Haier, and other firms like these are classic **international businesses** that conduct for-profit transactions of goods and services across national boundaries. Nike is another truly international business—its swoosh is one of the world's most recognized brands.

An **international business** conducts for-profit transactions of goods and services across national boundaries.

Did you know that Nike has no domestic manufacturing infrastructure? All of its products are sourced internationally, including 100+ factories in China alone. Its competitor, New Balance, takes a different approach. Although extensively leveraging global suppliers and licensing its products internationally, New Balance still produces one out of every four of its shoes at factories in the United States.¹¹ The two firms follow somewhat different strategies, but each is actively global. Both firms—and others like them—seek these benefits of international business.

Benefits of international business

Profits—Gain profits through expanded operations.

Customers—Enter new markets to gain new customers.

Suppliers—Get access to materials, products, and services.

Labor—Get access to lower-cost, talented workers.

Capital—Tap into a larger pool of financial resources.

Risk—Spread assets among multiple countries.

Today you can add another benefit to this list, *economic development*—where a global firm does business in foreign countries with direct intent to help the local economy. Coffee giants Green Mountain Coffee, Peet's Coffee & Tea, and Starbucks, for example, help Rwandan farmers improve production and marketing methods. They send advisers to teach local coffee growers how to meet high international standards so that their products can be sold worldwide. This commitment to economic development generates a win-win scenario: The global coffee firm gets a quality product at a good price, the local coffee growers gain skills and market opportunities, and the domestic economy improves.¹² A development-focused approach to international business energizes a virtuous circle, where all parties to the relationship keep getting stronger as they work with one another.

wisdom> LEARN FROM ROLE MODELS

> *"Now every time I want to address a problem, I create a business ... we can create a world where poverty doesn't exist."*

Nobel Peace Prize Winner Asks Global Firms to Fight Poverty



© Micheline Pelletier/Corbis

Should global businesses balance the pursuit of profit with genuine efforts to do public good? A strong and positive "Yes!" is the answer offered by economist and Nobel Peace Prize winner Muhammad Yunus. He gained fame for creating the Grameen Bank to offer microcredit loans to help fight poverty in his home country of Bangladesh. The bank loans small amounts (as low as

\$30) to applicants of low income (96% of whom are women) so that they can start their own small businesses and establish financial independence. This model of microfinance has now spread around the world, serving some 200 million borrowers.

The next step for Yunus has been to ask global firms to unlock the power of business to tackle poverty and other enduring social problems. In his book *Creating a World without Poverty*, Yunus advocates a social business model whereby a company's products or services are targeted to benefit people suffering from social ills. "Now every time I want to address a problem, I create a business" that he says is "focused on problem solving, not on money making."

Yunus's call to the global business community was heard by German yogurt maker Danone. Danone joined with Yunus to start Grameen Danone as the world's first multinational social business. It manufactures nutritional yogurt and sells it at low prices in Bangladesh to help the 46% of local children who are undernourished. Profits are reinvested rather than paid out as dividends.

"We can create a world where poverty doesn't exist," claims Yunus, who hopes that "at least 1 percent of the world economy be made up with social business" within five years. He was awarded the Congressional Gold Medal in 2013 in recognition of his efforts "to combat global poverty."

FIND INSPIRATION

When a multinational company travels into countries where social problems like poverty, disease, and illiteracy are present, should it find a way to help? Can the social business model work in the global business context? Or is this something most likely to remain "unusual" rather than "common" in the future? Do you agree that global corporations can become powerful tools for eliminating social problems? Why or why not?

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How Companies Go Global

The ways of pursuing international business are shown in [Figure 5.1](#). When a business is becoming international, global sourcing, exporting/importing, licensing and franchising are typically the most common ways to begin. These are *market-entry strategies* that involve the sale of goods or services to foreign markets that don't require an expensive investment. Strategic alliances, joint ventures, and wholly owned subsidiaries are *direct investment strategies*. These approaches do require a major capital commitment, but also create rights of ownership and control over operations in the foreign country.

Global Sourcing

The first step taken into international business by many firms is **global sourcing**—the process of purchasing materials, manufacturing components, or locating business services around the world. It is an international division of labor in which activities are performed in countries where they can be accomplished effectively at low cost. Global sourcing at Boeing, for example, means that aircraft parts and components flow in from a complex global supply chain for final assembly into 787 Dreamliners at American plants—center fuselage from Italy, landing gear from France, flight deck interiors from Japan, and more. In the service sector, it may mean setting up toll-free customer support call centers in the Philippines, locating research and development centers in Brazil or Russia, or hiring physicians in India to read medical X-rays.¹³

In **global sourcing**, materials or services are purchased around the world for local use.

Most manufacturers today—of toys, shoes, electronics, furniture, clothing, aircraft—make extensive use of global sourcing. China is still a major outsourcing destination and in many areas has become the

factory for the world. If you use an Apple iPod, iPhone, or iPad, for example, the chances are good that it was assembled by a Taiwanese-owned company called Hon Hai Precision Industry at plants located in China. These plants are huge—employing as many as 350,000+ workers, who produce products not just for Apple, but for other firms like Sony and Hewlett-Packard. You may have heard of Hon Hai through its trade name, Foxconn, and from news coverage of controversies over its treatment of workers.¹⁴ Global firms have to work hard to maintain brand reputations while dealing with complex global supply chains, and aggressive international audits are now common. Even with a rigorous auditing program, however, Apple suffered a blow to its reputation when a financial analyst downgraded the firm’s stock for “moral reasons” after discovering some of its global suppliers paid low wages to their workers.¹⁵

Problems with sketchy foreign contractors, rising labor rates, and higher costs for transportation in global supply chains are among the reasons why some firms have started to reduce their outsourcing and do more **reshoring**—moving foreign manufacturing and jobs back home. Further reasons for reshoring include opportunities to access cheaper energy, stable wage rates, better quality control, and good public relations by starting or expanding domestic operations. A survey of large U.S.-based manufacturers by the Boston Consulting Group (BCG) found that over half of U.S. firms had either started reshoring or were likely to do so in the future. The report concluded that “Companies are realizing that the economics of manufacturing are swinging in favor of the U.S.”¹⁶

Reshoring shifts foreign manufacturing and jobs back to domestic locations.

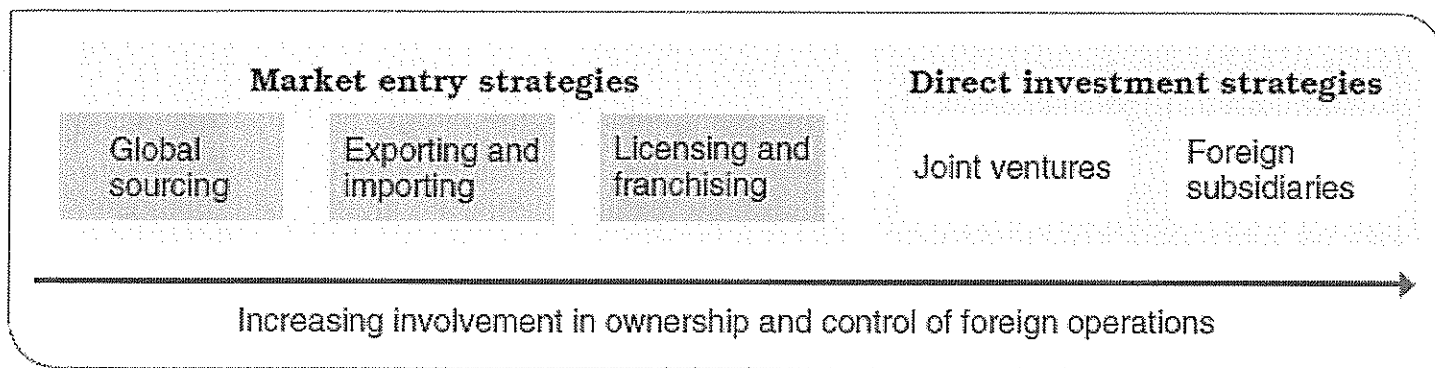


FIGURE 5.1 Common forms of international business—from market entry to direct investment increasing involvement in ownership and control of foreign operations strategies.

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choices > THINK BEFORE YOU ACT

> *“It’s probably 30 percent cheaper to manufacture in China. But factor in shipping and all the other B.S. that you have to endure.”*

Reshoring Offers Alternative to China Manufacturing



Pgiam/iStockphoto

Over the past 15 to 20 years, if you were a manufacturer you went to China, at least as a first stop on your global scouting trip. However, things have changed. A San Diego-based CEO says: “Now people are trying to come back.”

Why so?

LightSaver Technologies tried for two years to get things done in China. Now its work is back in California. CEO Jerry Anderson says China has lost its allure: “It’s probably 30 percent cheaper to manufacture in China. But factor in shipping and all the other B.S. that you have to endure.” Transportation costs and time are up for goods moved from China to the United States and other world markets. Labor costs are up; rising about 20% a year. Business risks in China, if not up, are at least more visible. Theft of intellectual property is a problem. One small manufacturer says: “They’re infamous over there for knocking [products] off.” Another complains: “Now prices are escalating, quality is dropping, and deliveries are being delayed.”

YOUR TAKE?

The *Economist* says China “is still a manufacturing power.” With super-efficient plants and supply chain infrastructure it remains a bargain for labor costs. So, are you on the reshoring side or the offshoring side of the issue? What facts are available to support or undermine your position? Try to think of this issue from a consumer’s perspective. If you can buy a child’s toy made in China for \$8, would you be willing to pay \$12 so that it could be labeled “Made in America”? Should more of America’s businesses, large and small, say, “Not worth the trouble!” when Chinese manufacturers come calling with offers?

Exporting and Importing

A second form of international business involves **exporting**—selling locally made products in foreign markets. The flipside of exporting is **importing**—buying foreign-made products and selling them in domestic markets.

In **exporting**, local products are sold abroad to foreign customers.

Importing involves the selling in domestic markets of products acquired abroad.

Because the growth of export industries creates local jobs, governments often offer special advice and assistance to businesses seeking to develop or expand export markets. After visiting a U.S. government –sponsored trade fair in China, Bruce Boxerman, president of a then small Cincinnati firm, Richards Industries, decided to take advantage of the growing market for precision valves. The decision doubled export sales in 10 years and one his employees said: “It wasn’t long ago that guys looked at globalization like it is going to cause all of us to lose our jobs. Now it’s probably going to save our jobs.”¹⁷ And it certainly did. Richards is now the parent company to six product lines and has over 200 sales representatives around the world.

Licensing and Franchising

International business also takes place through the **licensing agreement**, where foreign firms pay a fee for rights to make or sell another company’s products in a specified region. The license typically grants access to a unique manufacturing technology, special patent, or trademark. Such licensing, however, involves potential risk.¹⁸ New Balance, for example, licensed a Chinese supplier to produce one of its brands. Even after New Balance revoked

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the license, the supplier continued to produce and distribute the shoes around Asia. It was only through expensive, drawn-out litigation in China’s courts that New Balance was able to deal with the problem.¹⁹

In a **licensing agreement** a local firm pays a fee to a foreign firm for rights to make or sell its products.

Franchising is a form of licensing in which a foreign firm buys the rights to use another’s name and operating methods in its home country. The international version operates in a similar way to domestic franchising agreements. Such firms as McDonald’s, Wendy’s, and Subway, for example, sell facility designs, equipment, product ingredients, recipes, and management systems to foreign investors, while retaining certain brand, product, and operating controls. One of the challenges associated with international franchising can be the creation of locally popular menu items while retaining coherence with broader branding goals.

In **franchising**, a fee is paid to a foreign business for rights to locally operate using its name, branding, and methods.

Joint Ventures and Strategic Alliances

Foreign direct investment, or FDI, involves setting up and buying all or part of a business in another country. For many countries, the ability to attract foreign business investors has been a key to succeeding in the global economy. The term **insourcing** is often used to describe foreign direct investment, or FDI, that results in local job creation. FDI in the United States totals over \$125 billion, for example, and creates just under 6 million local jobs.²⁰

Insourcing is job creation through foreign direct investment.

When foreign firms do invest in another country, a common way to start is with a **joint venture**. This is a co-ownership arrangement in which foreign and local partners agree to pool resources, share risks, and jointly operate the new business. Sometimes the joint venture is formed when a foreign partner buys part ownership in an existing local firm. In other cases it is formed as an entirely new operation that the foreign and local partners jointly start up together.

A **joint venture** operates in a foreign country through co-ownership by foreign and local partners.

International joint ventures are types of **global strategic alliances** in which foreign and domestic firms work together for mutual benefit. Partners in alliance hope to generate more market penetration and profits by cooperating than they would have been able to achieve alone. For the local partner, an alliance may bring access to technology and opportunities to learn new skills. For the foreign partner, an alliance may bring access to new markets and the expert assistance of locals who understand domestic markets and the local business context.

A **global strategic alliance** is a partnership in which foreign and domestic firms share resources and knowledge for mutual gains.

Joint ventures pose potential business risks and partners must be carefully chosen.²¹ Sometimes partners' goals do not match, for example, when the foreign firm seeks profits and cost efficiencies while the local firm seeks maximum employment and acquisition of new technology.²² Although the loss of business secrets also is a potential risk, the line between acceptable business practice and infringement can be very hard to define in international contexts. Some time ago a new car was marketed in China by a firm partially owned by General Motor's Chinese joint venture partner. The car—called "Chery"—looked very similar to a GM model, and the firm complained that its design had been copied. The competitor denied it and went on to become China's largest independent automaker—Chery International, which sells its cars at home and abroad.²³

How to Choose a Joint Venture Partner

- Familiar with firm's major business
- Employs a strong local workforce
- Values its customers
- Has potential for future expansion
- Has strong local market
- Has good profit potential
- Has sound financial standing

Foreign Subsidiaries

One way around some of the risks and problems associated with joint ventures and strategic alliances is full ownership of the foreign operation. A **foreign subsidiary** is a local operation completely owned and controlled by a foreign firm. These subsidiaries may be built from the ground up as a **greenfield venture**. They also can be established by acquisition, wherein the outside firm purchases an entire local operation.

A **foreign subsidiary** is a local operation completely owned by a foreign firm.

A **greenfield venture** is a foreign subsidiary built from the ground up by the foreign owner.

Although a foreign subsidiary represents the highest level of involvement in international operations, it can be very profitable to approach an international venture in this way. When Nissan opened a plant in Canton, Mississippi, an auto analyst said: "It's a smart strategy ... building more in their regional markets, as well as being able to meet consumers' needs more quickly."²⁴ The analyst could also have pointed out that this plant allowed Nissan to claim reputational benefits by dealing with American customers as a "local" employer rather than a "foreign" company.

Global Business Environments

When Nissan comes to America or GM goes to China, a lot of what takes place in the foreign business environment is very different from what is common at home. Not only must global managers master the demands of operating with worldwide suppliers, distributors, customers, and competitors, they must also deal successfully with many unique local challenges.

Legal and Political Systems

Some of the most substantial risks in international business come from differences in legal and political systems. Global firms are expected to abide by local laws, many of which may be unfamiliar. The more home-country and host-country laws differ, the harder it is for international businesses to adapt to local rules, regulations, and customs. See, for example, the legal complications faced by Google with the European Union.²⁵

Legal Problems Faced by Google in Europe

- The European Court of Justice rules that individuals have a “right to be forgotten” in some instances and that Google must delete their search results on request.
- Tax authorities in France bill Google for 1 billion Euro in back taxes.
- German economy minister Sigmar Gabriel says that breaking up Google “must be seriously considered” because of its market dominance.
- European Commission under pressure to revise and strengthen an antitrust agreement previously reached with Google over precedence shown to its own businesses in search results.

Common legal problems faced by international businesses involve incorporation practices and business ownership; negotiation and implementation of contracts with foreign parties; handling of foreign exchange; and intellectual property rights—patents, trademarks, and copyrights. You may be most familiar with the intellectual property issue as it relates to movie and music downloads, sale of fake designer fashions, or software pirating. Companies like Microsoft, Sony, and Louis Vuitton think about this issue in terms of lost profits due to their products or designs being copied and sold as imitations by foreign firms. After a lengthy and complex legal battle, for example, Starbucks won a major intellectual property case it had taken to the Chinese courts. A local firm was using Starbucks’ Chinese name, “Xingbake” (*Xing* means “star” and *bake* is pronounced “bah kuh”), and was also copying its café designs.²⁶

Political turmoil, violence, and government changes constitute another area of concern known as **political risk**—the potential loss in value of an investment in or managerial control over a foreign asset because of instability and political changes in the host country. The major threats associated with political risk today come from terrorism, civil wars, armed conflicts, and new government systems and policies. Although these threats can’t be prevented, they can be anticipated.

Political risk is the potential loss in value of a foreign investment due to instability and political changes in the host country.

Most global firms use a planning technique called **political-risk analysis** to forecast the probability of disruptive events that can threaten the security of foreign investments. Consider, for example, the criminal drug violence in Mexico. What are some of the implications for business investors? Although involvement in Mexico clearly represents an exercise in political risk, thus far, foreign investment in Mexico is on the increase. The country’s proximity to U.S. markets and low-cost skilled labor are still

attractive. Gonzalo Cano, quality manager at a large Lego plant in Monterrey, says: "Security is an issue but it does not get in the way. Companies are taking the long view."²⁷

Political-risk analysis tries to forecast political disruptions that can threaten the value of a foreign investment.

Trade Agreements and Trade Barriers

When international businesses believe they are being mistreated in foreign countries, or when local companies believe foreign competitors are disadvantaging them, their respective governments can take these cases to the **World Trade Organization (WTO)**. The WTO is a global organization established to promote free trade and open markets around the world. Its member nations, presently 151 of them, agree to negotiate and resolve disputes about tariffs and trade restrictions.²⁸

World Trade Organization member nations agree to negotiate and resolve disputes about tariffs and trade restrictions.

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WTO members are supposed to give one another **most favored nation status**—the most favorable treatment for imports and exports. Yet trade barriers are still common. They include outright **tariffs**, which constitute taxes that governments impose on imports. They also include **nontariff barriers** that discourage imports in nontax ways. These include quotas, import restrictions, and other forms of **protectionism** that give favorable treatment to domestic businesses. Foreign firms complain, for example, that the Chinese government creates barriers that make it hard for them to succeed. A spokesperson for the U.S. Chamber of Commerce says that American multinationals like Caterpillar, Boeing, Motorola, and others have been hurt by "systematic efforts by China to develop policies that build their domestic enterprises at the expense of U.S. firms."²⁹

Most favored nation status gives a trading partner most favorable treatment for imports and exports.

Tariffs are taxes governments levy on imports from abroad.

Nontariff barriers to trade discourage imports in nontax ways such as quotas and government import restrictions.

Protectionism is a call for tariffs and favorable treatments to protect domestic firms from foreign competition.

One goal of most tariffs and protectionism is to protect local firms from foreign competition and save local jobs. These issues are reflected in political campaigns and election-year debates. These aren't easy issues to solve. Government leaders face the often conflicting goals of seeking freer international trade, while still protecting domestic industries. Such political dilemmas create controversies for the WTO in its role as a global arbiter of trade issues. For example, in one claim filed with the WTO, the United States complained that China's "legal structure for protecting and enforcing copyright and trademark protections" was "deficient" and not in compliance with WTO rules. China's response was that the suit was out of line with WTO rules and that "we strongly oppose the U.S. attempt to impose

on developing members through this case."³⁰ When both sides of a case like this present defensible

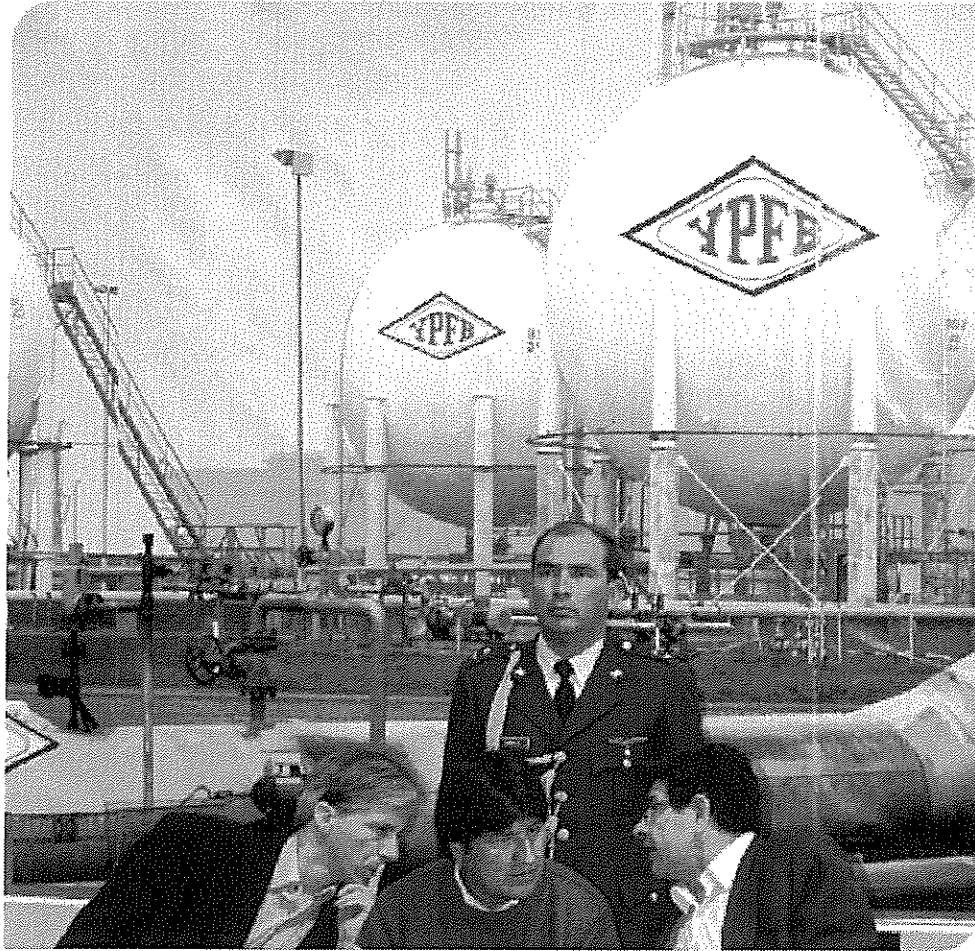
positions it is difficult to establish a clear way to resolving the key issues, particularly when the issues are shaded by cultural differences.

ethics > **KNOW RIGHT FROM WRONG**

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> *Bolivia's president announced that his government was nationalizing "all natural resources, what our ancestors fought for."*

Nationalism and Protectionism a Potent Mix



AIZAR RALDES/AFP/Getty Images/Newscom

The headline read "Bolivia Seizes Control of Oil and Gas Fields." Although oil industry executives couldn't say that this wasn't anticipated, it still must have been shocking when Bolivia's government announced that it was taking control of the country's oil and gas fields. The announcement said: "We are beginning by nationalizing oil and gas; tomorrow we will add mining, forestry, and all natural resources, what our ancestors fought for."

Immediately following the announcement, Bolivia's armed forces secured all of the country's oil and gas fields. President Evo Morales set forth new terms that gave a state-owned firm 82% of all revenues, leaving 18% for the foreign firms. He said: "Only those firms that respect these new terms will be allowed to operate in the country." The implicit threat was that any firms not willing to sign new contracts would be sent home.

While foreign governments described this nationalization as an "unfriendly move," Morales considered it patriotic. His position was that any existing contracts with the state were in violation of the constitution, and that Bolivia's natural resources belonged to its people.

WHAT DO YOU THINK?

If you were the CEO of one of the global oil firms operating in Bolivia, how would you react to this nationalization? Would you resist and raise the ethics issue of honoring existing contracts with the Bolivian government? Or would you comply and accept the new terms being offered? As an everyday citizen of the world, do you agree or disagree with the argument that Bolivia's natural resources are national treasures that belong to the people, not foreign investors? What ethical issues inform the decision to nationalize Bolivia's oil and gas industry?

Regional Economic Alliances

One of the characteristics of globalization is the growth of **regional economic alliances**, where nations agree to work together for economic gains. **NAFTA**, the North American Free Trade Agreement, is an example. Formed in 1994 by the United States, Canada, and Mexico, NAFTA created a trade zone that frees the flow of goods and services, workers, and investment among the three countries.

Regional economic alliances link member countries in agreements to work together for economic gains.

NAFTA is the North American Free Trade Agreement linking Canada, the United States, and Mexico in an economic alliance.

Many American firms have taken advantage of NAFTA, moving production facilities from the United States to Mexico, largely to benefit from lower wages paid to skilled Mexican workers. This labor shift has both pros and cons, and NAFTA remains a controversial topic in some political debates. Arguments in support credit NAFTA with greater cross-border trade, greater productivity of U.S. manufacturers, and reform of the Mexican business environment. Arguments against blame NAFTA for substantial job losses to Mexico, lower wages for American workers who want to keep their jobs, and a wider trade deficit with Mexico.³¹ That said, the NAFTA story is increasingly positive. Intellectual property is well protected under the agreement, and global supply chain issues are making Mexico increasingly attractive as a manufacturing destination. The Boston Consulting Group estimates that by 2015 Mexico will offer manufacturers a 30% labor cost advantage over China.³²

The **European Union** (EU) is a regional economic and political alliance of global importance. The financial health of the EU is regularly in the news, as upswings and downswings in its economy affect the entire world. The EU comprises 28 member countries that have agreed to support mutual interests by integrating themselves politically—there is now a European Parliament, and economically—member countries have removed barriers that previously limited cross-border trade and business development. Seventeen EU members also are part of a common currency, the **Euro**, which has grown to the point where it is a major alternative and competitor to the U.S. dollar in the global economy.

The **European Union** is a political and economic alliance of European countries.

The **Euro** is now the common European currency.

In Asia and the Pacific Rim, 21 member nations established the **Asia Pacific Economic Cooperation** (APEC) to promote free trade and investment in the Pacific region. Businesses from APEC countries have access to a region of superstar economic status, home to some of the world's fastest growing economies such as China, Republic of Korea, Indonesia, Russia, and Australia. The market potential of member countries, close to 3 billion consumers, far exceeds NAFTA and the EU. Also in Asia, the 10 nations of the Association of Southeast Asian Nations (ASEAN) cooperate with a stated goal of promoting economic growth and progress.

The **Asia Pacific Economic Cooperation** (APEC) links 21 countries to promote free trade and investment in the Pacific region.

Africa also is increasingly center stage in world business headlines.³³ The region's economies are growing, the middle class is expanding, and there is a promising rise in entrepreneurship.³⁴ Companies like Harley-Davidson, Walmart, Caterpillar, and Google are making their presence—and continental ambitions—known as they set up offices, invest in dealerships, and buy local companies.³⁵ The **Southern Africa Development Community** (SADC) links 14 countries in southern Africa in trade and economic development efforts. Its website posts this vision: “a future in a regional community that will ensure economic well-being, improvement of the standards of living and quality of life, freedom and social justice, and peace and security for the peoples of Southern Africa.”³⁶

The **Southern Africa Development Community** (SADC) links 14 countries of southern Africa in trade and economic development efforts.

TAKEAWAY QUESTION 1 What are the management challenges of globalization?

BE SURE YOU CAN • define *globalization* and discuss its implications for international management • list five reasons companies pursue international business opportunities • describe and give examples of global sourcing, exporting/importing, franchising/licensing, joint ventures, and foreign subsidiaries • discuss how differences in legal environments can affect businesses operating internationally • explain the goals of the WTO • discuss the significance of regional economic alliances such as NAFTA, the EU, APEC, and SADC

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Global Businesses

TAKEAWAY 2 What are global businesses and how do they work?

LEARN MORE ABOUT | Types of global businesses • Pros and cons of global businesses
Ethics challenges for global businesses

If you travel abroad, many of your favorite brands and products will travel with you. You can have a McDonald's sandwich in over 100 countries, follow it with a Häagen-Dazs ice cream in 50, and then brush up with Procter & Gamble's Crest toothpaste in 180. Economists even use the "Big Mac" index, which compares the U.S. dollar price of the McDonald's sandwich around the world, to track purchasing power parity among the world's currencies.³⁷

Sample Big Mac Index

United States	\$4.62
Sweden	\$6.29
Brazil	\$5.25
Euro area	\$4.96
Australia	\$4.47
Mexico	\$2.78
China	\$2.64
Russia	\$2.62

Types of Global Businesses

Global corporations, also called *multinational enterprises* (MNEs) and *multinational corporations* (MNCs), are business firms with extensive international operations in many foreign countries. The largest global corporations are identified in annual listings such as *Fortune* magazine's Global 500 and the *Financial Times*' FT Global 500. They include familiar names such as Walmart, BP, Toyota, Nestlé, BMW, Hitachi, Caterpillar, Sony, and Samsung, as well as others you may not recognize, such as the big oil and gas producers PetroChina (China), Gazprom (Russia), and Total (France).

A **global corporation** is a multinational enterprise (MNE) or multinational corporation (MNC) that conducts commercial transactions across national boundaries.

There is likely no doubt in your mind that Hewlett-Packard and General Motors are American firms, while Sony and Honda are Japanese. But, this may not be how executives at these companies want their firms to be viewed. These firms and many other global firms act more like **transnational corporations** that do business around the world without being identified with one national home.³⁸ *The Economist* magazine has even started publishing a “Domestic Density Index” as a measure of corporate identity using the percentage of sales, employees, and shareholders that are domestic to the home country as well as the nationality of the CEO. Sample domestic identity scores include Coca-Cola (62%), Apple (65%), and GE (63%).³⁹

A **transnational corporation** is a global corporation or MNE that operates worldwide on a borderless basis.

Executives of transnational firms view the entire world as their domain for acquiring resources, locating production facilities, marketing goods and services, and communicating brand images. The goal is described by a global executive as “source everywhere, manufacture everywhere, sell everywhere.”⁴⁰ The resulting dense, overlapping, and worldwide manufacturing and marketing networks often make it difficult to distinguish one country’s firms from the next. When shopping at an Aldi store or browsing Hugo Boss clothes, would you know they’re German companies? Which company is really more American—the Indian giant Tata, which gets some 50% of its revenues from North America, or IBM, which gets over 65% of its revenues from outside the United States?⁴¹

Pros and Cons of Global Businesses

What difference does a company’s nationality make? Does it really matter to an American whether local jobs come from a domestic giant like IBM or a foreign firm like Honda? How about size? Does it matter that Exxon/Mobil’s revenues are larger than Sweden’s gross domestic product (GDP)?⁴² What about wealth? Is what some call the **globalization gap**—large multinationals and industrialized nations gaining disproportionately from globalization, a matter for social and personal concern?⁴³

The **globalization gap** is where large multinational corporations and industrialized nations gain disproportionately from the benefits of globalization.

Host-Country Issues

Ideally, global corporations and the countries that host them should both reap benefits. But things can go right and wrong in these relationships.⁴⁴ Potential host-country benefits shown in [Figure 5.2](#) include a larger tax base, increased employment opportunities, technology transfers, introduction of new industries, and development of local resources. Potential host-country costs include complaints that global corporations extract excessive profits,

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dominate the local economy, interfere with the local governments, fail to respect local customs and laws, fail to help domestic firms develop, hire the most talented local personnel away from domestic firms, and fail to transfer their most advanced technologies to the host country.

What should go right in MNC host-country relationships

Mutual benefits

- Shared opportunities with potential for
- Growth
 - Income
 - Learning
 - Development

What can go wrong in MNC host-country relationships

Host-country complaints about MNCs

- Excessive profits
- Economic domination
- Interference with government
- Hire best local talent
- Limited technology transfer
- Disrespect for local customs

MNC complaints about host countries

- Profit limitations
- Overpriced resources
- Exploitative rules
- Foreign exchange restrictions
- Failure to uphold contracts

FIGURE 5.2 What should go right and what can go wrong in global corporation and host-country relationships.

Home-Country Issues

Global corporations also can get into trouble at home in the countries where they were founded and where their headquarters are located. Even as many global firms try to operate as transnationals, home-country governments and citizens still tend to identify them with local and national interests. They also expect global firms to act as good domestic citizens.⁴⁵ When a global business cuts back home-country jobs, or closes a domestic operation in order to source work to lower-cost international providers, the loss is controversial. Corporate decision makers are likely to be called on by government and community leaders to reconsider and give priority to domestic social responsibilities. Other home-country criticisms of global firms include sending investment capital abroad and engaging in corruption. American lawmakers are concerned about corporate **tax inversion**, where a U.S.-based MNC buys a firm in a low-tax country in order to shield foreign earnings from U.S. taxes.

Tax inversion is where a U.S.-based MNC buys a firm in a low-tax country in order to shield foreign earnings from U.S. taxes.

Ethics Challenges for Global Businesses

Dateline Bangladesh: The collapse of eight-story Rana Plaza, an industrial building for garment factories, resulted in 1,129 deaths and 2,215 injuries. Although warnings had been issued about cracks in the building, employees faced loss of pay if they refused to work. Rana Plaza factories are connected to a global supply chain producing apparel for brands including Benetton, Cato Fashions, the Children's Place, and Walmart.⁴⁶

We live at a time of increasing global democratization of information and communication technologies, and the ready availability of reports on ethics-tied outcomes from global business activity. Customers, governments and other stakeholders, and the public at large have access to more information about what is happening with MNCs and their complex supply chains than ever before. The consequences of business actions—the good and the bad, and anywhere in the world—have never been more visible and impactful. Although bad decisions will continue to be made, it's harder to hide them from intense public scrutiny and significant public relations and financial backlash.⁴⁷

Corruption

Corruption occurs when people engage illegal practices to further their personal business interests. It's a source of continuing controversy and often makes headline news in the international business context.⁴⁸ There is no doubt that corruption poses significant

challenges for global managers. The civic society organization Transparency International is devoted to eliminating corrupt practices around the world. Its annual reports and publications track corruption and are a source of insight for both executives and policymakers.⁵⁰ But corruption issues aren't always neat and clear-cut. An American executive, for example, says that payoffs are needed to get shipments through customs in Russia even though all legal taxes and tariffs are already paid. Local customs brokers build these payments into their invoices.⁵¹ What do you think? Should the act of paying for what you already deserve to receive be considered a bribe? Should U.S. firms facing such situations be allowed to do whatever is locally acceptable? How do you sort right from wrong when considering how to negotiate local customs and business expectations?

Corruption involves illegal practices to further one's business interests.

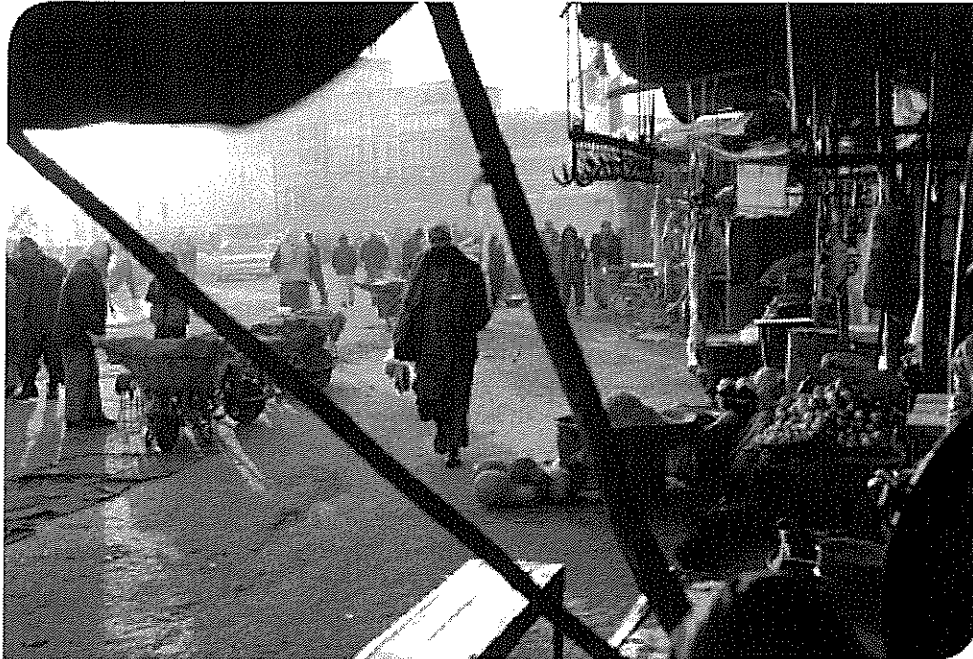
The **Foreign Corrupt Practices Act (FCPA)** makes it illegal for U.S. firms and their representatives to engage in corrupt practices overseas.⁵¹ U.S. companies are not supposed to pay or offer bribes or excessive commissions—including nonmonetary gifts—to foreign officials in return for business favors. Critics claim that the FCPA fails to recognize the realities of business practice in many foreign nations. Critics believe the FCPA puts U.S. companies at a competitive disadvantage because they can't offer the same "deals" or "perks" as businesses from other nations, deals locals may regard as standard business practice. But other nations, such as the United Kingdom with its Bribery Act, have begun to pass similar laws and the U.S. Department of Justice isn't backing down. Penalties levied by the U.S. government are now running over \$1 billion per year.⁵²

The **Foreign Corrupt Practices Act (FCPA)** makes it illegal for U.S. firms and their representatives to engage in corrupt practices overseas.

analysis> MAKE DATA YOUR FRIEND

> *Transparency International wants to end the “devastating impact of corruption on men, women, and children around the world.”*

Corruption and Bribes Haunt Global Business



AFP/Getty Images

If you want a world free of corruption and bribes, you share a lot in common with the global civil society organization Transparency International. TI’s mission is to “create change for a world free of corruption.” The organization publishes regular surveys and reports on corruption and bribery around the world. Some recent data reflecting on country-specific patterns of corruption can be seen below:

Corruption: Best and worst out of 178 countries in perceived public sector corruption. (Note: & = ties)

Best—Denmark, Finland, & New Zealand (#1), Sweden (#4), Singapore (#5)

Worst—Afghanistan, North Korea, Somalia (#174), Sudan (#173), Myanmar (#172)

In Betweens—United States (#19), Costa Rica (#48), Italy (#72), India (#94), Vietnam (#123)

Bribery: Best and worst of 20 countries in likelihood of home country firms’ willingness to pay bribes abroad.

Best—Netherlands & Switzerland (#1), Belgium (#3), Germany & Japan (#4)

Worst—Russia (#28), China (#27), Mexico (#26), Indonesia (#25)

In Betweens—Canada (#6), United States (#10), Brazil (#14), Turkey (#19)

YOUR THOUGHTS?

Are there any patterns evident in these data? Does it surprise you that the United States didn’t make the “best” lists? How could TI’s website be used by global business executives? Is there a meaningful difference between “corruption” and “bribery” in international business? What does the absence of a set of standardized global practices mean for an even international business playing field?

Child Labor and Sweatshops

The facts are startling: 215 million child laborers worldwide, 115 million of them working in hazardous conditions.⁵³ **Child labor**—the employment of children to perform work otherwise performed by adults, is a major ethics issue that haunts global businesses as they follow the world's low-cost manufacturing from country to country. More than likely, you've heard about child labor used in the manufacture of handmade carpets, but what about your favorite electronic device whose components are largely made by foreign suppliers?⁵⁴ Companies find it difficult to always know for certain just who is employed in a foreign factory producing for global brands. After an Apple audit identified 106 underage workers used by 11 of its 400 suppliers, Apple required the firms to return children to their homes, pay for their enrollment in local schools, and pay their families what the children would have earned in annual income.⁵⁵

Child labor is the employment of children for work otherwise done by adults.

Child labor isn't the only ethics-critical labor issue facing global managers. **Sweatshops**—business operations that employ workers at low wages for long hours in poor working conditions—are another key ethical issue. The Bangladesh garment industry, for example, depends on workers, often female and illiterate, who are trying to escape lives of poverty. Their complaints include blocked elevators, filthy tap water, and unclean overflowing toilets in the factories.⁵⁶ The Rana Plaza tragedy mentioned earlier exposed unsafe buildings and sweatshop conditions in factories throughout the country. When Walmart audited some 200 factories in its Bangladesh supply chains, 15% failed safety inspections. Walmart now claims it has a “zero tolerance policy” when its standards are violated and will cancel business contracts with any supplier that subcontracts work to others without informing Walmart.⁵⁷

Sweatshops employ workers at very low wages for long hours in poor working conditions.

Conflict Minerals

It's no secret that the sale of scarce minerals helps support warlords and perpetuates strife in places such as the Democratic Republic of Congo and surrounding region. Called **conflict minerals** because monies gained from their sale help finance armed violence, they also are indispensable to many—if not all—the electrical devices we love and are so dependent upon in everyday living.⁵⁸ It just isn't possible to make a phone, tablet, gaming console, or other smart device, without components that use minerals like tin, tungsten, gold, and tantalum, each of which might be mined in conflict areas.⁵⁹

Conflict minerals are ones sourced in the Democratic Republic of Congo and surrounding region and whose sale finances armed groups that perpetuate violence.

Identifying the source of the minerals used in electronics manufacturing is extremely difficult in the dense and sometimes murky world of global sourcing. Who knows, for example, how many times a supply of tungsten may have been passed from hand to hand and where its original source might be located? Yet, certification of sourced minerals as “conflict free” is exactly what section 1502 of the Dodd-Frank Act of 2010 required of U.S. companies. After the law was appealed, the court ruled that firms would only have to report to the Securities and Exchange Commission that they had investigated their supply chains for conflict minerals.⁶⁰ Whether you believe the original Dodd-Frank provision requiring “conflict-free” certification or the later court ruling requiring “investigation” is the right approach, the fact is that companies have a lot to gain in reputation and moral standing by tracing the minerals used in their products and rejecting those sourced in conflict areas. But, this task is exceedingly complex. Apple, for example, says it uses some 200 smelters in 30 countries. H-P says as many as 10 middlemen may stand between it and the original sources of some minerals. And Intel,

which was one of the first firms to submit an audit report to the SEC, says that its chips are conflict free but that it had visited 85 smelters in 21 countries to establish the audit trail.⁶¹

Learning Check 2

TAKEAWAY QUESTION 2 What are global businesses and how do they work?

BE SURE YOU CAN • differentiate a multinational corporation from a transnational corporation • list at least three host-country complaints and three home-country complaints about global business operations • give examples of corruption, sweatshops, and child labor in international businesses

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Cultures and Global Diversity

TAKEAWAY 3 What is culture and how does it influence global management?

LEARN MORE ABOUT | Cultural intelligence • Silent languages of culture • Tight and loose cultures

Values and national cultures

Situation: A U.S. executive goes to meet a business contact in Saudi Arabia. He sits in the office with crossed legs and the sole of his shoe exposed. Both are unintentional signs of disrespect in the local culture. He passes documents to the host using his left hand, which Muslims in Saudi Arabia generally consider to be unclean. He declines when coffee is offered, which suggests criticism of the Saudi's hospitality. *Outcome:* A \$10 million contract is lost to a Korean executive better versed in the local culture.⁶²

"Culture" matters, as we often say, and cultural miscues can be costly in international business and politics. **Culture** is the shared set of beliefs, values, and patterns of behavior common to a group of people.⁶³ **Culture shock** is the confusion and discomfort a person experiences when in an unfamiliar culture. The box on stages in adjusting to a new culture is a reminder that these feelings must be mastered to travel comfortably and do business around the world. Have you ever had a surprising cross-cultural experience? Have you personally experienced culture shock?

Culture is a shared set of beliefs, values, and patterns of behavior common to a group of people.

Culture shock is the confusion and discomfort a person experiences when in an unfamiliar culture.

Cultural Intelligence

The American's behavior in Saudi Arabia was self-centered. He ignored and showed no concern for the culture of his Arab host. This displayed **ethnocentrism**, a tendency to view one's culture as superior to that of others. Some might excuse him as suffering from culture shock. Perhaps he was exhausted after a long international flight. Maybe he was so uncomfortable

upon arrival that all he could think about was making a deal and leaving Saudi Arabia as quickly as possible. Still others might give him the benefit of the doubt as being well-intentioned but not having time to learn enough about Saudi culture before making the trip.

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Ethnocentrism is the tendency to consider one's culture superior to others.

insight> LEARN ABOUT YOURSELF

Cultural Intelligence Opens Doors to Opportunity

The complications and drama of global events are constant reminders that the ability to work and communicate well across cultures is one of the great challenges of our time. It is hard to pass a day, for example, without encountering Asia's influence on global politics and economics. When our business and government leaders venture into Asia, we want them to be successful. They must have high **cultural intelligence**, including an awareness of Confucian values such as those shown in the box.

Confucian Values in Asian Cultures

- **Harmony**—works well in a group, doesn't disrupt group order, puts group before self-interests
- **Hierarchy**—accepts authority and hierarchical nature of society; doesn't challenge superiors
- **Benevolence**—acts kindly and understandingly toward others; paternalistic, willing to teach and help subordinates
- **Loyalty**—loyal to organization and supervisor, dedicated to job, grateful for job and supportive of superiors
- **Learning**—eager for new knowledge, works hard to learn new job skills, strives for high performance

Cultural differences can be frustrating and even feel threatening. Our ways of doing things may seem strange or even offensive to others, and vice-versa. Consultant Richard Lewis warns of "cultural spectacles" that limit our vision, causing us to see and interpret things with the biases of our own culture. Cultural intelligence, by contrast, helps us to adapt to new cultures and work well in culturally diverse situations. It helps us break the habits of our culture and engage the ways of others with interest, respect, and learning. Importantly, it is a must-have competency in our global marketplace.

GET TO KNOW YOURSELF BETTER

The cultural diversity of a college campus offers a trip around the world ... if we're willing to reach out, learn, and embrace it. Take advantage of global diversity in your community. Observe and criticize yourself as you meet, interact with, and otherwise come into contact with persons from other cultures. Take notes on what you perceive as cultural differences and on your "first tendencies" in reacting to these differences. Assess what this suggests about your cultural intelligence. Make a list of what could be your strengths and weaknesses as a global manager. Write down personal reflections on your capacity to work well across cultural boundaries.

Regardless of possible reasons for the executive's cultural mistakes, they still worked to this his disadvantage. They also showed a lack of something critical to success in global management—**cultural intelligence**. Often called "CQ" for "cultural quotient," cultural intelligence is the ability to adapt, adjust, and work well across cultures.⁶⁴

Cultural intelligence is the ability to adapt, adjust, and work well across cultures.

Where do you stand when it comes to cultural intelligence? People with cultural intelligence are flexible in dealing with cultural differences and willing to learn from what is unfamiliar. They use that learning to self-regulate and modify their behaviors to act with sensitivity toward another culture's ways. In other words, someone high in cultural intelligence views cultural differences not as a threat but as an opportunity to learn.⁶⁵ You can do a quick test of your CQ by asking and answering these questions:⁶⁶

1. Am I aware of the cultural knowledge I use in cross-cultural situations?
2. Do I know about the cultural values, practices, and religious beliefs of other cultures?
3. Do I enjoy interacting with people from diverse cultures?
4. Do I change my behavior when a cross-cultural situation requires it?

Silent Languages of Culture

The capacities to listen, observe, and learn are key building blocks of cultural intelligence. These skills and competencies can be developed by better understanding what the anthropologist Edward T. Hall calls the "silent" languages of culture.⁶⁷ He believes that these silent languages are found in a culture's approach to context, time, and space.

Context

If we look and listen carefully, Hall says we'll recognize how cultures differ in their use of language in communication.⁶⁸ Most communication in **low-context cultures** takes place via the written or spoken word. This is common in the United States, Canada, and Germany, for example. Americans in particular tend to say or write what they mean and mean what they say. Things aren't this way in many parts of the world.

Low-context cultures emphasize communication via spoken or written words.

In **high-context cultures** what is actually said or written may convey only part, and sometimes a very small part, of the real message. The rest must be interpreted from the situation, body language, physical setting, and even past relationships among the people involved. Dinner parties, social gatherings, and golf outings in high-context cultures such as Thailand and Malaysia, for example, are ways for potential business partners to get to know one another. Only after social relationships are established and a context for communication is developed does it become possible to begin making business deals.

High-context cultures rely on nonverbal and situational cues as well as on spoken or written words in communication.

Time

Hall describes differences in how cultures deal with time. People in **monochronic cultures** often do one thing at a time. It is common in the United States, for example, to schedule meetings with specific people and focus on a specific agenda for an allotted period of time.⁶⁹ If someone is late to a meeting or brings an uninvited guest, this is viewed unfavorably.

In **monochronic cultures** people tend to do one thing at a time.

Members of **polychronic cultures** are more flexible in their views of time. They often try to work on many different things at once, perhaps not in any particular order, and give in to distractions and interruptions. A monochronic American visitor to the office of a polychronic Egyptian client may be frustrated. He may not get dedicated attention as the client greets and deals with a continuous stream of people flowing in and out of his office.

In **polychronic cultures** time is used to accomplish many different things at once.

Space

The use of space is also one of the silent languages of culture. Hall describes these cultural tendencies in terms of **proxemics**, the study of how people use space to communicate.⁷⁰

Americans tend to like and value their own space, perhaps as much space as they can get. We like big offices, big cars, big homes, and big yards. We tend to get uncomfortable in tight spaces and when others stand too close to us in lines. When someone “talks right in our face,” we don’t like it; the behavior may even be interpreted as an expression of anger.

Proxemics is how people use space to communicate.

Members of some cultures are quite comfortable surrounded by smaller spaces and closer physical distances. If you visit Japan you are likely to notice very quickly that space is precious. Small homes, offices, and shops are the norm; gardens are tiny, but immaculate; public spaces are carefully organized for most efficient use; privacy is highly valued and protected. In many Latin cultures the *abrazo*, or strong embrace, is a common greeting. In Vietnam, men often hold hands or link arms as a sign of friendship when talking with one another.

Tight and Loose Cultures

The nail that sticks up will be hammered down.
Asian Proverb

The squeaking wheel gets the grease.
American Idiom

These two sayings are representative of two very different cultural settings. What are the implications of these two different ways of viewing outliers? Try to picture young children listening to their parents or elders as they offer these words of wisdom. One child grows up being careful to not speak out, stand out, or attract attention. The other grows up trying to speak up and stand out in order to get attention.

The contrast in childhoods just described introduces the concept of *cultural tightness-looseness*. Scholars Michele J. Gelfand, Lisa H. Nishii, and Jana L. Raver describe this as “the strength of social norms and degree of sanctioning within societies.”²¹ Two things are at issue in this definition: (1) the strength of norms that govern social behavior and (2) the tolerance for any deviations from the norms. Empirical studies have classified 33 societal cultures around the world on their tightness and looseness.²²

In a **tight culture**, such as ones found in Korea, Japan, or Malaysia, social norms are strong and clear. Members are expected to know the prevailing norms and let them guide their behavior. They tend to self-govern and conform, understanding that deviations are likely to be noticed, discouraged, and even sanctioned. The goal in tight cultures, as suggested in the Asian proverb, is to fit in with society’s expectations and not stand out.

A **tight culture** has rigid social norms expects members to conform with them.

In a **loose culture**, such as ones found in Australia, Brazil, or Hungary, social norms are relaxed and less clear-cut. Members may be more or less concerned with them, and conformity varies a good deal. Deviations from norms tend to be tolerated unless they take the form of criminal behavior or test the extremes of morality. It is acceptable for individuals in loose cultures, as suggested in the American idiom, to show unique identities and express themselves independently of the masses.

A **loose culture** has relaxed social norms and allows conformity by members to vary a good deal.

It can be challenging to go from a tight to a loose culture, or vice-versa, for travel or work. Being effective requires cultural awareness to understand differences, and self-management to handle these differences well. One of the most common settings where the dynamics of tight and loose cultures

emerge is a class group or work team whose members come from different cultures. You've probably been there; what did you see and what might you expect?

A mix of cultural tightness and looseness on a cross-cultural team may result in soft or unstated conflict and missed performance opportunities. Members from tight cultures may be slow to volunteer, criticize, show emotion, or seek praise. They may look toward formal authority for direction while

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trying to always be on time and prepared. Members from loose cultures may be quick to voice opinions, criticize others, display emotions, and look for recognition. They may not show much respect for authority, and punctuality may be inconsistent. It takes a lot of cultural awareness for a team leader and team members to identify these culturally derived behaviors. It takes a lot of skill to create a team environment where everyone gets a chance both to contribute to team performance and to take satisfaction from the experience.

Culture Shock: Stages in Adjusting to a New Culture

Confusion: First contacts with the new culture leave you anxious, uncomfortable, and in need of information and advice.

Small victories: Continued interactions bring some "successes," and your confidence grows in handling daily affairs.

The honeymoon: A time of wonderment, cultural immersion, and even infatuation with local ways that are viewed positively.

Irritation and anger: A time when the "negatives" overwhelm the "positives," and the new culture becomes a target of your criticism.

Reality: A time of rebalancing; you are able to enjoy the new culture while accommodating its less desirable elements.

Values and National Cultures

The ideas of Geert Hofstede on value differences in national cultures are another useful way for considering how cultural differences can influence management and organizational practices. After studying employees of a global corporation operating in 40 countries, Hofstede identified four cultural dimensions: power distance, uncertainty avoidance, individualism–collectivism, and masculinity–femininity.⁷³ Later studies added a fifth now called time orientation.⁷⁴

Figure 5.3 shows how national cultures can vary on these dimensions. Try to imagine what these cultural differences might mean when global business executives try to work and make deals around the world, or when representatives of national governments meet to seek agreements or resolve problems. Remember that Hofstede warns against falling prey to the **ecological fallacy**. This is acting with the mistaken assumption that a generalized cultural value, such as individualism in American culture or masculinity in Japanese culture, applies equally to all members of the culture.⁷⁵

The **ecological fallacy** assumes that a generalized cultural value applies equally well to all members of the culture.

Power Distance

Power distance is the degree that society accepts or rejects the unequal distribution of power among people in organizations and the institutions of society. In high-power-distance cultures we expect to find great respect for age, status, and titles. People in these cultures tend to be tolerant of power and

are prone to follow orders and accept differences in rank. Picture a businesswoman from low-moderate-power-distance America visiting her firm's joint venture partner in high-power-distance Malaysia. Could her tendencies toward informality, for example, using first names to address superiors and dressing casually in the office, create discomfort for local executives less accustomed to such social egalitarianism?

Power distance is the degree to which a society accepts unequal distribution of power.

Individualism–Collectivism

Individualism–collectivism is the degree to which a society emphasizes individual accomplishments and self-interests versus the collective accomplishments and interests of groups.²⁶ The United States had the highest individualism score of any country in Hofstede's data. Do you find the "I" and "me" words used a lot in conversations and meetings, or even when students are making team presentations in class? Such self-referential expressions reflect a cultural tendency toward individualism. This contrasts with the importance placed on group harmony in the Confucian and more collectivist cultures of Asia, as pointed out in the chapter opener. What might go wrong when team members from individualistic cultures try to work with those from more collectivist ones?

Individualism–collectivism is the degree to which a society emphasizes individuals and their self-interests.

Uncertainty Avoidance

Uncertainty avoidance is the degree to which a society is uncomfortable with risk, change, and situational uncertainty, versus having tolerance for them. Members of low uncertainty-avoidance cultures often display openness to change and innovation. In high uncertainty-avoidance cultures, by contrast,

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preferences for structure, order, and predictability are likely to be more prevalent. Persons in these cultures may have difficulty dealing with ambiguity, and tend to follow rules, preferring more structure in their lives. Do you think that high uncertainty avoidance be one of the reasons why Europeans seem to favor employment practices that provide job security?

Uncertainty avoidance is the degree to which a society tolerates risk and uncertainty.

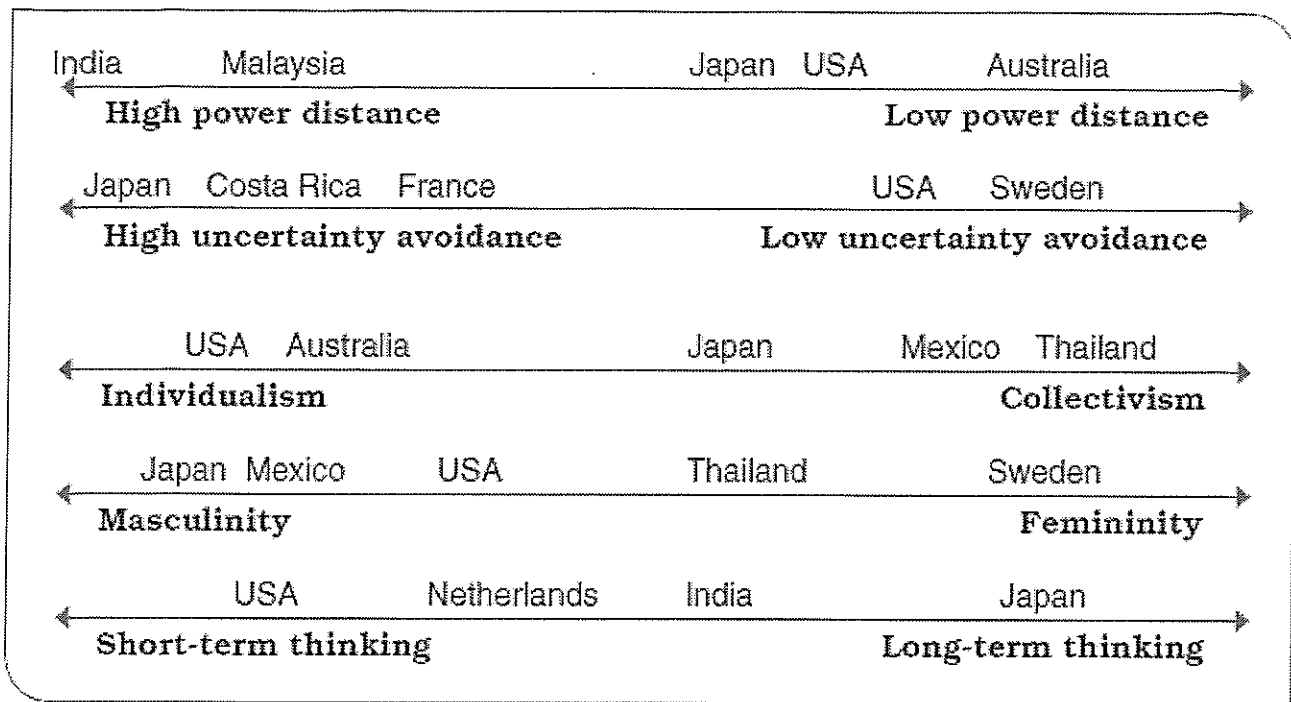


FIGURE 5.3 How countries' short-term thinking and long-term thinking compare on Hofstede's dimensions of national culture.

Masculinity–Femininity

Masculinity–femininity is the degree to which a society values assertiveness and materialism versus feelings, relationships, and quality of life.²² You might think of it as a tendency for members of a culture to show stereotypically masculine versus feminine traits that reflect different attitudes toward gender roles. Visitors to Japan, with the highest masculinity score in Hofstede's research, may be surprised at how restricted career opportunities can still be for women. The *Wall Street Journal* has pointed out that "In Japan, professional women face a set of socially complex issues—from overt sexism to deep-seated attitudes about the division of labor." One female Japanese manager says: "Men tend to have very fixed ideas about what women are like."²⁸

Masculinity–femininity is the degree to which a society values assertiveness and materialism.

Time Orientation

Time orientation is the degree to which a society emphasizes short-term versus long-term goals and gratifications.²⁹ American tendencies toward impatience and desire for quick, even instantaneous, gratification show short-term thinking. Even our companies are expected to achieve short-term results; those failing to meet quarterly financial targets often suffer immediate stock price declines. Many Asian cultures are quite the opposite, displaying Confucian values of persistence, thrift, patience, and a willingness to work for long-term success. This might help explain why Japan's auto executives were more willing than their American counterparts to invest years ago in hybrid engine technologies even though market demand was very low and any return on the investments were likely to take a long time to materialize.

Time orientation is the degree to which a society emphasizes short-term or long-term goals.

Learning Check 3

TAKEAWAYQUESTION 3 What is culture and how does it influence global management?

BE SURE YOU CAN • define *culture* and *culture shock* • explain how ethnocentrism can create difficulties for people working across cultures • differentiate between low-context and high-context cultures, and monochronic and polychronic cultures • explain the differences between tight and

Global Management Learning

TAKEAWAY 4 How can we benefit from global management learning?

LEARN MORE ABOUT | Are management theories universal? • Intercultural competencies
Global learning goals

Scholars in the area of **comparative management** study how management perspectives and practices systematically differ among countries and cultures.⁸⁰ They use cultural models like those just described for Hall, Gelfand, et al., and Hofstede, in the search for meaningful insights on management around the globe.⁸¹

Comparative management studies how management practices differ among countries and cultures.

Are Management Theories Universal?

You might think that all the management theories in this book and your course apply universally from one country and culture to the next. The fact is that the world is a complex

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place and management scholars understand this. If anything, they agree that there is lots left to understand and learn about global management.⁸²

Geert Hofstede, whose framework for understanding national cultures was just discussed, urges caution when transferring practices across cultures. He points out that many management theories are really ethnocentric because they come from a single cultural context—often North American.⁸³ By way of example, he says that the American emphasis on participation in leadership reflects the culture's moderate stance on power distance. It should be understood and respected that the cultures of countries with higher power-distance scores—such as France or Malaysia—will show more tolerance for hierarchy and directive leadership. Hofstede also notes that the American cultural value of individualism is quite prominent in management theories on individual performance, rewards, and job design. These theories may be less applicable in countries where cultural values are more collectivist. Sweden, for example, has a history of designing jobs for groups of workers rather than for individuals.

Intercultural Competencies

Even though management theories are not always universal, it may be that **intercultural competencies** are. These are skills and personal characteristics that help us function successfully in cross-cultural situations.

Intercultural competencies are skills and personal characteristics that help us be successful in cross-cultural situations.

Intercultural competencies are “must haves” for anyone seeking a career as a global manager. They begin with—but add specifics to—the notion of cultural awareness that introduced this chapter. Rather than having just a generalized openness to learning about other cultures and being sensitive to different cultural ways, the focus is on acting competent when working in another culture or in culturally mixed settings. What scholars know in this regard is summarized in three pillars of

intercultural competency—perception management, relationship management, and self-management.⁸⁴

In *perception management*, a person must be inquisitive and curious about cultural differences. Being flexible and nonjudgmental are important when interpreting and dealing with situations in which differences are present. In *relationship management*, a person must be genuinely interested in others, be sensitive to one's own emotions and feelings, and be able to make personal adjustments while engaging in cross-cultural interactions. In *self-management*, a person must have a strong sense of personal identity and understand his or her own emotions and values. One must also stay self-confident even in situations that call for personal adaptations because of cultural differences.

Global Learning Goals

In order to compete in the global economy, aspiring and seasoned professionals should continually seek to strengthen personal intercultural competencies, particularly if the goal is to have a successful career as a global manager. A truly global manager will look everywhere and anywhere in the world for new ideas, and will reject the view the home country and culture have monopolies on the best practices. The intent of comparative management studies is to engage in critical thinking about the ways managers around the world do things and about how they might do them better. As we try to engage in global management learning, however, it is important to hesitate before accepting any idea or practice as a universal prescription for action. Culture and cultural differences always have to be considered. According to Hofstede, "Disregard of other cultures is a luxury only the strong can afford ... increase in cultural awareness represents an intellectual and spiritual gain."⁸⁵

Learning Check 4

TAKEAWAYQUESTION 4 How can we benefit from global management learning?

BE SURE YOU CAN • describe the concept of global organizational learning • define *intercultural competency* and identify three of its major components • answer this question: "Do management theories apply universally around the world?"

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Management Learning Review

Get Prepared for Quizzes and Exams

Summary

TAKEAWAYQUESTION 1

What are the management challenges of globalization?

- Global managers are informed about world developments and are competent in working with people from different cultures.
- The forces of globalization create international business opportunities to pursue profits, customers, capital, and low-cost suppliers and labor in different countries.
- Market-entry strategies for international business include global sourcing, exporting and importing, and licensing and franchising.

- Direct investment strategies of international business establish joint ventures or wholly owned subsidiaries in foreign countries.
- General environment differences, including legal and political systems, often complicate international business activities.
- Regional economic alliances such as NAFTA, the EU, and SADC link nations of the world with the goals of promoting economic development.
- The World Trade Organization is a global institution that promotes free trade and open markets around the world.

FOR DISCUSSION What aspects of the U.S. legal-political environment could prove difficult for a Chinese firm setting up a factory in America?

TAKEAWAYQUESTION 2

What are global businesses and how do they work?

- A global corporation is a multinational enterprise or multinational corporation with extensive operations in multiple foreign countries.
- A transnational corporation tries to operate globally without a strong national identity and with a worldwide mission and strategies.
- Global corporations can benefit host countries by offering broader tax bases, new technologies, and employment opportunities.
- Global corporations can cause problems for host countries if they interfere in local government, extract excessive profits, and dominate the local economy.
- The U.S. Foreign Corrupt Practices Act prohibits American multinational corporations from engaging in bribery and corrupt practices abroad.

FOR DISCUSSION Is the Foreign Corrupt Practices Act unfair to American firms trying to compete for business around the world?

TAKEAWAYQUESTION 3

What is culture and how does it influence global management?

- Culture is a shared set of beliefs, values, and behavior patterns common to a group of people.
- Culture shock is the discomfort people sometimes experience when interacting with persons from cultures different from their own.
- Cultural intelligence is an individual capacity to understand, respect, and adapt to cultural differences.
- Hall's "silent" languages of culture include the use of context, time, and interpersonal space.
- Hofstede's five dimensions of value differences in national cultures are power distance, uncertainty avoidance, individualism–collectivism, masculinity–femininity, and time orientation.

FOR DISCUSSION Should religion be included on Hall's list of the silent languages of culture?

TAKEAWAYQUESTION 4

How can we benefit from global management learning?

- The field of comparative management studies how management is practiced around the world and how management ideas are transferred from one country or culture to the next.
- The foundations for intercultural competency are perception management, relationship management, and self-management.
- Global management learning must recognize that successful practices in one culture may work less well in others.

FOR DISCUSSION Even though cultural differences are readily apparent, is the tendency today for the world's cultures to converge and become more alike?

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Self-Test 5

Multiple-Choice Questions

1. The reasons why businesses go international include gaining new markets, finding investment capital, and reducing _____.
 - a. political risk
 - b. protectionism
 - c. labor costs
 - d. most favored nation status
2. When shoe maker Rocky Brands decided to buy full ownership of a manufacturing company in the Dominican Republic, Rocky was engaging in which form of international business?
 - a. import/export
 - b. licensing
 - c. foreign subsidiary
 - d. joint venture
3. A form of international business that falls into the category of a direct investment strategy is _____.
 - a. exporting
 - b. joint venture
 - c. licensing
 - d. global sourcing
4. The World Trade Organization would most likely become involved in disputes between countries over _____.
 - a. exchange rates
 - b. ethnocentrism
 - c. nationalization
 - d. tariffs
5. Business complaints about copyright protection and intellectual property rights in some countries illustrate how differences in _____ can impact international operations.
 - a. legal environments
 - b. political stability
 - c. sustainable development
 - d. economic systems
6. In _____ cultures, members tend to do one thing at a time; in _____ cultures, members tend to do many things at once.
 - a. monochronic, polychronic

- b.** polycentric, geocentric
 - c.** collectivist, individualist
 - d.** neutral, affective
- 7. A culture that places great value on expressing meaning in the written or spoken word is described as _____ by Hall.
 - a.** monochromic
 - b.** proxemic
 - c.** collectivist
 - d.** low-context
- 8. It is common in Malaysian culture for people to value teamwork and to display great respect for authority. Hofstede would describe this culture as high in both _____.
 - a.** uncertainty avoidance and femininity
 - b.** universalism and particularism
 - c.** collectivism and power distance
 - d.** long-term orientation and masculinity
- 9. In Hofstede's study of national cultures, America was found to be the most _____ compared with other countries in his sample.
 - a.** individualistic
 - b.** collectivist
 - c.** feminine
 - d.** long-term oriented
- 10. It is _____ when a foreign visitor takes offense at a local custom such as dining with one's fingers, considering it inferior to practices of his or her own culture.
 - a.** universalist
 - b.** prescriptive
 - c.** monochromic
 - d.** ethnocentric
- 11. When Limited Brands buys cotton in Egypt, has tops sewn from it in Sri Lanka according to designs made in Italy, and then offers the garments for sale in the United States, this form of international business is known as _____.
 - a.** licensing
 - b.** importing
 - c.** joint venturing
 - d.** global sourcing
- 12. The difference between an international business and a transnational corporation is that the transnational _____.
 - a.** tries to operate around the world without a strong national identity
 - b.** does business in only one or two foreign countries
 - c.** is led by ethnocentric managers
 - d.** is based outside North America
- 13. The Foreign Corrupt Practices Act makes it illegal for _____.

- a. Americans to engage in joint ventures abroad
- b. foreign businesses to pay bribes to U.S. government officials
- c. U.S. businesses to make payoffs abroad to gain international business contracts
- d. foreign businesses to steal intellectual property from U.S. firms operating in their countries

14.

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When a member of a cross-cultural team is hesitant to speak up and offer ideas, defers to the team leader, and avoids accepting praise for individual work, the person is displaying characteristics consistent with a _____ culture.

- a. monochronic
 - b. low-context
 - c. tight
 - d. loose
15. Hofstede would describe a culture whose members respect age and authority and whose workers defer to the preferences of their supervisors as _____.
- a. low masculinity
 - b. high particularism
 - c. high power distance
 - d. monochronic

Short-Response Questions

- 16. Why do host countries sometimes complain about how global corporations operate within their borders?
- 17. Why is the “power-distance” dimension of national culture important in management?
- 18. What is the difference between a culture that is tight and one that is loose?
- 19. How do regional economic alliances impact the global economy?

Essay Question

- 20. Kim has just returned from her first business trip to Japan. While there, she was impressed with the intense use of work teams. Now back in Iowa, she would like to totally reorganize the workflows and processes of her canoe manufacturing company and its 75 employees around teams. There has been very little emphasis on teamwork, and she now believes this is “the way to go.” Based on the discussion of culture and management in this chapter, what advice would you offer Kim?

Management Skills & Competencies Make yourself valuable!

Evaluate Career Situations

What would you do?

1. To Buy or Not to Buy

You’ve just read in the newspaper that the maker of one of your favorite brands of sports shoes is being investigated for using sweatshop factories in Asia. It really disturbs you, but the shoes are

great! One of your friends says it's time to boycott the brand. You're not sure. Do you engage in a personal boycott or not, and why?

2. China Beckons

Your new design for a revolutionary golf putter is a big hit with friends at the local golf course. You decide to have clubs with your design manufactured in China so that you can sell them to pro shops around the country. How can you make sure that your design won't be copied by the Chinese manufacturer and then used to make low-price knock-offs? What should you do in this situation?

3. Cross-Cultural Teamwork

You've just been asked to join a team being sent to Poland for 10 days to discuss a new software development project with your firm's Polish engineers. It is your first business trip out of the country. In fact, you've only been to Europe once, as part of a study-abroad semester in college. How will you prepare for the trip and for work with your Polish colleagues there? What worries you the most under the circumstances? After all, if you do well here more international assignments are likely to come your way.

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Reflect on the Self-Assessment

Global Intelligence

Instructions

Use the following scale to rate yourself on each of these 10 items:⁸⁶

1. Very Poor
2. Poor
3. Acceptable
4. Good
5. Very Good

___ 1. I understand my own culture in terms of its expectations, values, and influence on communication and relationships.

___ 2. When someone presents me with a different point of view, I try to understand it rather than attack it.

___ 3. I am comfortable dealing with situations where the available information is incomplete and the outcomes are unpredictable.

___ 4. I am open to new situations and am always looking for new information and learning opportunities.

___ 5. I have a good understanding of the attitudes and perceptions toward my culture as they are held by people from other cultures.

___ 6. I am always gathering information about other countries and cultures and trying to learn from them.

___ 7. I am well informed regarding the major differences in the government, political, and economic systems around the world.

___ 8. I work hard to increase my understanding of people from other cultures.

___ 9. I am able to adjust my communication style to work effectively with people from different cultures.

___ 10. I can recognize when cultural differences are influencing working relationships, and I adjust my attitudes and behavior accordingly.

Interpretation

In order to be successful in the global economy, you must be comfortable with cultural diversity. This requires a global mind-set that is receptive to and respectful of cultural differences, global knowledge that includes the continuing quest to know and learn more about other nations and cultures, and global work skills that allow you to work effectively across cultures.

Scoring

The goal is to score as close to a perfect “5” as possible on each of the three dimensions of global intelligence. Develop your scores as follows:

1. Items (1 + 2 + 3 + 4)/4 = *Global Mind-Set Score*
2. Items (5 + 6 + 7)/3 = *Global Knowledge Score*
3. Items (8 + 9 + 10)/3 = *Global Work Skills Score*

Contribute to the Class Exercise

American Football

Instructions

Form into groups as assigned by the instructor. In the group do the following.⁸⁷

1. Discuss “American Football”—the rules, the way the game is played, the way players and coaches behave, and the roles of owners and fans.
2. Use “American Football” as a metaphor to explain the way U.S. corporations run and how they tend to behave in terms of strategies and goals.
3. Prepare a class presentation for a group of visiting Japanese business executives. In this presentation, use the metaphor of “American Football” to (1) explain American business strategies and practices to the Japanese and (2) critique the potential strengths and weaknesses of the American business approach in terms of success in the global marketplace.

Manage a Critical Incident

Silent Team Members

The course instructor professor assigned students to teams for a case study in two parts spaced two weeks apart: Part A requires a preliminary oral presentation and Part B requires a final presentation and written report. Your team has five members, including one each from Japan and Indonesia. The team had three face-to-face meetings while preparing Part A. The Japanese and Indonesian members said very little, although they had extensive notes of information retrieved from research on the Internet. But they were even hesitant to answer when asked direct questions. The other three members created the preliminary presentation and assigned parts for everyone to deliver. The Japanese and Indonesian team members struggled with their parts of the presentation and didn't contribute during the question-and-answer session. The instructor said the team's Part A presentation wasn't focused and well integrated. She said things would have to go much better on Part B if the team expected a high grade. The team is scheduled to meet tonight to recap Part A and start work on Part B.

Questions

What can you say and do at this meeting to set the stage for higher performance on Part B? How might team dynamics and cross-cultural diversity have contributed to the Part A results? What insights from cultural models might explain the behavior of your Japanese and Indonesian teammates? How can

they be better engaged so that the team takes best advantage of all of members' talents going forward?
What role can you play in future team meetings to help accomplish this goal?

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