



SECOND EDITION

Richard M. Steers, Luciara Nardon,
Carlos J. Sanchez-Runde

MANAGEMENT ACROSS CULTURES

DEVELOPING GLOBAL COMPETENCIES

CAMBRIDGE

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Management Across Cultures

The second edition of this popular textbook explores the latest approaches to cross-cultural management, as well as presenting strategies and tactics for managing international assignments and global teams. With a clear emphasis on learning and development, the text encourages students to acquire skills in multicultural competence that will be highly valued by their future employers. This has never been as important as now, in a world where, increasingly, all managers are global managers and where management practices and processes can differ significantly across national and regional boundaries. This new edition has been updated after extensive market feedback to include new features: a new chapter on working and living abroad; applications boxes showing how theories and key concepts can be applied to solve real-life management problems; student questions to encourage critical thinking; and updated examples and references.

Supplementary teaching and learning materials are available on a companion website at www.cambridge.org/steers.

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Management Across Cultures

Developing Global Competencies

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Guided tour

Guided tour

Learning strategy for the book

This book is divided into three parts

GLOBAL CHALLENGES

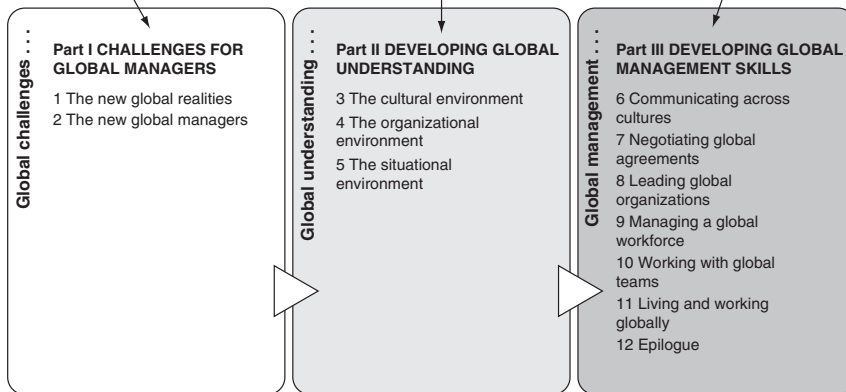
Part I sets the stage for our analysis by discussing both the challenges facing managers and how various global management roles can differ across organizational boundaries and cultural settings.

GLOBAL UNDERSTANDING

Part II focuses on developing a deeper awareness and understanding of the global environment in which managers will increasingly find themselves.

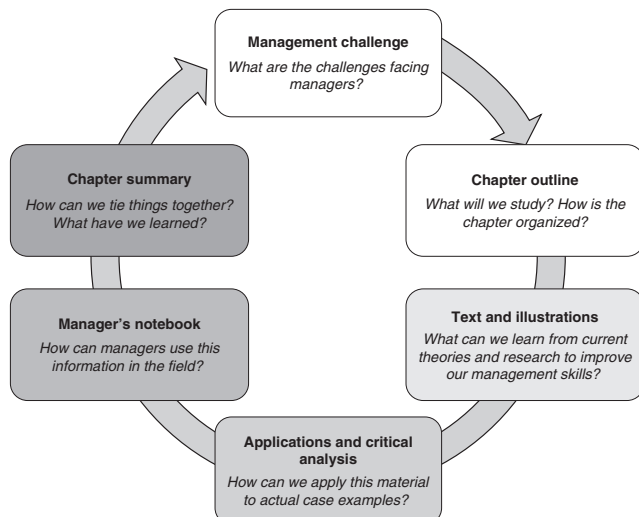
GLOBAL MANAGEMENT

Part III builds on this foundation to focus on developing specific skills managers will need to survive and succeed in the future.



Learning strategy for the chapters

Each chapter likewise follows a learning strategy aimed at building bridges between theory and practice using a range of interesting real-world applications and examples.



GLOBAL CHALLENGES

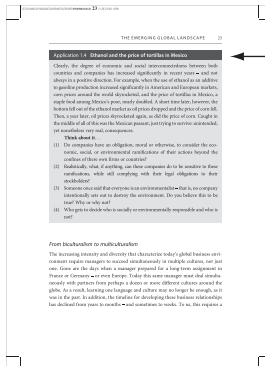
Each chapter begins by discussing the **management challenges** that serve as the basis for the chapter. **Chapter outlines** organize the text.

The text brings together what we currently know – and, in some cases, what we don't know – about the problems global managers may face in the field and the global skills they will need to survive and succeed. These materials are based on current theory and research.



GLOBAL UNDERSTANDING

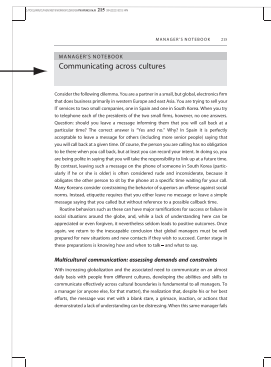
Applications are interspersed throughout each chapter to illustrate how the concepts under study apply in practice. Discussion questions encourage students to develop an understanding of what managers did in particular situations and how they might have done it better.



GLOBAL MANAGEMENT SKILLS

Manager's notebooks summarize the key implications and lessons for managers.

A **summary points** section concludes each chapter to complete the learning cycle.



Learning strategy online

An **instructor's guide** is available at www.cambridge.org/steers that demonstrates how best to use the book and PowerPoint slides in the classroom.

Instructors will find a comprehensive package of PowerPoint slides for every chapter, clearly structured to introduce the topic, summarize key concepts, the applications and manager's notebooks and encourage discussion and reflection.

A range of exercises to test student learning is also provided.

In addition recommended in-depth cases for each chapter are available at www.iveycases.com/CaseMateBrowse.aspx



Introduction

When facts are lacking, rumors abound.

Alberto Moravia¹

Novelist and journalist, Italy

Success in the global economy requires a number of ingredients, including innovative ideas and products, access to raw materials and competitive labor, savvy marketing strategies, solid financing, sustainable supply chains, and predictable logistical support. The central driver in this endeavor, however, is the manager – who is perpetually caught in the middle. Indeed, no one ever said being a manager was easy, but it seems to get more difficult with each passing year. As competitive pressures increase across most industries and services, so too do the pressures on managers to deliver results. Succeeding against the odds often catapults a manager into the higher echelons of the organization, with a concomitant increase in personal rewards. Failure to deliver often slows one's career advancement, though, if it doesn't stop it altogether. The stakes are very high for managers and organizations alike.

With this in mind, what do managers need to know to survive and succeed in this complex and turbulent environment? Certainly, they need to understand both micro- and macroeconomics. They need to understand the fundamentals of business practices, including strategy, marketing, operations and logistics, finance, and accounting. They also need to understand issues such as outsourcing, political risk, legal institutions, and the application of emerging technologies to organizational operations. In addition to this knowledge, however, managers must understand how to work with other people and organizations around the world to get their jobs done. We refer to this as *multi-cultural competence*, and it is the focus of this book.

Throughout this volume, our emphasis is on learning and development, not drawing arbitrary conclusions or selecting favorites. This is done in the belief that successful global managers will focus more on understanding and flexibility than evaluation and dogmatism. This understanding can facilitate a manager's ability both to prepare and to act in ways that are more in tune with local environments. As a result, managers who are

better prepared for future events are more likely to succeed – full stop. There are fewer surprises and more time to develop winning strategies on the ground, and, in the realm of managerial effectiveness, this is crucial. By integrating these two perspectives – explorations into the cultural drivers underlying managerial action and the common management strategies used in the field – it is our intention to present a more process-oriented look at global managers at work.

This book is aimed at managers from around the world. It is not intended to be a North American book, a European book, a Latin American book, and so forth. Rather, it aims to explore managerial processes and practices from the standpoint of managers from all regions of the globe – China and Brazil, India and Germany, Australia and Singapore – as they pursue their goals and objectives in the field. This is done in the belief that the fundamental managerial role around the world is a relative constant, even though the details and specifics of managerial cognitions and actions may often vary – sometimes significantly – across cultures. Taken together, our goal in this book is to help managers develop an enhanced behavioral repertoire of cross-cultural management skills that can be used in a timely fashion by managers when they are confronted with challenging and often confusing situations. It is our hope that future managers, by better understanding cultural realities on the ground, and then using this understanding to develop improved coping strategies, will succeed when many of their predecessors did not.

Global challenges facing managers

In view of the myriad challenges facing today's organizations, managers viewing global assignments – or even global travel – would do well to learn as much as they can about the world in which they are going to work. The same also holds true for local managers working in their home countries, where the global business world is increasingly challenging them on their own turf. Like it or not, with both globalization and competition intensifying almost everywhere, the challenge for managers is to outperform their competitors, whether individually or collectively. This can be attempted either by focusing exclusively on one's own self-interests or by building mutually beneficial strategic alliances with global partners. Either way, the challenges and pitfalls can be significant.

Another important factor to take into consideration here is a fundamental shift in the nature of geopolitics. The days of hegemony – East or West – are over. No longer will global business leaders focus on one or two stock markets, currencies, economies, or political leaders. Today's business environment is far too complex and interrelated for that. Contrary to some predictions, nation states and multinational corporations will

remain both powerful and important; we are not, in fact, moving towards a “borderless society.” Global networks, comprising technological, entrepreneurial, social welfare, and environmental interest groups, will also remain powerful. Indeed, networks and relationships will increasingly represent power, not traditional or historic institutions. Future economic and business endeavors, like future political, social, and environmental endeavors, will be increasingly characterized by a search for common ground, productive partnerships, and mutual benefit.

When faced with this rising global challenge, managers have two choices: first, in international transactions, they can assume that they are who they are and the world should adapt to them (“I am a Dutch manager with Dutch traits, and everyone understands this and will make allowances”); or, second, they can work to develop greater multicultural competencies that allow them either to adapt to others, when possible, or at least to understand why others behave as they do (“I am a Dutch manager who is working to understand the cultural context in which my counterparts operate”). While both approaches can work – especially if these managers and their firms possess critical resources – the second strategy of working to develop increased multicultural competencies clearly offers greater potential benefits in the long run.

In this endeavor, managers cannot find help by simply reaching for a book called something along the lines of *Global Management for Dummies*. Indeed, if it existed, such a book title would be an oxymoron. Global managers cannot afford to be “dummies” (perhaps “uneducated” is a better word here). Simply put, they and their companies would fail if such were the case – full stop. Instead, successful managers view working across borders as a long-term developmental process requiring intelligence and insight, not just a fancy title. It is a strategic process, not just a tactical one.

Goals of the book

As a result, this book focuses on developing a deeper understanding of how management practices and processes can often differ around the world, and why. It draws heavily on recent research in cultural anthropology, psychology, economics, and management as it relates to how managers structure their enterprises and pursue the day-to-day work necessary to make a venture succeed. It emphasizes both differences and similarities across cultures, since we believe that this approach mirrors reality. It attempts to explore the psychological underpinnings that help shape the attitudes and behaviors of managers, as well as their approaches to people from other regions of the world. Most of all, though, this book is about learning. It introduces a learning model early in the text to serve as a guide in the intellectual and practical development of

managers seeking global experience. Further, it assumes a lifelong learning approach to global encounters, managerial performance, and career success.

The title of this book, *Management Across Cultures: Developing Global Competencies*, reflects our twin goals in writing it. First, we wanted to examine how management practices and processes can frequently differ – often significantly – across national and regional boundaries. Managers in different cultures often see their roles and responsibilities in different ways. They often organize themselves and make decisions differently. They often communicate, negotiate, and motivate employees in different ways. Understanding these differences is the first step in developing global management capabilities. Second, we wanted to identify and discuss realistic strategies and tactics that can be used by global managers as they work to succeed across cultures. In other words, we wanted to explore how people can work and manage across cultures – and how they can overcome many of the hurdles along the way. We see these two goals as not just mutually compatible but indispensable for meeting the business challenges ahead.

Like most authors who seek an interested audience, we wrote this book primarily to express our own views, ideas, and frustrations. As both teachers and researchers in the field, we have grown increasingly impatient with books in this general area that seem to aim somewhat below the readers' intelligence in the presentation of materials. In our view, managers and would-be managers alike are intelligent consumers of behavioral information. To do their jobs better, they seek useful information and dialogue about the uncertain environments in which they work; they are not seeking unwarranted or simplistic conclusions or narrow rulebooks. Moreover, in our view, managers are looking for learning strategies, not prescriptions, and understand that becoming a global manager is a long-term pursuit – a marathon, not a sprint.

We have likewise been dismayed seeing books that assume one world view, whether it be British, American, French, or whatever, in interpreting both global business challenges and managerial behavior. Instead, we have tried diligently to cast our net a bit wider and incorporate divergent viewpoints when exploring various topics, such as communication, negotiation, and leadership. For example, asking how Chinese or Indian management practices differ from Australian or Canadian practices assumes a largely Western bias as a starting point: "How are *they* different from us?" Instead, why not ask a simpler and more useful question, to find out how Chinese, Indian, Australian, and Canadian management styles in general differ: "How are we *all* different from each another?" Moreover, we might add a further, also useful, question concerning managerial similarities across cultures: "How are we *all* similar to each other?" To achieve this

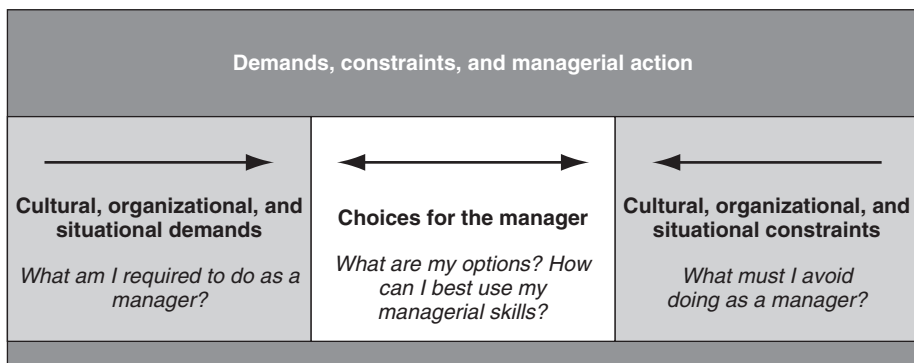
end, we have resisted a “one-size-fits-all” approach to management, locally or globally, in the belief that such an approach limits both understanding and success in the field. Rather, our goal here is to develop multicultural competence through the development of learning strategies in which managers can draw on their own personal experiences, combined with outside information such as that provided in this book and elsewhere, to develop cross-cultural understanding and “theories-in-use” that can guide them in the pursuit of their managerial activities.

In writing this book, we were also able to draw on our research and teaching experiences in various countries and regions of the world, including Argentina, Belgium, Brazil, Canada, Chile, China, Denmark, Germany, Japan, Mexico, Norway, Netherlands, Peru, South Africa, South Korea, Spain, the United Kingdom, the United States, and Uruguay. In doing so, we learned from our colleagues and students in various parts of the world, and we believe that these experiences have made this a better book than it might otherwise have been. Our aim here is not to write a bias-free book, as we believe this would have been an impossible task. Indeed, the decision to write this book in English, largely for reasons of audience, market, and personal competence, does itself introduce some bias into the end result. Rather, our intent was to write a book that simultaneously reflects differing national, cultural, and personal viewpoints, in which biases are identified and discussed openly instead of being hidden or rationalized. As a result, this book contains few certainties and many contradictions, reflecting our views on the life of global managers.

Global management model

We view management success in the global arena as consisting of three interrelated components: understanding global challenges; understanding global environments; and developing global management skills.

- *Understanding global challenges.* Managers must first understand the challenges and obstacles they face, as well as the opportunities. They must understand their jobs and how their efforts fit into the larger organizational objectives.
- *Understanding the global environment.* Managers must next understand how to assess the local environments in which they work and make suitable choices among available alternatives. While there are many ways to break up this environment for the purposes of analysis and understanding, we suggest that a productive approach is to visualize three interrelated environments: cultural, organizational, and situational; that is, to accomplish their tasks and responsibilities, managers must succeed in all

Exhibit A Global management model

three environments simultaneously. Taken together, this environment creates both *demands* and *constraints* on managerial *action* (see [Exhibit A](#)). These limitations raise two pertinent questions for global managers: what must I do as a manager – that is, what is expected of me to succeed – and, second, what must I avoid doing as a manager? What actions should I avoid in order not to offend others or lose opportunities? Within these two limitations, managers are free to make informed choices among their available options concerning their present and future actions. The question here is: what are my options, and how can I best use my managerial skills on behalf of the organization? A model outlining this process, based on the classic work of Oxford University professor Rosemary Stewart, is discussed in detail in [Chapter 5](#) for use as a guide to managerial assessment and action.

- *Developing global management skills.* Once the local environment is better understood and choices have been made, managers must have (or develop) suitable global managerial skills to carry out their actions. As discussed in this book, we view these skills as including cross-cultural communication, negotiation, leadership, workforce management, team management, and living and working successfully abroad.

Few projects of this magnitude can be successful without the support of families. This is especially true in our case, with all three of our families joining together to help make this project a reality. In particular, Richard would like to thank the four generations of women who surround and support him: Pat, Sheila, Kathleen, and Allison; Luciara would like to thank her mother, Jussara, for her unconditional support, and her son, Caio, for his inspiration; and Carlos would like to thank his wife, Carol, and daughters, Clara and Isabel, for their continued support and encouragement. Throughout, our families have been there for us in every way possible, and for this we are grateful.

Any successful book is a joint venture between authors, instructors, students, and publishers. In this regard, we were fortunate to have received useful comments from instructors and outside reviewers alike aimed at making this edition superior to the last. Student comments, both in our own classes and those of others, have also helped us improve on the first edition. Finally, we are indebted to the people at Cambridge University Press for their help and support throughout the revision and production process. They lived up to their reputation as a first-class group of people to work with. In particular, we wish to thank Paula Parish, Raihanah Begum, and Jo Lane for their advice, patience, and support through the project. We are indebted to them all.

Note

- 1 Alberto Moravia, *Gli Indifferenti* [*The Indifferent Ones*] (trans. Aida Mastrangelo). New York: E. P. Dutton, 1932.

PART

I

CHALLENGES FOR GLOBAL MANAGERS

The new global realities

MANAGEMENT CHALLENGE

No one said being a manager is easy, and this opening chapter illustrates why. With increasing globalization comes increased pressure for both change and competitiveness. Understanding this changing environment is our first challenge. The second is building mutually beneficial interpersonal and multicultural relationships with people in different parts of the globe in order to overcome these challenges and take advantage of the opportunities presented by the turbulent global environment. We argue here that an important key to succeeding in the global business environment is developing sufficient multicultural competence to work and manage successfully across cultures.

Chapter outline

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- Management and multicultural competence *25*
- Summary points *28*

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- 1.3 Apple iPhone *19*
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A competitive world offers two possibilities. You can lose. Or, if you want to win, you can change.

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In the future, the ability to learn faster than your competitors may be the only sustainable competitive advantage.

Arie de Geus

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We live in a turbulent and contradictory world, in which there are few certainties and change is constant. Over time, we increasingly come to realize that much of what we think we see around us can, in reality, be something entirely different. We require greater perceptual accuracy just as the horizons become more and more cloudy. Business cycles are becoming more dynamic and unpredictable, and companies, institutions, and employees come and go with increasing regularity. Much of this uncertainty is the result of economic forces that are beyond the control of individuals and major corporations. Much results from recent waves of technological change that resist pressures for stability or predictability. Much also results from the failures of individuals and corporates to understand the realities on the ground when they pit themselves against local institutions, competitors, and cultures. Knowledge is definitely power when it comes to global business, and, as our knowledge base becomes more uncertain, companies and their managers seek help wherever they can find it.

Considering the amount of knowledge required to succeed in today's global business environment and the speed with which this knowledge becomes obsolete, it is the thesis of this book that mastering learning skills and developing an ability to work successfully with partners in different parts of the world may well be the best strategy available to managers who want to succeed. Business and institutional knowledge is transmitted through interpersonal interactions. If managers are able to build mutually beneficial interpersonal and multicultural relationships with partners around the world, they may be able to overcome their knowledge gaps. Our aim in this book, then, is to develop information and learning models that managers can build upon to pursue their careers and corporate missions.

As managers increasingly find themselves working across borders, their list of cultural contradictions continues to grow. Consider just a few examples. Most French and Germans refer to the European Union as "we," while many British refer to it as "they"; all are members. To some Europeans, Japan is part of the "Far East," while, to some Japanese, Europe is part of the "Far East"; it all depends on where you are standing. Criticizing heads of state is a favorite pastime in many countries around the world, but criticizing the king in Thailand is a felony punishable by fifteen years in jail. Every time Nigerian-born oncologist Nkechi Mba fills in her name on a form somewhere, she is politely told to write her name, not her degree. In South Korea, a world leader in IT networks, supervisors often assume employees are not working unless they are sitting at their desks in the office. Moreover, in a

recent marketing survey among US college students, only 7 percent could identify the national origins of many of their favorite brands, including Adidas, Samsung, Nokia, Lego, and Ericsson. In particular, quality ratings of Nokia cellphones soared after students concluded, incorrectly, that they were made in Japan.

There is more. Germany's Bavarian Radio Symphony Orchestra recently deleted part of its classical repertoire from a concert tour because it violated the European Union's new noise at work limitations. US telecommunications giant AT&T has been successfully sued in class action suits for gender discrimination against both its female and male employees. When you sink a hole in one while playing golf with friends in North America and Europe, it is often customary for your partners to pay you a cash prize; in Japan, you pay them. The head of Nigeria's Niger Delta Development Corporation was fired from his job after it was discovered that he had paid millions of dollars of public money to a local witch doctor to vanquish a rival. The penalty for a first offense of smuggling a small quantity of recreational drugs into western Europe is usually a stern lecture or a warning; in Singapore, it is death. Finally, dressing for global business meetings can be challenging: wearing anything made of leather can be offensive to many Hindus in India; wearing yellow is reserved for the royal family in Malaysia; and white is the color of mourning in many parts of Asia.

Serious? Silly? Absurd? Perhaps the correct answer here is that it is all in the eye of the beholder. When confronted by such examples, many observers are dismissive, suggesting that the world is getting smaller and that many of these troublesome habits and customs will likely disappear over time as globalization pressures work to homogenize how business is done – properly, they believe – across national boundaries. The world is not getting smaller, however; it is getting faster.¹ Many globalization pressures are currently bypassing – and, indeed, in some cases actually accentuating – divergent local customs, conventions, and business practices, if for no other reason than to protect local societies from the ravages of economic warfare. What this means for managers is that many of these and other local customs will likely be around for a long time, and wise managers will prepare themselves to capitalize on these differences, not ignore them.

Globalization, change, and competitiveness

Although there are many ways to conceptualize globalization, most definitions share common roots. For our purposes here, and following the work of *New York Times* columnist Thomas Friedman, we define *globalization* as the inexorable integration of markets, capital, nation states, and technologies in ways that allow individuals,

groups, corporations, and countries to reach around the world farther, faster, more deeply, and more cheaply than ever before.² This process is increasingly creating a powerful backlash from those left behind by the new economic and political system. In essence, this new global reality represents a major paradigm shift in international politics, economics, and business that impacts corporations and their managers, as well as society at large – and, as experience teaches us, few such changes occur without winners and losers.

Economic historians have suggested that, as a world-changing phenomenon, globalization has passed through three reasonably distinct phases.³ Phase one involved the globalization of countries and ran roughly from the 1400s through the early 1900s. In this phase, nations tried with varying degree of success to define their relationships with other nations. The age of imperialism in the seventeenth and eighteenth centuries, when several of Europe's largest countries tried to divide up much of the rest of the world as colonies, provides a good example of this. Phase two involved the globalization of companies and ran throughout most of the twentieth century. This was the age when many well-known multinational corporations were born and companies began seeing their markets in global terms. Phase three – the current phase – began roughly with the new twenty-first century and involves the globalization of individuals. This is when globalization is experienced on a personal level; it affects individuals, as, for example, when an Indian entrepreneur hires young people trained in Hindu temple art to make computer-assisted character designs for global computer game companies. This is a global application of a traditional Hindu art form, and it indicates just how personal globalization can become. Globalization can also be felt on a personal level when outsourced or imported products, ranging from automobiles to toothpaste, lead to downsizing and job losses for individuals in the local economies. The recent economic meltdown has only added to these troubles.

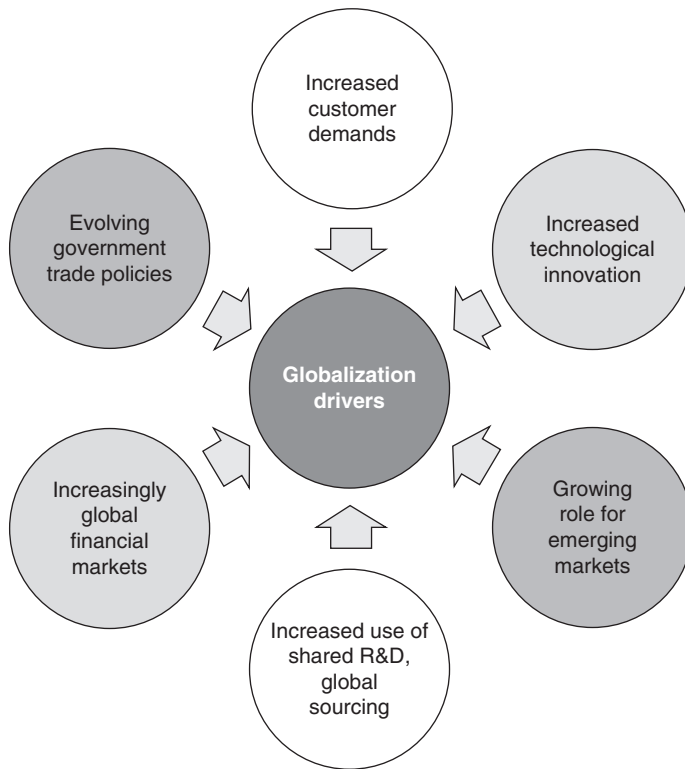
Moreover, because of a decline in the cost of both transportation and telecommunications, combined with the proliferation of personal computers (PCs) and the bandwidth and common software applications that connect them, global companies are now able to build *global workflow platforms*. These platforms can divide up almost any job and, with scanning and digitization, outsource each of its components to teams of skilled knowledge workers around the globe, based on which team can perform the function with the highest skill at the lowest cost. Jobs ranging from clothing manufacturing to accounting to radiology are examples of this. Thus, the advice to large and small countries alike around the world seems to be to get on board the global train and find a place to add value; otherwise you risk being left behind.

Application 1.1 Canada Post

To see what can happen here, consider a recent example from Canada. In a dispute over wages and working conditions, unionized Canada Post workers went on strike. Their goal was to create sufficient frustrations for customers that management would be forced into a quick settlement. As a result of the strike, local and international mail delivery was halted for several weeks. In the old days this would have meant that people's bills would go unpaid, letters and other forms of correspondence would slow, and customers would be greatly inconvenienced, putting considerable pressure on the government. This time, however, the outcome was very different. Millions of people who used to mail their monthly bills simply converted to electronic bill paying. E-mail use increased as handwritten letters became increasingly slow and difficult. "Many find mail in paper form to be quaint; it no longer plays a central role in society," an editorial in *The Globe and Mail* daily newspaper concluded. "The strike will only accelerate that trend by making online converts of those who have hitherto been reluctant."⁴ Union vice-president George Floresco took a different view, however. He argued that, instead of cutting wages, Canada Post should try to become more relevant to Canadians by expanding its service. "We know there's a move to online services, but we also know a lot of people don't want to go there," he observed. When the strike was finally settled, Canada Post had lost many of its long-term loyal customers, and the actual cost of delivering a letter increased because of the reduced volume of mail and increased delivery costs. Electronics had replaced people.

Think about it. . .

- (1) Canada Post is not the only national postal service having serious troubles in today's new electronic marketplace. What is the future of such national postal services?
- (2) Is there a similar problem in your own home country?
- (3) What, if anything, can postal services do to regain markets and their competitive edge?
- (4) In what other ways is the global economy changing in directions that threaten other businesses?

Exhibit 1.1 Globalization drivers

Many factors account for the new global economy. We refer to these as globalization drivers (see [Exhibit 1.1](#)). These include the various forces emerging from the global environment that, essentially, force countries, institutions, and companies to globalize or fail. Consider the following drivers.

- *Increased customer demands and access to competing products and services.* Customers around the world are increasingly demanding more for less. They are putting increased pressure on both the price and quality of the products and services that various firms offer. Customers increasingly prefer global brands over local products; they want Blackberries, iPads, or BMWs, not because they are Canadian, American, or German but because they are “branded.” They see themselves as pacesetters, demanding only the latest in technologies, luxuries, products, and services. Moreover, customers increasingly have greater access to products and services that go beyond local distributors (e.g., e-business, television shopping).

- *Technological innovation and application.* Improved telecommunications and information technology (IT) facilitate increased access to global networks, markets, partners, and customers. Basic and applied research, often conducted by global strategic alliances or international joint ventures, is increasingly generating new products and services (e.g., new technologies, new medicines, new DNA or genetic applications), thereby creating new markets.
- *Increased power and influence of emerging markets and economies.* As many economic forces continue to globalize, the differences between haves and have-nots have tended to become accentuated. Emerging markets present traditional corporations with a particular challenge, while many emerging economies are demanding greater respect and greater access to global markets. Meanwhile, some economies and societies fall further into poverty and despair. Consider: Zimbabwe continues to sink in a world of official corruption and violence in which its inflation rate recently exceeded 250,000,000 percent and expiration dates are now printed on its national currency.
- *Shared research and development (R&D) and global sourcing.* Many companies are going global in order to spread their research and product development costs across multiple regional markets. Outsourcing is now the rule, not the exception. Consider: 70 percent of the components used in the manufacture of Boeing's 787 "Dreamliner" are sourced from foreign suppliers.⁵ Global supply chains are becoming increasingly efficient, while transportation and logistical costs are often declining.
- *Increased interdependence of financial markets.* Global economies and financial markets have become more and more interdependent. Access to capital markets is becoming increasingly globalized. This trend has proven catastrophic in some cases when these intertwined markets have collapsed simultaneously.
- *Evolving government trade policies.* Governments are increasingly supporting local economic development initiatives to lure new (and often foreign) investments and create local employment. They are also increasingly supporting aggressive trade initiatives to support the global expansion of local companies. Trade barriers are being systematically reduced across much of the world through multilateral trade agreements (e.g., World Trade Organization, European Union, North American Free Trade Agreement). With increased recessionary pressures, however, it is anyone's guess whether this trend will continue or reverse itself.

Taken together, the results of these globalization drivers represent a sea change in the challenges facing businesses and the way in which they conduct themselves in the global economy, and they have a direct influence on the quality and effectiveness of

management. Companies are under increasing pressure to achieve greater efficiencies and economies of scale. Local firms have no place to hide.

Looking to the future, what new and different globalization pressures are likely to emerge to challenge international (and national) companies and their managers? How will these new pressures affect the opportunities and threats faced by firms? How will these new pressures affect the management skills that will be required to succeed in the future?

Application 1.2 Hamburgers and A380s

A typical hamburger sold in New York, London, Beijing, Melbourne, or Moscow contains ingredients from at least a dozen different countries. It is truly a global product.⁶ In the United States, for example, the hamburger buns include Canadian yeast, Chinese vitamin enrichments, Polish wheat gluten, and Dutch mold-inhibiting preservatives, while the tomatoes typically come from Mexico, Guatemala, Colombia, or New Zealand. The lettuce mostly comes from Canada, Mexico, or Peru, while the beef in one patty can contain meat from up to fifty cattle shipped from several countries. And don't forget the Canadian mustard seeds, Italian vinegar, and Australian garlic powder. Think about it. If you were in charge of food safety for the US Department of Agriculture (or similar operations in other countries), how might you begin to gain oversight over the quality and safety of a hamburger's – or any other product's – ingredients? In other words, how would you do your job?

Now think further. If the world of the humble hamburger is so complicated, imagine the world of global business. Imagine the world of software development, consumer electronics, financial instruments, aircraft manufacture, and so forth. An Airbus A380, for example, has over a million parts sourced from three dozen countries around the world. Imagine the world of the global manager, whose job it is to develop, source, transport, assemble, and distribute the products or services under his or her control. The world is indeed a complicated place – especially for today's managers.

Think about it. . .

- (1) How is it possible to make money selling a 99 cent hamburger with ingredients from perhaps a dozen countries?
- (2) As noted above, if you worked for the government overseeing food safety for such products, how would you do your job?
- (3) Is a manager's job easier or more difficult at Airbus or McDonald's? Why?

The emerging global landscape

Much of what is being written today about doing business in the new global economy is characterized by a sense of energy, urgency, and opportunity. We hear about developing transformational leaders, building strategic alliances, launching global product platforms, leveraging technological breakthroughs, first-mover advantages, global venturing, outsourcing, sustainable supply chains, and, most of all, making money. Action – and winning – seem to be the operational words. Discussions about global business assume a sense of perpetual dynamic equilibrium. We are told that nothing is certain except change, and that winners are always prepared for change; we are also told that global business is like white water rafting – always on the edge; and so forth. Everything is in motion, and opportunities abound.

At the same time, however, there is another, somewhat more troublesome side to this story of globalization that is discussed far less often, yet it is equally important. This side is characterized by seemingly endless conflicts with partners, continual misunderstandings with suppliers and distributors, mutual distrust, perpetual delays, ongoing cost overruns, political and economic risks and setbacks, personal stress, and, in some cases, lost careers. Indeed, over 50 percent of international joint ventures fail within the first five years of operation. The principal reasons cited for these failures are cultural differences and conflicts between partners.⁷

This downside has several potentially severe consequences for organizational success, especially in the area of building workable global partnerships. Although it is not easy to get a handle on all the changes occurring in the global environment, three prominent changes stand out: the evolution from intermittent to continual change, from isolation to increasing interconnectedness, and from biculturalism to multiculturalism.

Application 1.3 Apple iPhone

Apple's iPhones are very popular worldwide. Apple does not actually make the phones, however. It neither manufactures the components nor assembles them into a finished product.⁸ The components come from a variety of suppliers, while the assembly is carried out by Foxconn, a Taiwanese firm, at its plant in Shenzhen, China. Samsung Electronics turns out to be a particularly important supplier. It provides some of the phone's most important components, including the flash memory that holds the phone's apps, music and operating software, the working memory (or DRAM), and the applications processor that makes the whole thing work. Together, these account

Application 1.3 (cont.)

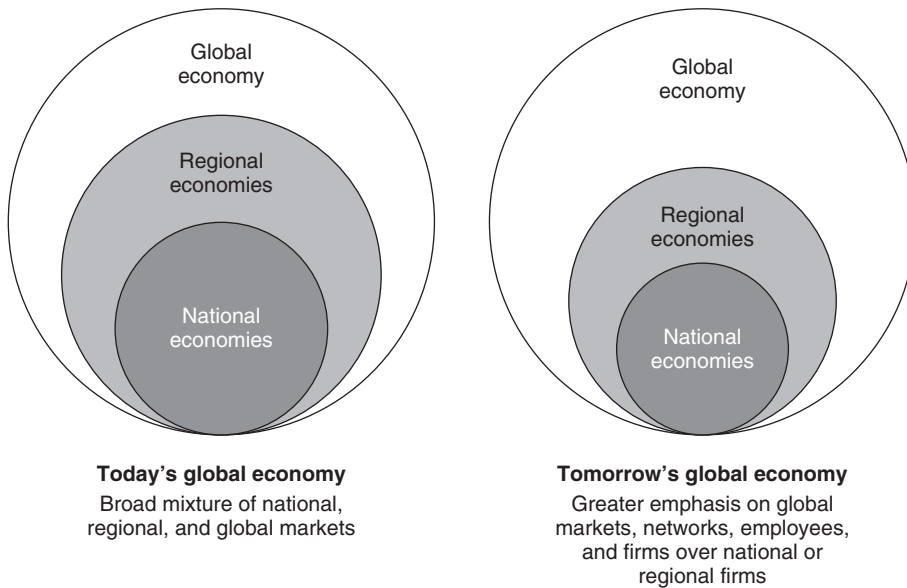
for over one-quarter of the component cost of an iPhone. This puts Samsung Electronics in the somewhat unusual position of supplying a significant proportion of one of its main rival's products, since Samsung also makes smartphones and tablet computers of its own. Apple is one of Samsung's largest customers, and Samsung is one of Apple's biggest suppliers. This is actually part of Samsung's business model: acting as a supplier of components for others gives it the scale to produce its own products more cheaply. For its part, Apple is happy to let other firms handle component production and assembly, because this leaves it free to concentrate on its strengths: designing elegant, easy-to-use combinations of hardware, software, and services. Stranger still, Apple sued Samsung recently over the design of its Galaxy handset (a smartphone that bears a strong resemblance to an iPhone) and its Galaxy Tab tablet computer (which looks rather like an iPad), claiming that they copied hardware and design features from Apple products. Samsung retaliated by counter-suing. In the latest twist, Apple has just gained injunctions to prevent the sale of Samsung's Galaxy Tab in Europe and Australia. The two firms' mutually beneficial trading relationship continues, however.

Think about it . . .

- (1) How is it possible for two companies to work closely together in a global strategic alliance when they are not only direct competitors in the marketplace, but also suing one another in court?
- (2) What does this global alliance tell you about the future of global strategies and competitiveness in highly dynamic industries?
- (3) What are the management challenges for Apple and Samsung in making this long-term relationship work?
- (4) Are there lessons from this strategic alliance for other global companies?
- (5) Is it easier or more difficult for companies to work with firms from other cultures (e.g., those in the United States and South Korea)? Why? What are the management implications of such differences?

From intermittent to continual change

Change is everywhere. Companies, products, and managers come and go. This turbulence increasingly requires almost everyone, from investors to consumers, to pay greater heed to the nature, scope, and speed of world events, both economically and politically.

Exhibit 1.2 The changing global economy

Details have become more important. Personal relationships, even though they are under increasing threat, remain one of the last safe havens in an otherwise largely unpredictable world.

Across this changing environment – indeed, as one of the principal causes of these changes – we can see the relentless development and application of new technologies, especially with regard to the digital revolution (see [Exhibit 1.2](#)). Technology is largely held to be a principal driver of globalization and the key to national economic development and competitiveness. Indeed, global business as we know it today would not be possible without technology. It was only with the emergence of affordable and reliable computer and communication technologies that coordination and collaboration across borders became possible. A few years ago subsidiaries were managed as independent organizations, and managers traveled around the globe for coordination purposes. Today electronic technologies facilitate the transfer of information and make communication through text, voice, and video simple and affordable.

At the same time, globalization has resulted in an increase in the transfer and diffusion of technological innovation across borders, as well as competition among nations to develop and adopt advanced technologies. As business becomes more and more global, the need for better and cheaper technology increases, pushing technological development to new heights. Computers are obsolete as soon as they are out of the

box, smartphones integrate new functionalities for managers on the move, and we have cellphone coverage and internet access in almost every corner of the world. Managers cannot understand globalization or manage globally without understanding the influence of technology on business.

From isolation to interconnectedness

In today's increasingly turbulent and uncertain business environment, major changes occur with increasing regularity. The recent collapse of the global financial markets, accompanied by worldwide recession, has caused hardships around the world and has led to changes, both political and economic, in rich and poor countries alike. The economic and political power of India and China continues to grow exponentially, and both are struggling to manage the positive and negative consequences of growth and development. Russia is trying to reassert itself politically and economically in the world, overcome rampant corruption in its business sector, and reform its economic system in order to build local companies that can compete effectively in the global economy. Arab nations are struggling for greater democracy and human rights. Japan is trying to rebuild its economy after its recent catastrophic environmental disaster. France is trying to reinvigorate its economy by changing its historically uncompetitive labor policies. Turkey is trying to join the European Union so that its companies can gain greater access to world markets. South Africa continues to struggle to shed the vestiges of its old apartheid system and build a new, stronger economy based on more egalitarian principles. Throughout, there is a swelling consumer demand for higher-quality but lower-cost goods and services that challenge most governments and corporations. In a nutshell, welcome to today's increasingly global economy. In this new economy, globalization is not a debate; it is a reality.

This is not to say that the challenges and potential perils of globalization are a recent phenomenon. Indeed, quite the contrary is true; globalization has always been a major part of commerce. What is new, however, is the magnitude of globalization today and its impact on standards of living, international trade, social welfare, and environmental sustainability. In 1975 global foreign direct investment (FDI) totaled just \$23 billion; by 1998, a little over twenty years later, it totaled \$644 billion; and by 2008, just ten years after that, it totaled \$1.5 trillion. It is estimated that, by 2020, global foreign direct investment will surpass \$3 trillion. Despite regional and worldwide recessions and economic setbacks, global FDI continues to grow at a seemingly uncontrollable rate. What are the ramifications of this increase for organizations and their managers? What are the implications for developed and less developed countries? Is there a role for governments and public policy in this revolution?

Application 1.4 Ethanol and the price of tortillas in Mexico

Clearly, the degree of economic and social interconnectedness between both countries and companies has increased significantly in recent years – and not always in a positive direction. For example, when the use of ethanol as an additive to gasoline production increased significantly in American and European markets, corn prices around the world skyrocketed, and the price of tortillas in Mexico, a staple food among Mexico's poor, nearly doubled. A short time later, however, the bottom fell out of the ethanol market as oil prices dropped and the price of corn fell. Then, a year later, oil prices skyrocketed again, as did the price of corn. Caught in the middle of all of this was the Mexican peasant, just trying to survive: unintended, yet nonetheless very real, consequences.

Think about it. . .

- (1) Do companies have an obligation, moral or otherwise, to consider the economic, social, or environmental ramifications of their actions beyond the confines of their own firms or countries?
- (2) Realistically, what, if anything, can these companies do to be sensitive to these ramifications, while still complying with their legal obligations to their stockholders?
- (3) Someone once said that everyone is an environmentalist – that is, no company intentionally sets out to destroy the environment. Do you believe this to be true? Why or why not?
- (4) Who gets to decide who is socially or environmentally responsible and who is not?

From biculturalism to multiculturalism

The increasing intensity and diversity that characterize today's global business environment require managers to succeed simultaneously in multiple cultures, not just one. Gone are the days when a manager prepared for a long-term assignment in France or Germany – or even Europe. Today this same manager must deal simultaneously with partners from perhaps a dozen or more different cultures around the globe. As a result, learning one language and culture may no longer be enough, as it was in the past. In addition, the timeline for developing these business relationships has declined from years to months – and sometimes to weeks. To us, this requires a

new approach to developing global managers. This evolution from a principally bicultural business environment to a more multicultural or global environment presents managers with at least three new challenges in attempting to adapt quickly to the new realities on the ground.

- *It is sometimes unclear to which culture we should adapt.* Suppose that your company has asked you to join a global project team to work on a six-month R&D project. The team includes one Brazilian, one Indian, one Portuguese, and one Russian. Every member of the team has a permanent appointment in his or her home country but is temporarily assigned to work at company headquarters (HQ) in Sweden for this project. Which culture should team members adapt to? In this case, there is no dominant cultural group to dictate the rules. Considering the multiple cultures involved, and the little exposure each manager has likely had with the other cultures, the traditional approach of adaptation is unlikely to be successful. Nevertheless, the group's members have to be able to work together quickly and effectively to produce results (and protect their careers), despite their differences. What would you do?
- *Many multicultural encounters happen on short notice, leaving little time to learn about the other culture.* Imagine that you have just returned from a week's stay in India, where you were negotiating an outsourcing agreement. As you arrive in your home office, you learn that an incredible acquisition opportunity has just turned up in South Africa and that you are supposed to leave in a week to explore the matter further. You have never been to South Africa, nor do you know anybody from there. What do you do?
- *Multicultural meetings increasingly occur virtually, by way of computers or video conferencing, instead of through more traditional face-to-face interactions.* Suppose that you were asked to build a partnership with a partner from Singapore who you have never met, and that you know little about the multiple cultures of Singapore. Suppose further that this task is to be completed online, without any face-to-face communication or interactions. Your boss is in a hurry for results. What would you do?

Taken together, these three challenges illustrate just how difficult it can be to work or manage across cultures in today's rapidly changing business environment. The old ways of communicating, negotiating, leading, and doing business are simply less effective than they were in the past. As such, the principal focus of this book will be on how to facilitate management success in global environments – how to become a global manager.

Management and multicultural competence

Globalization pressures represent a serious challenge facing businesses, and the way in which they conduct themselves in the global economy, and they have a direct influence on the quality and effectiveness of management. Even so, globalization presents companies with opportunities as well as challenges. The manner in which they respond – or fail to respond – to such challenges will in large measure determine who wins and who loses. Those that succeed will need to have sufficient managers with economic grounding, political and legal skills, and cultural awareness to decipher the complexities that characterize their surrounding environment. Tying this all together will be the management know-how to outsmart, outperform, or outlast the competition on a continuing basis. Although globalization seems to be inevitable, however, not all cultures and countries will react in the same way, and therein lies one of the principal challenges for managers working across cultures.

Application 1.5 Launching a new venture in India

Many observers have suggested that the future belongs to India. Everyone seems to be going there these days, and this developing nation has become a haven for outsourcing. For all its global assets, however, India can be a tough place for entrepreneurs. Indeed, the World Bank's "Ease of doing business" index ranks India 165th out of 183 countries in terms of the ease of launching a new business there. Furthermore, India scores 182nd out of 183 (behind Angola) in terms of the government or legal enforcement of contracts. Why? A large part of the answer to this question lies in a culture filled with red tape and, at times, nonsensical permits, policies, and procedures. Sometimes entrepreneurs cannot even discover what the rules are until they are snagged.⁹ In Mumbai, for example, there are thirty-seven procedural hoops to jump through just to gain approval to build a warehouse. Meeting these requirements can routinely take up to a year to complete. Moreover, many of these rules differ across regions, increasing the confusion of foreigners. Added to this is India's endemic corruption, often exemplified by an unwillingness or inability of many recipients of a bribe to fulfill their side of the bargain even after being paid. Finally, new start-ups often have difficulty finding or retaining sufficient qualified employees to staff their operations. Employee turnover is rampant and companies are expected to invest

Application 1.5 (cont.)

heavily in training. This combination of multiple ambiguous and often conflicting rules, coupled with pervasive rule breaking, often leads to confusion among numerous would-be investors. In fact, foreign direct investment has fallen by one-third in just the last year. As with other countries experiencing rapid globalization, the future may be bright but it is far from certain.

Think about it. . .

- (1) Many countries have strong and complex government bureaucracies that often serve to inhibit new investment – especially by foreigners. As an entrepreneur interested in foreign investment, how might you prepare yourself for dealing with such bureaucracies?
- (2) It is said that all countries have corruption; it is just the magnitude or nature that is different. Do you believe this is correct? If so, how would you determine the level of corruption that is “acceptable” for you to continue pursuing business affairs in a particular country?
- (3) How might an understanding of multicultural competence better prepare both entrepreneurs and global managers for the “realities on the ground” in international ventures?
- (4) As an entrepreneur looking to invest in developing economies, what steps might you take to protect yourself and your firm against the consequences of local corruption?

In view of the myriad challenges such as this, managers viewing global assignments – or even global travel – would do well to learn as much as they can about the world in which they will work. The same holds true for local managers working in their home countries, where the global business world is increasingly challenging them on their own turf. Like it or not, with globalization and competition both increasing almost everywhere, the challenge for managers is to outperform their competitors, individually or collectively. This can be attempted either by focusing exclusively on one’s own self-interests or by building mutually beneficial strategic alliances with global partners. Either way, the challenges and pitfalls can be significant.

Another important factor to take into consideration here is a fundamental shift in the nature of geopolitics. The days of hegemony – East or West – are over. No longer will global business leaders focus on one or two stock markets, currencies, economies, or

political leaders. Today's business environment is far too complex and interrelated for that. Contrary to some predictions, nation states and multinational corporations will remain both powerful and important; we are not, in fact, moving towards a "borderless society." Global networks, comprising technological, entrepreneurial, social welfare, and environmental interest groups, will also remain powerful. Indeed, networks and relationships will increasingly represent power, not traditional or historic institutions. Future economic and business endeavors, like future political, social, and environmental endeavors, will be increasingly characterized by a search for common ground, productive partnerships, and mutual benefit.

The plight of many of today's failed or mediocre managers is evident from the legion of stories about failures in cross-border enterprise. Managers are responsible for utilizing human, financial, informational, and physical resources in ways that facilitate their organization's overall objectives in turbulent and sometimes hostile environments about which they often understand very little. These challenges can be particularly problematic when operations cross national boundaries.

As globalization pressures increase and managers spend more time crossing borders to conduct business, the training and development community has increasingly advocated more intensive analyses of the criteria for managerial success in the global economy. As more attention is focused on this challenge, a growing cadre of management experts is zeroing in on the need for managers to develop perspectives that stretch beyond domestic borders. This concept is identified in many ways (e.g., "global mindset," "cultural intelligence," "global leadership"), but we refer to it simply as *multicultural competence* (see [Chapter 2](#)). Whatever it is called, its characteristics and skills are in increasing demand as firms large and small, established and entrepreneurial, strive for global competitiveness.

We suggest in this volume that endeavoring to meet these challenges is far more the result of hard work, clear thinking, serious reflection, and attentive behavior than any of the quick fixes that are so readily available. We suggest further that, to accomplish this, managers will need to develop some degree of multicultural competence as an important tool to guide their social interactions and business decisions and prevent themselves from repeating the intercultural and strategic mistakes made by so many of their predecessors. Clearly, working and managing in the global economy require more than cross-cultural understanding and skills, but we argue that, without such skills, the manager's job is all the more difficult to accomplish. If the world is truly moving towards greater complexity, interconnections, and corporate interrelationships, the new global manager will obviously need to play a role in order for organizations and their stakeholders to succeed.

Summary points

- Globalization is the inexorable integration of markets, capital, nation states, and technologies in ways that allow individuals, groups, corporations, and countries to reach around the world farther, faster, more deeply, and more cheaply than ever before. This process is increasingly creating a powerful backlash from those left behind by the new economic and political system.
- This new global reality represents a major paradigm shift in international politics, economics, and business that impacts corporations and their managers, as well as society at large. Moreover, as experience teaches us, few such changes occur without winners and losers.
- While it is not easy to get a handle on all the changes occurring in the global environment, three prominent changes stand out: the evolution from intermittent to continual change, from isolation to increasing interconnectedness, and from biculturalism to multiculturalism. The evolution from a principally bicultural business environment to a more multicultural or global environment presents managers with at least three new challenges in attempting to adapt quickly to the new realities on the ground: it is sometimes unclear to which culture we should adapt; many multicultural encounters happen on short notice, leaving little time to learn about the other culture; and multicultural meetings increasingly occur virtually, by way of computers or video conferencing, instead of through more traditional face-to-face interactions.
- As globalization pressures increase and managers spend more time crossing borders to conduct business, a growing cadre of management experts is zeroing in on the need for managers to develop perspectives that stretch beyond domestic borders. This concept is identified in many ways (e.g., “global mindset,” “cultural intelligence,” “global leadership”), but we refer to it simply as *multicultural competence*. Whatever it is called, its characteristics and skills are in increasing demand as firms large and small, established and entrepreneurial, strive for global competitiveness.

Notes

- 1 Personal communication, Norbert Reithofer, Munich, Germany, 2004.
- 2 Thomas Friedman, *The Lexus and the Olive Tree*. New York: Anchor Books, 2000.
- 3 Thomas Friedman, *The World Is Flat: A Brief History of the Twenty-First Century*, New York: Farrar, Straus and Giroux, 2005.