part 2 : chapter 4

Managing in a Global Environment

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Chapter Outline

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Learning Outcomes

After studying this chapter, you should be able to:

1. Define globalization and explain how it is creating a borderless world for today's managers.
2. Describe a global mindset and why it has become imperative for companies operating internationally.
3. Describe the characteristics of a multinational corporation and explain the "bottom of the pyramid" concept.
4. Define international management and explain how it differs from the management of domestic business operations.
5. Indicate how dissimilarities in the economic, sociocultural, and legal-political environments throughout the world can affect business operations.
6. Discuss how the international landscape is changing, including the growing power of China, India, and Brazil.
7. Describe how regional trading alliances are reshaping the international business environment.

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Are You Ready to Work Internationally?[1]

http: See It Online www.

INSTRUCTIONS: Are you ready to negotiate a sales contract with someone from another country? Companies large and small deal on a global basis. To what extent are you guilty of the behaviors below? Please answer each item as Mostly True or Mostly False for you.

Are You Typically:	Mostly True	Mostly False
1. Impatient? Do you have a short attention span? Do you want to keep moving to the next topic?	______	______
2. A poor listener? Are you uncomfortable with silence? Does your mind think about what you want to say next?	______	______
3. Argumentative? Do you enjoy arguing for its own sake?	______	______
4. Unfamiliar with cultural specifics in other countries? Do you have limited experience in other countries?	______	______
5. Short-term-oriented? Do you place more emphasis on the short term than on the long term in your thinking and planning?	______	______
6. "All business"? Do you think that it is a waste of time getting to know someone personally before discussing business?	______	______
7. Legalistic to win your point? Do you hold others to an agreement regardless of changing circumstances?	______	______
8. Thinking "win/lose" when negotiating? Do you usually try to win a negotiation at the other's expense?	______	______

SCORING AND INTERPRETATION: American managers often display cross-cultural ignorance during business negotiations compared to counterparts in other countries. American habits can be disturbing, such as emphasizing areas of disagreement over agreement, spending little time understanding the views and interests of the other side, and adopting an adversarial attitude. Americans often like to leave a negotiation thinking that they won, which can be embarrassing to the other side. For this quiz, a low score shows better international presence. If you answered "Mostly True" to three or fewer questions, then consider yourself ready to assist with an international negotiation. If you scored six or more "Mostly True" responses, it is time to learn more about other national cultures before participating in international business deals. Try to develop a greater focus on other people's needs and an appreciation for different viewpoints. Be open to compromise and develop empathy for people who are different from you.

Japan's Nissan has headquarters in Yokohama, but the chief executive of its luxury Infiniti division has his office in Hong Kong. The skin, cosmetics, and personal care business of Procter & Gamble (P&G) is based in Singapore. And the entire senior management team for Starwood, a hotel company based in Stamford, Connecticut, relocated to Shanghai for a month so managers could immerse themselves in the local culture and gain a better understanding of how the Chinese market differs from that in the United States.[2] The trend toward moving executives and divisions to Asia is both practical and symbolic. Hong Kong is considered a gateway to mainland China, while Singapore is a springboard into Southeast Asia and India. In addition, locating in the region "is a visible demonstration of your commitment," said Michael Andrew, global chairman of KPMG International, who is based in Hong Kong.[3]

Managers around the world are eager to make a commitment to China and India, where the potential for growth is huge. Brazil, Russia, India, and China (often referred to as BRIC), as well as other emerging economies, are growing rapidly as providers of both products and services to the United States, Canada, Europe, and other developed nations. At the same time, these regions are becoming major markets for the products and services of North American firms. Finding managers with the mindset needed to succeed in these countries is proving difficult for multinational firms. China, India, and Brazil are expected to see the greatest shortage of executive talent for the next few years.[4]

Every manager today needs to think globally because the whole world is a source of business threats and opportunities. Even managers who spend their entire careers working in their hometowns have to be aware of the international environment and probably interact with people from other cultures. The international dimension is an increasingly important part of the external environment discussed in Chapter 3. This chapter introduces basic concepts about the global environment and international management. First, we provide an overview of today's borderless world and the global mindset needed to be effective. Next, we discuss multinational corporations, consider the globalization backlash, and describe the "bottom of the pyramid" concept. We then touch on various strategies and techniques for entering the global arena and take a look at the economic, legal-political, and sociocultural challenges that companies encounter within the global business environment. The chapter also describes how emerging markets and regional trade agreements are reshaping the international business landscape.

A Borderless World

The reality facing most managers is that isolation from international forces is no longer possible. Organizations in all fields are being reordered around the goal of addressing needs and desires that transcend national boundaries. Consider that the Federal Bureau of Investigation (FBI) now ranks international cybercrime as one of its top priorities because electronic boundaries between countries are virtually nonexistent.[5] "The whole boundary mindset has been obliterated," says John Hering, the 26-year-old CEO of Lookout Mobile Security. Hering's company has customers in 170 countries using 400 mobile networks around the world. "For many people, this is the only computer they have," he says. "The thought of something bad happening to your phone is untenable."[6]

Concept Connection

Munshi Ahmed

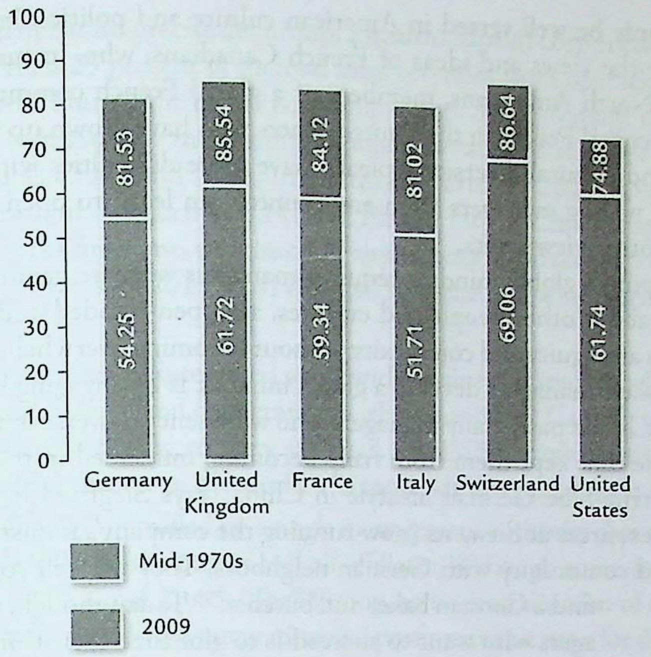
Today's companies compete in a **borderless world**. Procter & Gamble's sales in Southeast Asia make up a rapidly growing percentage of the company's worldwide sales. These shoppers are purchasing P&G's Pampers diapers in Malaysia.

Globalization

Business, just like crime, has become a unified, global field. **Globalization** refers to the extent to which trade and investments, information, social and cultural ideas, and political cooperation flow between countries. One result is that countries, businesses, and people become increasingly interdependent. India-based Tata Consultancy Services gets more than half of its revenue from North America, while the U.S. firm IBM gets 65 percent of its tech services revenue from overseas, with sales in India growing 41 percent in one recent quarter.[7] And while Japan's Honda gets 65 percent of its parts for the Accord from the United States or Canada and assembles the vehicle in Ohio, U.S.-based General Motors (GM) makes the Chevrolet HHR in Mexico with parts that come from all over the world.[8]

EXHIBIT 4.1

Ranking of Six Countries on the Globalization Index



SOURCE: Based on "2012 KOF Index of Globalization," KOF Swiss Economic Institute, www.kof.ethz.ch/static_media/filer/2012/03/15/rankings_2012.pdf (accessed June 26, 2012) and "KOF Index of Globalization 2010," Press Release (January 22, 2010), http://globalization.kof.ethz.ch/ (accessed January 22, 2010). Note: The 2012 KOF analysis of globalization dimensions is based on the year 2009.

Globalization has been on the rise since the 1970s, and most industrialized nations show a high degree of globalization today.[9] The KOF Swiss Economic Institute measures economic, political, and social aspects of globalization and ranks countries on a globalization index. Not surprisingly, the pace of economic globalization slowed in the most recent survey, reflecting the impact of the global financial and economic crisis, but social and political globalization continued its upward trend. Exhibit 4.1 shows how selected countries ranked on the 2012 KOF Index of Globalization (based on the year 2009) compared to their degree of globalization in the mid-1970s. Note that the United States is the least globalized of the countries shown in the exhibit. Among the 187 countries on the KOF Index, the United States ranks number 35, down from number 27 on the 2011 index. The 10 most globalized countries, according to the KOF Index, are Belgium, Ireland, the Netherlands, Austria, Singapore, Sweden, Denmark, Hungary, Portugal, and Switzerland.[10]

Take a Moment

Complete the Experiential Exercise on page 128 that pertains to your global management potential. How well do your knowledge and preferences reflect a global mindset?

Developing a Global Mindset

Succeeding on a global level requires more than a desire to go global and a new set of skills and techniques; it requires that managers develop a *global mindset.* As more managers find themselves working in foreign countries or working with foreign firms within their own country, they need a mindset that enables them to navigate through ambiguities and complexities that far exceed anything they encounter within their traditional management responsibilities.[11] A **global mindset** can be defined as the ability of managers to appreciate and influence individuals, groups, organizations, and systems that represent different social, cultural, political, institutional, intellectual, and psychological characteristics.[12] A manager with a global mindset can perceive and respond to many different perspectives at the same time rather than being stuck in a domestic mindset that sees everything from one's own perspective. Reliance Industries, the largest private sector company in India, specifically lists "global mindset" as one of the core competencies for its managers.[13]

People who have had exposure to different cultures develop a global mindset more easily. For example, the Dutch have to learn English, German, and French, as well as Dutch, to interact and trade with their economically dominant neighbors. English Canadians

Take a Moment

Go to the Small Group Breakout on page 129 that pertains to exposure to different cultures and ideas.

must not only be well versed in American culture and politics, but they also have to consider the views and ideas of French Canadians, who, in turn, must learn to think like North Americans, members of a global French community, Canadians, and Quebecois.[14] People in the United States who have grown up with this kind of language and cultural diversity typically have more difficulties with foreign assignments, but willing managers from any country can learn to open their minds and appreciate other viewpoints.

Developing a global mindset requires managers who are genuinely curious and inquisitive about other people and cultures, are open-minded and nonjudgmental, and can deal with ambiguity and complexity without becoming overwhelmed or frustrated. One of the best ways managers develop a global mindset is by engaging with people from different cultures. In the past, many managers who were sent on overseas assignments lived an insular lifestyle that kept them from truly becoming immersed in the foreign culture. "You can lead a true-blue German lifestyle in China," says Siegfried Russwurm, former head of human resources at Siemens (now running the company's industrial sector). "You can live in a gated community with German neighbors. They will tell you where you can find a German baker and butcher."[15] Today, though, the goal for managers who want to succeed is to globalize their thinking. John Rice, vice chairman of General Electric (GE) and president and chief executive of global growth and operations for the company, recently moved with his wife to Hong Kong. "Being outside the United States makes you smarter about global issues," Rice said. "It lets you see the world through a different lens."[16]

> *"Global managers are made, not born. This is not a natural process."*
>
> — PERCY BARNEVIK, FORMER CEO OF ABB

Remember This

- Today's companies and managers operate in a borderless world that provides both risks and opportunities.
- **Globalization** refers to the extent to which trade and investments, information, ideas, and political cooperation flow between countries.
- The most globalized countries according to one ranking are Belgium, Ireland, Austria, the Netherlands, and Singapore.
- To succeed on a global level requires managers at all levels to have a **global mindset**, which is the ability to appreciate and influence individuals, groups, organizations, and systems that represent different social, cultural, political, institutional, intellectual, and psychological characteristics.

Multinational Corporations

The size and volume of international businesses are so large that they are hard to comprehend. For example, if revenues were valued at the equivalent of a country's gross domestic product (GDP), the revenue of ExxonMobil is comparable in size to the GDP of Egypt. The revenue of Walmart is comparable to Greece's GDP, that of Toyota to Algeria's GDP, and that of GE to the GDP of Kazakhstan.[17]

A large volume of international business is being carried out by large international businesses that can be thought of as *global corporations*, *stateless corporations*, or *transnational corporations*. In the business world, these large international firms typically are called *multinational corporations* (MNCs), which have been the subject of enormous attention. MNCs can move a wealth of assets from country to country and influence national economies, politics, and cultures.

Although the term has no precise definition, a **multinational corporation (MNC)** typically receives more than 25 percent of its total sales revenues from operations outside the parent's home country. During the recent economic slump, the percentage of revenue from foreign operations increased for many multinationals because of stronger sales in developing markets such as China and India. In the third quarter of 2010, revenues for Yum! Brands (including restaurants such as KFC and Pizza Hut) in China surpassed those in the United States for the first time, and the company's China business may be twice as large as that in the United States by 2015.[18] MNCs also have the following distinctive managerial characteristics:

1. An MNC is managed as an integrated worldwide business system in which foreign affiliates act in close alliance and cooperation with one another. Capital, technology, and people are transferred among country affiliates. The MNC can acquire materials and manufacture parts wherever in the world it is most advantageous to do so.
2. An MNC is ultimately controlled by a single management authority that makes key strategic decisions relating to the parent and all affiliates. Although some headquarters are *binational*, such as the Royal Dutch/Shell Group, some centralization of management is required to maintain worldwide integration and profit maximization for the enterprise as a whole.
3. MNC top managers are presumed to exercise a global perspective. They regard the entire world as one market for strategic decisions, resource acquisition, and location of production, advertising, and marketing efficiency.

In a few cases, the MNC management philosophy may differ from that just described. For example, some researchers have distinguished among *ethnocentric companies*, which place emphasis on their home countries; *polycentric companies*, which are oriented toward the markets of individual foreign host countries; and *geocentric companies*, which are truly world oriented and favor no specific country.[19] The truly global companies that transcend national boundaries are growing in number. These companies no longer see themselves as American, Chinese, or German; they operate globally and serve a global market. Nestlé SA provides a good example. The company gets most of its sales from outside the "home" country of Switzerland, and its 280,000 employees are spread all over the world. CEO Paul Bulcke is Belgian, chairman Peter Brabeck-Letmathe was born in Austria, and more than half of the company's managers are non-Swiss. Nestlé has hundreds of brands and has production facilities or other operations in almost every country in the world.[20]

Concept Connection

AFP/Douglas E. Curran/Getty Images

The Maharaja Mac and Vegetable Burger served at this McDonald's in New Delhi, India, represent how this **multinational corporation** changed its business model by decentralizing its operations. When McDonald's initiated international units, it copied what it did and sold in the United States. Today, though, the fast-food giant seeks local managers who understand the culture and laws of each country. Country managers have the freedom to use different furnishings and develop new products to suit local tastes.

A GLOBALIZATION BACKLASH

The size and power of multinationals, combined with the growth of free trade agreements, which we will discuss later in this chapter, has sparked a backlash over globalization. In a *Fortune* magazine poll, 68 percent of Americans say other countries benefit the most from free trade, and a survey by *The Wall Street Journal* and NBC News found that 53 percent of Americans surveyed said free trade has actually hurt the United States. That figure is up from 46 percent in 2007 and 32 percent in 1999. The sentiment is reflected in other countries such as Germany, France, and even India. "For some reason, everyone thinks they are the loser," said former U.S. trade representative Mickey Kantor.[21]

ENVIRONMENT 2

In the United States, the primary concern has been the loss of jobs as companies expanded their offshoring activities by exporting more and more work overseas. The transfer of jobs such as making shoes, clothing, and toys began decades ago, and in recent years, services and knowledge work have also been outsourced to developing countries. Many American shoppers say they'd be willing to pay higher prices for U.S.-made products to keep jobs from going overseas.[22]

Business leaders, meanwhile, insist that economic benefits of globalization flow back to the U.S. economy in the form of lower prices, expanded markets, and increased profits that can fund innovation.[23] However, another troubling issue for some people in the United States is how overseas contractors and suppliers treat their employees. In the first few months of 2010, ten employees at Foxconn Technologies, a Chinese contract manufacturer that makes electronic products for Apple, Dell, and other U.S. companies, committed suicide. After a coalition of advocacy groups sent an open letter to Apple calling for an investigation to ensure safe and decent working conditions at all its suppliers, managers asked the Fair Labor Association to investigate Foxconn. The group found widespread problems, including excessively long work hours, low pay, and unsafe working conditions. In a symbolic gesture to emphasize the company's commitment, Apple's new CEO, Tim Cook, visited Foxconn's manufacturing plant where the iPhone is made and met with both company and government leaders in China.[24]

HOT TOPIC

With concerns over jobs and labor practices, the anti-globalization fervor is just getting hotter—and is not likely to dissipate anytime soon. In the end, it is not whether globalization is good or bad, but how business and government managers can work together to ensure that the advantages of a global world are fully and fairly shared.

SERVING THE BOTTOM OF THE PYRAMID

Although large multinational organizations are accused of many negative contributions to society, they also have the resources needed to do good things in the world. One approach that combines business with social responsibility is referred to as *serving the bottom of the pyramid*.

Concept Connection

Joao Silva/The New York Times/Redux

Having dominated almost every market in the world, Coca-Cola has turned its sights on Africa in recent years. The beverage giant sees tremendous potential in countries across the continent, many of whose inhabitants would be considered to be part of the **bottom of the pyramid (BOP)**. The company is working closely with distributors and small business owners to promote its products by offering plenty of incentives and rewards, as well as marketing support.

The **bottom of the pyramid (BOP) concept** proposes that corporations can alleviate poverty and other social ills, as well as make significant profits, by selling to the world's poorest people. The term *bottom of the pyramid* refers to the more than 4 billion people who make up the lowest level of the world's economic "pyramid" as defined by per-capita income. These people earn less than US$1,500 a year, with about one-fourth of them earning less than a dollar a day.[25] Traditionally, these people haven't been served by most large businesses because products and services are too expensive, inaccessible, and not suited to their needs; therefore, in many countries, the poor end up paying significantly more that their wealthier counterparts for some basic needs.

A number of leading companies are changing that by adopting BOP business models geared to serving the poorest of the world's consumers. Consider this example from India's Godrej & Boyce.

Innovative Way

Godrej & Boyce

By one estimate, a third of India's food is lost to spoilage, but in 2007, refrigerator market penetration was just 18 percent. Many lower-income people couldn't afford even a basic refrigerator. Another problem for poor people, particularly in rural areas, was that electric service was usually unreliable. Godrej & Boyce managers decided it was time to do something about this.

"As a company that made refrigerators for more than 50 years, we asked ourselves why it was that refrigerator penetration was just 18 percent," said G. Sunderraman, vice president of corporate development. The first major insight was that many people not only couldn't afford a refrigerator but didn't *need* a large refrigerator that took up too much space in a small house and used a lot of electricity. What they needed was the ChotuKool ("The Little Cool"), an innovative appliance introduced by Godrej & Boyce in 2010. The ChotuKool, a mini-fridge designed to cool five or six bottles of water and store a few pounds of food, was portable, ran on batteries, and sold for about 3,250 rupees (US$69), about 35 percent less than the cheapest refrigerator on the market.

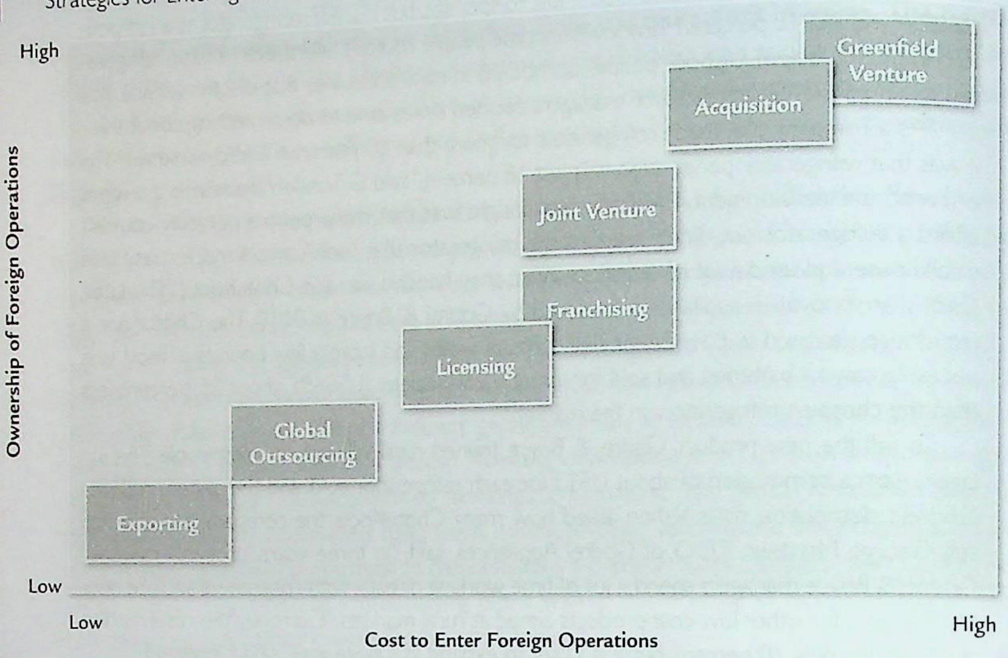
To sell the new product, Godrej & Boyce trained rural villagers as salespeople. The villagers earn a commission of about US$3 for each refrigerator sold, and the system reduces Godrej's distribution costs. When asked how many ChotuKools the company expected to sell, George Menezes, COO of Godrej Appliances, said, "In three years, probably millions." Godrej & Boyce managers spend a lot of time working directly with consumers and are now testing ideas for other low-cost products aimed at rural markets. "Currently, the rural market accounts for only 10 percent, but it is all set to expand in a huge way," said Menenez.[26]

U. S. companies are getting in on the BOP act too. P&G researchers are visiting homes in China, Brazil, India, and other developing countries to see how the company can come up with entirely new products and services for consumers living at the bottom of the pyramid. However, P&G is late getting into marketing to the poor. Rival Unilever, for instance, introduced Lifebuoy soap to India more than a century ago, promoting it as the enemy of dirt and disease.[27] Unilever gets more than 50 percent of its sales from developing markets. "P&G is still very U.S.-centric," says Unilever's CEO Paul Polman. "Emerging markets are in the DNA of our company." To try to catch up, P&G's top executive, Robert McDonald, is focusing employees on the mission of "touching and improving more lives, in more parts of the world, more completely." When people feel they are changing lives, "it's almost like you don't have to pay us to do this," said one R&D scientist.[28] Proponents of BOP thinking believe multinational firms can contribute to positive lasting change when the profit motive goes hand in hand with the desire to make a contribution to humankind.

Remember This

- A **multinational corporation (MNC)** is an organization that receives more than 25 percent of its total sales revenues from operations outside the parent company's home country and has a number of distinctive managerial characteristics.
- Nestlé SA is a good example of a multinational corporation.
- Some researchers distinguish among *ethnocentric companies*, which place emphasis on their home countries, *polycentric companies*, which are oriented toward the markets of individual host countries, and *geocentric companies*, which are truly world oriented.
- The increasing size and power of MNCs has sparked a globalization backlash.
- Multinational corporations have the resources to reach and serve the world's poorest people who cannot afford the typical products and services offered by big companies.
- The **bottom of the pyramid (BOP) concept** proposes that corporations can alleviate poverty and other social ills, as well as make significant profits, by selling to the world's poor.
- Godrej & Boyce created an innovative battery-powered refrigerator called the ChotuKool for rural markets in India.

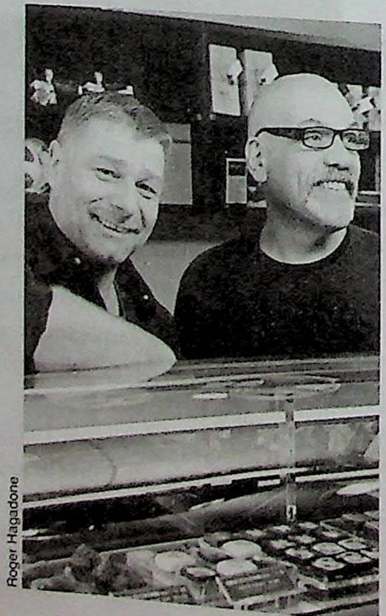
EXHIBIT 4.2 Strategies for Entering the International Arena



Getting Started Internationally

Organizations have a couple of ways to become involved internationally. One is to seek cheaper resources such as materials or labor offshore, which is called *offshoring* or *global outsourcing*. Another is to develop markets for finished products or services outside their home countries, which may include exporting, licensing, and direct investing. Exporting, licensing, and direct investing are called **market entry strategies** because they represent alternative ways to sell products and services in foreign markets. Exhibit 4.2 shows the strategies that companies can use to engage in the international arena, either to acquire resources or to enter new markets.

Concept Connection



Roger Hagadone

Christopher Norman Chocolates found that perfection-obsessed Japanese customers appreciate the difference between their New York company's hand-painted chocolates and French and Belgian chocolates. Joe Guiliano (left) and John Down (right), partners in the high-end specialty chocolate company, first **exported** the chocolates through a Japanese distributor with experience in this niche market. Later, they moved to a **licensing** agreement, with the distributor making the confections in a facility near Tokyo.

EXPORTING

With **exporting**, the company maintains its production facilities within the home nation and transfers its products for sale in foreign countries.[29] Exporting enables a company to market its products in other countries at modest resource cost and with limited risk. Exporting does entail numerous problems based on physical distances, government regulations, foreign currencies, and cultural differences, but it is less expensive than committing the firm's own capital to build plants in host countries. For example, Skooba Designs, a Rochester, New York, manufacturer of carrying cases for laptops, iPads, and other tools, exports to more than 30 countries. Service companies can also export. Netflix is exporting its movie streaming service to customers in Latin America, the United Kingdom, and Ireland, as well as exploring other countries to move into.[30] Hollywood movie studios have long exported films to foreign countries, but they're taking a different approach than in the past.

Innovative Way
Hollywood Studios

Hollywood films have long been quintessentially American products, and years ago, audiences in Japan or Brazil or South Korea would faithfully go watch movies that were written for and marketed primarily to American audiences. No longer. Local films are giving Hollywood a run for its money. At the same time, audiences are declining in the United States but growing overseas. Hollywood movies now get about 70 percent of their revenue from abroad. Today, a few Hollywood studios have gone as far as making movies specifically for certain foreign markets, and almost all of them are reframing their films to suit foreign tastes. Here are some examples of tactics they are using:

- **Use foreign actors.** For Paramount's *G.I. Joe*, Byung-hun Lee, a major Korean movie star, was placed in a title role, and a South African actor played another key character.
- **Set the movie in a growing market—or in no man's land.** Several recent films, such as *Rio* and *Fast Five*, have been set in Brazil, which is a rapidly growing market for Hollywood movies. Others, like *Avatar* and *The Lord of the Rings* films, are set in fantasy worlds that are home to no one nationality.
- **Stuff the film with foreign brands.** In the latest *Transformers* movie, DreamWorks Studios had a character gulping Shuhua low-lactase milk from China's Yili dairy company.
- **Shoot in foreign cities.** Pixar's *Cars* didn't do well abroad, so the studio set the sequel in Paris, London, Tokyo, and on the Italian Riviera.

These and other techniques represent a whole new approach to making movies. Rather than trying to lure audiences to their films, studios are targeting their films to the audiences. In addition, managers are increasingly looking for films with global appeal. "I can tell you that no studio is going to make a big expensive movie that costs $150 million or $200 million unless it has worldwide appeal," said Mark Zoradi, former president of Walt Disney Company's Motion Pictures Group.[31]

OUTSOURCING

Global outsourcing, also called *offshoring,* means engaging in the international division of labor so that work activities can be done in countries with the cheapest sources of labor and supplies. Millions of low-level jobs such as textile manufacturing, call center operations, and credit card processing have been outsourced to low-wage countries in recent years. The Internet and plunging telecommunications costs have enabled companies to outsource more and higher-level work as well, such as software development, accounting, or medical services. A patient might have a magnetic resonance imaging (MRI) test performed in Minneapolis and have it read by doctors in India. After the Sarbanes-Oxley Act went into effect requiring extensive new financial reporting procedures and enhanced oversight, Unisys had a hard time finding enough internal auditors in the United States, so managers outsourced their core auditing practice to China. Large pharmaceutical companies farm out much of their early-stage chemistry research to cheaper labs in China and India.[32]

LICENSING

With **licensing,** a corporation (the licensor) in one country makes certain resources available to companies in another country (the licensee). These resources include technology, managerial skills, and patent or trademark rights. They enable the licensee to produce and market a product or service similar to what the licensor has been producing. Heineken, which has been called the world's first truly global brand of beer, usually begins by exporting to help boost familiarity with its products; if the market looks enticing enough, Heineken then licenses its brands to a local brewer. Licensing offers a business firm relatively easy access to international markets at low cost, but it limits the company's participation in and control over the development of those markets.

One special form of licensing is **franchising**, which occurs when a franchisee buys a complete package of materials and services, including equipment, products, product ingredients, trademark and trade name rights, managerial advice, and a standardized operating system. Whereas with licensing, a licensee generally keeps its own company name, autonomy, and operating systems, a franchise takes the name and systems of the franchisor. The fast-food chains are some of the best-known franchisors. The story is often told of the Japanese child visiting Los Angeles who excitedly pointed out to his parents, "They have McDonald's in America."

Direct Investing

A higher level of involvement in international trade is direct investment in facilities in a foreign country. **Direct investing** means that the company is involved in managing the productive assets, which distinguishes it from other entry strategies that permit less managerial control.

Currently, the most popular type of direct investment is to engage in strategic alliances and partnerships. In a **joint venture**, a company shares costs and risks with another firm, typically in the host country, to develop new products, build a manufacturing facility, or set up a sales and distribution network.[33] A partnership is often the fastest, cheapest, and least risky way to get into the global game. For example, Abbott Laboratories has teamed up with an Indian drug firm, Biocon Ltd., to develop nutritional supplements and generic drugs tailored to the local market.[34] A Chinese firm has formed a joint venture with an American partner to refurbish New York City's Alexander Hamilton Bridge and work on other construction projects in the United States.[35] In addition to joint ventures, the complexity of today's global business environment is causing managers at many companies to develop alliance networks, which are collections of partnerships with various other firms, often across international boundaries.[36]

The other choice is to have a **wholly owned foreign affiliate**, over which the company has complete control. Direct *acquisition* of an affiliate may provide cost savings over exporting by shortening distribution channels and reducing storage and transportation costs. Local managers also have a better understanding of economic, cultural, and political conditions. Kraft Foods bought Cadbury PLC in large part because the firm had established local contacts and distribution networks in emerging markets. Home Depot purchased Home Mart, the number two home-improvement retailer in Mexico, Philip Morris acquired Indonesia's third-largest cigarette maker to tap into the lucrative Asian cigarette market, and Walmart is buying Africa's Massmart.[37] The most costly and risky direct investment is called a **greenfield venture**, which means a company builds a subsidiary from scratch in a foreign country. The advantage is that the subsidiary is exactly what the company wants and has the potential to be highly profitable. For example, in 2012, Airbus announced plans to build jetliners in its first assembly plant in the United States. By building a huge plant in Alabama and employing American workers, Airbus managers expect to become part of U.S. culture, thereby reducing political opposition to the purchase of the company's airplanes.[38] The disadvantage is that the company has to acquire all market knowledge, materials, people, and know-how in a different culture, and mistakes are possible. Another example of a greenfield venture is the Nissan plant in Canton, Mississippi. The plant represents the first auto factory ever built in Mississippi, where the Japanese company had to rely on an untested and largely inexperienced workforce. The logistical and cultural hurdles were so enormous and the risks so high that one Nissan executive later said, "We did what nobody thought was possible."[39]

Remember This

- Two major alternatives for engaging in the international arena are to seek cheaper resources via outsourcing and to develop markets outside the home country.
- **Global outsourcing**, sometimes called *offshoring*, means engaging in the international division of labor so as to obtain the cheapest sources of labor and supplies, regardless of country.
- **Market entry strategies** are various tactics that managers use to enter foreign markets.
- **Exporting** is a market entry strategy in which a company maintains production facilities within its home country and transfers products for sale in foreign countries.
- With a market entry strategy of **licensing**, a company in one country makes certain resources available to companies in other countries to participate in the production and sale of its products abroad.
- **Franchising** is a form of licensing in which a company provides its foreign franchisees with a complete package of materials and services.
- McDonald's and other U.S. fast food companies have franchises all over the world.
- **Direct investing** is a market entry strategy in which the organization is directly involved in managing its production facilities in a foreign country.
- Alternatives for direct investing include engaging in joint ventures, acquiring foreign affiliates, and initiating a greenfield venture.
- With a **joint venture**, an organization shares costs and risks with another firm in a foreign country to build a facility, develop new products, or set up a sales and distribution network.
- A **wholly owned foreign affiliate** is a foreign subsidiary over which an organization has complete control.
- Home Depot purchased the chain Home Mart in Mexico as a wholly owned foreign affiliate.
- The most risky type of direct investment is the **greenfield venture**, in which a company builds a subsidiary from scratch in a foreign country.

The International Business Environment

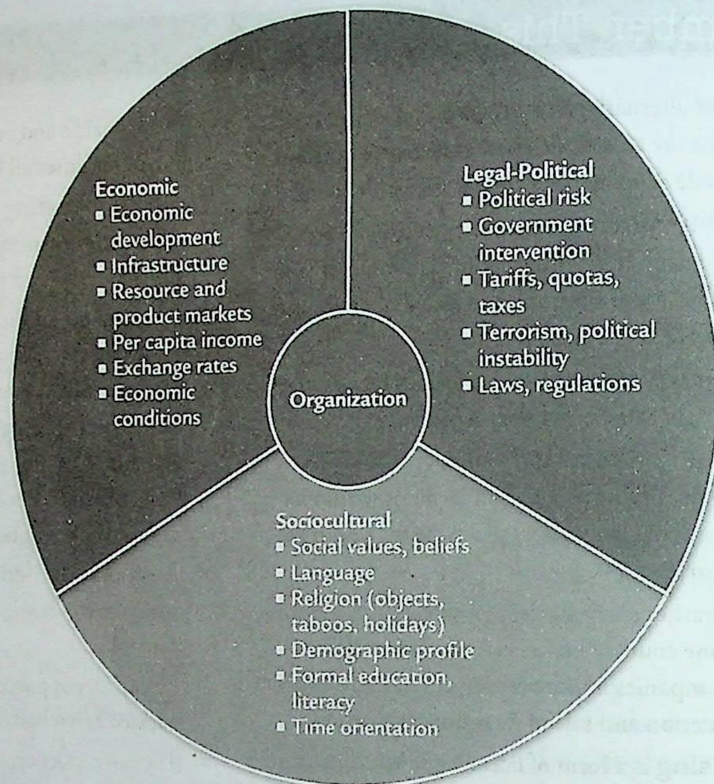
International management is the management of business operations conducted in more than one country. The fundamental tasks of business management—including the financing, production, and distribution of products and services—do not change in any substantive way when a firm is transacting business across international borders. The basic management functions of planning, organizing, leading, and controlling are the same whether a company operates domestically or internationally. However, managers will experience greater difficulties and risks when performing these management functions on an international scale. Consider the following blunders:

- It took McDonald's more than a year to figure out that Hindus in India do not eat beef because they consider the cow sacred. The company's sales took off only after McDonald's started making burgers sold in India out of lamb.[40]
- When IKEA launched a superstore in Bangkok, managers learned that some of its Swedish product names sound like crude terms for sex when pronounced in Thai.[41]
- In Africa, the labels on bottles show pictures of what is inside so illiterate shoppers can know what they're buying. When a baby-food company showed a picture of an infant on its label, the product didn't sell very well.[42]
- United Airlines discovered that even colors can doom a product. The airline handed out white carnations when it started flying from Hong Kong, only to discover that, to many Asians, such flowers represent death and bad luck.[43]

Some of these examples might seem humorous, but there's nothing funny about them to managers trying to operate in a highly competitive global environment. What should managers of emerging global companies look for to avoid making obvious international

EXHIBIT 4.3

Key Factors in the International Environment



mistakes? When they are comparing one country with another, the economic, legal-political, and sociocultural sectors present the greatest difficulties. Key factors to understand in the international environment are summarized in Exhibit 4.3.[44]

Remember This

- The basic management functions are the same in either a domestic or an international subsidiary, but managers will experience greater difficulties and risks when performing these functions internationally.
- **International management** means managing business operations in more than one country.
- When operating on an international basis, it is important for managers to give considerable thought to economic, legal-political, and sociocultural factors.

The Economic Environment

Take a Moment

Read the Ethical Dilemma for Chapter 4 on pages 197–198 that pertains to conducting business in less-developed countries.

The economic environment represents the economic conditions in the country where the international organization operates. This part of the environment includes factors such as economic development and resource and product markets. In addition, factors such as inflation, interest rates, and economic growth are also part of the international economic environment.

Economic Development

Economic development differs widely among the countries and regions of the world. Countries can be categorized as either *developing* or *developed*. Developing countries are referred to as *less-developed countries (LDCs)*. The criterion traditionally used to classify countries as developed or developing is *per-capita income*, which is the income generated by the nation's production of goods and services divided by total population. The developing countries have low per-capita incomes. LDCs generally are located in Asia, Africa, and South America. Developed countries are generally located in North America, Europe, and Japan. Most international business firms are headquartered in the wealthier, economically advanced countries, but smart managers are investing heavily in Asia, Eastern Europe, Latin America, and Africa.[45] These companies face risks and challenges today, but they stand to reap huge benefits in the future.

Each year, the World Economic Forum analyzes data to gauge how companies are doing in the economic development race and releases its Global Competitiveness Report, which tallies numerous factors that contribute to an economy's competitiveness.[46] The report considers both hard data and perceptions of business leaders around the world and considers government policies, institutions, market size, the sophistication of financial markets, and other factors that drive productivity and thus enable sustained economic growth. Exhibit 4.4 shows the top ten countries in the overall

▶▶▶ Concept Connection

AP Photo/Pavel Rahman

While working as a New York investment banker, Bangladesh native Iqbal Quadir realized that connectivity equals productivity. He also knew his impoverished homeland was one of the least connected places on Earth. That prompted him to collaborate with countryman Muhammad Yunus, Grameen Bank founder and 2006 Nobel Peace Prize winner, to create Village Phone. Entrepreneurs, mostly women, use Grameen Bank microloans to purchase cell phones. "Telephone ladies," such as Monwara Begum pictured here, then earn the money to repay the debt by providing phone service to fellow villagers. Village Phone has resulted in thousands of new small businesses, as well as an improved communication **infrastructure**, that makes **economic development** possible.

EXHIBIT 4.4 Country Competitiveness Comparison

Country	World Economic Forum Competitiveness Ranking	Gross Domestic Product	Number of People in Labor Force
Switzerland	1	$ 344,200,000,000	4,899,000
Singapore	2	$ 318,900,000,000	3,237,000
Sweden	3	$ 386,600,000,000	5,018,000
Finland	4	$ 198,200,000,000	2,682,000
United States	5	$ 15,290,000,000,000	153,600,000
Germany	6	$ 3,139,000,000,000	43,670,000
Netherlands	7	$ 713,100,000,000	7,809,000
Denmark	8	$ 209,200,000,000	2,851,000
Japan	9	$ 4,497,000,000,000	65,910,000
United Kingdom	10	$ 2,290,000,000,000	31,720,000
Canada	12	$ 1,414,000,000,000	18,700,000
Saudi Arabia	17	$ 691,500,000,000	7,630,000
China	26	$ 11,440,000,000,000	795,500,000
Kuwait	34	$ 155,500,000,000	2,227,000
South Africa	50	$ 562,200,000,000	17,660,000
Brazil	53	$ 2,324,000,000,000	104,700,000
India	56	$ 4,515,000,000,000	487,600,000

SOURCE: Based on "The Global Competitiveness Report 2011–2012," World Economic Forum, www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf (accessed June 27, 2012); CIA World Factbook 2011, www.cia.gov/library/publications/the-world-factbook (accessed November 15, 2012).

ranking for 2011–2012, along with several other countries for comparison. The United States has steadily fallen to fifth place, from first place in 2008–2009. Note that highly developed countries typically rank higher in the competitiveness index. One important factor in gauging competitiveness is the country's **infrastructure**, that is, the physical facilities such as highways, airports, utilities, and telephone lines that support economic activities.

ECONOMIC INTERDEPENDENCE

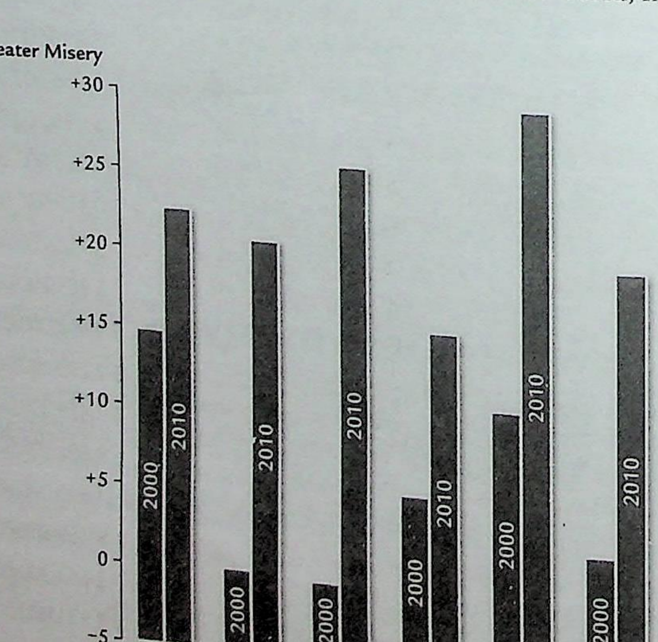
One thing the recent global financial crisis has made abundantly clear is how economically interconnected the world is. Although the recent crisis might seem atypical, savvy international managers realize that their companies will probably be buffeted by similar crises fairly regularly. For example, most students are probably familiar with the bursting of the dot-com bubble in the early part of this century, which caused a severe drop in the stock market and affected companies around the globe. The Asian financial crisis of 1997–1998 similarly affected firms in North America, Europe, and other parts of the world. More recently, Greece's inability to make payments on its debt sparked a panic that devalued the euro and threatened the stability of financial markets worldwide.[47]

Recent financial woes have left a number of countries reeling, as reflected in a "misery index" created by a Moody's economist and illustrated in Exhibit 4.5. The misery index adds together a country's unemployment rate and the budget deficit as a percentage of gross domestic product (GDP). The 2010 figures suggest significantly greater misery for almost every country compared to the beginning of this century. Iceland and Ireland, two countries hit particularly hard by the recent economic crisis, had a negative misery index in 2000 but registered high scores for misery in 2010. The United States went from a misery score of less than 5 in 2000 to about 21 in 2010.[48]

Another reflection of economic interdependence is the fact that parts and supplies for many companies come from around the world, which presents managers with new complexities. For example, a recent challenge for Honda and Toyota auto plants in the United States, Canada, and Asia was getting the electronics and other parts they needed from suppliers in Thailand, where flooding swamped huge industrial sections of the country. Walmart, the world's largest retailer, with stores around the world, has been under

EXHIBIT 4.5

How Countries Are Bearing the Economic Crisis: Misery Index, 2010 Compared to 2000



SOURCE: Based on "A New Definition of Misery," The New York Times (December 18, 2009), based on data from Moody's; www.nytimes.com/imagepages/2009/12/18/business/economy/20091219_CHARTS_GRAPHIC.html (accessed on December 19, 2009).

pressure to evaluate and disclose how suppliers treat workers. At a recent shareholder meeting, a Bangladeshi labor organizer complained that many factories that produce goods for the giant U.S.-based chain mistreat workers, and he presented a proposal that the company require suppliers to describe working conditions in detail.[49]

HOT TOPIC

Remember This

- Countries vary widely in terms of **economic development** and are classified as either developed countries or less-developed countries (LDCs).
- **Infrastructure** refers to a country's physical facilities, such as highways, utilities, and airports, that support economic activities.
- The United States has fallen from first to fifth place on a ranking of global competitiveness.
- As recent financial crises in the United States and Europe show, countries are economically interconnected, and financial problems in one area of the world can spread rapidly around the globe.
- International business managers can expect their companies to be affected periodically by economic problems that cross geographical boundaries.

The Legal-Political Environment

Differing laws and regulations make doing business a challenge for international firms. Host governments have myriad laws concerning libel statutes, consumer protection, information and labeling, employment and safety, and wages. International managers must learn these rules and regulations and abide by them. In addition, managers must deal with unfamiliar political systems when they go international, as well as with more government supervision and regulation. Government officials and the general public often view foreign companies as outsiders (or even intruders) and are suspicious of their impact on economic independence and political sovereignty.

Political risk is defined as the risk of loss of assets, earning power, or managerial control due to politically based events or actions by host governments. Although many developing countries today welcome and support foreign firms, political risk is a major concern for international companies, which face a broader and more complex array of threats than ever.[50] For example, National Security Agency (NSA) investigators say they traced a series of online attacks on Google and dozens of other U.S. corporations to two Chinese educational institutions with ties to the Chinese military. The attacks were aimed at stealing trade secrets and tapping into the e-mail of suspected Chinese human rights activists.[51] Political risk also includes government takeovers of property and acts of violence directed against a firm's properties or employees.

Another frequently cited problem for international companies is **political instability**, which includes riots, revolutions, civil disorders, and frequent changes in government. The Arab Spring, for instance, a revolutionary wave of protests in the Arab world that began in late 2010, has created a tumultuous environment for businesses operating in

▶▶▶ Concept Connection

GOH CHAI HIN/AFP/Getty Images

Amway, the U.S.-based network marketing company, spent years patiently negotiating China's **legal-political environment**. In 1998, the Chinese government closed down Amway operations in China because it suspected the company was either an illegal pyramid scheme or a sinister cult. Amway survived by cultivating relationships with government officials and by departing from its business model. For example, it opened more than 200 retail stores like this one to demonstrate its commitment. In 2006, the Chinese government once again allowed Amway to sell directly to consumers, and the company now earns billions in annual revenue in China.

HOT TOPIC

the region (including Tunisia, Egypt, Libya, Syria, Yemen, and Bahrain). "No president, no government, no police," said Jalilia Mezni, owner of Société d'Articles Hygiéniques in Tunisia. "Only complete disorder."[52] Political risk and political instability remain elevated throughout the Arab world, causing problems for both local and foreign organizations. Zaid Qadoumi, the CEO of Canada's BroadGrain, which has been delivering agricultural commodities to emerging markets and political hot spots since the company was founded, offered extra pay for a crew to deliver a load of wheat to Libya, but advised workers to "cut the ropes and leave" if they believed the situation was too dangerous.[53]

Remember This

- Complicated legal and political forces can create huge risks for international managers and organizations.
- **Political risk** refers to a company's risk of loss of assets, earning power, or managerial control due to politically based events or actions by host governments.
- **Political instability** includes events such as riots, revolutions, or government upheavals that can affect the operations of an international company.
- A revolutionary wave of protests in the Arab world that began in late 2010, known as the *Arab Spring*, has created a tumultuous environment for businesses operating in the region.
- Managers must understand and follow the differing laws and regulations in the various countries where they do business.

The Sociocultural Environment

A nation's culture includes the shared knowledge, beliefs, and values, as well as the common modes of behavior and ways of thinking among members of a society. Cultural factors sometimes can be more perplexing than political and economic factors when working or living in a foreign country.

Social Values

Many managers fail to realize that the values and behaviors that typically govern how business is done in their own country don't always translate to the rest of the world. American managers in particular are regularly accused of an ethnocentric attitude that assumes their way is the best way. This chapter's Shoptalk looks further at how American managers sometimes are perceived by people in other countries. **Ethnocentrism** refers to a natural tendency of people to regard their own culture as superior and to downgrade or dismiss other cultural values. Ethnocentrism can be found in all countries, and strong ethnocentric attitudes within a country make it difficult for foreign firms to operate there.

One way that managers can fight their own ethnocentric tendencies is to understand and appreciate differences in social values.

Hofstede's Value Dimensions

In research that included 116,000 IBM employees in 40 countries, Dutch scientist Geert Hofstede identified four dimensions of national value systems that influence organizational and employee working relationships.[54] Examples of how countries rate on the four dimensions are shown in Exhibit 4.6.

1. ***Power distance.*** High **power distance** means that people accept inequality in power among institutions, organizations, and people. Low power distance means that people expect equality in power. Countries that value high power distance are Malaysia, India, and the Philippines. Countries that value low power distance are Denmark, Israel, and New Zealand.

Manager's Shoptalk

Are You an Ugly American?

Americans have been accused of a tendency to think everyone does things the way they are done in the United States and to believe "the American way is the best way." Those attitudes hurt U.S. firms in the global business environment.

How People in Developing Countries View Corporate America

PepsiCo conducted a perception study to see how corporate America is viewed in developing countries. One finding is that U.S. companies are rarely perceived as being multinational; rather, they are perceived as U.S. companies doing business internationally. Here are a few other perceptions:

- American managers are "traveling salesmen" who come in fast, give a quick presentation, make promises, and then disappear.
- When things go wrong, American managers don't fix them; they dump them and move on.
- American managers take a mercenary approach and do not build or value consistency and stability.

Americans as Global Managers

One expert on business etiquette says inexperienced American managers commit blunders more than 70 percent of the time when doing business abroad. Here are a few cultural mistakes American managers working overseas or with people from foreign countries frequently make:

- American managers often come across as cold or insensitive. In relationship-oriented societies such as Latin America, Asia, and Mexico, for example, managers are expected to use a warm, personal approach and show interest and concern for the personal lives of subordinates as well as colleagues.
- American managers demonstrate a take-charge attitude that is considered impolite or offensive in some countries. Cultural values in China, for example, emphasize that the leader is much more modest, less visible, and accomplishes things behind the scenes. In India, a take-charge attitude in the workplace may be considered disrespectful.
- American managers are typically informal and refer to everyone by their first names, which can be insulting to people in areas such as Mexico and some Asian and Latin American countries, where business is conducted much more formally.

Sources: Based on information in Carlos Sanchez-Runde, Luciara Nardon, and Richard M. Steers, "Looking Beyond Western Leadership Models: Implications for Global Managers," *Organizational Dynamics* 40 (2011): 207–213; Christine Uber Grosse, "Global Managers' Perceptions of Cultural Competence," *Business Horizons* 54 (2011): 307–314; Sarah Salas, "Business Etiquette in Latin America," BellaOnline Website, www.bellaonline.com/articles/art40307.asp (accessed June 29, 2012); "PepsiCo's Perception Study," in *Managing Diversity for Sustained Competitiveness: A Conference Report* (New York: The Conference Board, 1997), p. 16.

2. *Uncertainty avoidance.* High **uncertainty avoidance** means that members of a society feel uncomfortable with uncertainty and ambiguity and thus support beliefs that promise certainty and conformity. Low uncertainty avoidance means that people have high tolerance for the unstructured, the unclear, and the unpredictable. High uncertainty avoidance countries include Greece, Portugal, and Uruguay. Countries with low uncertainty avoidance values are Sweden, Singapore, and Jamaica.
3. *Individualism and collectivism.* **Individualism** reflects a value for a loosely knit social framework in which individuals are expected to take care of themselves. **Collectivism** means a preference for a tightly knit social framework in which individuals look after one another and organizations protect their members' interests. Countries with individualist values include the United States, Canada, and Great Britain. Countries with collectivist values are China, Mexico, and Brazil.
4. *Masculinity/femininity.* **Masculinity** stands for preference for achievement, heroism, assertiveness, work centrality (with resultant high stress), and material success. **Femininity**

EXHIBIT 4.6 Rank Orderings of Ten Countries Along Four Dimensions of National Value Systems

Country	Power Distance[a]	Uncertainty Avoidance[b]	Individualism[c]	Masculinity[d]
Australia	7	7	2	5
Costa Rica	8 (tie)	2 (tie)	10	9
France	3	2 (tie)	4	7
West Germany	8 (tie)	5	5	3
India	2	9	6	6
Japan	5	1	7	1
Mexico	1	4	8	2
Sweden	10	10	3	10
Thailand	4	6	9	8
United States	6	8	1	4

a. 1 = Highest power distance
10 = Lowest power distance
c. 1 = Highest individualism
10 = Lowest individualism

b. 1 = Highest uncertainty avoidance
10 = Lowest uncertainty avoidance
d. 1 = Highest masculinity
10 = Lowest masculinity

SOURCES: Dorothy Marcic, *Organizational Behavior and Cases*, 4th ed. (St. Paul, MN: West, 1995). Based on two books by Geert Hofstede: *Culture's Consequences* (London: Sage Publications, 1984) and *Cultures and Organizations: Software of the Mind* (New York: McGraw-Hill, 1991).

reflects the values of relationships, cooperation, group decision making, and quality of life. Societies with strong masculine values are Japan, Germany, Italy, and Mexico. Countries with feminine values are Sweden, Costa Rica, Norway, and France. Both men and women subscribe to the dominant value in masculine and feminine cultures.

Hofstede and his colleagues later identified a fifth dimension, long-term orientation versus short-term orientation. The **long-term orientation**, found in China and other Asian countries, includes a greater concern for the future and highly values thrift and perseverance. A **short-term orientation**, found in Russia and West Africa, is more concerned with the past and the present and places a high value on tradition and meeting social obligations.[55] Researchers continue to explore and expand on Hofstede's findings.[56] For example, in the last 30 years, more than 1,400 articles and numerous books were published on individualism and collectivism alone.[57]

GLOBE Project Value Dimensions

Recent research by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) Project extends Hofstede's assessment and offers a broader understanding for today's managers. The GLOBE Project used data collected from 18,000 managers in 62 countries to identify nine dimensions that explain cultural differences. In addition to the ones identified by Hofstede, the GLOBE project identifies the following characteristics:[58]

Take a Moment

Answer the questions in the New Manager Self-Test on page 120 to see how you rate on some of the value dimensions described by Hofstede and the GLOBE project.

1. ***Assertiveness.*** A high value on assertiveness means a society encourages toughness, assertiveness, and competitiveness. Low assertiveness means that people value tenderness and concern for others over being competitive.
2. ***Future orientation.*** Similar to Hofstede's time orientation, this dimension refers to the extent to which a society encourages and rewards planning for the future over short-term results and quick gratification.
3. ***Gender differentiation.*** This dimension refers to the extent to which a society maximizes gender role differences. In countries with low gender differentiation, such as Denmark, women typically have a higher status and play a stronger role in decision making. Countries with high gender differentiation accord men higher social, political, and economic status.

4. ***Performance orientation.*** A society with a high performance orientation places high emphasis on performance and rewards people for performance improvements and excellence. A low performance orientation means people pay less attention to performance and more attention to loyalty, belonging, and background.
5. ***Humane orientation.*** The final dimension refers to the degree to which a society encourages and rewards people for being fair, altruistic, generous, and caring. A country high on humane orientation places a great value on helping others and being kind. A country low on this orientation expects people to take care of themselves. Self-enhancement and gratification are of high importance.

"Because management deals with the integration of people in a common venture, it is deeply embedded in culture. What managers do in Germany, in the United Kingdom, in the United States, in Japan, or in Brazil is exactly the same. How they do it may be quite different."

— PETER DRUCKER, MANAGEMENT EXPERT

Exhibit 4.7 gives examples of how some countries rank on these GLOBE dimensions. These dimensions give managers an added tool for identifying and managing cultural differences. Social values greatly influence organizational functioning and management styles. Consider the difficulty that Emerson Electric managers had when Emerson opened a new manufacturing facility in Suzhou, China. One area in which the American view and the Chinese view differed widely was in terms of time orientation. The American managers favored a short time horizon and quick results, and they viewed their assignments as stepping stones to future career advancement. The Chinese managers, on the other hand, favored a long-term approach, building a system and setting a proper course of action to enable long-term success.[59] Other companies have encountered similar cultural differences. Consider the American concept of self-directed teams, which emphasizes shared power and authority, with team members working on a variety of problems without formal guidelines, rules, and structure. Managers trying to implement teams have had trouble in areas where cultural values support high power distance and a low tolerance for uncertainty, such as Mexico. Many workers in Mexico, as well as in France and Mediterranean countries, expect organizations to be hierarchical. In Russia, people are good at working in groups and like competing as a team rather than on an individual basis. Organizations in Germany and other central European countries typically strive to be impersonal, well-oiled machines. Effective management styles differ in each country, depending on cultural characteristics.[60]

EXHIBIT 4.7

Examples of Country Rankings on Selected GLOBE Value Dimensions

Dimension	Low	Medium	High
Assertiveness	Sweden Switzerland Japan	Egypt Iceland France	Spain United States Germany (former East)
Future Orientation	Russia Italy Kuwait	Slovenia Australia India	Denmark Canada Singapore
Gender Differentiation	Sweden Denmark Poland	Italy Brazil Netherlands	South Korea Egypt China
Performance Orientation	Russia Greece Venezuela	Israel England Japan	United States Taiwan Hong Kong
Humane Orientation	Germany France Singapore	New Zealand Sweden United States	Indonesia Egypt Iceland

SOURCE: Mansour Javidan and Robert J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," *Organizational Dynamics* 29, no. 4 (2001): 289–305, with permission from Elsevier.

New Manager Self-Test

What Are Your Social Values?

Instructions: Respond to each of the following statements based on your beliefs, indicating whether the statement is Mostly True or Mostly False for you.

	Mostly True	Mostly False
1. Achieving one's personal goals is more important than achieving team or organization goals.	______	______
2. Children should take great pride in the individual accomplishments of their parents and vice versa.	______	______
3. Pay and bonus systems should be designed to maximize individual interests over mutual interests.	______	______
4. I believe that orderliness and consistency should be stressed in society, even at the expense of experimentation and innovation.	______	______
5. Organizations work better when people do not break rules.	______	______
6. Organizations should spell out job requirements in detail so employees know what they are supposed to do.	______	______
7. I want to compete for high-level jobs and high earnings.	______	______
8. People should be encouraged to be assertive rather than nonassertive.	______	______
9. In an organization, people should be encouraged to be tough more than tender.	______	______
10. As a manager, I would want an egalitarian working relationship with my direct reports rather than maintaining distance from them.	______	______
11. Organizations should encourage subordinates to question their leaders.	______	______
12. Authority should be based on one's ability and contribution rather than on one's position in the hierarchy.	______	______
13. People in society will be happier if they accept the status quo rather than try to change things for the days ahead.	______	______
14. I prefer a norm of taking life events as they occur rather than constantly planning ahead.	______	______
15. I believe in focusing on current problems rather than trying to make things happen for the future	______	______

Scoring and Interpretation: These questions represent a measure of five cultural values as described by Geert Hofstete and the GLOBE Project, as described in the chapter. Give yourself one point for each answer marked Mostly True. Questions 1–3 are for *individualism-collectivism*. A higher score of 2–3 represents a belief toward individualism; a lower score of 0–1 means a belief more toward collectivism. Questions 4–6 are about *uncertainty avoidance*. A higher score of 2–3 means a value for low uncertainty in life; a lower score of 0–1 means a value for higher uncertainty. Questions 7–9 represent *assertiveness*. A higher score of 2–3 represents a value for people being assertive; a lower score of 0–1 means a value for people being nonassertive. Questions 10–12 represent *power distance*. A higher score of 2–3 means a value for low power distance; a lower score of 0–1 means a value for high power distance. Questions 13–15 represent *time orientation*. A higher score of 2–3 means an orientation toward the present; a lower score of 0–1 represents a future orientation.

Your scores have both individual and societal meaning. Compare your scores to other students to understand your perception of the different values in your colleague group. On which of the five values would you personally like to score higher? Lower? These five values also differ widely across national cultures. Go to the website www.geert-hofstede.com/hofstede_dimensions.php and compare your country's scores on the five values to the scores of people from other countries. At this site, the term *masculinity* is used instead of *assertiveness*. What surprises you about the differences across countries?

Sources: Adapted from Robert J. House et al. (eds.), *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies* (Thousand Oaks, CA: Sage Publications, 2004); Geert Hofstede, *Culture's Consequences* (London: Sage Publications, 1984); and D. Matsumoto et al., "Context-Specific Measurement of Individualism-Collectivism on the Individual Level: The Individualism-Collectivism Interpersonal Assessment Inventory," *Journal of Cross-Cultural Psychology* 28, no. 6 (1997): 743–767.

Remember This

- Managers working internationally should guard against **ethnocentrism**, which is the natural tendency among people to regard their own culture as superior to others.
- Hofstede's sociocultural value dimensions measure power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity.
- **Power distance** is the degree to which people accept inequality in power among institutions, organizations, and people.
- **Uncertainty avoidance** is characterized by people's intolerance for uncertainty and ambiguity and resulting support for beliefs that promise certainty and conformity.
- **Individualism** refers to a preference for a loosely knit social framework in which individuals are expected to take care of themselves.
- **Collectivism** refers to a preference for a tightly knit social framework in which individuals look after one another and organizations protect their members' interests.
- **Masculinity** is a cultural preference for achievement, heroism, assertiveness, work centrality, and material success.
- **Femininity** is a cultural preference for relationships, cooperation, group decision making, and quality of life.
- Hofstede later identified another dimension: **long-term orientation**, which reflects a greater concern for the future and a high value on thrift and perseverance, versus **short-term orientation**, which reflects a concern with the past and present and a high value on meeting current obligations.
- Additional value dimensions recently identified by Project GLOBE are assertiveness, future orientation, gender differentiation, performance orientation, and humane orientation.

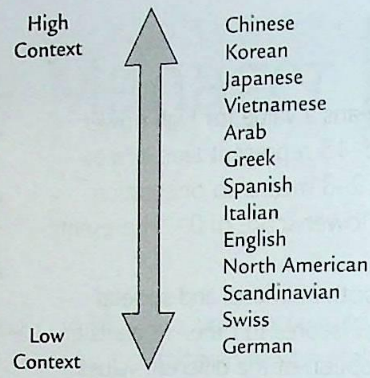
COMMUNICATION DIFFERENCES

People from some cultures tend to pay more attention to the social context (social setting, nonverbal behavior, social status, etc.) of their verbal communication than Americans do. For example, American managers working in China have discovered that social context is considerably more important in that culture, and they need to learn to suppress their impatience and devote the time necessary to establish personal and social relationships.

Exhibit 4.8 indicates how the emphasis on social context varies among countries. In a **high-context culture**, people are sensitive to circumstances surrounding social exchanges. People use communication primarily to build personal social relationships; meaning is derived from context—setting, status, and nonverbal behavior—more than from explicit words; relationships and trust are more important than business; and the welfare and harmony of the group are valued. In a **low-context culture**, people use communication primarily to exchange facts and information; meaning is derived primarily from words;

EXHIBIT 4.8

High-Context and Low-Context Cultures



SOURCES: Edward T. Hall, *Beyond Culture* (Garden City, NY: Anchor Press/Doubleday, 1976); and J. Kennedy and A. Everest, "Put Diversity in Context," *Personnel Journal* (September 1991): 50–54.

Take@Moment

Refer to your score on the questionnaire at the beginning of this chapter, which will give you some insight into whether you lean toward low-context or high-context communications. A higher score indicates low-context behavior, which would clash when trying to do business in a high-context culture.

business transactions are more important than building relationships and trust; and individual welfare and achievement are more important than the group.[61]

To understand how differences in cultural context affect communications, consider the American expression, "The squeaky wheel gets the grease." It means that the loudest person will get the most attention, and attention is assumed to be favorable. Equivalent sayings in China and Japan are "Quacking ducks get shot," and "The nail that sticks up gets hammered down," respectively. In these latter two cultures, standing out as an individual merits unfavorable attention. Consider the culture gap when China's Lenovo Group acquired IBM's PC business. In meetings and conference calls, Western executives were frustrated by their Chinese counterparts' reluctance to speak up, while the Chinese managers were irritated by the Americans' propensity to "just talk and talk," as one vice president of human resources put it.[62]

High-context cultures include Asian and Arab countries. Low-context cultures tend to be American and Northern European. Even within North America, cultural subgroups vary in the extent to which context counts, explaining why differences among groups can hinder successful communication. White females, Native Americans, and African Americans all tend to prefer higher context communication than do white males. A high-context interaction requires more time because a relationship has to be developed, and trust and friendship must be established. Furthermore,

Concept Connection

Pictured at a traditional Japanese ceremony is Hiroshi Mikitani (second from right), Rakuten, Inc.'s founder and CEO. Tokyo-based Rakuten is an Internet group that includes Rakuten Marketplace, a flourishing e-commerce site. In keeping with Rakuten's ambitious global expansion plans, Mikitani holds all board meetings, strategy discussions, and weekly employee gatherings in English, the most commonly used language in international business. As Rakuten expands, managers from Japan's **high-context culture**, where communication is used to build relationships, must not only become proficient in a foreign language, but also learn to communicate effectively with managers from **low-context cultures**, where communication is used primarily to conduct business.

Kiyoshi Ota/Getty Images

most male managers and most people doing the hiring in organizations are from low-context cultures, which conflicts with people entering the organization from a background in a higher-context culture.

Remember This

- A **high-context culture** is one in which people use communication to build personal relationships.
- In a **low-context culture**, people use communication primarily to exchange facts and information.
- The United States is a low-context culture. China is an example of a high-context culture.

The Changing International Landscape

Many companies today are going straight to China or India as a first step into international business, either through outsourcing or by using various market entry strategies. China and India have been the world's fastest growing economies in recent years. In addition, Brazil is coming on strong as a major player in the international business landscape.

CHINA, INC.

For the past several years, foreign companies have invested more in business in China than they spent anywhere else in the world. A market that was of little interest a decade ago has become the one place nearly every manager is thinking about. China is German car maker BMW's biggest market for its largest and most profitable sedans.[63] The U.S.-based company Apple has two stores in Shanghai, and they are so busy that the company is opening a third, along with dozens of other stores throughout China. Apple's four stores in Beijing and Shanghai are the company's most heavily used—as well as the most profitable.[64] Apple had to jump through all sorts of legal and regulatory hurdles to sell in China, but it was worth it to get the iPhone into the largest mobile phone market in the world.[65] Although outsourcing has been the most widespread approach to involvement in China, the country is rapidly moving toward a consumer-driven economy, with the fastest-growing middle

Green Power

When Bentonville Met Beijing

Establishing his business in Bentonville, Arkansas, in 1962, all-American entrepreneur Sam Walton could not have imagined eventual expansion to over 350 stores and 20,000 suppliers in China. In 2008, Walmart CEO Lee Scott publicly addressed environmental concerns in China and put Walmart's vast resources behind his pledge to make sustainability a priority in the Chinese market. To address waste and pollution, Walmart trained and monitored workers across the Chinese supply chain, from factory and transport to retail stores, and then set environmental standards as a *requirement* for other companies to do business with Walmart. The company also joined forces with China's Institute of Public and Environmental Affairs to map water pollution and wastewater management. The efforts resulted in dramatic drops in water use at many supplier factories. To address mounting food safety concerns among the Chinese, Walmart established the Direct Farm Program, offering local farmers higher incomes for providing safe supplies of fresh food to consumers through the giant retailer.

Source: Orville Schell, "How Walmart Is Changing China—and Vice Versa," *The Atlantic* (December 2011): 80–98.

class in history. China is the largest or second-largest market for a variety of products and services, including mobile phones, automobiles, consumer electronics, luxury goods, and Internet use.[66]

Yet, doing business in China has never been smooth, and it appears to be getting even tougher. New regulations and government policies are making life hard for foreign companies in all industries. For Internet companies such as Facebook, Twitter, eBay, and Google, China has been more a source of trouble and frustration than of new customers.[67] Google closed its Chinese site, Google.cn, in early 2010 because of government restrictions and censorship, although the company later renewed its license to provide limited services in China. Some multinational firms doing business with Chinese organizations, particularly big state-owned companies, have also had problems getting payments on their contracts. "A contract is not an unchangeable bible for Chinese companies," said Beijing-based lawyer Jingzhou Tao. Chinese managers frequently withhold payments as a tactic in price negotiations. Part of the reason is that these organizations are not just companies but also political entities. But another reason is because of cultural differences. "Chinese culture will build a relationship before the contract," said Arthur Bowring, managing director of the Hong Kong Shipowners Association. "The relationship is always something that can be talked about. The contract is just a set of papers that you keep in your bottom drawer."[68]

HOT TOPIC

Despite the problems, China is a market that foreign managers can't afford to ignore. However, competition from domestic companies in China is growing fast. In some industries, local companies have already become market leaders, such as Midea in consumer appliances and 7 Days Inn in budget hotels.[69] One Chinese company that is rapidly becoming a global leader is Lenovo.

Innovative Way

Lenovo

The fastest-growing company in the PC industry is one that most people outside of China hadn't even heard of a few years ago, even after it bought IBM's ThinkPad brand in 2005. Lenovo is now the No. 2 seller of computers in the world (behind Hewlett-Packard) and is innovating in new product categories such as tablets, smartphones, and smart TVs. Lenovo's CEO, Yang Yuanqing, who started as a salesman and once delivered computers by bicycle, is now China's highest-paid executive.

With its emphasis on quality (its machines rank tops for reliability), Lenovo is redefining the perception of the phrase "made in China." Moreover, it is redefining the meaning of a Chinese company, blending the best of Eastern philosophy and culture with the best of Western business and management thinking. The company has headquarters in Beijing, but Yang spends a third of his time at Lenovo's offices in Raleigh, North Carolina. Lenovo's top managers, once almost all Chinese with no international experience, now come from 14 different nations. Most members of the top leadership team speak two or more languages. They live and work in six different cities on three continents. Dan Stone, who was born in Israel, has his office in the United States, while Gerry Smith, born in the United States, works out of Singapore.

Lenovo's top executives know that appreciating and merging Chinese and non-Chinese perspectives is crucial to success. It's an idea that U. S. managers need to be paying attention to. "Chinese people know Americans or the United States more than vice versa," says Lenovo's founder and chairman, Liu Chuanzhi. "Much more."[70]

India, the Service Giant

India, second only to China in population, has taken a different path toward economic development. Whereas China is strong in manufacturing, India is a rising power in software design, services, and precision engineering. Numerous companies see India as a major source of technological and scientific brainpower, and the country's large English-speaking population makes it a natural for U.S. companies wanting to outsource services. One index lists more than 900 business services companies in India, which employ around 575,000 people.[71]

One of the fastest-growing industries in India is pharmaceuticals, medical devices, and diagnostics. The country has a large number of highly trained scientists, doctors, and researchers, and U.S. firms Abbott Laboratories and Covidien have both opened research and development centers there. India is also a growing manufacturer of pharmaceuticals and is the world's largest exporter of generic drugs. By 2020, India's pharmaceuticals industry will likely be a global leader, according to a report by PricewaterhouseCoopers.[72]

▶▶▶ Concept Connection

Jefferson Bernardes/Getty Images News/Getty Images

Companies such as Bug Agentes Biologicos, located in Piracicaba, Brazil, reflect the **changing international landscape**. One of *Forbes* magazine's top 50 most innovative companies worldwide, Bug Agentes Biologicos supplies the agriculture industry with predatory insect eggs and parasitoids, which are a natural alternative to harmful agricultural pesticides. Bug sells its products throughout the three largest agricultural producers—the United States, the European Union (EU), and Brazil—and far beyond.

Brazil's Growing Clout

Brazil is another country that is increasingly gaining managers' attention. Although Brazil's economic growth slowed in 2011, it is still one of the fastest-growing emerging economies in the world, with large and growing agricultural, mining, manufacturing, and service sectors.[73] The country's economy, already the seventh-largest in the world, is projected to move into fourth place by 2050. The choice of Rio de Janeiro to host the 2016 Summer Olympics is also an indication of Brazil's growing clout in the international arena.

Brazil has a young, vibrant population, the largest in Latin America, and a rapidly growing middle class eager to experience the finer things in life. Consumer spending represents about 60 percent of Brazil's economy. The Brazilian government has initiated major investments in the development of infrastructure such as highways, ports, and electricity projects, which is creating jobs as well as spurring the development of other businesses. In addition, in 2010, Brazil announced a $22 billion investment in science and technology innovation.

Remember This

- Many companies are going straight to China or India as a first step into international business.
- Outsourcing is the most widespread involvement by foreign firms in these two countries.
- China is strong in manufacturing, whereas India is a major provider of services.
- The Chinese company Lenovo is emerging as the country's first global corporation, with managers coming from 14 different nations, living and working in six cities on three continents.
- Brazil, with its rapidly growing consumer market, is becoming a major player in the shifting international landscape.
- Managers also look to China, India, and Brazil as sources of lower-cost technological and scientific brainpower.

International Trade Alliances

Another highly visible change in the international business environment in recent years has been the development of regional trading alliances and international trade agreements.

GATT and the WTO

The General Agreement on Tariffs and Trade (GATT), signed by 23 nations in 1947, started as a set of rules to ensure nondiscrimination, clear procedures, the negotiation of disputes, and the participation of lesser-developed countries in international trade.[74] GATT sponsored eight rounds of international trade negotiations aimed at reducing trade restrictions. The 1986 to 1994 Uruguay Round (the first to be named for a developing country) involved 125 countries and cut more tariffs than ever before. In addition to lowering tariffs 30 percent from the previous level, it boldly moved the world closer to global free trade by calling for the establishment of the World Trade Organization (WTO) in 1995.

The WTO represents the maturation of GATT into a permanent global institution that can monitor international trade and has legal authority to arbitrate disputes on some 400 trade issues. As of July 2008, 153 countries, including China, Vietnam, and Ukraine, were members of the organization. As a permanent membership organization, the WTO is bringing greater trade liberalization in goods, information, technological developments, and services; stronger enforcement of rules and regulations; and greater power to resolve disputes among trading partners.

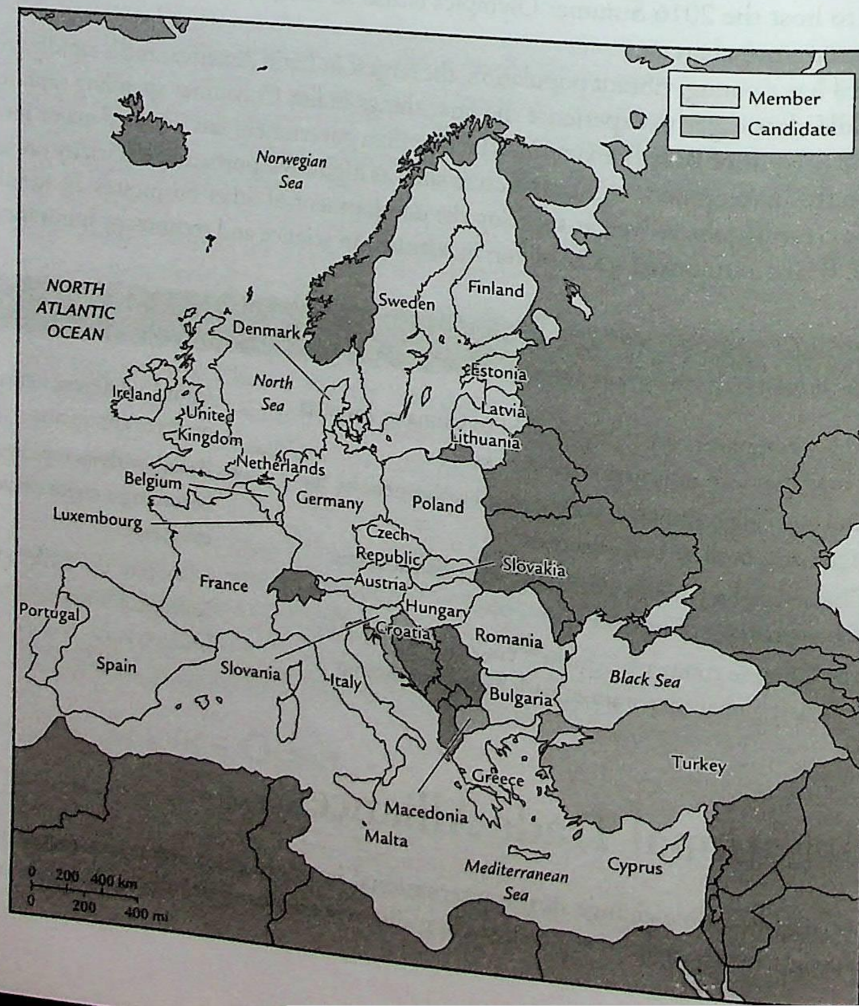
European Union

An alliance begun in 1957 to improve economic and social conditions among its members, the European Economic Community has evolved into the 27-nation European Union (EU) illustrated in Exhibit 4.9. The biggest expansion came in 2004, when the EU welcomed 10 new members from central and eastern Europe.[75]

The goal of the EU is to create a powerful single-market system for Europe's millions of consumers, allowing people, goods, and services to move freely. The increased competition

EXHIBIT 4.9

The Nations of the European Union



and economies of scale within Europe enable companies to grow large and efficient, becoming more competitive in the United States and other world markets. Another aspect of European unification is the introduction of the euro. Several member states of the EU have adopted the **euro**, a single European currency that replaced national currencies in Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.[76]

However, not all has gone smoothly for the integration, particularly since the global recession began. As economic stability varied from country to country, pitting winners against losers, the economic crisis revived national loyalties and cross-border resentments, slowing the move toward a unified and cohesive "European identity."[77] Spain, Ireland, and particularly Greece have all had trouble paying their debts, putting the entire eurozone at risk and leading to a possible breakup of the euro system. As EU officials scrambled to dispel the fears that Greece would exit the euro, multinational firms doing business in EU countries were bracing for the worst and taking steps to protect themselves. Managers at companies such as Heineken NV and GlaxoSmithKline PLC, for instance, moved all cash reserves out of the eurozone and into currencies such as the U.S. dollar or British pound. Some analysts think that a broad breakup of the eurozone is unlikely, but the uncertainty has smart managers rethinking what they would do in the event that a return to national currencies required a rethinking of everything from how to expand operations to how to pick suppliers and pay employees.[78]

HOT TOPIC

North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA), which went into effect on January 1, 1994, merged the United States, Canada, and Mexico into a single market. Intended to spur growth and investment, increase exports, and expand jobs in all three nations, NAFTA broke down tariffs and trade restrictions over a 15-year period in a number of key areas. Thus, by 2008, virtually all U.S. industrial exports into Canada and Mexico were duty-free.

Over the first decade of NAFTA, U.S. trade with Mexico increased more than threefold, while trade with Canada also rose dramatically.[79] Significantly, NAFTA spurred the entry of small businesses into the global arena. Jeff Victor, general manager of Treatment Products, Ltd., which makes car cleaners and waxes, credits NAFTA for his surging export volume. Prior to the pact, Mexican tariffs as high as 20 percent made it impossible for the Chicago-based company to expand its presence south of the border.[80]

However, opinions over the benefits of NAFTA appear to be as divided as they were when talks began, with some people calling it a spectacular success and others referring to it as a dismal failure.[81] In Bain & Company's 2011 survey of managers, only 53 percent of North American managers surveyed said they thought reducing trade barriers and increasing free trade was a positive thing, down from 74 percent in 2003.[82] Although NAFTA has not lived up to its grand expectations, experts stress that it increased trade, investment, and income and continues to enable companies in all three countries to compete more effectively with rival Asian and European firms.[83]

Remember This

- Regional trading alliances and international trade agreements are reshaping global business.
- The World Trade Organization (WTO) is a permanent membership organization that monitors trade and has authority to arbitrate disputes among 153 member countries.
- Two important, yet sometimes controversial, regional alliances are the European Union (EU) and the North American Free Trade Agreement (NAFTA).
- The **euro** is a single European currency that has replaced the currencies of 16 EU member nations.

ch4: Discussion Questions

1. What specifically would the experience of living and working in another country contribute to your skills and effectiveness as a manager in your own country?
2. Do you think it is realistic that BOP business practices can have a positive effect on poverty and other social problems in developing countries? Discuss.
3. Somnio, a start-up running shoe company in California, decided to start selling its products around the world from the very beginning. In general terms, name some of the challenges a start-up company such as Somnio might face internationally.
4. Do you think it's possible for someone to develop a global mindset if they never live outside their native country? How might they do that?
5. Compare the advantages associated with the market entry strategies of exporting, licensing, and wholly owned subsidiaries. What information would you need to collect and what factors would you consider when selecting a strategy?
6. Should a multinational organization operate as a tightly integrated, worldwide business system, or would it be more effective to let each national subsidiary operate autonomously?
7. Why do you think many people are so frightened by globalization? Based on what is occurring in the world today, do you expect the globalization backlash to grow stronger or weaker over the next decade?
8. Two U.S. companies are competing to take over a large factory in the Czech Republic. One delegation tours the facility and asks questions about how the plant might be run more efficiently. The other delegation focuses on ways to improve working conditions and produce a better product. Which delegation do you think is more likely to succeed with the plant? Why? What information would you want to collect to decide whether to acquire the plant for your company?
9. Which style of communicating do you think would be most beneficial to the long-term success of a U.S. company operating internationally—high-context or low-context communications? Why?
10. How might the social value of low versus high power distance influence how you would lead and motivate employees? What about the value of low versus high performance orientation?

ch4: Apply Your Skills: Experiential Exercise

Rate Your Global Management Potential[84]

A global environment requires that managers learn to deal effectively with people and ideas from a variety of cultures. How well prepared are you to be a global manager? Read the following statements and circle the number on the response scale that most closely reflects how well the statement describes you.

Good Description 10 9 8 7 6 5 4 3 2 1 Poor Description

1. I reach out to people from different cultures.
   10 9 8 7 6 5 4 3 2 1
2. I frequently attend seminars and lectures about other cultures or international topics.
   10 9 8 7 6 5 4 3 2 1
3. I believe female expatriates can be equally as effective as male expatriates.
   10 9 8 7 6 5 4 3 2 1
4. I have a basic knowledge about several countries in addition to my native country.
   10 9 8 7 6 5 4 3 2 1
5. I have good listening and empathy skills.
   10 9 8 7 6 5 4 3 2 1
6. I have spent more than two weeks traveling or working in another country.
   10 9 8 7 6 5 4 3 2 1
7. I easily adapt to the different work ethics of students from other cultures when we are involved in a team project.
   10 9 8 7 6 5 4 3 2 1
8. I can speak at least one foreign language.
   10 9 8 7 6 5 4 3 2 1
9. I know which countries tend to cluster into similar sociocultural and economic groupings.
   10 9 8 7 6 5 4 3 2 1
10. I feel capable of assessing different cultures on the basis of power distance, uncertainty avoidance, individualism, and masculinity.
    10 9 8 7 6 5 4 3 2 1

Total Score: ______

Scoring and Interpretation

Add up the total points for the ten questions. If you scored 81–100 points, you have a great capacity for developing good global management skills. A score of 61–80 points indicates that you have potential but may lack skills in certain areas, such as language or foreign experience. A score of 60 or less means you need to do some serious work to improve your potential for global management. Regardless of your total score, go back over each item and make a plan of action to increase scores of less than 5 on any question.

ch4: Apply Your Skills: Small Group Breakout

Where Have You Been?[85]

Step 1. Make a list of the names of the countries that you have visited outside your home country.

Step 2. Go to "List of Countries by Population" on Wikipedia and write down the population of each country you have visited.

Step 3. The world population is approximately 6,800,000,000. Compute the percentage of world population for each country you have visited. Also compute the percentage of world population for all countries you have visited.

Step 4. Estimate the grand total of number of countries and percentage of world population visited by your group.

Step 5. Discuss in your group: What is the reason for the variability among group members? What are the implications of high exposure versus low exposure to people in other countries for a career in management? What can you do to increase your international exposure?

Step 6. Present your group's results to the entire class if called upon to do so.

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