

Case study

Gringo management, south of the border

Abstract

This case explores the difficulties and experiences of an American expatriate in starting and managing an American-Mexican joint-venture. Ted Dorman was selected to manage the new joint-venture, and he faces many cultural difficulties adjusting to his new assignment as he attempts to institute new policies.

Ted Dorman was looking forward to his new assignment as plant manager at a newly formed American-Mexican joint venture in Guadalajara, Mexico. The American company, Sterling Metal, produced hardware and decorative fixtures for furniture manufacturers in the United States and Mexico. The new joint venture was an attempt to lower labor costs by operating in Mexico.

Ted and the Dorman family

Ted had worked at Sterling Metal since graduating from college with a degree in accounting. He had worked his way up the company through accounting and eventually shifted his career focus to production. Ted found the challenges of managing the production function very interesting, and he was successful in this area. His position at the new company, SterMexicana, would be a promotion for him, and he looked forward to the opportunity of building a new company.

Although Ted had not worked outside the United States before, he felt confident that his managerial abilities would transfer « south of the border ». He and his wife enjoyed vacationing in Cancun and they both liked Mexican food, so the idea of spending a few years building a new company in Mexico appealed to him. Ted's wife, Kim, was not as excited about the move, since she and their two small children would have to leave family and friends. Kim would also probably not be working in Mexico, as she had done in the United States.

Before the move, both Ted and Kim read travel books on Mexico and visited Guadalajara to select suitable housing. While Kim had reservations about the move, she felt that it would be a good opportunity for Ted and that she and the children would learn to adapt to their new surroundings. After all, she reasoned, they were only planning on living in Mexico for two years, just long enough for Ted to get the plant up and running and profitable. None of the Dorman's spoke Spanish fluently; however, Kim thought that she could get by since she had taken three years of Spanish in high school.

She had heard that Guadalajara was home to a large expatriate community, and that she could isolate herself and the children from the Mexican culture if she felt the need. Ted would be working with English speakers mostly, and many people at the plant could translate for him. A number of SterMexicana managers had been to the United States and were familiar with its culture. Ted and Kim concluded that cultural adaptation would not be difficult, and no matter how hard the assignment was, its short duration was manageable.

When the family arrived in Guadalajara, Manuel Angel Menendez Mata met them at the airport. Manuel would be Ted's Mexican counterpart, acting in the official capacity of assistant plant manager, and unofficially as cultural mentor. Ted and Kim were surprised by the warmth and friendliness of Manuel

and his wife Adriana, and they felt very welcomed by their new Mexican friends. Over the next few days Manuel and Adriana helped the new expatriates get settled in and familiar with their new home. Ted appreciated the personal attention Manuel was giving him and his family; however, Ted was anxious to begin discussing the needs of the new business. It sometimes seemed to Ted that Manuel didn't care to discuss the business or that he was not very excited about the new opportunity. Manuel seemed more interested in showing Ted and his family the city and discussing its history, politics, and culture.

The Formal Mexican

Once the Dorman family had settled in, Ted was able to tune his attention towards the business. He had many matters to attend to, including a review of the preliminary work Manuel had done in securing the facility, hiring a workforce and establishing an organizational structure. Manuel explained what he had done and how it would work well. He predicted that the next plant would be fully functional in less than two weeks. Ted was very impressed with Manuel's work and looked forward to the opening of the plant.

During his many conversations, Ted felt that Manuel was very friendly and polite, but that he was a bit too formal and not very relaxed. Manuel wore a suit and tie, even when Ted told him that a more casual form of dress would be appropriate. Ted stated that he had no intention of ever wearing a tie the whole time he would be in Mexico. Manuel sometimes referred to Ted as 'Mr. Dorman', even though Ted had instructed him to call him by his first name. During their meetings with outside business associates, Ted noticed that Manuel was even more formal. Manuel, who had visited the United States many times and spoke English very well, understood that Americans were more relaxed when it came to such matters, but he was not happy when Ted began to call him 'Manny'. Manuel was also unhappy with Ted's refusal to recognize his title 'Licenciado' (i.e. licensed one), and that he sometimes referred to him as Senor Mata.

Although things seemed to be progressing toward the opening of the plant, Ted began to worry that Manuel's estimate of when the plant would be functional was too optimistic. Manuel insisted that everything was on schedule and that there would be no problems. It did however, become obvious as the days went by that the plant was not going to be ready, as Manuel had promised. Ted felt they had been misled by Manny and that he would have to explain to his superiors back in the U.S. why the plant was not going to open on schedule. Manuel finally admitted that some problems had developed with work permits, but he assured Ted that the plan would be operational in an additional week's time. The plant was finally opened, five weeks past the scheduled date.

Gringo Style Management

This delay had caused tension between Manuel and Ted, and Ted felt that he could not trust Manuel. Manuel felt that Ted was too impatient, and that he was not sensitive enough to the problems sometimes found in conducting business in Mexico. Manuel complained to a friend that Ted was trying to do business in Mexico in 'gringo style'. He offered as an example the failed attempt Ted had made to establish a business relationship with a new supplier. Manuel had arranged for a business lunch between Ted, himself, and representatives from a well-respected metals supplier. Manuel explained how Ted offended the Mexican businessmen by attempting to get down to business quickly. The supplier's representatives felt that Ted was too concerned about business matters especially price, and that he was rushing to close a deal. They were also offended when Manuel offered to take the visiting businessmen on a tour of the city and show them some important cultural sites and Ted refused to come along. Ted later told Manuel that he felt that the suppliers were not really serious about getting

SteerMexicana's business, and that if they wanted to do business with the company, they would have to send only one representative to his office with samples and a price list. Ted told Manuel that he would no longer spend hours discussing politics, sports, and history without any consideration given to the actual business deal.

The plant had been functioning for about six months without any serious problems when Ted received word from corporate headquarters that the plant needed to improve its efficiency. The quality of the product was considered acceptable; however, the American managers were disappointed with the productivity of the plant. Sterling's main incentive for investing in Mexico was the desire to reduce its labor costs and improve its overall operational efficiency. Ted worried that his career mobility was in serious jeopardy if he did not make major improvements. With this in mind, Ted began to look more carefully at Manuel's work.

From the beginning, Ted had turned over to Manuel the day-to-day responsibility for running the plant, but he now felt that he would have to intervene and make some significant changes. After analyzing the situation, Ted concluded that three major changes should be made. He proposed to Manuel that an incentive pay system be introduced, that a more participative approach to decision-making be implemented, and that a number of workers be fired.

The productivity level of the plant was considered low by American standards, and Ted felt that there was simply no incentive for workers to do more than the minimum level of work. He proposed a pay-for-performance plan in which workers would essentially be paid on a piece-rate basis. The workers would also be given more responsibility for planning and organizing their work, and, in some cases, even planning their own schedules. Ted felt that a more flexible scheduling system would eliminate the excessive time off requested by many workers to handle family matters. Ted also created a list of the lowest-performing workers and instructed Manuel to fire all of them immediately. Since the unemployment rate was much higher in Mexico than in the United States, Ted reasoned that he would have no problem replacing workers.

Ted Pushes Harder

Manuel was stunned by what he was hearing from Ted. Manuel was upset, first, that Ted had chosen to invade his areas of responsibility, and he was further upset by Ted's recommendations. Manuel felt that Ted was being too aggressive and insensitive in labor relations matters, and that his recommendations would not be successful in Mexico. He told Ted that there would be problems with these proposed changes; however, Ted did not seem to want to listen.

Although Manuel did not agree with the recommendations, he did as Ted had instructed and began firing some of the employees Ted had targeted as low performers. He then implemented the pay-for-performance plan and attempted to explain how it would work. Most workers felt confused by the complex, flexible working-hours plan, which involved basic quotas, a two-tiered pay system, and a time-borrowing option, which could be used for personal time off, such as doctor's appointments. Manuel simplified the plan so that workers could go home when they had met their quota, or they could continue to work for additional compensation at a slightly lower per-unit rate; Ted felt that workers would be willing to work longer hours even at a reduced rate of their total compensation would rise. After all, he reasoned, 'Mexico is a dirt-poor country and people really need money'. Finally, Manuel told the plant supervisors about the plan to empower factory workers and allow them some of the decision-making authority that the supervisors had exercised in the past.

Ted had high hopes that his recommendations for change would produce significant improvements at SterMexicana. He was aware that Mexican culture was different from his; however, he felt that business activities were for the most part universal and that efficiency improvement in overall operating efficiency.

Slowly, however, Ted began to realize that problems were developing with his recommendations. The first problem he confronted was notification that severance pay would have to be paid to the employees he had recently fired. Ted was unaware, and Manuel did not mention, that Mexican law does not operate the same way as in U.S. law, in which workers are considered to be hired at will and subject to at-will termination. Ted was also surprised to learn that not all the employees he had targeted for termination had, in fact, been fired. After investigating the situation further, he discovered that five of the employees whom he had instructed to be fired were still working for the company. Ted was shocked to learn that the five employees were close relatives of Manuel. When confronted with this fact, Manuel just shrugged his shoulders and told Ted that he could not bring himself to fire them.

Although Ted was upset with Manuel's insubordination, he was far more concerned with the lack of productivity gains at the plant. He was told that most workers did complete their tasks more quickly under the incentive plan; however, they elected to go home rather than work additional hours for the money. Ted was confused by this behavior, so he asked some of the supervisors to explain it. They didn't provide satisfactory answers, so Ted decided that he should conduct interviews with the employees themselves. Working through an interpreter, Ted asked workers about their jobs and what he could do to make them more productive. He was frustrated by the lack of responses he was getting from the employees. When Ted probed more deeply he discovered that the supervisors had not implemented the participative management practices he had ordered.

Face with poor operating results during the first year of operation, Ted wondered if the decision to take the job in Mexico had been a mistake. To make matters worse, Ted's family was very unhappy about living in Mexico. Ted had been working long hours at the plant and had basically discounted the complaints he had heard from his wife and children. At this point, he began to feel that perhaps they were right in their frequent criticisms of Mexican culture. With over a year left in his assignment in Mexico Ted felt frustrated and wondered what he should do next.