Springer Texts in Business and Economics

Kamal Fatehi
Jeongho Choi

International Business Management

Succeeding in a Culturally Diverse World

Second Edition

EXTRAS ONLINE

Springer

Springer Texts in Business and Economics

More information about this series at http://www.springer.com/series/10099

Kamal Fatehi • Jeongho Choi

International Business Management

Succeeding in a Culturally Diverse World

Second Edition

Springer

Kamal Fatehi
Coles College of Business
Kennesaw State University
Kennesaw, GA, USA

Jeongho Choi
Management & Marketing Department
St. John Fisher College
Rochester, NY, USA

Additional material to this book can be downloaded from https://www.springer.com/us/book/9783319966212

Originally published by SAGE Publications, Inc, California, 2008

ISSN 2192-4333 ISSN 2192-4341 (electronic)
Springer Texts in Business and Economics
ISBN 978-3-319-96621-2 ISBN 978-3-319-96622-9 (eBook)
https://doi.org/10.1007/978-3-319-96622-9

Library of Congress Control Number: 2018953046

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Kamal Fatehi
This book is dedicated to my family
Jeongho Choi
This book is dedicated to my family:
My lovely wife, Julie-Kunyoung, and
my sons, Philip and Leonard

Preface

We are living in a world where the only certainty is the uncertainty in the human affairs. A few decades ago, it was common among the academicians to discuss a future where large multinational corporations would be in charge and the national governments would exist in name only without meaningful powers. There were predictions that the world would become a "global village" in which the people would face a new reality very much akin to living in a village. The villagers collectively would be aware of each other. Their lives would be subject to scrutiny by others and be impacted by them. Now, not only we have arrived at such a "village," we are transforming this village beyond recognition, and a wrong move by any "government in name only" could doom us all. Even without such a catastrophe, our lifestyle and our industrial activities are so myopic and contrary to maintaining a healthy and sustainable life that continuing it would not be much different than a grave mistake by a national government that could have a disastrous consequence. We are locked in a zero-sum game in which the selfish attempt for the individual gain at the expense of our neighbors is becoming a norm and not an exception. Some are engaged in an international trade where they sacrifice long-term results and bargain for short-term benefits. Let's hope that these issues are just aberrations.

Globalization is well underway. There is no exaggeration if we claim that we have arrived at the "global village." The arrival is not celebrated by the villagers, and there is not a welcome mat. Instead, the arrival is marked with a note of caution and a reminder.

The caution note warns us that there are unanticipated outcomes to globalization such as heightened security concerns due to rising acts of violence and terror instigated by, among other things, the stark awareness of value differences. These value differences are brought forth by globalization forces that threaten the possibility of preserving separate ethnic identities and the prospects of assimilation of all by the forces of modernity. The isolation of cultures, nations, and markets of the previous period has been replaced by close interaction, intermingling, and integration among them, actually or virtually. International business and international management have significant roles in all this. To move cautiously in the uncharted waters of global business and to mitigate unanticipated consequences of globalization necessitate the study of international management.

The reminder is to shake us up from the comfortable complacency that is an attribute of success. The past technological progress in product developments and processes has lulled firms from industrialized nations into the false assumption that past success can continue unabated into the future. This is far from the true reality. The challenge to this comfortable position comes from business corporations from the emerging markets of Asia, the Middle East, and Latin America. Business enterprises from emerging markets that are going global pose formidable challenges to existing rivals from industrialized countries. In these markets, which are home to the majority of the world population, the emerging global firms have an advantage of being insiders. These are the future firms in the future markets. These markets are growing at much faster rates than their counterparts in developed countries. Supplying these markets successfully requires understanding their uniqueness, which is due to systemic and cultural differences. It is international management that can teach us about the complexity and intricacy of these markets and their people that often are as exotic as they are mysterious to the uninitiated.

Globalization and vanishing national borders have influenced almost everything that we do, particularly in business organizations. Although conflicts between nations have not disappeared, commonality of interest among them in creating a better life for their people is amply evident. This commonality of interest, in part, is manifested through international business. While national governments are obligated to take a nationalistic posture, multinational companies (MNCs) are slowly but inexorably forced to transcend national boundaries. They have the difficult task of integrating the varied values of their diverse workforce in establishing a vision and setting goals for the whole corporation. They have to manage people whose values and expectations are dissimilar. The responsibility of managing across national borders and competing in a culturally diverse world can be satisfied if these managers assume a multicultural perspective. This book offers such a perspective.

The world economy, particularly with the advent of the Internet, is moving ever faster toward a highly interrelated, interdependent state, in which no nation will be immune from the forces of the global market. Increased interdependency, however, does not mean market uniformity or universality of management practices. Cultural, political, and, to some extent, economic diversity differentiates nations and creates unique market segments. Managing a business, be it domestic or international, in such a milieu requires understanding of these diversities.

Realizing the impact and the influence of the global market in managing the firms, most business schools are offering an international management course, along with other international business courses, to cover the worldwide dimension of business. This book is for use in such a course. It deals with the fundamental concepts of managing from an international perspective. Although the book is primarily for business students, managers will find it useful as well. The book offers conceptual frameworks and theoretical explanations useful for the daily challenges of a practicing manager. The insight thus gained could provide managers with added competitive advantage in the culturally diverse global market.

The scope and intensity of operations that expand and exceed national domestic markets vary among firms and industries. This variation determines different levels of commitment by a firm to the global market. Nomenclaturally, however, most scholars have not differentiated among these varied levels of commitment. All business activities beyond the domestic market are commonly referred to as international, multinational, transnational, and global. Strategy differentiation such as multidomestic versus global is, however, acknowledged. These terms, nonetheless, are beginning to acquire specific meanings, though there is no consensus on their usage.

Among these terminologies, international is more popular. Many scholars have used the term international to connote all business activities that go beyond the domestic market, regardless of the size or scope of the operation. Almost all business schools use the label “international management” for the title of the course that covers the management concepts of such an operation. Also, they use “international business” as a major field of study. For this reason, in this book, the terms multinational company and international management are used to describe a firm that operates beyond the domestic market and the management of such a business operation, respectively. Throughout the text, however, to differentiate among firms with various levels of commitment to the world market, whenever necessary, other terminologies have been applied.

The book emphasizes the importance of cultural differences and the difficulties of working with people of diverse cultural backgrounds. It provides its readers with the understanding that international management involves not just conducting international business transactions abroad but also working with people who may not share our basic values and assumptions.

The 12 chapters of this book are divided into 4 parts. The first part is an introduction; it elaborates on the importance of international business and management in the first chapter and the critical implications of ethical, social, and environmental aspects of international operations in the second chapter. The three chapters of the second part discuss cultural and behavioral dimensions, cultural influences, communication and negotiation, and leadership and motivation. The five chapters of the third part present operational aspects: international strategic planning, international strategic alliance, organization and structure, control factors, and information systems management of international firms. Industrial relations topics are in the last part, which includes two chapters. One chapter deals with human resource management and the other with labor relations topics.

Kennesaw, GA, USA Kamal Fatehi
Rochester, NY, USA Jeongho Choi

Acknowledgments

We would like to acknowledge the support and encouragement of Dr. Kathy Schwaig, Dean of Coles College of Business, and Dr. Robin Cheramie, Director of School of Management, Entrepreneurship and Hospitality. Both have been very instrumental in my intellectual accomplishments including the completion of this book. Last but not least, special thanks go to Dr. Rama Yelkur, Dean of School of Business at St. John Fisher College. Thanks a lot, Kathy, Robin, and Rama!

Additionally, we would like to thank Springer team for their efforts and dedications in producing the second edition of the textbook. Our special appreciation goes to Nitza Jones-Sepulveda, Nicholas Philipson, and many other individuals at Springer.

Contents

About the Authors

Kamal Fatehi received his PhD from Louisiana State University, MBA from Western Illinois University, and BS from Bowling Green State University. He is professor of management at Coles College of Business, Kennesaw State University (KSU). He joined KSU in 2000 as the chair of Management and Entrepreneurship Department. Before joining KSU, he was interim dean of College of Business Administration at Texas A&M International University. Previously, he was a professor of strategic and international management at Barton School of Business, Wichita State University, Wichita, Kansas. He has taught at Louisiana State University, Western Illinois University, and Eastern Illinois University. At Western Illinois University, he was recognized as an outstanding scholar. He has received research awards from three universities. Dr. Fatehi is the recipient of six Fulbright awards. The last one was in 2018 when he assisted Sultan Hassan II University, in Casablanca, Morocco.

Related to these awards and assignments is his service as adviser/host to many foreign scholars who received scholarships from the State Department and placed with the universities with which he was affiliated. In 1999, in cooperation with his colleagues from Texas A&M University, he assisted Turkmen State University to establish the first business program in Turkmenistan. In teaching and research studies, he draws from his years of managerial experience with industry and his service to public and private organizations as a consultant, including an assignment with the Russian Privatization Center, Moscow, Russia.

Fatehi has published in such journals as *Asia Pacific Journal of Marketing*, *Cross-Cultural Research*, *Decision Science Journal of Innovative Education*, *Employee Relations Law Journal*, *Industrial Management*, *International Executive*, *International Journal of Commerce and Management*, *International Journal of Management*, *Journal of Behavioral Economics*, *Journal of Business Research*, *Journal of Global Business*, *Global Business Review*, *Journal of Management*, *Management International Review*, *Managerial Planning*, and *Transnational Management*.

He is the author of three international management textbooks published by Prentice Hall, Sage Publications, and Springer Publishers. He is serving on the editorial boards of 11 scholarly/professional journals.

Jeongho Choi received a PhD in management (international business and strategy) from Rutgers University, Newark, New Jersey. He is assistant professor of management at the School of Business, St. John Fisher College (SJFC), Rochester, New York. Before he joined SJFC, Dr. Choi has taught international business and management courses such as principles of management, and a capstone, strategic management (business policy and strategy), since 2011 at Rutgers Business School and the State University of New York.

Before pursuing his career in academia, Dr. Choi worked for an electronics company manufacturing semiconductors (MLCC, multilayer ceramic capacitor) and was in charge of monitoring product quality and promoting process innovation. Having this industry background, his research focuses primarily on research and development (R&D) activities of multinational corporations. In relation to this, his research interests include alliance governance structure, alliance contract design, alliance collaboration with diverse partners, and technology innovation. His work examines the effectiveness of communication and coordination mechanisms and flexible contract on alliance collaboration performance. His research has appeared in top-tier journals such as *Journal of International Business Studies*, *British Journal of Management*, and *International Business Review*. His research also published in the Best Paper Proceedings of the Academy of Management. And Dr. Choi is the author of several book chapters and international business management textbook published by Springer.

Prof. Choi has been serving as a reviewer for numerous journals and a member of the Academy of International Business (since 2008), Academy of Management (since 2013), and European International Business Academy (since 2013). His favorite pastime includes playing a classical and electric guitar and stargazing. His lifetime interest remains in art and science.

Part I

Introduction

1 The Management of International Business

(continued)

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_1

This chapter proposes that we are in the midst of a transition period in which economic competition and international business are the new arenas for international rivalry. International business is the instrument, multinational companies (MNCs) are the force, and international managers are the strategists with which nations attempt to gain a competitive advantage. In such an environment, it is vital for us to understand and learn how to manage international business. Ten major factors underline the importance of international business and the management of such an operation. These factors are discussed in detail.

To study international management, we need to know what international business is. Therefore, we will briefly describe various forms of international business operations. These operations range from the simple import/export to the most challenging foreign direct investment (FDI). The first step in learning how to manage international business is to understand why firms internationalize. We will discuss theories of international expansion to illuminate this issue. The chapter argues that international management is similar to management of domestic operation, because both are concerned with achieving organizational objectives through the proper utilization of organizational resources. International and domestic management differ in managerial mentality, the complexity of the business-host government relationship, culture, and environment. A short discussion of these issues concludes the chapter.

Overview

Chapter Vignette: Wine War [1–3]

France is well-known not only for its rich culture and architecture but also for its wine. Traditionally, French wines used to be the first choice of many connoisseurs of fine wines, and the French were very proud of this distinction. This proud tradition is under siege. The French wine industry is facing a problem that is brought about by globalization and is losing its allure and profitability. A dramatic blind wine tasting in 1976 in Paris did not help either. That event was attended by France's elite wine experts. Much to France's horror and America's delight, two California wines scored top honors. The shocking result transformed the wine industry worldwide. The problem, of course, is not limited to France, but France is more seriously affected by it than other countries. Family-owned vineyards are struggling to survive. Some countries such as Australia and the United States (mostly the state of California) are spending millions to create brands recognized around the world. The majority of wine consumers prefer the fruity flavors offered by producers in California, Australia, and Chile rather than wait for fine Bordeaux wines to mature. These new vintners are concentrated in the markets where wine consumption is growing steadily. “We are in the front lines in the fight against Australian and American wines,” says Thierry Berthelot, Commercial Director of the Quinsac Wine Cooperative.

In recent years, a series of takeovers and mergers have created new multinationals. For instance, Australia’s beer baron, the Melbourne-based Foster’s Group, bought America’s Napa Valley-based Beringer Blass Wine Estates. Another Australian winemaker, Southcorp, took over the family-owned premium winemaker Rosemount. “We’ve converted from being a cottage industry into a competitive consumer luxury-goods industry,” says the chairman of Robert Mondavi Corporation, one of the world’s largest winemakers.

Today, of the ten largest wine companies, only one is French. French wine companies no longer have a dominant share in other markets. For example, three Australian companies are dominating 80% of their home market. French wine producers are reluctant to consolidate, modernize, and standardize a recipe for efficiency. Bordeaux by itself possesses 20,000 different producers. “We stick to our own home regime just when we must begin to compete in a universe of consumers who dress in Nikes, eat Big Macs, and drink Coca-Cola,” expresses Jacques Berthomeau, a critic of the French wine industry, who has published a report by the French Agriculture Ministry highlighting their problems. The new wine producers enjoy many advantages over France, including new facilities and the use of modern management techniques. Another advantage for Australian, American, and Chilean winemakers is that these countries work in steady, hot climates that produce regular harvests and consistent wines, while the Bordeaux and Burgundy producers have to deal with unpredictable weather.

Introduction

From the end of World War II until recently, many countries, and particularly the United States, were preoccupied with the threat of communism and the danger of another world war. The United States served as a great security force against communism and provided the much needed stability for world trade to flourish. From 1950 to 1972, world trade increased at an average of 5.9% per year after adjusting for inflation [4]. In the last quarter of the past century, world export grew almost seven times [5]. Of course, new technologies, falling transportation costs, improvements in education, and increased opportunities for international business contributed to economic growth. Without political stability, however, world trade could not have flourished at a steady and healthy rate. During this period, the United States acted as the police of the world, and it was preoccupied with the task of containing communism. To maintain this political stability, the United States spent a relatively large amount on defense. The actions of the United States allowed the world, excluding the communist countries, to enjoy economic development at rates that were higher and persisted longer than in any previous period in history [4].

While the attention of the United States was focused on fighting communism, other nations were able to devote comparatively more time and capital to developing their economies. Under the security umbrella provided by the United States, and the resulting stability, nations engaged in international trade and export. At a time when other countries, such as Japan, were expanding their markets globally, the United States was busy fighting communism. The commitment of the United States to heavy military expenditure was freeing resources and providing opportunities to other nations, particularly Western Europe and Japan, to directly challenge the US share of the world market.

In military affairs and politics, except for the communists, other countries acquiesced to the US leadership. Economically, however, they found much more room and opportunity to contest the US leadership, and they often assumed a prominent position. In the past, military might would often secure economic domination and wealth for the superior nation. In this period, the fruits of US military power, however, accrued to other nations too. The relatively safe and secure environment following World War II allowed world trade to expand. Increased world trade produced a higher degree of interdependence among nations. Economic interdependencies and the unacceptable consequences of a nuclear war produced a new mentality. For the first time, many nations began de-emphasizing brute force as an acceptable means of conflict resolution. The buildup of the most powerful military force in human history was making military domination less appealing to other countries. Economic competition and international business become the arenas for future rivalry.

The world is still going through some fundamental changes. The threat of a major military confrontation among the world superpowers is diminishing. The conditions that forced the United States to seek military supremacy are gradually disappearing. The former adversaries are seeking help from each other, and old friends are now posing as serious competitive challengers. In short, political and military rivalries are losing ground to economic competition among countries. Global markets and international business are becoming the new battlegrounds. Some governments, for example, spend heavily to support their industries and help them achieve global competitive positions.

Faced with the reality of losing markets to these countries, some are debating the need for a US industrial policy to help secure current market share and to regain lost market shares. They point out the close relationships between government and industry in Japan, China, and other countries that have promoted the expansion of their industries globally. This debate brings to sharp focus the importance of international business. We may question whether the United States needs the type of industrial policy used by other countries, but we certainly need to understand international business and how to manage it. The complexity of international business and the difficulty of managing it were reflected in the French winemakers' problems presented in the vignette at the beginning of this chapter.

Gaining a competitive advantage in the global market is possible only if we understand the underlying forces and concepts of international management. The application of these concepts in managing the cultural and operational diversity of international business is a challenging task.

The Changing Profile of the Global Business Environment

There are many factors that increase the impact of international business, and consequently the role of MNCs, in our lives. The increased volume of international business heightens the importance of international management. The world economy is moving ever faster to a highly interrelated, interdependent state, in which no nation will be immune from the forces of the global market. In such an environment, it is vitally important that we know how to manage international business operations. Eleven major factors underline the significance of international business (see Fig. 1.1).

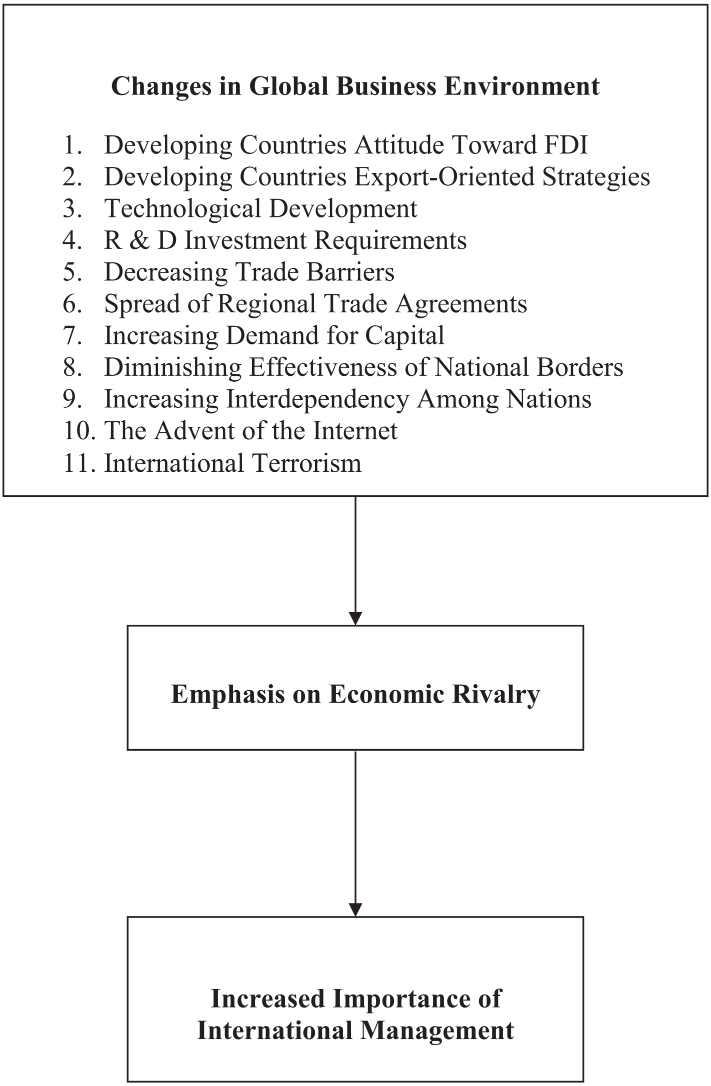


Fig. 1.1 The changing profile of global business

Decreased Trade Barriers

The tendency of most countries is to strive for free world trade and the removal of trade barriers. A very good indication of this tendency is the expansion of world trade. Figure 1.2 shows a tremendous expansion of world trade for both exports (a) and imports (b) of goods and services and a decrease in the average tariff rate of all products including agricultural and nonagricultural products.

The supporters of free trade believe that free world trade is vital to their economic prosperity. Since World War II, countries that have been more open to international business and free trade have grown faster than countries that were less open to the global economy [6, p. 233]. Some, however, would like to take advantage of the open markets of other countries without reciprocating and allowing others free access to their domestic markets. A few have been fairly successful in such practices. The imposition of trade and nontrade restrictions has created friction among the European countries, Japan, and the United States. The handling of such friction, however, suggests the willingness of all to solve these problems in a mutually acceptable and amicable manner. Of course, totally free world trade will not arrive overnight. But there is an inexorable movement toward the removal of most trade restrictions and barriers.

Certain transitory arrangements are already developing. For example, Europe has created an integrated economic and monetary system. Integrated Europe could produce a market larger than the United States. The United States, Canada, and Mexico have created the North America Free Trade Agreement (NAFTA), which removes most of the trade restrictions among them and creates the largest free trade bloc. A free trade agreement between the United States and the Central American countries (CAFTA) was signed. Members of the CAFTA are the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. Similar events may occur in the Australasia region.

Developing Countries' Attitude Change

The attitudes of many developing countries toward MNCs and FDI have changed. Before the mid-1970s, most developing countries took a dim view of FDI. Expropriation, the forced divestment of foreign assets, and nationalization, the host government seizure of MNC assets, were frequently used as a policy choice by many developing countries in their disputes with MNCs. The large number of pre-1970s expropriations has been attributed to certain problems that developing countries were experiencing. Among them were the lack of administrative capability, the low level of economic development, and an inability to service foreign debts [7]. Also, the East-West conflict was fueling the flame of dispute between the MNCs and the developing countries. After the mid-1970s, however, there has been a dramatic decline in the number of expropriations and nationalizations. This was due to two factors: (1) the improved capabilities of developing countries as discussed below and (2) the realization that a significant relationship exists between FDI and economic growth [8].

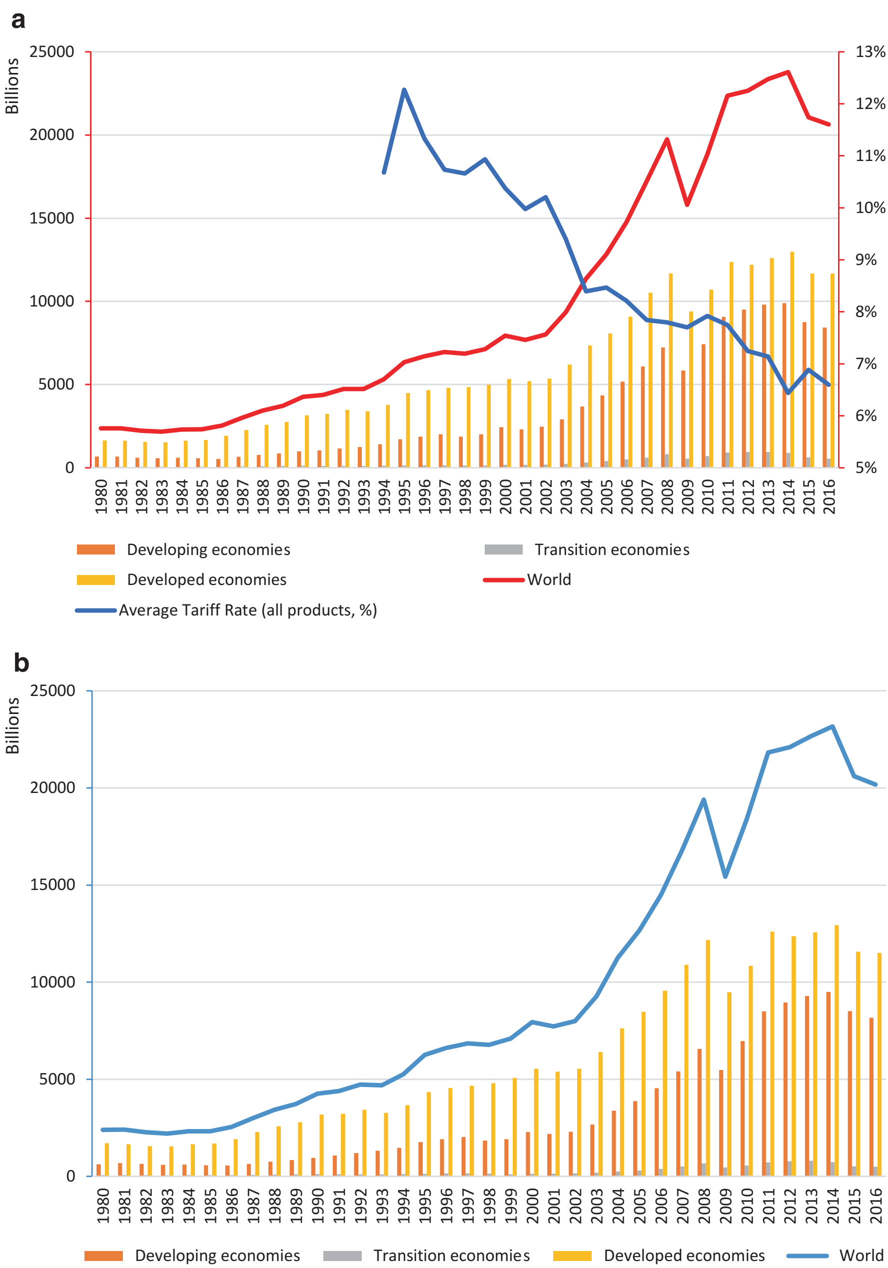


Fig. 1.2 (**a**) World trade trends (total exports of goods and services): 1980–2016. (**b**) World trade trends (total imports of goods and services): 1980–2016. (Source: Trade trends data, annual, 1980~2016, UNCTAD STAT, http://www.unctadstat.unctad.org; Average tariff rate: The World Bank data, http://data.worldbank.org)

As developing countries improved their economic and political capabilities, the need for ownership control through expropriation and nationalization diminished. Now they can achieve their objectives through taxation and performance requirement rather than by direct control. The changing attitudes of developing countries toward FDI have led some to argue that the attractiveness of foreign investment is growing and its supply is decreasing. Consequently, competition to attract FDI should escalate, and governments may outbid each other with packages of investment incentives and inducements [9]. This may result in increased international trade and may open up previously inaccessible markets.

Adoption of Export-Oriented Strategies by Developing Countries

Hoping to duplicate the success achieved by Japan, Korea, and other Asian nations, many developing countries are adopting an export-oriented strategy of economic growth. The circumstances under which Japan, and to some extent Korea, employed their export-oriented strategies have changed. During the period in which these countries used export-oriented strategies, the US market absorbed the bulk of their exports. This resulted in a substantial trade deficit in the United States. Since this trend cannot continue unabated, and the United States is determined to reverse it, other nations may not fully succeed in emulating Japan. If these countries do not succeed in keeping their markets relatively closed to others, global exports will increase, international trade will expand further, and international management will gain more prominence.

Export-oriented strategy, in part, involves MNCs' participation. As Lecraw and Morrison [10] have noted, 30–40% of industrialized countries' imports are through intrafirm trade by MNCs. As more countries view MNCs as an instrument for achieving this goal, we must understand how these firms operate and how they are managed.

Spread of Regional Trade Agreements

Regional trade agreements and pacts are reducing trade restrictions among the members and increasing intraregional trade. Membership in regional trade agreements is on the rise. The most notable trade agreements are the NAFTA, the European Union (EU), the Association of South East Asian Nations (ASEAN), the Andean Community, and more recently the Trans-Pacific Partnership (TPP) [11].

Some speculate that in the future, there will be three trading blocs dominating world trade. The first bloc is the EU. The second bloc is the ASEAN, with the expanded membership that could include Australia, India, and Japan. The third bloc is America, with the membership of Argentina, Brazil, Canada, Chile, Mexico, the United States, and Venezuela. There could be relatively free or open trade within these blocs and trade restrictions between them [3, p. 249]. A strategic response to such a scenario is for firms to have a foothold within each bloc or form strategic alliances with those that already operate within the blocs. Either case results in the expansion of the roles and scope of international management.

Technological Developments

Recent technological developments, particularly in manufacturing, have altered the nature of international business. Robotics, computer-aided design (CAD), computer-aided manufacturing (CAM), and flexible manufacturing have reduced production costs for most products. These technologies have also reduced the labor component of some products. As a result, the low-labor-cost position is less effective as a competitive strategy. Therefore, we expect that the low-labor-cost countries would try to tap MNCs for technology transfer and attempt to move up the supply chain.

Global Demand for Capital

One of the key features of globalization is the increase in capital mobility, which propels national and local governments alike into a heightened competition [12]. Competition for capital will increase further as demand for it rises. Demand for capital from Eastern European countries, and also from the various republics of the former Soviet Union, will likely intensify competition in capital markets. Another important factor in the rising demand for capital is the sovereign debt crisis of the 1980s. In the 1980s, heavily indebted developing countries experienced great difficulty paying back their debts. This resulted in a very serious financial strain on the American and European banks and financial institutions that had given them the loans. Ever since, these institutions have become more cautious, and private sources of capital have become scarce and costly. The financial turmoil during the 1990s in Southeast Asia did not improve matters either. Consequently, more countries are viewing the equity capital from MNCs as a viable alternative. They are realizing the important role of FDI in economic development [13] and its impact on future opportunities for catching up with the developed countries [14]. This is another reason for the changing attitudes of developing countries toward MNCs.

Diminishing Effectiveness of National Borders

Slowly but steadily, national borders are losing their effectiveness in dealing with MNCs. Although we are witnessing a rising national fervor among the subjugated people of the former Soviet bloc, there is evidence that certain new developments are evolving that defy the traditional model. For example, a number of Americans with dual citizenship have served in the governments of Armenia, former Yugoslavia, and Estonia. In 1998, a US citizen, Valdas Adamkus, was elected president of his native Lithuania. The number of countries that allow dual citizenship is on the rise. Every year, more US citizens claim a second nationality. Overall, the requirement for gaining dual citizenship in these countries is for one to have been born there or have a parent or grandparent as a citizen of those countries. On that basis, and based on the US Census data, it is estimated that at least 500,000 people in the United States are eligible for dual citizenship. This trend has spawned a burgeoning area of study that draws from such diverse disciplines as law, sociology, anthropology, and philosophy. These scholars call the new way of living "flexible citizenship" or "transnationalism." According to them, the old model of nationality is outmoded in this globalizing world [15].

The top executives of some well-known American firms are foreign citizens. The number of foreign executives in American and European corporations is on the rise. Even staid Japanese firms have not been immune to this trend. After Renault, the French automobile company, took over Japanese car maker Nissan, it dispatched a Brazilian-born executive as its first foreign chief operating officer [16]. Also, Sony, for the first time, selected Howard Stringer, an American, as its chairman and chief executive officer [17]. For many years, European firms have been preparing for a borderless market in which the nationalities of managers have no bearing on their selection and cross-national career advancement is a norm. Thanks to the formation of the EU (European Union), the restrictions on the mobility of human resource among the EU member countries are reduced. As an EU national, you generally do not need a work permit to work anywhere in the EU.

The international agreement that created the World Trade Organization (WTO) and empowered it with enforcement authority is a clear indication that, slowly but inexorably, borders are vanishing. It should be noted that for the first time, governments may face the situation where their sovereignty could be curtailed by the WTO rules. As the critics of WTO argue, "The WTO is basically the first constitution (with a global reach) based on the rules of trade and the rule of commerce. Every other constitution has been based on the sovereignty of people and countries" (as quoted by the Indian activist Vandana Shiva in Ref. [18, p. 125]). This indicates that trade has assumed a prominent position in our international perspective. Such a view, and the fact that some of the governments' sovereign powers could be challenged by the WTO rules, suggests that in the future, nations may face the diminishing effectiveness of national borders and loss of sovereignty.

Investment Requirement in R&D

The enormous investment required in new technologies and in research and development (R&D) and the increasing scale of economies needed for an optimum operation are compelling firms to consider the whole world as a market. In many industries, even the largest and most resourceful firms cannot afford the enormous investment required in today's research and development and new technologies. For example, the estimated $1 billion needed to develop a new generation of dynamic random access memory chips (DRAMs) forced IBM to form a joint venture with Toshiba Corporation of Japan and Siemens AG of Germany [19]. Similarly, because of the huge cost of developing new drugs, giant pharmaceutical companies such as Glaxo Wellcome, SmithKline Beecham, and American Home Products are forced to look for merger partners [20]. The immense operations and marketing costs of new high-technology products, along with other requirements, have been the driving force behind the increased internationalization and cross-border corporate mergers. Even the US defense industry has been forced to adjust due to the skyrocketing costs of new technologies. Recently, for example, a number of European countries were invited to join in producing the radar-evading Joint Strike Fighter jet. The Joint Strike Fighter project spans more than two decades, is considered the biggest military project in history, and could cost $200 billion. The interesting aspect of this deal is that not only have other nations accepted involving the US defense contractors in their military operations but the United States has also invited the other countries to participate in a US military project [21].

Increasing Interdependence Among Nations

International linkages among countries are creating a higher degree of interdependency, characterized by the increasing volume of FDI. Figure 1.3 illustrates the dramatic growth of FDI inflows (a) and outflows (b) between 1980 and 2016. The total volume of FDI inflows (i.e., world) has grown dramatically since the 1980s, particularly in developed economies (e.g., the United States, Canada, and Europe). More recently during the 2010s, the volume of FDI inflows in developing/transition economies such as BRICS (Brazil, Russian Federation, India, China, and South Africa) has also increased. On the other hand, the volume of FDI outflows shows that outward FDIs were done mostly by MNCs in developed economies. FDI inflows and outflows were plummeted significantly after 2001 and 2008. These drops were caused by 9/11 terrorist attacks and global financial crisis starting from the United States, respectively. These were the evidences of interdependent global economies; these started from a nation, but the impacts spread all over the world.

In three phases, international linkages have been growing (see Figs. 1.2 and 1.3):

1. The first phase began with the successive reduction of international trade restrictions, which increased world trade. In the mid-1980s, trade was 33% of the Gross Domestic Product (GDP) of developing countries. It rose to 43% in the mid-1990s [22]. WTO estimates that due to trade liberalization, real-world income could increase by $510 billion annually [23].

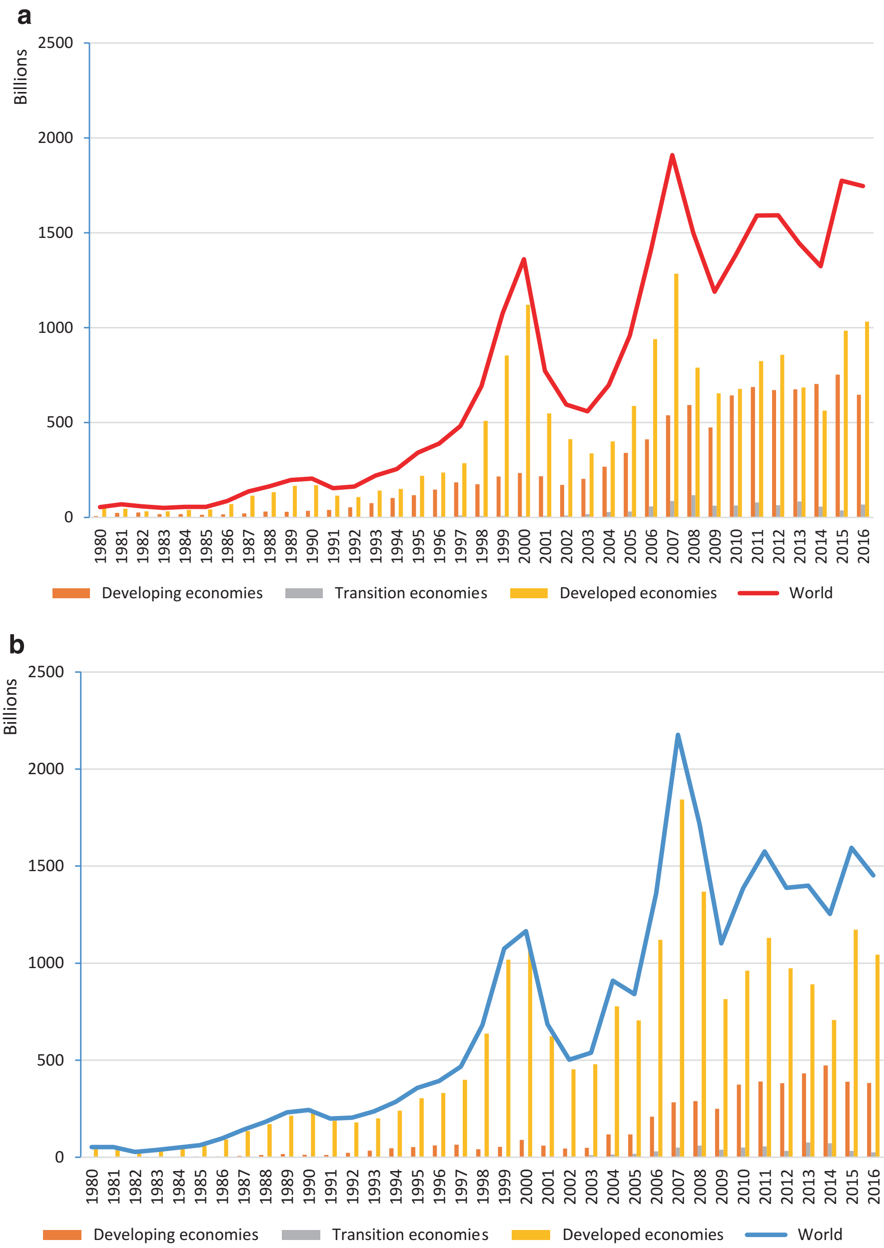


Fig. 1.3 (**a**) Foreign direct investment (FDI) inflows into world regions: 1980–2016. (**b**) Foreign direct investment (FDI) outflows from world regions: 1980–2016. (Source: FDI inward and outward flows and stock, annual, 1980–2016, UNCTAD STAT, http://www.unctadstat.unctad.org)

2. In the second phase, interdependency through trade was followed by financial integration, which was aided by recycling of the Organization of Petroleum Exporting Countries' surplus during the 1970s. The revenue generated by the rising oil prices created a huge surplus, which was invested in developed economies. For such an immense amount of money, the developed economies were the best and safest places for investment. This increased interdependence further.
3. Now we are experiencing the third phase of international linkage, which is often referred to as globalization. Globalization is the integration, across borders, of markets for capital, goods, services, knowledge, and labor [24]. The characteristics of this phase include FDIs made by MNCs and technological alliances among them.

A large and growing portion of world trade involves intrafirm trade. For example, in the case of the United States and Japan, more than half the total trade flow is related to intrafirm transactions [25]. These are signs of changing times and the globalization of business. The introduction of market forces, freer trade, and widespread deregulation is happening all over the world. It is signaling that, more than ever before, international trade and investment play an eminent role in our lives. Products are produced everywhere and sold and consumed everywhere. It is becoming very difficult, if not impossible, to identify the national origin of many products. Today, products are assembled from parts produced all over the globe. When the US government was questioning if Honda automobiles had more than 50% US contents, it became clear that General Motors, Ford, and Chrysler were not in a much better position. The issue of national origin is becoming an international trade problem.

Not only are capital, products, and services moving across borders with ease but people are also moving around the globe at an increasing rate. Two factors related to corporate needs and human aspirations encourage immigration:

1. MNCs are promoting the best employees to higher positions and transferring them to places around the world where they can best serve the expanding, globally integrated firm (see Factor 7 earlier).
2. Educated, skilled, and cosmopolitan people in search of a better life find a relatively hospitable reception in many places where their skills and knowledge are needed. Of course, the issue of low-skill labor immigration is a separate matter. This movement exposes people, and particularly employees of MNCs, to diverse ways of thinking, behaving, and problem-solving. This builds a closer relationship between MNCs, the host governments, and people from diverse cultures. People in host countries are exposed to cultural diversity and ethnic heterogeneity without traveling away from their homes. The end result is further globalization and an increase in the pace of the march toward a "global village."

One More Step Toward the Global Village

The Bank of New York along with Deutsche Bank devised the structure of global shares to create an alternative for foreign companies to the American depository shares and receipts (ADSs and ADRs). Global shares are ordinary shares traded in multiple currencies around the world. ADSs and ADRs are not direct shareholdings. They are derivatives of foreign shares created by a US custodial bank. To sell them outside the US banks, they must be converted back to ordinary shares. Their holders may lack the same voting privileges as ordinary shareholders. For these reasons, many foreign issuers consider global shares as an alternative.

In November 1998, DaimlerChrysler began trading as a global share in the United States, Germany, Japan, and five other countries. The financial services giant UBS and the German chemical company Celanese have followed DaimlerChrysler in issuing global shares.

The costs and complexities involved in global shares, however, have kept other potential issuers on the sideline. Linking the home country's clearing and settlement systems with those of the United States and harmonizing local regulations with those of the Securities and Exchange Commission are not simple tasks. We can claim to have arrived at the global village if and when we overcome these hurdles (adapted from Ref. [26]).

The Effect of the Internet

In addition to the nine factors already discussed, the development and widespread use of the Internet is a force that greatly influences internationalization of business activities. The advent of the Internet is akin to a revolution. It has permeated many aspects of our lives in ways no one could have anticipated. It has affected many business practices, transformed some, and created new ones.

The Internet reduces business entrance barriers and production costs and increases productivity. Above all, it greatly affects developing and expanding international business activities and presents a significant challenge to traditional internalization arguments. Traditionally, companies would start small and be locally focused, growing gradually. The final stage of growth and expansion would take the firm to the international arena. With the use of the Internet, businesses can be designed from the beginning with the global market in mind. This type of organization is discussed in the chapter on organizational structure.

The Internet affects international business in the following ways [27, 28]:

1. It increases global commonality in consumer needs and tastes. This, in turn, makes it possible for MNCs to use more global strategies (discussed in the chapter on strategy) through offering standardized products and services. This is possible because the appeal of globally recognized brands will increase as a result of the worldwide use of the Internet. At the same time, it creates more opportunities for less recognized products and companies in international

markets. Dell Computer, for example, by shifting its marketing and sales efforts to the Web, transformed itself from a contender to a leader in the personal computer industry.

2. It enables MNCs to centralize or coordinate their purchasing globally. In effect, it provides the opportunity to MNCs to become global customers. At the same time, it allows regional firms such as United Parcel Service and DHL to grow faster. Before the advent of the Internet and the Web, globally centralized purchasing required complex, expensive paper-based coordination of dispersed subsidiaries and suppliers. In the case of the Internet, more efficient global sourcing is possible.
3. It reduces the minimum efficient size of the operation. Many physical activities are replaced by Web-based virtual activities. And it has become even more efficient in multitasking and operating large-scale businesses, because the Internet and its technologies are now used in conjunction with AI (artificial intelligence). By creating an online/cyber marketplace and having e-commerce platforms, companies like E-bay.com and Amazon.com were able to quickly expand their business operation globally. And some of the tasks (e.g., customer service) are being done by AI alleviating the need to use human labors. Also, their e-commerce business platforms (e.g., business-to-business (B2B) and business-to-customer (B2C)) allow new or unestablished smaller firms to increase sales domestically as well as internationally. These new/small firms can upload their product inventory, sell their product to other firms (B2B) or customers (B2C), and get their payments online. Therefore, as a result of reduced physical activities and market transaction costs (e.g., searching costs for distribution channels), firms, even new/unestablished ones, can expand their business globally and then be a global player. With the Internet, it is also possible to have a global strategy and at the same time to be responsive to the particular needs of local markets.

International Terrorism

Globalization has provided economic benefits to most nations. The vanishing effectiveness of national borders, the increased international trade, the information explosion, including the use of the Internet, and the increased immigration have also, however, made it easier for various groups to engage in terrorism. This adversely affects international business. But like the previous ten factors, it increases the importance of international management. Business is always in search of lower risk and higher return on investment. Sociopolitical strife usually negatively influences business. An important component of strategic planning is the assessment of political risk, which deals with the negative consequences of sociopolitical instability and strife [29]. Because terrorism is a recent phenomenon, it has yet to be systematically incorporated into the business planning process. It is clear, however, that terrorism adversely affects national security.

The preceding ten factors positively affect international business. International terrorism, however, negatively influences international business. It creates a unique form of nonbusiness risk. Nonbusiness risks are commonly discussed under the topic of country risk or political risk. This topic has been explored by international scholars [30] who maintain that it adversely affects FDI. The risk due to international terrorism is a recent issue. Its impact on business and the reaction to it are yet to receive scientific and scholarly scrutiny.

The issue of national security as it relates to the increased acts of terrorism has become a very sensitive matter to industrialized countries. It has become very important particularly to the United States after the tragedy of September 11, 2001. Experts have been sounding alarms about securing the US borders and particularly the ports [31]. The issue of port security drew a very strong uproar after the purchase of a British firm, which operated five terminals at the US ports, by Dubai Ports World (DPW). DPW is located in the United Arab Emirates, a country to the south of the Persian Gulf. Some argued that this event may create in the minds of international investors a country risk similar to those of politically volatile developing countries. Such a development could disrupt an increasingly interdependent world economy. It may discourage foreign investment in the United States, on which it is heavily dependent. An outcry against similar big acquisitions in Europe stirred concern over a rise in economic nationalism and a backlash against globalization [32].

MNCs may be forced to react to terrorism against their assets and personnel by (1) forming armed security forces to protect their interests in foreign countries [33]; (2) increasing advance training [34] and proper employee selection for foreign assignments (see the chapter on international human resources); and (3) following the recommendations of experts, to the intelligence community [35], to improve and expand international management education and training for those assigned to foreign operations.

The Imperatives of Globalization of Business

In the following section, we will discuss the imperatives of globalization of business. First, we will elaborate the need for going international. Then, we will present theories of international trade and FDI. Finally, within the framework of product life cycle, we will explain the firm's expansion into international markets.

Why Do Businesses Expand Their Operations Abroad?

International competition affects most businesses and results in the globalization of many industries. The unprecedented information explosion has greatly contributed to international competition. Technological developments have also reduced transportation costs. Consequently, the physical distance between producers and consumers is no longer much of a competitive hindrance. Domestic firms with unique products or services, or with a competitive advantage, can expand beyond their home market easily.

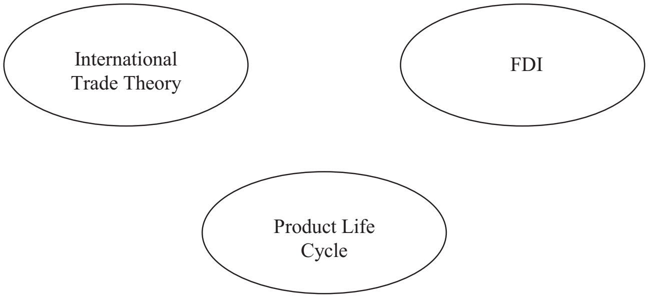


Fig. 1.4 Major theories of the firm's international expansion

In today's environment, going international is either an extension of successful domestic business operations or a requirement for remaining competitive. Increased worldwide interdependencies, if continued at the present pace, would make internationalization a requisite for survival. Until that time, many organizations operate at national and international levels as if these two were totally independent. Given this crude assumption, scholars argue on the motives and reasons for firms going international.

Three major theories—international trade, FDI, and product life cycle—have attempted to explain the reasons and motives for international expansion. These theories provide the following explanations (Fig. 1.4).

Theories of International Trade

International trade theorists propose that nations gain from international trade (exports and imports). The gains are the consequences of exploiting the comparative advantage. **Comparative advantage** is derived from exporting those goods that a nation holds superior in production cost. This superiority could stem from natural resource endowments, such as climate, quality of land, or differences in the cost of labor, capital, technology, and entrepreneurship. Opportunity cost plays an important role in comparative advantage. To produce one product, a country has to give up production of another, and this entails an opportunity cost. Nations benefit from international trade when they export products that they specialize in, because they have the greatest comparative advantage, and import those products in which they have the greatest comparative disadvantage. Free trade does not require that one country gain at another country's expense. Free trade is a win-win deal [6, p. 266].

Foreign Direct Investment Theory

Theories of FDI specify the following three conditions [36] in which FDI will occur:

1. The possession of an ownership-specific advantage
2. The effect of locational advantages of host countries
3. The presence of internalization advantage

Ownership-Specific Advantage. Compared with local firms, MNCs face certain disadvantages. These disadvantages are the lack of knowledge about the economic, political, legal, and social situations of foreign countries. Geographical distance, currency exchange risk, and language barriers create further difficulties. The established relationships between domestic firms and their suppliers, customers, and regulatory agencies put MNCs at an additional disadvantage. When a firm acquires a global horizon and goes international, it can benefit from investments in foreign countries if it has an ownership-specific advantage to offset the disadvantage of its foreignness. The ownership-specific advantage, which is also called strategic advantage, could be a patented technology, product differentiation, economies of scale, brand names, managerial skills, or possession of knowledge.

Locational Advantage. Building organizational capabilities and the use of strategic advantages through international expansion do not determine the location of foreign investment. MNCs must justify the choice of investment location. In which foreign countries should MNCs expand? The answer is very simple. MNCs should locate their operations in countries that offer certain locational advantages such as sources of raw materials, large markets, or low-cost labor.

Internalization Advantage. Internalization advantages refer to the advantages that MNCs can gain by directly controlling their value-creation activities (e.g., manufacturing, marketing, and R&D). MNCs can maximize benefits by having an FDI-based internationalization which allows them to control their value-creation activities, rather than outsourcing it to local firms. Direct control of value-creation activities is advantageous when MNCs have a proprietary technology yet there is a high risk of technology appropriation in the host country and when MNCs produce and provide high-quality products and services, but there is also a high risk of losing firms' reputation and brand image, if outsourced to local companies.

Other Factors Affecting the Internationalization of Firms

The exploitation of the firm's internal market [37]. A firm's strategic advantage could be licensed, franchised, or traded to local firms. Therefore, ownership-specific advantage alone is not sufficient for a firm to go international. *Internal market* should allow for a more effective use of strategic advantages rather than contractual agreements with other firms. Internal market refers to organizational capabilities, scattered throughout the firm, that could employ the firm's strategic advantages better than outside business partners. Specifically, the firm's internal market can best exploit the strategic advantages in the firm's intermediate products. Some of these strategic advantages, such as knowledge and expertise, which may ultimately result in a patent, could best be capitalized using the firm's internal market. Unless such knowledge and expertise culminate in products, there is no ready market for them in their intermediate states. The creation of internal market through international expansion ensures full exploitation of these strategic advantages.

The opportunity to enhance a firm's competitive advantage. Once a firm, for whatever reason, expands abroad, there is the likelihood that it will develop scanning and learning capabilities. Its presence in many markets enables the firm to locate alternative low-cost production sources and new technologies or learn about market needs that could trigger new product development [38]. In effect, scanning and learning capabilities enhance the firm's competitive advantage. The worldwide presence could also be used as a competitive weapon and for cross-subsidization of markets. Taking the competition head on, by penetrating into their home turf, forces the foreign competition to allocate resources for defensive purposes. Subsidizing losses in one market with funds from another profitable market could hamper the competitive position of rivals [39]. The penetration of rivals' home markets and cross-subsidization could adversely affect the competition. Competition may suffer from significant cash drain, reduced income, and lost opportunities. This could impair the competitors' ability to expand into new markets.

Revised International Product Life Cycle

International product life cycle, first proposed by Raymond Vernon [40] and expanded on by Adler and Ghadar [41], suggests a sequential progress for the firm's expansion into the international market, which follows the life cycle of products. Vernon proposed a three-stage model of product life cycle (PLC), which was useful in explaining the manufacturing investment abroad. But recent changes in the international environment have reduced the model's appeal. Adler and Ghadar's addition of a fourth stage, which accounts for recent international environmental changes, has improved the model.

The three stages proposed by Vernon are new product stage, mature product stage, and standardized product stage. The model suggests that high-income, economically developed countries are the home for most new products and innovations.

Stage 1: New product: In the first stage, innovating firms in developed countries produce new products for the home market. These products are manufactured at home. Foreign markets, which are other high-income countries, are served through exports. At this stage, since products are new, the firms do not face serious competition.

Stage 2: Mature product: The maturity phase is the second stage, where products have been perfected and sufficiently standardized. As more firms enter the market, price competition forces them to establish manufacturing facilities in other high-income countries, to serve foreign markets with local production. Recent technological developments in industrializing countries are forcing firms to bypass this stage and directly move to the next stage.

Stage 3: Standard product: Heavy price competition characterizes the standardized product stage. The emphasis on price compels firms to move production to low-cost countries. The home market and other high-income countries are served by exports from these locations.

The three-stage international product life cycle is a useful model that explains internationalization of firms for the 20-year period following World War II. Technological developments, however, have accelerated the life cycle of products, where most products become obsolete much faster. Furthermore, the world has become an integrated market that requires mass customization of products to meet individual needs. This brings us to the fourth stage.

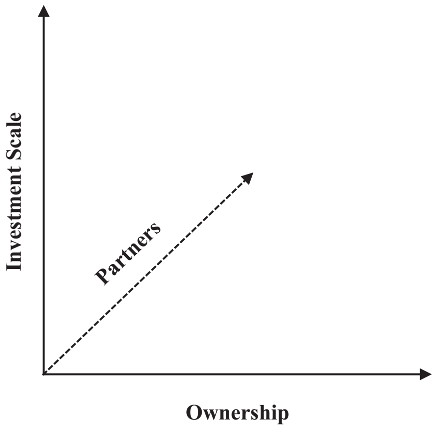
Stage 4: International product: According to Adler and Ghadar, we are in the fourth stage of the international product life cycle. This stage is characterized by technological diffusion, high costs of research and development, global market, mass customization of products, and intense competition among firms from developed and newly developing countries.

In the first three stages, internationalization was in response to specific needs, such as market extension or low-cost production. Adler and Ghadar's argument implies that in the fourth stage, firms go international because the line between domestic and foreign markets, for many manufactured products, is blurring. By the fourth stage, the global market is the source of new technology, capital, and other factors of production at low costs. Internationalization is not an extension of the previous stages but a stage unto itself. It is the diversity and resources of the global market, the immense consumer base, and the necessity of tapping them that instigate FDI and international trade. Due to the unique characteristics of this stage, global operation is the only answer to the pressure of intense competition. As Adler and Ghadar [41] assert,

> [In the fourth stage,] … top-quality, least-possible-cost products and services become the minimally acceptable standard. Competitive advantage comes from sophisticated global strategies based on mass customization. Firms draw product ideas, as well as the factors and locations of production, from worldwide sources. Firms tailor final products and their relationship to clients to very discrete market niches … the product, market, and price orientations of prior phases almost completely disappear, having been replaced by a strategic orientation combining responsive design and delivery with quick, least-possible-cost production … (At this stage) strategic orientation requires firms to develop global R&D, production, and marketing networks. (p. 189)

The preceding discussion highlighted various reasons and motivation for the internationalization of the firm. We should add, however, that rarely is the decision to expand abroad based on a solitary reason or motive. The search for enhancing competitive position entices firms to explore global opportunities. The more adaptable and successful firms usually dare to venture into uncharted waters of the global market. Once there, through the first-hand experience, they learn about the expanse of the market and the variety of choices. The wide range of opportunities creates many more reasons to expand further.

Fig. 1.5 Dimensions of international business involvement



Types of International Business Operations

The internationalization process covers a variety of transactions and activities. Imports and exports are two of the simplest forms of international business. The most complex form is managing FDI abroad. These activities can be differentiated based on the perspective of the activities or the types of investment commitment [42, pp. 3–6].

Perspectives of International Business Activities

International business activities can be viewed from two different perspectives: (1) inward looking and (2) outward looking. These two perspectives are the mirror images of each other.

Inward looking: The inward-looking perspective covers a range of transactions that starts from a foreign location and ends up at home. It consists of imports at one end and the management of a wholly-owned foreign subsidiary at the other end.

Outward looking: The outward-looking activities have their beginning at home and the ending at a foreign market. Export is the least demanding of the outward-looking transactions, while establishing operational facilities in a foreign country is the most difficult one.

As mentioned above, the firm's internationalization process begins when it starts to buy from or sell to foreigners. The most serious aspect of the process, however, does not start till the firm commits resources to international activities. The type of foreign investment commitment that a firm may make to international business could be analyzed across three dimensions (Fig. 1.5):

1. Scale of investment
2. Ownership arrangement
3. Type of partners

Investment scale could be small or large. An example of small investment is that of opening a sales office abroad for exporting. Establishing a full-scale production facility abroad is an example of a large-scale investment. The ownership level could vary from minority ownership to wholly-owned operations. Partners in an international business could be from local public, local government, or private entities or from other foreign firms [41, p. 6]. MNCs may choose a combination of these alternatives in their quest to capitalize on the global opportunities available to them.

Direct Investment

There are various options for business expansion beyond the home country market. When a firm explores whether to expand abroad, the first choice and the simplest is export and its mirror image, import. The most demanding and complex form of international business operation is a direct investment in the host country, which is called FDI.

FDI involves the ownership and management of physical facilities for producing goods in foreign countries. FDI could be a part of the overall strategy of the firm or may be due to trade restrictions imposed by foreign governments. To overcome these restrictions, MNCs find it advantageous to invest directly in a country and establish a subsidiary. When a firm establishes production operation abroad, it creates a long-term commitment and obligation and assumes the associated risks and rewards. Having physical facilities, such as the operation of a mine, manufacturing plants and equipment, and real estates, requires a higher level of financial and human resource commitment. The firm must contend with foreign governments, their policy changes, and local market forces to reap the benefits of operating internationally.

The size and scope of FDI and the choice of strategies for expansion abroad create different types of international firms. These firms may be referred to as international, multi-domestic, multinational, transnational, and global. Different scholars have used each term to refer to a specific type of international firm. In this book, we generally use the term *international* for all firms that expand abroad and cross the boundaries of their domestic market. For "industry" identification, however, we distinguish between multi-domestic, international, and global industries. We will discuss the differences among them in the chapter on international strategic planning. At this point, it is enough to know that global firms are those enterprises that operate at the global level and treat the whole world as one market.

New Trends in International Business

A couple of decades ago, only large and very resourceful firms could operate successfully at the international level. While still many international businesses involve large-scale operations, recent improvements in technology, transportation, and communications and the advent of the Internet have made the size of operations less relevant.

Small and new/unestablished companies are using new technologies or innovative ideas to expand their business internationally. The success of small and new firms is not limited to any particular industry or market. It doesn't necessarily have to be a high-tech industry where these firms can apply new technology to expand businesses globally but can be a service industry (e.g., hospitality). For example, the following concept totally transformed the way of business and global expansion: "You do not have to have a store, taxi or hotel for your retail, taxi and lodging business." **Amazon.com**, as mentioned earlier, is an online marketplace where businesses (buyers) can sell (buy) products online. The utilization of the Internet and its business platform allows the prompt global expansion without the establishment of physical stores. Another example is **Uber Technologies, Inc.** Uber is known as a global taxi technology company providing a technology platform to allow customers to receive easy and reliable access to a ride using their mobile phone [43]. Although the firm was established in 2009, its first international expansion was done in 2011. As per its company website (www.uber.com), the taxi service is now available in more than 80 countries (as of January 2018). Similarly, **Airbnb Inc.** hosts an online marketplace and hospitality service where guests can book accommodation from a verified list of hosts. Thanks to its business model related to a technology platform that facilitates hospitality arrangements between hosts and guests, the firm was able to quickly expand its service globally over 191 countries.

Although they are all working in different industries, these firms have in common: They were relatively new and unestablished firms when they were engaged in international business, but they achieved global expansions very quickly from their inception. These firms are known as a "Born Global" company that can be defined as business organizations engaging in international business from their inception (or near their establishment) for seeking superior performance [44]. This newer form of organization, which from its inception caters to the world market, is discussed in the later chapter on the organizational structure of an MNC.

One of the significant drivers of their prompt global expansion (albeit less-experienced) is applicability of their knowledge/concept and technology into different markets. Most of the US management know-how, if modified properly, is transferable to other environments. The assumption of universality of management concepts and practices, however, could result in utter failure in international business. For instance, when Uber enters a new market, the firm oftentimes ignores local regulations relating to the issues of local market competition and consumer protection and begins operating its service. Similarly, Airbnb has also been accused of failing to comply with the local regulatory framework identifying that hosts are not officially regulated lodging providers [45]. So it is critical for firms for their success to understand local market differences and better leverage their international management skills (e.g., redefine, modify, and reapply their business model). Knowing the difference between international business and international management is probably the first step. International business deals with business activities and transactions that are carried out across two or more national borders. The management of organizations that are involved in international business is called international management. In this sense, international management involves greater environmental diversity, complexity, and uncertainty than managing domestic operations. Social, political, legal, economic, and cultural variations of multiple environments require more careful planning and preparation and also a greater diligence in implementation and control.

When a firm ventures abroad into international business, it leaves behind the familiar and tested business practices. Everything about the forces that govern the market has to be learned anew. The consumers, competition, suppliers, government, labor market, capital market, and, above all, culture are unfamiliar. While a domestic firm has to deal with only one set of rules regarding market forces, an international operation requires an understanding of the interaction between all these forces in multiple markets. Moreover, international business, especially in developing countries, may offer attractive market opportunities and significant profits, but it also presents many unexpected challenges such as disease, civil unrest, difficult living conditions, impossible bureaucracies [46], and terrorism [47, 48, 49].

In the following pages, we will examine the outstanding features of managing international business operations that distinguish them from domestic businesses.

Major Elements of Managing International Business Operations

The management of international business is very similar to, and very different from, the management of domestic business. The management of international business and that of domestic operations are similar in that both require the attainment of organizational objectives through coordination of activities and utilization of resources. They are different because of the differences in their respective environments and cultural settings. These differences increase the costs and the risks of operating far-flung foreign operations [50].

The difference is also due to managerial attitudes and mentality. International business has a multi-environment, multicultural framework. The cultural and environmental diversity adds more complexity and uncertainty to international business. This makes the management of such an operation more difficult. Three factors make the management of international business difficult:

1. Management view of international business
2. Host country environment
3. MNCs and host government relationships

The difficulty of managing an international business operation is also due to a mismatch between the managerial mentality and the progression of business from a domestic to an international position. When expanding from a domestic position to an international status is not accompanied by a commensurate change in managerial mentality, the firm may not succeed in international competition. For example, a firm that has expanded to different markets and is dealing with the people from different cultures no longer can operate with the mentality of a domestic company.

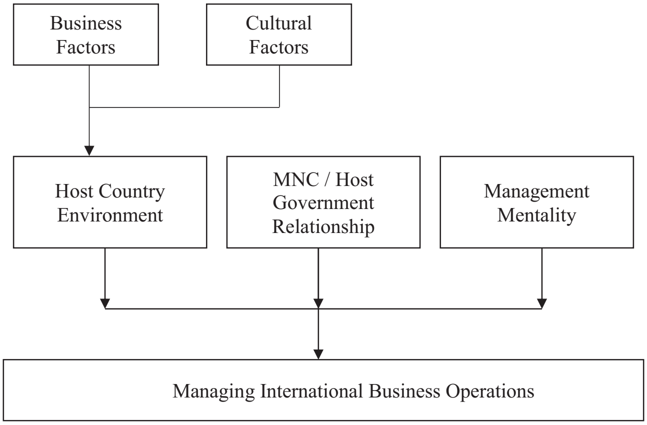


Fig. 1.6 Major element of managing international business operations

Ignoring the expanded role of the firm as a corporate citizen of multiple countries results in a tarnished image and operational restrictions. The consequences may ultimately be failure (Fig. 1.6).

Management View of International Business

In the past, some scholars have suggested that the truly international firms could offer the best hope for creating world peace and improving the economic conditions of the people. They were asserting that such firms, with supranational frameworks, could conceivably make wars less likely, on the assumption that bombing customers, suppliers, and employees is in nobody's interest [51]. We are now witnessing the emergence of such supranational firms that could rightly be called global. The executives of these firms have a global view and mentality. They focus on worldwide objectives, as well as local objectives. They are globally integrated and locally responsive. The relationship between headquarters and subsidiaries is based on mutual understanding and support. Subsidiaries are neither satellites nor totally independent. They always ask the question, "Where in the world shall we raise money, build our plant, conduct R&D, get and launch new ideas to serve our present and future customers?" [51, p. 13]. Globalization is rendering the traditional way of doing business, and along with it, the parochial mentality, irrelevant. To be globally competitive, managers need to develop a global perspective [52].

Of course, not all the firms that are engaged in international business have developed a supranational framework and mentality. There appears to be an evolutionary pattern of internationalization that determines executives' state of mind. This state of mind has to do with the attitude of the executives toward foreign people, ideas, and resources, at home and abroad. This attitude not only differentiates between the executives of international and domestic firms; it also differentiates among executives of MNCs.

Perlmutter proposed that the degree of internationalization of a firm could be estimated by the mentality and orientation of its executives [51]. He identified three states of mind or attitudes toward key decisions on products, functions, and geography. By supplementing the three-stage framework identified by Perlmutter [51] with ideas presented by others (Refs. [53, pp. 71–86] and [54, pp. 11–14]), the evolutionary process of multinational firms and their executives' mentality could be categorized into four stages. The four stages are *ethnocentric* (or home country mentality), *polycentric* (or host country mentality), *centocentric* (or classical global mentality), and *geocentric* (or supranational mentality). They represent the managerial mentality and attitudes of MNCs.

Ethnocentric Mentality

The ethnocentric firm views foreign markets as an extension of the domestic market. It treats everything from the home country as superior and everything foreign as inferior. Products are produced for the home market and are exported abroad as an additional source of revenue. The firm headquarters and affiliates are identified by the nationality of the home country. Key managerial positions, both at the headquarters and at the subsidiaries, are reserved for home country executives. A foreign assignment is not considered a very desirable appointment and does not advance the professional career of a manager. In short, an ethnocentric firm views itself as a domestic firm with foreign extensions.

Polycentric Mentality

In a polycentric firm, the prevailing attitude is that foreigners are different and difficult to understand. The assumption, therefore, is that the management of foreign affiliates should be left to local people. Products are produced for local consumption in facilities that are operated by host country personnel. Headquarters' control is exercised through financial reports. The firm could best be characterized as a confederation of loosely connected, semiautonomous affiliates.

Although on the surface it may appear that a polycentric firm operating in multiple markets and acting as a local company in every market is a highly internationalized enterprise, this is far from the truth. In a polycentric firm, local managers are not treated as equals to home country managers and are considered somewhat less trustworthy and competent. They cannot aspire to a high-level executive position at the headquarters. Consequently, local managers, who detect the ignorance of local conditions at the headquarters in the management of subsidiaries and resent the treatment they are receiving, are pulled into a virulent ethnocentric mentality.

Centocentric Mentality

The local responsiveness of polycentric firms results in inefficient operations. Attention to local markets and the demands of local governments creates a system within each subsidiary that ignores internal market opportunities. Manufacturing facilities are often underutilized, and the full benefits of economies of scale are not realized.

Decreasing trade barriers and improvements in telecommunication technologies and transportation allow the use of classical global strategies, viewing the world as one market. We label such an attitude centocentric. Treating the world as one market enables the firm to take advantage of economies of scale in the design, manufacturing, and marketing of products and in research and development. Quite often, products are designed and manufactured at home for the world market. A centocentric firm assumes that nations are more similar in tastes and preferences than they are different. The assumption is that the differences could be made inconsequential by providing better-quality products at lower prices compared with domestic products. Therefore, uniform products could be produced at centers for distribution to all. Centocentric firms require more central control than others. Headquarters maintains control by assigning products or business managers with global responsibilities. The firm is still identified with the home country, and business managers are home country nationals, as are other key executives. The home country culture and the culture of the headquarters permeate the firm and all the subsidiaries. Only local managers who identify with the dominant culture of the headquarters are promoted to key positions. Important strategic decisions are made at the headquarters, and subsidiaries are expected to implement them.

Geocentric Mentality

The success of centocentric MNCs and the power they exert on the local market cause resentment and apprehension. Central control over subsidiaries that dictates major decisions from the home office and identification with the home country produce additional concerns. To offset the perceived power and control exerted by global firms on the local market, host governments are restricting their operations. They also pressure MNCs for more local investment and technology transfer by enacting local content laws. Some governments demand changes in MNCs' personnel policies to allow for local representation in managerial ranks. Moreover, the global market is proving to be more heterogeneous than centocentric MNCs had assumed. The volatility of the global economic and political environment is another reason for global firms to become locally responsive. Add to all this the improvements in manufacturing technologies that have enabled more efficient flexible manufacturing and smaller batch production, and the stage is set for localized strategies.

There are two simultaneous demands on global firms. On the one hand, they are expected to be locally responsive. On the other hand, maintaining worldwide competitiveness requires a higher degree of efficiency, which is possible only with a globally integrated operation. This gives rise to emerging geocentric firms. Geocentric firms view themselves as global companies with no geographic center, in which no nationalities dominate. Viewing the world as their home, geocentric firms strive for flexibility and efficiency globally. Successful geocentric firms think globally and act locally. They integrate an interdependent network of decentralized and specialized companies worldwide. Perhaps the best way to describe a geocentric firm is to look at the operation of one. An example of a geocentric firm is Asea Brown Boveri (ABB), a global electrical systems equipment company [55]. ABB started as a Swedish firm that later merged with a Swiss company and made Zurich its headquarters. The chief executive officer (CEO) of the company described the ABB as follows [56]:

> ABB is a company with no geographic center, no national ax to grind. We are a federation of national companies with a global coordination center. Are we a Swiss company? Our headquarters is in Zurich, but only 100 professionals work at headquarters and we will not increase that number. Are we a Swedish company? I'm the CEO, and I was born in Sweden, and only two of the eight members of our board of directors are Swedes. Perhaps we are an American company. We report our financial results in U.S. dollars, and English is ABB's official language. We conduct all high-level meetings in English.
>
> My point is that ABB is none of those things—and all of those things. We are not homeless. We are a company with many homes. (p. 92)

MNCs and Host Government Relationships

The relationship between business and government has always been an area of considerable concern. Governments in their quest for economic development and social programs enact regulations that may restrict business activities or affect earnings. Often, government economic policies and social agendas do not coincide with the goals and objectives of business. Particularly, governments are skeptical of the foreign subsidiaries, which are controlled by the headquarters outside the country. Influencing the strategies of such foreign affiliates is not as easy as influencing those of domestic firms. Governments can, nonetheless, affect the local subsidiaries of MNCs through their public policy decisions. In dealing with MNCs, the sovereign power of a government renders objections from MNCs mute. This is not to say that governments always have an upper hand in their dealing with MNCs. Usually, the ability of integrated MNCs to acquire capital, material, technology, and labor globally reduces the effectiveness of most government policies.

Global Regulator?

The recent dynamism of global finance has been attributed to fewer regulations on the movement of capital across borders. Capital has been free to move where it could produce the highest return. As a result, most countries have improved their regulations to attract mobile capital. This has produced the convergence of regulations around common international standards. But certain problems remain. National regulatory agencies are no match for global financial firms such as the General Electric Capital, Citigroup, or Deutsche Bank, which operate at the global level. Also, there are too many national and local regulators, particularly in the United States, with no agreement among them. The idea of a single global regulator is on no one's agenda. What the regulators want is the guarantee that good information is available about the state of global markets and about financial firms' global operations.

The three multinational institutions, the International Monetary Fund, the Bank for International Settlements, and the Financial Stability Forum, play an important role in advancing the idea of a single global regulator. But there is no consensus on what should be regulated. Until now, America's awkward regulatory system does not seem to have delayed the development of its markets, but in the long run, it may prove costly if the EU succeeds in fully integrating its capital markets and introducing appropriate regulation. In fact, it is possible that pressure from the EU will help make the US regulations uniform and advance the idea of a global consensus on the issue (adapted from Ref. [57]).

Host governments would like foreign firms to invest in the country, create jobs, facilitate technology transfer, and help with the balance of payment through exports. Foreign firms with limited operations abroad are forced to comply with government policies more readily. Their subsidiaries can comply more easily because they do not face the conflicting demands of multiple governments. But integrated MNCs, due to the nature of their operations, may not be able to respond favorably to host government demands. The demands of one government may differ from the requirements of another.

For example, many developing countries, to earn hard currency, are emphasizing on exports. To give in to the pressure by one government to increase exports is to jeopardize the relationship with others. Moreover, the flexibility of a globally integrated operation enables these MNCs to withstand the demands of local governments by capitalizing on their internal market. Globally integrated MNCs could supplement the operational restrictions imposed on them in one country with increased business in the other countries.

The foregoing argument may give an exaggerated impression of the power and flexibility of globally integrated firms. Host government relationships with MNCs are very complex and do not lend themselves to simple generalizations. For instance, it is true that reallocation of resources among subsidiaries, shifting of production between various locations, and the use of the firm’s internal market are very effective tools for foiling unfavorable policies of the host government. If a host government applies serious pressure on the MNC to severely hamper its business, the MNC’s choices are not many. The size of investment and the commitment of the MNC to a host country reduce its flexibility. FDI in plants, production equipment, and physical facilities that are not readily mobile reduces the flexibility of integrated strategies, at least in the short run. In the short run, accommodating the host government may be a wise choice.

Host government subsidies to domestic firms, or the use of the government’s purchasing power to give preference to domestic firms, could create unfavorable business conditions for MNCs. Changes in tax laws and labor laws, repatriation of profits, and a host of other regulations and restrictions are sources of additional risk. Political risk increases the cost of doing business abroad and makes FDI a challenging and demanding proposition. Foreign governments have had the history of such practices. The political risk of operating in a foreign country is a reality that MNCs have to deal with. A sudden and dramatic change in government policy toward FDI, though less frequent in recent years, is a distinct possibility that MNCs have to consider when going abroad.

The most troublesome feature of managing across national borders is dealing with the public policies of the home government that are in conflict with host government policies. Complying with the policies of either government could create legal problems for the executives. Consider the quandary of Caterpillar executives during the construction of the Soviet pipeline to Western Europe in the early 1980s. The US government, to punish the Soviet Union for its expansionist policies, ordered Caterpillar to stop selling earthmoving equipment to the Soviet Union. Caterpillar executives complied and stopped shipping equipment from the Peoria, Illinois, plant. The French subsidiary of Caterpillar, however, under the order of the French government, continued delivery of equipment to the Soviets. Caterpillar executives, though following US policies, were not able to satisfy the mandate of the US government.

Host Country Business Environment

Besides the complexity of relationships with the host government, MNCs have to deal with the local workforce, domestic and international competition, and local suppliers and customers, which are different from those in the home country. Cultural differences are a major source of difficulty in managing a global firm. Faced with multiple cultures, MNCs have to adjust and adopt their managerial practices to accommodate the differences among various cultures. Fluctuations in the exchange rate create an additional burden for MNCs. These issues will be discussed in other chapters.

In short, managing an MNC is not managing a larger domestic firm. It involves a change in management mentality and greater attention to the requirements of doing business. The different requirements for managing global firms are a result of the multiple environments of foreign countries and the additional complexity of operating across national borders.

Chapter Summary
This chapter explained why international business and management are important to us and why we should learn about them. It was suggested that the prolonged peace after World War II has changed the nature of international rivalry. The diminishing threat of large-scale military conflict between the superpowers has shifted the emphasis from military supremacy to economic competition. The changing attitudes of nations toward global relationships facilitate increased international business. Therefore, understanding of the concepts and theories of international business and management has gained added importance.

To learn about international management, the question of why businesses go international was examined. Included in the examination were theories of international trade, theories of FDI, and international product life cycle.

International business operation covers a spectrum of activities, ranging from exporting to direct investment. Various types of international business operations were described. It was proposed that management of these varied business operations is not the same as that of domestic business. The differences between international management and management of domestic business are due to the complexity of the international environment. Internationalization of the firm involves not only the expansion of the operations abroad but also a change in management mentality. The management view of international business is categorized into four stages: ethnocentric, polycentric, centocentric, and geocentric.

The business-host government relationship is a major source of difficulty for MNCs. The flexibility and resourcefulness of integrated global firms, when paired with the sovereign power of host governments, create a challenging and demanding proposition for management. Other factors that make international management different from managing domestic operations are cultural differences and currency exchange fluctuations. These issues will be covered in other chapters.

Discussion Questions

1. Why is it important to learn about international management?
2. What factors contribute to the increased role of international business in our lives?
3. Explain the reasons for firms' international expansion.
4. Raymond Vernon proposed a three-stage international product life cycle. Describe these stages. Adler and Ghadar suggested the addition of a fourth stage. What are the characteristics of the fourth stage?
5. What is the difference between the inward-looking and outward-looking perspectives of international business?
6. How many different types of international business operation can you identify? Describe in detail a major international business operation.
7. Describe international management.
8. In what ways are international management and the management of domestic operations similar? What are their differences?
9. The author asserts that a major differentiating factor among executives of domestic businesses and those of MNCs is managerial mentality (their view of business). This attitude also differentiates among MNC executives. Explain the four stages of managerial mentality.
10. Why do host governments have less influence on integrated global firms?
11. The relationships between the host government and MNCs are more complex than government-domestic business relations. Why?
12. What aspects of international business are affected by the Internet?
13. Review the vignette of this chapter more carefully, and explain the problems of the global wine industry. Use library resources and other material to elaborate on these problems. Explain how international business is transforming the industry and forcing it to consolidate.

References

1. Echikson, W., Balfour, F., Capell, K., Himelstein, L., & Khermouch, G. (2001, Sept. 3). Wine war. *BusinessWeek*, pp. 54–60.
2. (2006, May). This moment in history. *Smithsonian, 37*(2), 36.
3. Ehrlich, R. (2006, Jun. 18). My round; California vs France: The great wine war. *Independent on Sunday (London)*, p. 49.
4. Meltzer, A. H. (1991). U.S. leadership and postwar progress. In *Policy implications of trade and currency zones* (pp. 237–257). Kansas City, MO: Federal Reserve Bank of Kansas City.
5. U.S. Department of Commerce, Bureau of Economic Analysis. (1966–1992 and 2000). *Survey of current business*. Washington, DC: Author.
6. U.S. Government Printing Office. (2004). Economic report of the President. In *Executive Office of the President and the Council of Economic Advisors*. Washington, DC: Author.
7. Minor, M. (1990, Sept.). Changes in developing country regimes for foreign direct investment. *Essays in International Business, 8*, 30–31.
8. Xiaoying, L., & Xiaming, L. (2005). Foreign direct investment and economic growth: An increasingly endogenous relationship. *World Development, 33*(3), 393–408.

9. Encarnation, D., & Wells, L. T., Jr. (1985). Sovereignty en garde: Negotiating with foreign investors. *International Organization, 39*, 47–78.
10. Lecraw, D. J., & Morrison, A. J. (1991, Sept.). Transnational corporation-host country relations: A framework for analysis. *Essays in International Business, 9*, 29.
11. Lee, X. E. (2018, Apr. 3). What is the TPP? *CNBC*, from https://www.cnbc.com/2018/04/03/what-is-the-tpp.html
12. Thomas, K. (2003). Geographic scales and the competition for economic growth. *American Behavioral Scientist, 46*(8), 15–17.
13. Lall, S., & Narula, R. (2004). Foreign direct investment and its role in economic development: Do we need a new agenda? *European Journal of Development Research, 16*(3), 447–465.
14. Mytelka, L., & Barclay, L. A. (2004). Using foreign investment strategically for innovation. *European Journal of Development Research, 16*(3), 531–561.
15. Zachary, G. P. (1998, Mar. 25). Dual citizenship is double-edged sword. *The Wall Street Journal*, B1, B2.
16. Thornton, E. (2001, Nov. 15). Remaking Nissan. *BusinessWeek*, pp. 70–76.
17. Saporito, B. (2005, Apr. 18). Howard Stringer. *Time, 165*(16), 73–74.
18. French, H. (2000). *Vanishing borders*. New York: W. W. Norton.
19. Hoper, L., & Miller, M. W. (1992, Jul. 13). IBM, Toshiba, Siemens form venture to develop DRAMs for next century. *The Wall Street Journal*, B7.
20. Tanouye, E., & Langreth, R. (1998, Feb. 2). Genetic giant: Cost of drug research is driving merger talks of Glaxo, Smith Kline. *The Wall Street Journal*, A1, A8.
21. Squeo, A. M., & Michaels, D. (2002, Jul. 22). Joint efforts: U.S. woos allies with unique deal on new fighter jet. *The Wall Street Journal*, A1, A10.
22. Qureshi, A. (1996). Globalization: New opportunities, tough challenges. *Finance and Development, 33*(1), 30–33.
23. McGowan, K. M. (1997). The effects of trade liberalization on consumer in flow, choice alternatives and redress. *Consumer Interests Annual, 43*, 183–185.
24. Ernst, D. (2002, May). *Digital information systems and global flagship network: How mobile is knowledge in the global network economy*. Working page no. 48, East-West Center, Honolulu, Hawaii.
25. Ostry, S. (1992). The domestic domain: The new international policy arena. *Transnational Corporation, 1*(1), 9.
26. Karmin, C. (2001, Aug. 20). What in the world? Global shares may leave obscurity. *The Wall Street Journal*, C1.
27. Overby, J. W., & Min, S. H. (2001). International supply chain management in an Internet environment: A network-oriented approach to internationalization. *International Marketing Review, 8*(4), 392–419.
28. Yip, G. S. (2003). *Total global strategy*. Upper Saddle River, NJ: Prentice Hall.
29. Fatehi, K. (1994). Capital flight from Latin America as a barometer of political instability. *Journal of Business Research, 30*(2), 187–195.
30. Fatehi, K., & Safizadeh, M. H. (1994). The effect of sociopolitical instability on the flow of different types of foreign direct investment. *Journal of Business Research, 31*(1), 65–73.
31. Giermanski, J. (2006, Feb.–Mar.). Boxing clever. *Cargo Security International*, 40–44.
32. Hitt, G., & Ellison, S. (2006, Mar. 9). Dubai firm bows to public outcry. *The Wall Street Journal*, 1.
33. Tucker, P. (2006). Redefining national security. *Futurist, 40*(2), 6–7.
34. The Economist. (2004, Aug.). Doing business in dangerous places. *The Economist, 372*, 11. https://www.economist.com/leaders/2004/08/12/doing-business-in-dangerous-places
35. Busch, K. G., & Weissman, S. H. (2005). The intelligence community and the war on terror: The role of behavioral science. *Behavioral Science and the Law, 23*, 559–571.
36. Dunning, J. (1998). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*, 1–31.

37. Buckely, P. J., & Casson, M. (1976). *The future of multinational enterprise*. New York, NY: Holmes & Meier.
38. Vernon, R. (1980). *Gone are the cash cows of yesteryear* (pp. 150–155). Boston, MA: Harvard Business Review.
39. Watson, C. M. (1982, Jan./Feb.). Counter competition abroad to protect home markets. *Harvard Business Review,* 40.
40. Vernon, R. (1966). International investment and international trade in the product cycle. *Quarterly Journal of Economics, 80*(2), 190–207.
41. Adler, N. J., & Ghadar, F. (1990). International strategy from the perspective of people and culture: The North American context. In A. M. Rugaman (Ed.), *International business research for the twenty-first century* (pp. 179–205). Greenwich, CT: JAI Press.
42. Beamish, P. W., Killing, J. P., Lecraw, D. J., & Crookell, H. (1991). *International management* (pp. 3–6). Homewood, IL: R.D. Irwin.
43. Hoffman, A. (2016). *Uber and the sharing economy: Global market expansion and reception* (pp. 1–8). University of Michigan: WDI Publishing.
44. Knight, G. A., & Cavusgil, S. T. (2004). Innovation, organizational capabilities and the Born-Global firm. *Journal of International Business Studies, 35*, 124–141.
45. Hidetoshi Takada. (2017, Dec. 1). Tokyo condos shut doors on Airbnb and other vacation rental business. *The Japan Times, News.*
46. Hammond, D. (2001, May 31). Dangerous liaisons. *People Management*, pp. 24–29.
47. Klein, K. E. (2005, May 12). Big concerns of small business. *BusinessWeek*. Retrieved July 9, 2005, from www.businessweek.com/magazine/content/05_12/html
48. Ali, A. J., & Prashanth, N. (2002). The virtue of the liberating spirit: Positive response to violence and terrorism. *Competitive Review, 12*(1), i–iv.
49. Addison, T., & Mansoob, M. S. (2005). Transnational terrorism as a spillover of domestic dispute in other countries. *Defense and Peace Economics, 16*(2), 14–18.
50. Ghemawat, P. (2001, Sept.). Distance still matters. *Harvard Business Review*, 137–147.
51. Perlmutter, H. V. (1969, Jan.–Feb.). The tortuous evolution of the multinational corporation. *Columbia Journal of World Business*, 9–18.
52. Kedia, B. L., & Mukherji, A. (1999). Global managers: Developing a mindset for global competitiveness. *Journal of World Business, 34*(3), 230–251.
53. Heenan, D. A., & Perlmutter, H. V. (1979). *Multinational organizational development*. Reading, MA: Addison-Wesley.
54. Bartlett, C. A., & Ghoshal, S. (1992). *Transnational management* (pp. 11–14). Homewood, IL: Richard D. Irwin.
55. Morias, R. C. (2000, Jan.). ABB reenergized. *Harvard Business Review*, 47–48.
56. Taylor, W. (1992, Mar./Apr.). The logic of global business: An interview with ABB's Percy Barnevik. *Harvard Business Review*, 92.
57. The Economist. (2002, May 18). The regulator who isn't there. *The Economist*, pp. 12–16.

2 Socio-Ethical Issues and International Management

Businesses are expected to be socially responsible and conduct themselves ethically. While there are some emerging agreements, at least in the United States, regarding the social responsibilities of domestic firms, social responsibility and the ethical aspects of international management are being hotly debated.

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_2

Disagreements arise due to the nature of international business and the different perspectives that nations hold regarding these issues. National priorities and cultural differences confound the problems further. This chapter examines these issues and highlights these differences.

The major topics covered in this chapter are the problems of corruption and bribery and their effect on international management, the ecological aspects of international business, the special concerns of developing countries, the problems of expanding free trade, and the backlash against globalization. In this chapter, we also discuss the role of supranational organizations, such as the World Trade Organization (WTO), the United Nations (UN), the International Monetary Fund (IMF), and the World Bank, in resolving international trade disputes and promoting global prosperity.

Overview

Chapter Vignette: Banana Bribes

Chiquita Brands International, formerly the United Brands Company, has a corporate responsibility officer. Its plantations are certified according to the dictates of Rainforest Alliance, a New York-based, international conservation organization with the mission to protect the ecosystem and the wildlife and the people that live within it. Chiquita has a 6-year, $20 million environmental improvement campaign. It has come a long way from its tainted past. The company has played a huge role in the economics, politics, and natural environment of Central America for a century. According to the news media, United Brands used bribery to get favorable terms, disregarded the natural environment, fomented wars, and helped overthrow governments to increase its profits.

It was in the mid-1970s that the major misdeeds of United Brands were made public. In 1974, when an attempt was made by the seven banana-producing countries to increase the price of exported bananas, the company reacted surreptitiously. The participating countries were Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua, and Panama. They wanted to establish the Organization of Banana Exporting Countries (OBEC), a banana cartel modeled on the Organization of Petroleum Exporting Countries (OPEC). At that time, banana production and export were controlled by the big three fruit firms, United Brands Company, Standard Fruit Company, and Del Monte Corporation, and prices had not been increased for nearly 20 years. The objective of the seven countries was to fix the price and curtail the production of exported bananas.

While the attempt failed, each country began imposing its own export tax on bananas. These taxes and the increased labor costs would add nearly $19 million to United Brands's expenses annually. Soon after, United Brands made a secret deal with the Honduran government to reduce the banana tax. In exchange, a payment of $2.5 million was made to the Honduran minister of economy.

It was during the investigation of the Watergate scandal that the story of the bribes and the involvement of top executives of United Brands became public. It was disclosed that in addition to payments to banana-exporting countries, United Brands had paid $750,000 to the Italian government officials. Concerns over these bribes and other similar cases of corporate corruption led to the passage of the Foreign Corrupt Practice Act of 1977. A sad note on the misdeeds of United Brands: on February 3, 1975, United Brands's CEO, Eli Black, distressed over the publicity surrounding the payoffs, jumped to his death from his 44th floor office [1–4].

Introduction

Corruption, bribery, and the demand for large illegal payoffs are not uncommon in the international marketplace. While some cases of misdeeds receive wide publicity, many others go unnoticed. Besides grand briberies, there is widespread petty corruption perpetuated by the functionaries at the lower levels of many government institutions. With the rising volume of international trade and increased interdependencies among nations, corruption and bribery are but two of the many socio-ethical issues that international managers have to deal with. Additionally, international managers are faced with many ecological problems stemming from worldwide industrial activities that threaten life on Earth.

No other issues are more challenging to international managers than socio-ethical and ecological problems. The complexity and interdependency involved in the operation of multinational corporations (MNCs) spill over into the area of social responsibility as well. While the impact, obligations, and responsibilities of a domestic business are limited to its home environment, those of MNCs cross national boundaries and create a web of interdependent and often conflicting responsibilities that are not easily resolved.

Often, what appears on the surface is far from the actual reality. Each subsidiary, for example, is governed by the laws, customs, norms, and business practices of the host country. As long as a subsidiary is able to operate independently of other subsidiaries, it can meet its minimal legal, ethical, and social responsibilities by observing the local standards. Of course, these standards govern overt behavior, leaving covert behavior to the conscience of the manager. The dilemma that international managers experience stems from the interdependency of MNC operations. Actions and decisions by a subsidiary in one country may have repercussions for the rest of the MNC. Further complications arise from the differences in norms and standards of behavior, in general, and managerial behavior, in particular.

Not only are there no clear answers to most international ethical dilemmas; there are no commonly accepted bases for resolving many of the legal problems of MNCs as well. This does not mean that there is no order in international business and that international management operates chaotically. It, however, means that for international management, there is a wider area of potential misunderstanding, disagreement, and dispute. Recently, much progress has been made in establishing standards and codes of conduct to govern MNCs' operations globally. In what follows, we will review the problem areas and discuss the efforts that could lead to their resolution.

Social Responsibilities of MNCs

The term *corporate social responsibility* (CSR) refers to the obligations of business organizations toward society. Society allows organizations to operate within certain parameters. These parameters are defined by society and, therefore, may vary across nations. The variations, however, are typically not in substance but in procedures. Business is expected to operate in a manner consistent with society's interests. This is true for all nations and all businesses; MNCs are no exceptions. In the United States, while some believe that the social responsibility of business is limited to the economic sphere, the majority accept that business has noneconomic obligations as well. Although the domain of corporate social responsibility is not very well-defined, there are certain areas of agreement. For instance, in addition to providing employment for people and goods and services to consumers, business is expected to help preserve the environment, sell safe products, treat its employees equitably, and be truthful with its customers. In some cases, business is also expected to train the hardcore unemployed, contribute to education and the arts, and help revitalize urban slum areas [5, p. 64].

Obviously, there is lack of agreement, even *within* a given society, about what an organization's social responsibilities should be, and even beyond the ambiguities in domestic corporate social responsibility, there are uncertainties regarding the social responsibility of MNCs. The uncertainties are due to the differences in norms and value systems with which the MNCs must deal when they conduct business in different countries, not to mention the variations in political and economic systems that they face. The uncertainty is also partly due to the fact that for domestic businesses, certain implicit and explicit codes of conduct guide managerial decision-making, while there is much less guidance in the international arena. Although a few international organizations have issued guidelines for some aspects of MNC activities, other aspects are very much open to the discretion of individual firms. Additionally, unique MNC characteristics are a confounding factor. The operation of an international firm spans the globe and transcends national boundaries. As De George [6] puts it:

> A global company internalizes the worldwide division of labor and stands ready to move its operations as necessary to take advantage of lower wages, attractive interest and tax rates, and of available resources. Such companies loosen their national roots and identification, and assume a global stance … they owe primary allegiance to no particular nation. American workers have no special claim on the jobs such companies make available; and their owners are as likely to be non-American as American. Although we can still speak of Ford, General Motors, IBM, Hewlett-Packard, and Johnson & Johnson as American corporations, the sense in which they are American is becoming more and more tenuous…. As the corporate ability to escape national constraints increases, the need for multinational and global restraints becomes more pressing. (pp. 3–4)

And at present, due to the lack of global constraints and guidelines, MNC executives are forced to rely more on personal judgment and corporate policies. Many MNCs develop and publish some sort of social responsibility report, which gives an overview of the social and environmental programs in which they are involved [7].

While it is very difficult to make any definitive statement on what precisely MNC social responsibility is and how it should be determined, certain positions are emerging. These positions are discussed below.

The Stakeholder Perspective

One way of analyzing MNC social responsibility is the stakeholder approach. Similar to a domestic firm, an MNC has stakeholders, whose prosperity and fortune are directly tied to the operation of the company. Actions taken by the company will have a direct impact on its stakeholders.

The major stakeholders of a typical firm are stockholders, customers, suppliers, creditors, employees, the community within which the firm exists and from which it draws its inputs, and the general public. The firm, be it domestic or international, is answerable to its stakeholders. Each stakeholder expects, and often demands, that the firm satisfies its claim in a responsible manner. Stockholders want higher returns on their investment in the firm. Customers want good-quality products that are worth their money. Suppliers depend on the firm for their continued operation and are interested in a dependable business partner. Creditors want the firm to safeguard their capital with sound business practices. Employees want jobs that are economically and psychologically rewarding and secure. The local community expects the firm to act as a good neighbor and to be a responsible member of the community through its participation and contributions to various civic causes and activities. The general public is interested in the firm's continuous contributions to society as a whole and in its assumption of a fair share of the burden of government and society. The general public also wants the firm to safeguard the ecosystem through environmentally safe business practices.

In addition to the above list, the stakeholders of a typical MNC include the host governments and nongovernmental organizations (NGOs). NGOs expect that MNCs will safeguard the natural environment, act with integrity, be fair to all with whom they deal, help poor countries, respect human rights, apply the same standards of conduct used at home to all other countries, and contribute to the economic development of the host countries. Host governments' demands include increased employment and advancement for locals, a fair share of taxes, transfer of technology, obeying of local laws and respect for local customs and culture, fair competition with local firms, and negotiation of equitable business agreements. Often, these claims are in conflict with one another. Satisfying one claim has an impact on others. Reconciliation of these claims is a difficult task. Table 2.1 summarizes the major expectations and demands of the stakeholders of MNCs.

For those aspects of the business that could reasonably be confined to a single nation, the social responsibilities of an MNC and a local firm are identical. There are, however, many facets of MNC operations for which a single-nation perspective is insufficient. Many business activities of MNCs are not limited to a single country. The impact of these activities spills over national borders. In pursuit of profit, plants are relocated, suppliers are replaced, and resources are reallocated, all of which may

Table 2.1 Multinational corporations (MNCs): stakeholders and their major demands

Stakeholders	Major demands
Stockholders	Increased profits, return on investment
Customers	Quality and safe products at reasonable costs
Suppliers	Continued good business relationships, prompt payment
Creditors	Ability to pay back debts, profitability, sound business practices
Employees	Higher pay, security, good and safe working conditions, good benefits, opportunity for advancement, no discrimination
The community	Benefits to the community, clean environment, philanthropies, community involvement, good citizenship, respect for local culture
General public	Good citizenship, trustworthiness, clean image
Nongovernmental organizations	Safeguarding the environment, acting with integrity, being fair to all, helping poor countries, applying home country standards abroad, contributing to the development of the host countries, respecting human rights, respecting local culture
Host governments	Employing locals, paying fair share of taxes, contributing to economic development of host country, technology transfer, training local personnel, obeying local laws and customs, competing fairly with local firms, equitable contracts

benefit one country while causing problems for others. From this perspective, MNC social responsibility is a broader, more complex concept than the social responsibility of a domestic business. The broader concept of an MNC's social responsibility embraces its world citizenship.

The World Corporate Citizen

Kenichi Ohmae [8] tells us that MNCs are operating in a borderless world: "Over the political map, the boundaries between countries are as clear as ever. But on a competitive map, a map showing the real flows of financial and industrial activity, those boundaries have largely disappeared" (p. 8). While local variations in tastes abound, information flow has transformed the people of the world into global citizens: They demand the best, and they buy from whoever provides the best products, be it an American, a British, or a Japanese firm. Supplying goods and services to these global citizens is the task of the increasing numbers of MNCs. These MNCs are "the world corporate citizens." If they owe primary allegiance to no particular country, they owe it to the people of the world and to "Mother Earth."

Ensuring that MNCs fulfill their social responsibility to the world community requires guidelines or a code of conduct, and it also requires some form of regulating and monitoring. Today, there exist no comprehensive guidelines governing the behavior of MNCs, and there is no global institution for monitoring them. Given the complexity of issues involved, it is doubtful that either will be developed soon. The monitoring aspect represents a less pressing problem. At present, national governments are doing this job. However, while developed countries are well equipped to monitor and force compliance, developing countries do not have the infrastructure to do so. In the absence of comprehensive guidelines, there are several institutions, both private and governmental, that have assumed a limited role in dealing with the conduct of MNCs. An exception is the passage of the Tort Claims Act, which extends the jurisdiction of the US courts concerning human rights violations by

MNCs outside the United States [9]. Guidelines that have been established by these institutions cover many aspects of the conduct of MNCs. These guidelines vary in their specificity and scope, and some essentially express the "ideals" toward which a firm aspires. None contains exclusively or specifically ethical guidelines [6]. Often, compliance with these codes is voluntary or indirect.

Among the institutions that have assumed leadership in promoting ethical conduct and establishing codes and guidelines are the International Chamber of Commerce (ICC), the Organization for Economic Cooperation and Development (OECD), the International Labor Organization (ILO), and the UN Commission on Transnational Corporations (Fig. 2.1).

Most nations are members of these institutions. The membership of national governments in these institutions obligates the MNCs to comply with the codes. This is an indirect type of enforcement since there are no direct measures for ensuring compliance. The codes themselves deal both with the behavior of MNCs and the activities of national governments. The major areas that these codes cover are the relationship between national governments, the public, and the MNCs, environmental protection, consumer protection, employment practices, and human rights. MNCs are morally bound to recognize these codes and consider them in their international activities. The incentive to do so is both moral and economic [10]. Some researchers, among them McGuire, Sundgren, and Schneeweis, for example, have found a positive correlation between socially responsible corporate behavior and profitability [11].

While we do not have comprehensive guidelines for the conduct of MNCs, some scholars have specified certain kinds of MNC behavior as appropriate for the conduct of business in developing countries [12]. De George has suggested that MNCs should act with integrity in their dealings with the people of the world (Table 2.2). Acting with integrity necessitates taking six steps (Refs. [6, pp. 23–58] and [13, pp. 521–523]).

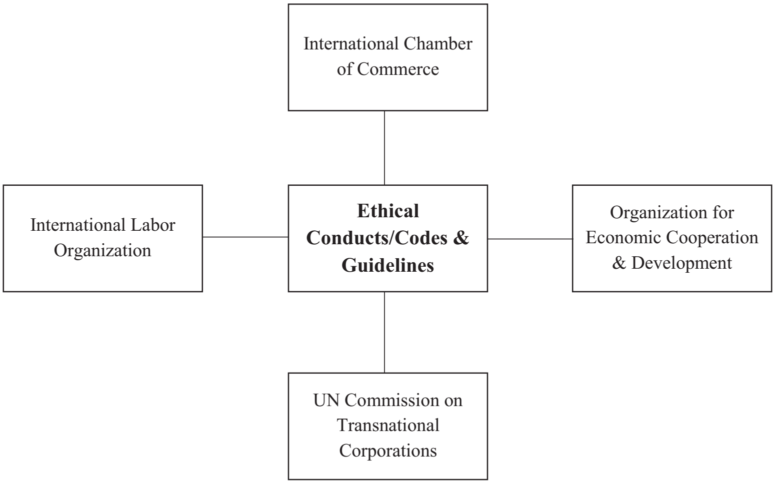


Fig. 2.1 Major international institutions promoting ethical conducts

Table 2.2 De George's six steps: MNCs acting with integrity in dealing with the people of the world

Steps/actions	Examples
First, MNCs should act in accord with their own self-imposed values. This cannot be less than an ethical minimum but may well exceed it	When abroad, apply the nondiscrimination policies of the home office. Neither give nor accept bribes
Second, in addition to satisfying the basic moral norms applicable everywhere, other equally obvious moral rules should be upheld	Do not use unfair business practices and your immense resources to hurt local firms
Third, the firm should enter into business agreements by building on these rules	Use integrative methods to negotiate business agreements that are fair and beneficial to both sides
Fourth, because developing countries are poor in background institutions (e.g., labor unions), MNCs have special obligations toward them	Assist locals in developing appropriate regulations, establishing nongovernmental institutions and labor unions
Fifth, the firm should consider the ethical dimensions of its actions, projects, and plans before acting, not afterward. This means that the ethical dimensions should be an integral part of strategic planning	Establish guidelines for supplier selection so that the pressure for lower costs does not lead to labor abuse by suppliers
Sixth, each person should be given his or her due	Be open and receptive to complaints from those affected and address their claims with justice

Source: Based on Refs. [6] and [13]

In general, these six suggestions to MNCs are applicable to all nations regardless of whether they are developing or developed countries. However, the pressures and expectations of social responsibility of MNCs have escalated, particularly when they operate in developing countries. This is because, as mentioned in Table 2.2 (i.e., the fourth suggestion), developing countries are poor in background institutions (e.g., infrastructure, labor laws, and environmental regulations), and MNCs are increasingly expected to fill in this gap [14].

To deal with the special case of developing countries, De George [13] suggests seven guidelines (pp. 521–523). These rules are not supposed to form an exhaustive list (see Fig. 2.2). Other rules could be added to them. The rules provide the basis for conducting business with developing countries, which do not have the infrastructure, institutions, and resources matching those of the MNCs. When operating in, and doing business with, developing countries, the MNCs should consider these guidelines:

By following these rules, an MNC sets a high moral standard and provides a sound basis for mutually beneficial business relationships. Ignoring them negatively affects the MNC for many years. As an example, let us apply these rules to extractive industries in developing countries. Critics have accused the MNCs of past and some present exploitation of developing countries. The charges are that the MNCs extract minerals at low costs, pay very low prices, and ship them abroad, where they are sold at handsome profits. Frequently, these raw materials are processed into products that are sold back to developing countries at inflated prices.

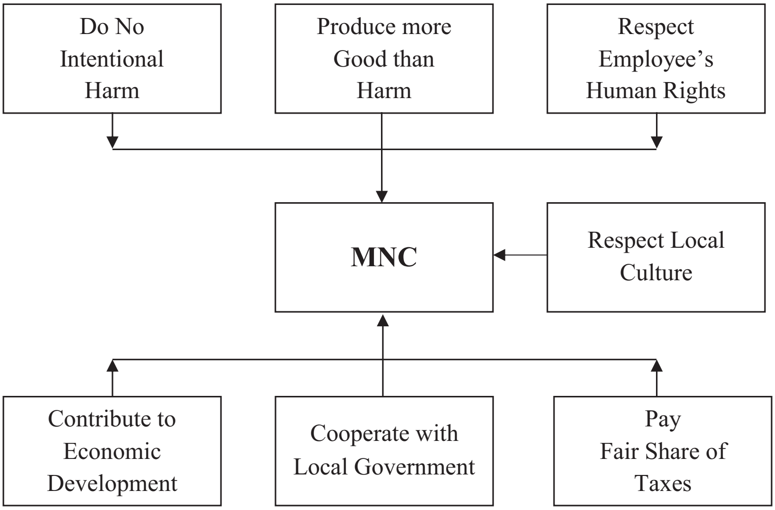


Fig. 2.2 Minimum rules for MNCs operating in developing countries

In this way, these countries are exploited twice: once when their natural resources are bought for a pittance and the second time when the products made from them are sold back to them at higher prices than those in developed countries, where competition is greater. When applied to extractive industries in developing countries, for example, the first rule obligates the MNCs to use environmentally safe extractive methods that would preserve the natural habitats and not harm the ecosystem. In negotiations for exploration and mining rights, the MNCs should not take advantage of the lack of administrative capability in developing countries. A contract that does not give the developing country a fair market price for these rights is clearly in violation of Rules 1 and 2 and possibly Rule 3.

Following these rules is not only moral; it is also practical. Consider the case of oil-producing countries before the formation of the OPEC. These countries were asserting that they were being exploited by the MNCs. The assertion of exploitation was based on the fact that the international oil companies were paying about \$2 for a barrel of crude oil. According to these countries, their oil was worth much more than the artificially low price of \$2 a barrel. The large international oil companies in industrial countries, acting as a cartel, were collectively imposing low prices and conditions for the sale of crude oil instead of negotiating equitable agreements or allowing the market forces to prevail. To these oil-exporting countries, the choice was clear: fight fire with fire. They countered this unfair pricing by the oil companies by forming a cartel of their own and hiking the prices considerably. This sent a shock wave throughout the world and caused much financial difficulty for all. Eventually, however, the market forces brought the prices to a level lower than what the OPEC desired but considerably higher than prior to the formation of the OPEC.

Table 2.3 Major social and ethical issues arising from the operations of MNCs

Ecological impact of industrial operations
Deforestation
Desertification
Pollution
Poverty resulting from environmental degradation
The use of global commons
The oceans
Outer space
Antarctica
Bribery and corruption
White-mail bribe
Lubrication bribe
The issue of free trade

Problem Areas

The most pressing social responsibilities and ethical issues arising from the operations of MNCs are the ecological impact of industrial operations, along with bribery and corruption (Table 2.3). These issues are the concerns of all nations, and their resolution requires worldwide cooperation by national governments. International cooperation is also needed for the resolution of other major problems: the exploitation of global commons,[1] free trade, and the special concerns of developing countries.

Ecological Concerns

The most pressing and thorny international management problem is the ecological impact of industrialization around the globe. All modern industries affect the environment to some degree. For generations, industrialization has taken place without much concern for its environmental consequences. Industrialization can be viewed as occurring in two waves. The first wave of industrialization concerned itself only with economic development. The developed countries of today, the first group of nations to industrialize, either were not completely aware of the negative impact of industrialization on the environment or considered the impact so negligible that they were not much worried about the consequences. Either way, the course of industrialization continued unabated with minimum concern for the environment. But after decades of industrialization and economic development, the resulting adverse environmental impact is very much evident.

It appears that at the beginning of the twentieth century, population growth and technology had minimum impact on planet Earth. Today, the vastly increased population and expanded industrialization are threatening the Earth's fragile ecosystem.

[1] Global commons refer to natural resources such as the oceans, outer space, and Antarctica.

Major, unintended changes are occurring around us. Human activities are radically disturbing the symbiotic relationship between the atmosphere, soil, water, plants, and animals. Desertification, deforestation, pollution, and the poverty associated with environmental degradation are posing life-threatening problems to developing countries. The disappearance of rainforests in the tropics, the loss of plant and animal species, and changes in rainfall patterns are disasters for the entire human race and for life on Earth. Increase in toxic chemicals, toxic wastes, and acidification is creating life-threatening challenges to industrial nations. Regardless of the level of economic development and geographical location, all nations suffer from the release of carbon dioxide and other gases into the atmosphere due to industrialization. These fumes react with the ozone layer and may produce irreversible damage to the ecosystem [15, p. 22].

The Use of Global Commons

Developing countries have long complained about their relationship with developed countries. They assert that the relationship is more favorable to developed countries. They feel that rich nations are taking advantage of their lack of technological sophistication. Developing countries claim that not only are their natural resources being exploited to the benefit of industrialized countries, but also the "global commons" are exploited disproportionately by the MNCs from rich nations. The global commons most in contention are the oceans, outer space, and Antarctica. At present, the ability to exploit these resources is limited to the MNCs from developed countries. As more nations industrialize and develop technological capabilities, the rate of exploitation will increase. The consequences of unrestricted exploitation of these resources can be disastrous.

The Oceans

> In the Earth's wheel of life, the oceans provide the balance … they play a critical role in maintaining its life-support systems, in moderating its climate, and in sustaining animals and plants…. The oceans also provide the ultimate sink for the by-products of human activities. Huge closed septic tanks, they receive wastes from cities, farms, and industries. [15, p. 262]

We have to devise ways of protecting the oceans from excessive contamination and abuse. The rich fishing areas and the large deposits of minerals under the seas are the subjects of many conflicts among nations. Many of these minerals are far from the limits of territorial waters. Without an international ecosystem approach to protecting the oceans from excessive exploitation, contamination and abuse may endanger life as we know it on Earth. Excessive fishing in the North Atlantic, for example, has reduced the catch of tuna, haddock, flounder, and other desirable fish by more than half. If fishing continues at this rate, these fish could disappear [16]. As certain fish species get depleted, frequent fishing disputes and clashes between nations are not uncommon. Tensions and disputes develop not only between neighboring nations, such as the United States and Canada, but also between nations that are far apart, such as Japan, Norway, Chile, Spain, and Denmark, overfishing in or near territorial waters [17, 18].

Many nations claim 3-mile coastal territorial waters and do not allow outsiders within that limit. Some have adopted a 200-mile exclusive economic zone (EEZ). The 1982 UN Convention on Law of the Sea has given this expanded territorial zone its blessing. Much of the undersea minerals, however, fall outside the expanded 200-mile territorial waters. Until there is an international agreement for mining the seabed, disputes and disagreement will arise. Who owns this wealth? How should it be tapped? At what rate should the ocean floor wealth be exploited? The UN Convention on Law of the Sea has a provision for creating an International Seabed Authority. The authority would control all mining activities in the seabed beyond the 200-mile EEZs. This is the most ambitious attempt ever to provide an internationally agreed regime for the management of the oceans and to prevent overexploitation. Many countries have signed the convention, but not all have ratified it. A small number of nations have indicated that they are unlikely to ratify it. Without an international treaty, overexploitation and life-threatening abuse of the oceans may continue [15, pp. 273–274].

At present, capital requirements and technological barriers limit the exploitation of the oceans. Today, only a few nations have the technology and resources to exploit deep-sea minerals. In 1994, for example, the Shell Oil Company successfully drilled an oil well in the Auger field, at a water depth of 2860 ft., 137 miles south of Louisiana's shoreline. Not too many companies can match the technological sophistication and the capital needed for such an operation. Deepwater drilling is not cheap. The Auger platform cost some $780 million and involved the labor of 740 American companies and 33 foreign contractors. The deck is the size of two football fields and weighs about 23,000 tons. It houses 132 workers and supervisors in a five-story dormitory [19].

While today only a few companies and fewer nations can accomplish what the Shell company is doing, this exclusivity will not last long. As more nations join the ranks of industrialized countries, they may participate in the exploitation of natural resources beyond their own territories. At that time, MNCs' operations may not go uncontested. Without international treaties regulating exploration and exploitation of deep-sea minerals and fishing, simple problems could easily develop into a full-scale conflict. An example is East Timor's attempt to enforce control over the 200-mile territorial waters where Royal Dutch/Shell Oil Group and Phillips Petroleum Company are developing two oil and gas fields. This has created a dilemma for these companies, which had negotiated contracts with Australia before East Timor separated from Indonesia in 1999 and became an independent country [20].

Outer Space. Telecommunication and the use of space are other areas of contention between the rich and poor countries. As new technologies are developed, international management will have to deal with additional difficulties. Radio frequencies and space are becoming crowded. Every day, a new satellite is launched into space to orbit the Earth. These satellites are used for various purposes, from weather forecasting to crop estimation to telecommunication. In particular, the geostationary orbit 22,300 miles above the equator is a hotly contested property in space. Competition for the available positions and frequencies in space is resulting in resentment on Earth. Most of the satellites belong to the Western world, Russia, and Japan. Except for a few nations, developing countries have no satellites, and many fear that the geostationary orbit will be crowded by the time they have the technology or the money to launch them. A satellite in the geostationary orbit travels at the Earth's rotational speed and, therefore, is a fixed target for radio signals. At a lower or higher orbit, satellites go faster or slower than the rotational speed of the Earth. The physical position is not as important as the frequencies used by these satellites. Overlapping and garbling of radio beams carrying messages to and from the Earth can happen in crowded locations. Every country is interested in positioning satellites in the geostationary orbit. The question is on what basis the orbital positions and frequencies should be allocated. Developed countries favor the first-come-first-served basis, while developing countries would like rationing of the available frequencies and orbital positions [21].

Antarctica. Antarctica is a desolate and inhospitable place. Extreme cold and heavy winds create a very hostile environment for life. The coldest continent, Antarctica's temperature can reach below −88 °C (−126 °F). Winds of up to 200 miles per hour create extremely dangerous conditions. It has a very harsh environment, where a person without protective gear can freeze to death in a few moments.

Except for a few bird species, especially the penguins, and a few scientific expeditions, no one would dare venture into this frigid land. Yet there are global ownership disputes over Antarctica. Seven nations—namely, Argentina, Australia, Chile, France, Great Britain, Norway, and New Zealand—have made territorial claims on Antarctica. These claims, however, are not recognized by other nations.

Because of the extreme cold and its isolation from the rest of the world, Antarctica's geological composition is not well-known. It is believed, however, that it has large deposits of minerals. Coal and iron deposits are estimated to be large enough to be worth commercial exploitation. Antarctica's continental shelf may contain large deposits of oil and natural gas. The waters surrounding Antarctica support rich marine life, including krill, a tiny shrimp-like animal. Large numbers of whales around Antarctica feed on these creatures.

Scientific and commercial interest in Antarctica has prompted many debates. Since 1959, it has been managed under the Antarctic Treaty, which was signed by representatives of 12 nations in Washington, DC. The treaty dedicated the entire continent to scientific and peaceful purposes. It suspended all territorial claims. In 1991, a protocol to the treaty was approved by 24 nations, prohibiting exploration for oil and other minerals for at least 50 years. The treaty is open to all nations who can demonstrate a concrete interest in Antarctica by conducting substantial scientific research.

The present arrangement and the treaty on Antarctica are considered unacceptable by many developing countries. Many developing countries lack the resources and technology to participate in the scientific exploration of Antarctica. While the treaty's signatories claim to manage the continent in the interest of all people, developing countries assert that these interests should not be defined by self-appointed parties. It is, however, highly unlikely that we will see the commercialization of Antarctica any time soon. Legal ambiguities and technological barriers, not to mention the enormous investment needed, make commercial endeavors close to impossible at the present time.

Bribery and Corruption

Often, in the course of doing business and carrying out normal daily transactions abroad, there is no escaping from encounters with briberies and corruption. Bribery and corruption are commonplace when doing business in many places. No geographic location or country has a hold on corruption. Business and political scandals in the United States, Europe, and Japan are a testimony to this fact. The practice, however, is pervasive in some countries. Publicity around illicit payments by US-based MNCs in the mid-1970s culminated in the passage of the Foreign Corrupt Practice Act of 1977 (FCPA). When the act was passed, the legislators expected that other nations would follow suit. They did not. Research indicates that the act has weakened the competitive position of US companies and has not reduced bribery in international business deals. The political scandal of the early 1990s in Japan and the illegal practices of some large companies such as Enron [22] may give the impression that corruption is on the rise. In reality, business and government practices have never been so closely monitored by the people and the media. It follows, therefore, that corruption probably is on the wane. Certainly, a reading of the history of the world provides some encouraging notes that our time is not unique in the course of civilization. Polybius, the Greek historian living in the second century BCE, summarized Carthage's decline in a single sentence: "At Carthage, nothing that results in profit is regarded as disgraceful." During the Renaissance, corruption was rampant, and business historian Jacob van Kalveren suggested that sixteenth- and seventeenth-century Europe should be characterized not as the age of mercantilism but as the age of corruption [23].

Besides its harmful effect on the moral fabric of society, corruption has economical costs. The bribes that bureaucrats receive to approve licenses inflate business costs. Tax officials who take bribes and allow incomes to go unreported deprive the national treasuries of significant revenues. Bribery is also responsible for depressed investment and economic growth [24]. It is estimated, for example, that fewer than half of the taxes due are collected in Argentina and 28% of economic activities are not reported. By some accounts, one reason for the government's inability to balance the budget has been this rampant corruption [25]. Government officials who purchase expensive equipment with foreign aid money to receive a kickback from the seller divert resources from useful projects into useless ones. Additionally, it has a negative effect on foreign direct investment. Studies indicate that foreign investors generally avoid corrupt markets because corruption is considered morally wrong and, economically, it creates operational inefficiencies [26]. The real cost of corruption must also include the loss of confidence in the system and the stifling of entrepreneurial initiatives. The cost of bribes and illegal payments, for example, has been estimated to be 3–5% in China. In Italy, it is estimated that corruption has inflated the total outstanding government debt by as much as 15%. A few years ago, the Chinese government reported that state assets had fallen by more than $50 billion in value. They attributed this primarily to deliberate undervaluation by corrupt officials, who were trading off big properties to private interests or to overseas investors for payoffs [27].

How to Deal with Petty Extortionists

Here is some advice from an international traveler who would gladly spend $100 to avoid paying a $20 bribe—if there is a chance of succeeding. In some situations, there are no ways to avoid making illicit payments short of abandoning whatever you were trying to do. For example, if you want to leave the West Central African country of Cameroon, the choice is to give the border guard the $20 he demands or else stay in Cameroon for God knows how long.

If you are going to pay the illicit money they demand of you, do it right. Never admit it is a bribe. Say you understand that your case requires additional efforts on the part of the official, and you are willing to pay a fee for the extra work.

Do not be afraid to haggle and bargain. If you bargain, you often wind up paying less than what was initially demanded.

Never be rude and insult the functionaries, even though this may make you feel better. You may be arrested for that and end up paying much more, not to mention the time lost in the process.

Under the right circumstances, ask for a receipt. This may scare the extortionists and expedite your case. Otherwise, back home you could present the receipt to their consulate and demand a refund. Be ready to have a good laugh anyhow if your receipt turns out to be like the one the international traveler got from a Chinese policeman, written in Chinese. Back in the United States, it was translated to mean “stick it in your ear” (adapted from Jim Rogers’s advice to Stratford Sherman which appeared in Ref. [28]).

There are two types of bribes: the whitemail bribe and the lubrication bribe or “speed money.” The lubrication bribe is paid to facilitate the process of normal bureaucratic functioning, such as the processing of a visa, clearing of import papers, and issuing of a driver’s license. It does not involve any act that is not allowed by law. It is facilitation money and is given in situations where delay could disrupt normal business functions and, therefore, be costly. The lubrication bribe has been almost institutionalized in some developing countries. Even the FCPA does not prohibit it [29].

Everybody does it and everyone expects it. It is referred to in various parts of the world by various terms. In West Africa, it is *dash*; in Mexico, *mordida* (the bite); in the Honduras, *pajada* (a piece of the action); in Brazil, *jeitinho* (the fix); in some former British colonies in Asia, *kumshaw* (thank you); and in the Middle East, *bakhshesh* or *an-aam* (gift).

While lubrication money is paid to low-level bureaucrats, the whitemail bribe is elicited by high-level government officials. There are also other differences between the two types of bribes. The differences are in the method, the amount of payment, and the outcome.

Lubrication money is a relatively small amount, and transactions take place directly between the client and the functionary for the purpose of starting the bureaucratic wheel rolling. Except for the payment, it involves no illegal act.

The whitemail bribe involves large amounts of money and generally includes an elaborate system for concealing it. The recipients of whitemail are high-level government officials, and often, it involves illegal transactions. Because of their illegality, the MNCs making these payments hide them with false accounting, fictitious bookkeeping entries, and bogus documentation. Sometimes payments are funneled through subsidiaries abroad, as consulting fees. In other cases—for example, in Italy and South Korea—these payments take the form of contributions to political parties. Often, the whitemail bribe takes place with the assistance of a go-between, who acts in other capacities too and helps bridge the cultural gap. As Nehmkis suggested, if the Middle East's intermediaries didn't exist, they would have to be invented. For Western business executives, the intermediaries are useful in many ways: They overcome the formidable language barriers and facilitate getting access to the power centers. Many Middle East rulers are still suspicious of, and uneasy with, financial and business transactions with foreigners. Moreover, in the Middle East, the network of powerful families are the repositories of economic, financial, and political intelligence. The West does not have an equivalent system with which to compare them. Those with connections with these powerful families can provide a sense of confidence for the organizations that deal with foreigners.

Evidence suggests that MNCs are both victims and culprits when it comes to corruption.

Corporate Taxes: Italian Style

A leading American bank opened a subsidiary in a major Italian city. At the end of the first year of operation, the firm's local lawyers and tax accountants advised the bank to file its tax return "Italian-style," meaning to understate its actual profit significantly. The American general manager of the bank, who was in his first assignment abroad, refused to do so, because he considered it dishonest and unacceptable. A few months after filing its "American-style" tax return, the bank was invited to discuss its taxes with Italian tax authorities. They suggested that the bank's taxes were at least three times higher. It is a customary practice that Italian corporations understate their profits by anywhere between 30% and 70%. Italian tax authorities, aware of this practice, usually assess taxes owned by the corporations based on what they assume the actual earnings should be. Of course, this amount is open to negotiation, which opens up room for the work of tax negotiation agents called *commercialista*. The *commercialista's* fee, a lump sum, is included in the payment to the government, the *bustarella*. Corporations never learn how much of the money paid was *bustarella* and how much of it was the fee. The total amount, however, is a deductible expense on the firm's tax return for the next year.

Source: Adapted from Ref. [30]

MNC executives should take certain steps to combat bribery and corruption. The first recommendation is to flatly reject the practice of bribery. Indulging in bribery has a corrosive effect on the business and the people. In response to suggestions and demands for illegal payments, you could say that you have a great respect for your counterpart but you risk prosecution under the law if you pay. When a West African minister, for example, during a break in a negotiation session, poetically told a US executive that the minister was "the first tree in the forest and needed water," the American replied in friendly but blunt terms, "If I pay you, I will go to jail." Considering the personal relationship they had developed during the negotiations, the official certainly would not have wanted to see that happen [31, pp. 101–102]. If you are asked to do something that violates your moral beliefs or your company's code of ethics, or is against the law, do not do it. There is an advantage in gaining a reputation as a person who will not make moral compromises.

Sometimes, it is possible to please government officials with worthy community projects instead of a bribe. Building a school, a road, or a sports facility for the youth, for which a bureaucrat can take the credit, could go a long way in securing the government contract that otherwise would have been denied. Finally, keep in mind that in many cultures, gifts and payments are an essential part of building relationships between persons and groups. To reject abruptly and moralistically any suggested request for a gift may be interpreted as a rejection of the relationship that the other side considers necessary for doing business with you [31, p. 101]. As De George reminds us, "Basic morality does not vary from country to country, even though certain practices may be ethical in one country and not in another because of differing circumstances. Getting this subtle difference straight is the crux of the matter" [6, p. 11].

While corruption is widespread internationally, it is more prevalent in developing countries. Why is corruption so rampant in many developing countries? One explanation, of course, is simple human greed and the breakdown of moral values. Some argue that the low salaries of government workers are partly responsible for widespread bribery in most developing countries. Studies have found that corruption is significantly correlated to GNP per capita [32]. While no two nations are similar, poor countries that pay subsistence-level salaries to government bureaucrats are sowing the seeds of corruption. Without sufficient income, when opportunities for generating additional money arise, not too many functionaries can resist the temptation. This is especially the case in many developing countries, where people make a distinction between morality and the law. In their view, delaying paperwork for a wealthy foreign company so as to extract a fee may be illegal but is not an evil act. Another explanation takes into account cultural differences and value orientations. What one culture considers normal facilitation of business transaction, another may call a bribe.

Many issues that make sense in one culture, when viewed through a different cultural perspective, would appear inappropriate and sometimes even wrong. The following anecdote vividly illustrates the cultural differences regarding ethical concerns:

> The cannibal was having a conversation with an educated and sophisticated man from the Western world. The Westerner asked him, "how exactly do you go about finding your food?" "When we run out of food," answered the cannibal, "we declare war on a neighboring tribe. We kill as many people as we want, bring them back and eat them. How about you? I heard that there was a huge war in your part of the world a few years ago. How many did you kill?" Visibly embarrassed, the Westerner said, "Millions." "Wow!" the cannibal could not hide his surprise. "And did you eat them all?" "Certainly not! We do not eat people," answered the shocked companion. It was the cannibal's turn to look surprised and confused, even a little disgusted. With a puzzled voice he inquired "what a waste, why did you kill them in the first place then?"[2]
>
> If bribery were the rule that everyone followed, it would cease to be bribery and instead become a cost of doing a certain kind of business. Tipping in the United States is an example. It is widely and openly practiced. While tipping is customary in the United States, it is considered demeaning and insulting in other countries. Similarly, in some countries, civil servants are known to earn a part of their salaries from the small payments made by clients. These payments ensure better and more timely service. Since Americans do not tip civil servants, it does not mean that others view the practice similarly everywhere. Management theorists widely acknowledge the importance of cultural differences in business, but ethical differences are not fully understood. Researchers have documented, for example, the individualism of Americans and the collectivism of the Japanese or the time sensitivity of the Swiss and the laxity of South Americans but not the differences in ethical issues [33]. The distinction may involve the prevalence of the practice and the openness with which it is followed. Unless the payment is truly a common and open practice, it is ethically questionable [6, p. 13].

Lobbying is another example of an action that is sanctioned in one country, while it is frowned on in others. In the United States, lobbying legislators and government agencies is an accepted legal practice. Even foreign countries are involved in lobbying. Some other nations consider it influence peddling and mislabeling of buying votes and favors. Japan is on the top of the list of countries that spend the most money on lobbying in the United States. Why do the Japanese spend so much money? Some say that they want to tie up the country's talented trade lawyers, making them unavailable for cases that are brought against them. Others say that they take a long view of their relationship with Washington and are well aware that today's lawyer may be tomorrow's senior official.

[2] Told by my graduate student, Parvathy Menon, who had heard the joke in Russia.

The Colonial Legacy

"They are tall and narrow featured, and during the colonial era … [a] minority among the majority Hutu, the Tutsi not only administered Rwanda and neighboring Burundi, but the Germans and, later, the Belgians celebrated them with a kind of Wagnerian romanticism, assuring them the best kind of jobs and favored treatment …

… after the Belgians left Africa and Rwanda began to grapple with the uncertainty and turbulence of majority rule, the Tutsi sinecure unraveled. Tribal uprising among the Hutu singled out the Tutsi for reprisal; hundreds of thousands fled, tens of thousands were massacred…. Beyond central Africa, … much of the developing world has been struggling for nearly half a century to come to terms with grinding ethnic and tribal rivalries that remain, in a way, one of the most enduring legacies of their colonial past….

… to administer their far-flung holdings, the European powers needed locals to rule in their place…. In superimposing what in some cases was a new hierarchy atop an existing social system, colonialism gave a new shape and tension to relationships between different ethnic groups, even if it did not reorder them entirely…. In some ways, the very tribalism or contemporary ethnic politics in northern India or parts of Africa were, at root, European inventions" (excerpted from Ref. [34]).

Since they had formerly represented Japan, these officials might be more sympathetic toward the Japanese views and more inclined to support their interests. "When you represent the Japanese, and your source of income is Japanese, your perceptions change," a former Japanese lobbyist noted [35].

Besides poverty and cultural differences, other reasons have been given for the rampant corruption in developing countries. Kolde [36], for example, has traced the cultural and historical roots of bureaucratic corruption and bribery in some developing countries to the clashes of cultures and the colonial legacy (pp. 152–153).

Many developing countries were colonies of the West. Kolde asserts that confused loyalties, weak identification with nationhood, and a lack of internal cohesion are common to most ex-colonies. In these countries, tribes were not integrated into nations under the rule of Western powers. They were kept in tribal minisovereignties. To prevent the formation of anticolonial coalitions among tribes, intertribal conflicts and rivalries were fomented and cultivated. When these ex-colonies gained their independence, they lacked the substance of nationhood. The problem was compounded by the fact that the Western powers did rule indirectly through native chieftains and community elders. These native leaders were, therefore, viewed by the general population as agents of the colonizing authority. Their traditional authority and legitimacy were weakened in the eyes of the local people. At the time of independence, the traditional sources of social order were not in place.

Moreover, Western legal systems that were superimposed on tribal structures resulted in the breakdown of discipline in indigenous society. In these societies, legal technicalities and multitudes of regulations replaced simple honesty and personal accountability, which in most pre-industrial societies served as the main instruments of order and control. Many of these regulations were a matter of relabeling and redefining the old practices. If previously witchcraft was sanctioned by the indigenous system as legitimate, for example, the newly imported law declared it a crime. Gift giving to chiefs and elders, which the natives considered not only right and proper but purifying and sanctifying, was declared as payment of bribes by the imported Western law. Moreover, to deal with the natives, the foreign rulers relied on the go-betweens. The go-betweens, while themselves natives, had learned the ways of the rulers and were often the lawyer-translator-opportunists who exploited the ignorance of both the rulers and the ruled.

> When the independence came, the colonial legacy was often a lawyer-ridden bureaucratic system deluged with favoritism and corruption. Highly repugnant to the native population, this colonial inheritance greatly increased the difficulty of building confidence between the new national government and the people…. National authorities have had but modest success in restructuring this colonial legacy and in changing public perceptions of government. [36, p. 152]

The Issue of Free Trade

The premise of expanding international trade is that all participants will benefit from it. To increase international trade, we have to remove the barriers to free trade. To begin to do this, bilateral and multilateral trade agreements have been established. The most important multilateral trade agreements take place under the auspices of the WTO. These agreements are aimed at reducing tariff and non-tariff trade barriers.

Free trade and open markets have consequences for domestic industries. Foreign competition forces inefficient domestic businesses out of the market and out of being. This creates displacement of jobs in the host country. In the long run, most analysts believe that the resultant efficiency creates more jobs, but in the short run, there will be pockets of unemployment in declining industries. The short-run consequences put pressure on the host country's government to protect inefficient industries. Because of the trade agreements, however, the government cannot protect inefficient domestic firms against efficient foreign competition as far as tariffs are concerned. Some governments, therefore, use less obvious measures, such as subsidies to domestic firms and regulations and tariffs on foreign companies. These measures make it very difficult for foreign firms to establish a foothold in the country. There are other problems too. Environmental protection measures are not uniform around the world. In countries with more stringent regulations, industries are forced to invest in capital equipment for ecologically cleaner production. Such an investment adds to the production costs and puts their businesses at a competitive disadvantage relative to firms from other countries with less demanding regulations or no regulations at all.

Invisible Trade Barriers

For many years, American and European companies have complained that the Japanese market is closed to foreigners. While there are not many visible barriers to trade with Japan, invisible obstacles are many. Often foreign businesses, and particularly American companies, are blamed for not trying hard enough and giving up easily when they face difficulties in Japan. While this might be true, the experience is a very powerful teacher. The American construction firms, for example, after many attempts and apparent success in the beginning, learned that the clubby environment of the industry in Japan cannot be penetrated. By a gentleman's agreement, foreigners are excluded from the construction industry. Then, why try at all? In retailing, the story is totally different. A tightly controlled Byzantine distribution system keeps foreign competition out of many consumer products and inflates prices for consumers. The laws that are designed to protect thousands of small shops prevent the establishment of discount stores and supermarkets. Foreign competitors face a very difficult task cracking the system. Because of longstanding exclusive agreements between the wholesalers and retailers, it is almost impossible to find a distributor. There are many layers to this distribution system, and products change many hands before they get to the final consumer. Each layer adds more to the price of the product without adding any value to it. How could an exporter build a customer base with so many roadblocks? [37–40]

Concerns of Developing Countries

There is a division in the world economy. The world is divided into two camps of "haves" and "have-nots," or North and South. Not only do these two groups live under different socioeconomic conditions, but they have different approaches and orientations to world problems. The have-nots, many of them old colonies of industrialized countries, based on their past experience, believe that the North is attempting to hold them down and exploit them. At the Earth Summit, for example, the North was trying to build a consensus, and probably an agreement, that would limit the destruction of rainforests, reduce pollution, and safeguard nature. The South saw the meeting as an opportunity to get the North to commit to resources for the protection of nature. In their opinion, the North, by its unrestrained industrialization, had endangered the planet and would have to pay for its cleanup. If the South was going to forego cheap and dirty technology, and stabilize the population, the North would have to assist and pay at least part of the bill. To Brazil, China, India, Malaysia, and Mexico, for example, unfettered ability to industrialize was essential, and pollution, in their opinion, was an unavoidable consequence.

The tendency of developing countries to follow easy and less expensive economic development strategies and the reluctance of developed countries to assist in the use of more expensive but environmentally safer methods will have grave consequences for the world. Consider the scenario of increased car ownership by the people of developing countries. UN demographers estimated that the world population was 5.7 billion in 1994 and that it will double to more than 10 billion by 2050. If we extrapolate the rate of car ownership by the people of developed countries to the rest of the world, the increased pollution from additional cars certainly will have an adverse effect on the planet. Safeguarding the ecosystem calls for population control and environmentally friendly means of transportation; these, in turn, require investment in education and family planning and a coherent approach to economic development globally. At present, the UN is supporting programs and attempts that are aimed at stabilizing the Earth's population at 7.8 billion by the year 2050 [41].

Many years ago, Perlmutter stated that increased international trade is the best hope for world peace: bombing customers, suppliers, and employees are in nobody's interest [42]. We should add that the worst enemy of peace is poverty. No international trade is possible with destitute people, and poverty cannot be eradicated without equitable world trade. The intellectuals of many developing countries believe that MNCs are partly to blame for the plight of poor nations. They cite examples of past flagrant exploitation and point to statistics that indicate that these countries not only did not benefit from the relationship with MNCs, but they actually suffered. Between 1960 and 1968, for example, profit remittance to the MNCs by Latin American countries exceeded 6.7 billion [43]. The belief that developing countries are heavily dependent on developed countries and draw decreasing benefit from the relationship is called "dependencia." The dependencia school of thought paints an exploitative picture of the world, where the MNCs are moving away wealth and benefits from poor, developing countries to rich, developed countries. The process of wealth transfer is assisted by an "unequal exchange," in which commodities incorporating high-value labor are purchased by consumers whose labor has been sold at a low value. In this way, global inequalities are built into the prices we pay in the open market [44]. Consider, for example, the New Guinea villagers, who produce coffee for the world market. After coffee beans leave the village, they are transported overseas, change many hands, go through several processes, and finally end up in the form of processed coffee in jars and cans in the world market. The villagers receive just enough cash to support a local store, which sells, among other things, cans of Nescafé coffee. The price paid to the villagers for their coffee is a factor of 48 less than the price they have to pay for the cans of Nescafé [45, p. 35]. In this way, dependencia is increasing the gap between the rich and the poor.

Frequently, to expand to developing countries, MNCs build close relationships with the governments and the elite of these countries. Unfortunately, often, these governments are not representative of the people and are not acting in their best interests. In particular, international bankers have had their share of acquiescing to the schemes of governments and the elite, who were lining their own pockets at the expense of the people. Many attribute much of the economic problems of developing countries and their huge external debts to these relationships. Some have suggested a circular relationship between capital flight, political instability, and economic hardship in these countries [46]. There are some indications that international bankers and financiers have had an active role in and contributed to capital flight from developing countries [47–49]. Thus, international bankers, through their participation in capital flight, may have contributed to the plight of these countries. De George describes this peculiar relationship:

> International banks in less developed countries face a dilemma: the best prospect for large loans are the government and the country's elite. But the government and the elite do not always use their loans for the good of the country; indeed, they tend to use them for themselves and their own narrowly conceived interests…. Banks do not only lend money; they also receive money. Offering customers secret unnumbered accounts and evincing a willingness to accept deposits without question make banks accomplices to exploitation, crime, and the flight of investment capital from less developed countries. [6, p. 71]

Such relationships perpetuate the dependency of developing countries on technology and capital from developed countries. The dependency phenomenon has been the subject of much debate. Many have argued that if this pattern continues, developing countries may never attain a level of economic development comparable with that of the United States and the more prosperous European nations. The experience of a few Asian countries, such as Korea, Taiwan, Singapore, and Malaysia, however, indicates otherwise. While these countries are not comparable with the United States now, a continuation of the present rate of growth and industrialization could bring them to that level. Nevertheless, the abject poverty of many developing countries leaves ample room for worry and concern.

While acknowledging the past unscrupulous practices of some MNCs, and the potential for abuse, no one denies that MNCs can play a very constructive role in assisting developing countries. The nature of their involvement and assistance, however, remains an open question. Probably, what we all need is to understand that the problems of poor nations cannot be solved with the approaches that have worked for the rich. The insistence by the World Bank and the IMF of fiscal restraint and export push by these countries, while all that is available for exports are raw materials, falls into this category. We need new ideas and practical solutions. Recent efforts at alleviating the debt burden of developing countries and preserving rainforests are good examples. In this case, environmental groups have initiated a drive to retire the external debt of developing countries in exchange for saving forests, the natural habitat of wildlife. This exchange works as follows: a private conservation organization purchases the commercial debt of a developing country at a steep discount from a bank or in the secondary market and agrees to cancel the debt in exchange for setting aside a nature area for conservation. Based on similar ideas, the World Bank now incorporates environmental concerns into its loan programs. An example is a 20-year environmental action plan for Madagascar. The plan is jointly developed by the World Bank and the World Wide Fund for Nature. It is aimed at increasing public awareness about environmental issues, establishing and managing protected areas, and encouraging sustainable development [50].

Globalization Backlash

To the dismay and surprise of its advocates, there is a backlash against globalization. The backlash so far has been manifested through a number of protests and demonstrations, around the world, against the IMF, the World Bank, and the WTO. A coalition of 600 organizations in nearly 70 countries has been formed, which includes many NGOs such as Amnesty International, Sierra Club, and the Malaysian-based Third World Network and labor organizations such as the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

The enthusiastic advocates of globalization ascribed to it every improvement in labor, legal, and environmental standards in most developing countries, including advancement in democracy and human rights. In the words of Robert Kuttner [51], the last claim would certainly be news to Martin Luther King, Thomas Jefferson, Mahatma Gandhi, and Nelson Mandela, who struggled mightily to build decent, democratic, and humane societies. Equally misguided claims are that globalization is the root of all evils. There is no denying the fact that laissez-faire globalization has negative consequences. It is against these negative effects that many people are revolting. We have to remind ourselves that "capitalism works better as a mixed system than a laissez-faire system. For a century, citizens of Western countries have voted for a mixed system to temper the extreme, and inequalities of raw capitalism" [51, p. 25]. Therefore, the protestors assert that it is appropriate to have a charter for human rights when we have the WTO, which has a charter mostly for property rights.

The backlash against globalization cannot be simplified in a couple of words. Globalization is a system of worldwide economic integration in which capital, goods and services, and labor are free to cross national borders in search of better returns. This system has benefits and some deleterious effects, such as the widening of income gaps within and between countries.

> The point is not that global integration is a bad thing. The point is that there should be a discussion … about how much power nations should cede to the global marketplace; about the extent to which an economy should sustain a society, as opposed to the reverse. It should be about the trade-off between economic security and economic efficiency, between growth and equality. [52, p. 244]

The backlash against globalization can be summarized as follows:

1. Globalization is not helping many poor countries. The adoption of market-based policies, such as free trade, open capital market, and privatization, instead of spurring economic growth, has destabilized developing nations.
2. Industrialized countries are not practicing what they advocate to developing countries. They have continued, for example, with agricultural subsidies, which reduce the competitive position of agricultural products from developing countries while demanding that these countries adopt free-market policies.

3. Just as there is an alliance against terrorism, there should be an alliance for protecting the global environment and a global alliance against poverty. World Bank estimates that $100 billion per year—double the present level of economic assistance—is needed to achieve the UN goal of reducing extreme poverty in half by 2015. The additional money amounts to less than 0.2% of the GDP of the OECD countries.

Many are surprised that in the midst of unprecedented economic prosperity, there is a backlash against globalization, the very phenomenon that is credited for the remarkable economic growth. Those who think this backlash is temporary and will go away will be disappointed. This phenomenon will last longer due to the fundamental nature of the issues that have triggered it. There are five factors behind the backlash (Fig. 2.3) [54]:

1. *Insecurity:* As companies restructure to become more competitive globally, many operations are moved to lower-cost locations around the world. Workers who lose their jobs often have a difficult time adjusting to the requirements of the new economy. In the wake of recent anti-globalization, an increasing number of MNCs are bringing their manufacturing plants back to the United States. The government tax incentives and nationalism (or protectionism) contribute more to this recent phenomenon known as *reshoring* [53].
2. *Priorities:* Environmental issues and labor standards overseas are a top priority, especially for the young and the educated. People are very concerned about degradation of the ecosystem and unjust treatment of workers. For instance, as per a recent report from the Democratic Republic of the Congo, it was found that children as young as 7 work in dangerous conditions for cobalt mining for lithium-ion batteries. Human rights organization (e.g., Amnesty) has accused Apple, Samsung, and Sony, among others, of failing to basic check to ensure the raw materials used for their products are not mined by children [55].

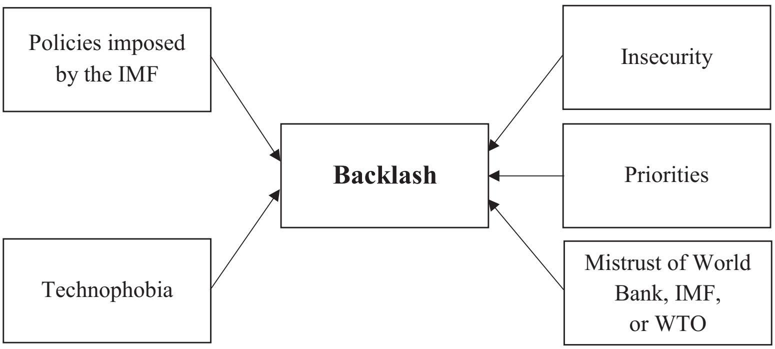


Fig. 2.3 Factors behind the backlash against multinational corporations. (Source: Ref. [53])

3. *Mistrust:* Decisions made behind the closed doors of the World Bank, the IMF, or the WTO are not trusted by many people who are accustomed to transparent, democratic institutions.
4. *Policy:* The contractionary policy imposed by the IMF on developing countries during their financial crisis is losing support among the people, especially since the opposite policy is employed in the United States.
5. *Technophobia:* Most people are uncomfortable with genetically modified food. Progress and growth fueled by technological innovations are seen as harmful to the people and the environment, especially when they result in the weakening of traditional national values.

World leaders, in making public policy decisions, and international managers, in making corporate strategic decisions, would be better off if they take the backlash against globalization very seriously. The five reasons that lie at the heart of the backlash are not contrived by lunatics. They are real, and all of them can be constructively addressed. It takes a willingness to see that unrestrained turbo globalization can undermine the very foundations of the kind of society it attempts to build.

Supranational Organizations

With the leadership of the United States, the dominant world nations believe that economic development, increased dialogue, and international trade could reduce conflict and lead to lasting peace. To that end, a number of supranational organizations are established each with a specific mission. Below, we describe these organizations, their roles, and history. The scope of activities of these organizations is global. Therefore, they are labeled supranational organizations.

The United Nations

This section is based on information gleaned from several sources including Refs. [56, 57]. The UN was established in 1945 in the midst of the euphoria and optimism surrounding the end of World War II. The mission of the UN is to ensure peace on Earth and to serve as an arbitrator of international conflicts. To carry out its mission, the UN Charter provided for the creation of six primary organs—namely, the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council, the International Court of Justice, and the Secretariat.

The General Assembly is the organ that reflects the total membership of the UN. It is one of the most influential organs of the UN. All members have equal voting power in the Assembly, and because of this, it has been referred to as the "town-hall meeting" of the world. The primary functions of the General Assembly include discussion and recommendation of the issues presented before it, control of finances, election and admission of new members, and initiation of proposals for Charter review and amendment.

The Security Council is responsible for making specific and binding decisions where the issue of peace and security is concerned. Membership in this council includes five permanent members: the United States, Russia, the United Kingdom, France, and China. These five countries were given permanent membership in the Council assuming that they would be responsible for enforcing any binding decisions the Council makes. There are also ten (originally six) other countries that are elected by the General Assembly as nonpermanent members. The nonpermanent members are chosen on the following geographical basis: three from Africa, two from Asia, one from Eastern Europe, two from Latin America, and two from Western Europe and other states.

The Secretariat comprises the permanent administrative staff of the UN and is directed by the chief administrative officer, the Secretary-General. The Security Council recommends a nominee for the Secretary-General to the General Assembly for approval. Although the Charter has not specified the term of office, the Secretary-General usually serves for 5 years.

The International Court of Justice, which is composed of 15 judges, is elected by the General Assembly and the Security Council voting concurrently. The Court has two functions: it serves as the tribunal for the final settlement of disputes submitted to it by parties, and it also acts in an advisory capacity to all other organs of the UN with regard to questions of a legal nature.

A cluster of some 20 intergovernmental agencies operates around the UN to promote general welfare in the world through economic, social, and cultural programs. Six of these agencies, along with the UN itself, are headquartered in Geneva, Switzerland. They include the International Telecommunication Union (ITU), World Health Organization (WHO), ILO, World Meteorological Organization (WMO), World Intellectual Property Organization (WIPO), and WTO. Two agencies, the World Bank and IMF, are located in Washington, DC. The rest of the agencies are scattered among various cities, primarily in Europe and North America.

The World Bank and the International Monetary Fund

Information in this section was culled from a variety of sources including Refs. [58–63]. The World Bank and the IMF were created during the Bretton Woods (New Hampshire) meetings on July 1, 1944. Because of the total dependence of the allied countries on the United States, the role and influence of the latter on the conference and its outcome were decisive. As a result, both the World Bank and the IMF are strongly influenced by the United States in philosophy and direction.

The World Bank

The original function of the Bank was to provide funds for the reconstruction of Europe. After Europe recovered, the bank shifted its focus and became exclusively a development advisor and financial intermediary between state-sponsored projects and private investors. It borrows on commercial terms by selling bonds and then lends the proceeds to finance development projects around the world.

The World Bank comprises a group of institutions that specialize in various aspects of economic development. The group consists of three internationally oriented institutions and four regionally oriented banks. The three internationally oriented institutions are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Association (IFS). Through its triple-A credit rating, the IBRD is able to borrow billions of dollars a year in private capital markets and, thus, is able to fund a substantial portion of the money the World Bank lends out. Its primary focus is financing medium- and long-term projects. IDA lends only to the poorest countries on concessional (below market) terms. Some of their typical projects include primary school classrooms and technical assistance and loans to poor farmers. When a country pays back its loans, it becomes a donor and adds to the funds available for loans to others. The four regionally oriented banks are the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), the African Development Bank (AfDB), and the Caribbean Development Bank (CarDB).

Membership in the IMF is a condition for admission to membership in the Bank. Therefore, the Bank's member governments are also members of the Fund. Voting privileges are in proportion to the capital stock owned by the members of the Bank. Slightly more than 20% of the votes belong to the United States. As the largest shareholder, the United States chooses the Bank's president. For this reason and because it is located in Washington, DC, and its origin goes back to Bretton Woods, some have called it "America's institution" [64, pp. 4–7]. Other large shareholders are the United Kingdom, Germany, France, and Japan. All matters before the bank are decided by majority vote.

The International Monetary Fund

The IMF is not a bank but a club. Member countries pay a subscription and agree to abide by a mutually advantageous code of conduct. The IMF's original objective was to promote trade by creating a reliable and stable exchange rate system. The IMF functioned by providing a pool of money from which members could borrow short term, to adjust their balance of payments with other members.

Over the years, both institutions—the World Bank and the IMF—have changed. The Marshall Plan eclipsed the Bank's role in European reconstruction in the late 1940s. Likewise, when Richard Nixon took the United States off the gold standard in 1971 and switched to floating exchange rates, the IMF's original function disappeared. These developments resulted in a change in priorities for both institutions. The Bank and the IMF focused their attention on world poverty and shifted their operations from serving the rich countries to serving the middle-income and poor nations. Today, the Bank's main goal is to promote long-term economic growth, which reduces poverty in developing countries. To do this, the Bank has become a development advisor and financial intermediary between state-sponsored projects and private investors, corporations, and commercial banks. The Bank primarily sponsors specific infrastructure projects such as roads or dams. It also makes loans for "policy adjustments" that enhance a country's economic, financial, or political environment for private investment.

The IMF started on a new path in 1982 when it came to the aid of Mexico, which had nearly defaulted on its loans from commercial banks. The action seemed consistent with the agency's goal of overseeing the international monetary system and helping member countries overcome short-term financial problems. Since then, the IMF has been operating in a three-way arrangement with heavily indebted countries and commercial banks. Because of their new roles, with the Bank making policy adjustments and the IMF involved in long-term structural loans, the duties of the two institutions overlap.

Criticisms Against the IMF and the World Bank

Critics charge that despite their goals, neither organization has been successful in promoting real market-oriented policy reform. The result of their approach to lending, the critics argue, is massive impoverishment and indebtedness around the globe. They point out that despite the Bank's and the Fund's efforts, and a large amount of lending, there are more people living in absolute poverty than ever before.

Critics cite several problems with the IMF's and the Bank's lending. They charge that the Fund's short-term adjustment lending can do more harm than good when applied to the structural problems of the Third World. According to these critics, the fund focuses on narrow accounting data, ignoring the broad policies that have slowed development. For instance, because the Fund typically demands that a borrowing nation reduce its current account deficit, the country restricts imports; or its insistence that a country cut its budget deficit causes the government to raise taxes, thereby slowing growth. One of the main criticisms leveled at the Bank and the Fund stems from the concept that funds are "fungible" (negotiable in kind, substitutable, or exchangeable). Because of this, critics charge that no matter how conscientiously the Bank examines a project or how well justified it is economically, the project that is actually financed becomes an altogether different one and probably much less sensible. They argue that the truly good projects would have gone ahead anyway, paid for out of the country's own resources, and that the Bank ends up financing the marginal project, one that would not have proceeded without the additional funds.

The concept of fungibility extends to the IMF also. Because the IMF makes loans directly to governments, and not for specific projects, these funds can be redirected. Critics charge that the IMF underwrites any country, no matter how venal or brutal, and that these funds are frequently redirected toward economically nonproductive ends.

Another criticism is that the IMF and the Bank do little to enforce the conditions of their loans. If a country violates its agreement, the organizations will simply suspend the loan and negotiate a new agreement, and funds will flow again. When the country violates the new conditions, the process starts anew. Members are required to consult the IMF annually on their economic and financial policies. These consultations should provide the IMF an opportunity to review and influence the members' policies. Since the IMF has no formal sanctions against noncompliance, it is not clear how effective the consultation process is. As Paul Volcker, the former US Undersecretary of the Treasury for Monetary Affairs, has stated,

> When disagreement arose between the IMF and member countries on the need for policy changes, if the country was small, it fell into line; if it was large, the IMF fell into line; if several large countries were involved, the IMF disappeared. [57, p. 250]

There is a host of other complaints and criticisms. Debtor countries charge that because of the Fund's insistence that to renegotiate a loan, the country must have in hand an agreement with its bankers and, also, that there should be no interest in arrears, the Fund is simply a collector for the commercial banks. Conservationists charge that the Bank and the Fund collude in their dealings with developing countries and that they support programs that do not work. There are accusations that the Bank and the Fund apply identical remedies, irrespective of a country's circumstances, and that they have a market-oriented, free-enterprise philosophy, which they apply in a doctrinaire way. The 2001 Nobel Prize laureate in economics, Joseph Stiglitz, asserts that the IMF has failed in its mission: many of the policies the IMF advocated have contributed to global instability. Contrary to the expansionary monetary and fiscal policies used by the United States and other Western countries, when a developing country faces a financial crisis, the Fund insists on a contractionary policy by raising the interest rate and restricting the credit availability [58]. Others have recommended that the IMF should get out of long-term development finance and refocus its efforts on short-term emergency lending [59].

The World Trade Organization

Established on January 1, 1995, as the successor to the General Agreement on Tariffs and Trade (GATT), the WTO is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

The GATT was a multilateral agreement setting out rules for the conduct of international trade. It was founded in 1948 on a provisional basis to make rules for the conduct of trade among its members. A parallel organization, the International Trade Organization (ITO), was set up to enforce those rules. However, the charter for the ITO was never ratified, leaving the GATT as an interim agreement. The goals of the agreement were to create a more predictable environment for international trade and to liberalize trade so that investment, job creation, and trade can flourish.

As an interim arrangement, the GATT was very successful. The objective of the GATT was the elimination of trade tariffs. Under its auspices, governments cut the average tariff on manufactured goods from 40% in 1947 to approximately 5% in 1991.

In all, there were eight agreements under the GATT, each called a Round. The eighth Round, the Uruguay Round, concluded in December 1993, with a signing ceremony in January 2004 in Marrakesh, Morocco. It took 7 years to conclude the

Uruguay Round. The most recent agreement under the WTO was the Doha Round, which started in 2001 in Doha, Qatar, and provided the mandate for negotiations, including those on agriculture and services. The Doha mandate was refined by work at Cancun in 2003, at Geneva in 2004, and at Hong Kong in 2005.

WTO's agreements are negotiated and signed by a large majority of the world's trading nations and ratified in their parliaments. These agreements are the legal ground rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit. Although the agreements were negotiated and signed by governments, the beneficiaries are international producers of goods and services, exporters, and importers. The purpose of these agreements is to help businesses involved in international trade.

The main decision-making bodies of the WTO are councils and committees consisting of the entire membership. Administrative and technical support comes from the WTO Secretariat in Geneva, Switzerland. Decisions in the WTO are typically made by consensus among all member countries and ratified by members' parliaments. Trade frictions are channeled into the WTO's dispute settlement process, where the focus is on interpreting agreements and commitments and ensuring that countries' trade policies conform with them. In this way, the risk of disputes spilling over into political or military conflict is reduced.

The WTO is intended to be more powerful than the GATT. It oversees trade in goods, services, and ideas and has binding authority. GATT was never more than a provisional set of rules with a small office in Geneva. The WTO is the umbrella organization covering the old GATT and all the new agreements. A key function of the new organization is dispute settlement, which was supposed to be the original role of the ITO. Unlike the GATT, which had no effective way of imposing sanctions on the violators and suffered from continual delays and blockages, the WTO has a dispute settlement panel and an appeals body. If the reports of the panel are challenged, the appeals body makes a final and binding judgment. The judgments of the appeals body will have to be implemented within a reasonable period. Sanctions can be imposed against the recalcitrant country.

While the WTO is an improvement on the GATT, developing countries have certain complaints about it. In their opinion, the provisions pertinent to developing countries' trade with developed countries are "soft laws," which hinder their implementation. The general nature of the language used in these provisions, for example, resulted in a number of valid cases where the WTO had to conclude that there was no breach of obligations by allegedly violating parties. "The set of GATT/WTO legal provisions purported to confer benefits to developing countries and LDCs contains a 'birth defect': they are, on the whole, a set of 'soft law' rules. The non-binding and non-enforceable, 'soft law' nature of these rules explain to a large extent why they keep a 'poor track record' as to their effectiveness in implementation" [60].

What Is Next?

We are witnessing a transition period in the world. While we are not quite sure where the transition will exactly take us, it is our hope that nations in leadership roles are keeping their focus on the ideal destination and are selecting their present paths accordingly. We hope that the present path will take us all to prosperity and peace.

Like any transition period, this one is governed by the forces of change. Technological advancement in telecommunications, computers, and the Internet and the increased convenience of travel are reducing physical distances and bringing the countries of the world ever closer to a "global village." Political changes are pushing the world in two different directions. The fall of international communism is changing military-political rivalries to economic-political rivalries and consequently creating ever-increasing market competition. At the same time, ethno-cultural differences, which were suppressed by the rivalry between capitalist democracies and communism, are coming into the limelight. Increased understanding of the ecosystem and the impact of people on the environment, coupled with the disastrous consequences of a few blatant cases of industrial negligence, such as the Bhopal disaster and the Chernobyl accident, are galvanizing the forces of environmentalism into demanding better safeguards for the ecosystem. Also, the negative effects of globalization have created a backlash against it.

New players are emerging on a scene dominated by economic and political rivalry, and new aspects of competition are also appearing. No longer can the United States be assured of an undisputed world leader. These new developments have advantages as well as drawbacks. The period from the end of World War II until the fall of global communism was characterized by US political and economic leadership. Many attribute the success of the GATT, the predecessor of the WTO, and the growth of world trade during this period to the dominance of the United States and its willingness to support the emergence of an economically strong Europe and Japan to combat the expansion of international communism. The dominant position of the United States gave it the power to set the rules, which all participants had to follow. With a large market and a dominant position, the United States was able to and did absorb some of the costs. At present, however, the threat of international communism has vanished, and the United States is opting out of its leadership position to look after its own interests.

During this transition period, who is going to set the rules? No matter who sets them and what form they take, why should anybody follow these rules? Since there is no undisputed front-runner and no dominant power to handle disputes, how do we resolve trade conflicts and who will be the arbitrator? Of course, one immediate need is to strengthen supranational organizations such the UN and the WTO, but doing this is, in itself, a slow and arduous task.

There are certain signs that additional answers are emerging to the questions of leadership and role setting. To answer these questions, we should take into consideration the intertwining of international management and international relations and note four observable trends [58, p. 237].

First, there is a growing diffusion and ambiguity of power. The hegemony of the United States is on the decline, and other major powers are faced with increasing internal and external problems. Europe is an economically integrated market and is slowly moving toward political unity. Ministates are emerging that are at times capable of frustrating the will of major powers.

Second, international alignments are becoming more fluid. The fall of international communism is bridging the ideological gap between Eastern and Western Europe. The growing number of newly industrializing countries is blurring the line between the haves and have-nots. And there is an increasing localization of politics related to ethnicity and other issues that exist beneath the global level.

Third, the pattern of interdependencies is becoming more intricate. This is due to the expanding agenda of concerns that merges economics, ecology, and politics, leading to a broadening concept of national security beyond traditional military considerations. International terrorism should be mentioned at this point (see Chap. 1). International terrorism is making the control of MNC operations and the provision of security for doing business across international borders very difficult. It is a hindrance to globalization. It endangers free trade and increases the cost of international business. This issue will be the focus of attention for the managers of MNCs and national policymakers alike. Without effective control, if not the eradication, of international terrorism, international business will suffer. International terrorism highlights the importance of nonbusiness risk assessment and management. Consequently, secure markets and safe business practices would reap the benefit of global concerns over international terrorism.

Fourth, the role of non-state actors is on the rise, and linkages between the activities of local, national, international, and intergovernmental levels are increasing. There are signs of emerging non-territorial organizations through the growing networks of NGOs (e.g., Amnesty International) and alliances among MNCs. While we may never see a world map defined by MNC logos, their influence may match those of most national governments.

The increased complexity of international management, propelled by these four trends, gives market power and size a new prominence. Some [65] argue that those who control the world's largest markets will be informally writing the rules of international business. If this assertion is true, the Europeans may be writing the de facto rules of international trade in the next century. While the specifics of those rules are not predictable, their directions are discernible from certain observable trends. In world trade, to be considered fair, the rules must apply to all participants. We must have "a level playing field." There must be broadly similar taxes, regulations, and private modes of operation. Much of the benefits that are now local may become global or vanish. German firms, for example, may not be able to continue giving 3 years' leave to new mothers if the rest of the world is not willing to match their generosity. If in one country, such as Japan, commercial laws provide opportunities to businesses to work out common strategies of conquest in the home or foreign markets, others will be forced to respond. Similarly, in an open world economy, the high minimum wages of Western countries are threatened by the low minimum wages of Asians. Given the short vacations in Japan, long European vacations are not viable. No nation alone can compel businesses to honor ecological standards. MNCs will simply move production to those parts of the world with no fringe benefits and no environmental regulations. In effect, hidden benefits and covert costs will become overt in wages and prices. Likewise, extreme variations in return on investment cannot last long. Issues that were previously localized will become global.

> The capitalist who is willing to work for the lowest rate of return in the world sets the maximum rate of return for everyone else. If the Japanese capitalist will accept a 3 percent return, Americans cannot have 15 percent. [66, p. 13]

Chapter Summary

Similar to their domestic counterparts, MNCs have social responsibilities. Because of cultural and market diversity, however, MNCs face a much more difficult challenge in fulfilling their social responsibilities. MNCs not only have an obligation to abide by the local laws of the host countries; they must also preserve the ecological well-being of the planet, respect the host culture, and follow overall ethical standards. While basic morality does not vary among nations, due to differing circumstances, certain practices are locally determined. The executives of MNCs need to understand those variations and consider them in their day-to-day business.

While compliance with national laws and ethical norms are local concerns, other issues such as ecological problems, harvesting the riches of the oceans, the exploration of Antarctica, the exploitation of outer space, and the effects of globalization are global matters. There are wide areas of disagreement regarding these issues. With the emphasis changing from military-political rivalry to economic-political rivalry among nations, the handling of these issues is gaining added urgency. Supranational organizations such as the UN, the WTO, the World Bank, and the IMF are well positioned to take leadership roles in global conflict resolution in all these issues. The nature of these organizations and the methods they adopt to resolve global differences will be the subject of debate for many years to come. What is clear at this point is that our transformation toward a global village is well underway.

Discussion Questions

1. It is suggested that for many social responsibility issues, the MNCs have a special obligation toward developing countries. Explain the reason for such a special obligation.
2. The newly independent country of Neverland is interested in selling exploration rights to its minerals. Since this is Neverland's first international venture, you can probably negotiate a very lucrative deal for your

company. You may be able to negotiate a below market price for its minerals. In all likelihood, your agreement will become industry pattern for other MNC negotiations. What will you do? Support your decision on practical and moral grounds.

3. Why are global ecological problems difficult to solve?
4. Do you agree with the claim that we need to develop global standards to protect the ecosystem? Support your opinion.
5. Why should the rule of "first come first served" not be applied to the use of outer space?
6. In the case of lubrication money, why shouldn't an executive simply follow what everybody else is doing?
7. Explain the reasons for the backlash against globalization.
8. In your opinion, is the backlash against globalization a temporary phenomenon? Why?
9. What are the benefits of the WTO?
10. What are the criticisms against the WTO?
11. Elaborate on the changing mission and strategies of the World Bank and the IMF.
12. Do you agree that the UN should be strengthened?
13. Do you think that the United States can maintain its global leadership role? Explain your reasons. If your answer is no, what type of leadership is likely to emerge?

References

1. Stein, N. (2001, Nov. 26). Yes, we have no profits. *Fortune*, 182–186.
2. Kihss, P. (1975, Feb. 4). 44-story plunge kills head of United Brands. *The New York Times*, pp. 1, 10.
3. Bacon, K. H., Bralove, M., & Sansweet, S. J. (1975, Apr. 9). United Brands paid bribe of $1.25 million to Honduran official. *The Wall Street Journal*, 1, 23.
4. Nehemkis, P. (1975, Winter). Business payoffs abroad: Rhetoric and reality. *California Management Review, 18*(2), 5–20.
5. Wright, P., Pringle, C. D., Kroll, M., & Parnell, J. A. (1994). *Strategic management*. Boston, MA: Allyn & Bacon.
6. De George, R. T. (1993). *Competing with integrity in international business*. New York: Oxford University Press.
7. Merrifield, M. (2003). Corporate social responsibility. *Baylor Business Review, 21*(1), 2–8.
8. Ohmae, K. (1991). *The borderless world*. New York, NY: Harper Collins.
9. Dhooge, L. J. (2004). The Alien Tort Claims Act and the modern transnational enterprise: Deconstructing the methodology of judicial activism. *Georgetown Journal of International Law, 35*(1), 3–103.
10. Getz, K. A. (1990, Jul.). International codes of conduct: An analysis of ethical reasoning. *Journal of Business Ethics, 9*, 567–577.
11. McGuire, J. B., Gundgren, A., & Schneeweis, T. (1988). Corporate social responsibility and firm financial performance. *Academy of Management Journal, 31*(4), 854–872.

12. Bassiry, G. R. (1991). Multinational corporations in less developed countries: An alternative strategy. *Human Systems Management, 10*, 61–69.
13. De George, R. T. (1999). *Business ethics*. Upper Saddle River, NJ: Prentice Hall.
14. Jamali, D. (2010). The CSR of MNC subsidiaries in developing countries: Global, local, substantive or diluted? *Journal of Business Ethics, 93*, 181–200.
15. World Commission on Environment and Development. (1990). *Our common future*. Oxford, UK: Oxford University Press.
16. Raeburn, P. (2002, Mar. 4). Over-fishing threatens ocean's future. *Business Week*, p. 73.
17. Darnton, J. (1999, Apr. 2). 2 Fishing nation's fish stories. *The New York Times*, p. 4E.
18. Friedland, J. (1997, Nov. 25). Fish stories these days are tales of depletion and growing rivalry. *The Wall Street Journal*, A10.
19. Salpukas, A. (1994, Apr. 24). 2,860 feet under the sea, a record-breaking well. *The New York Times*, p. F9.
20. Trounson, A. (2002, Jul. 18). New nation, old frustration: Who owns what? *The Wall Street Journal*, A10.
21. Nether, T. W. (1985, Sept. 15). Third world seeks it place in space. *The New York Times*, p. E7.
22. Leeds, R. (2003). Breach of trust. *Harvard Business Review, 25*(3), 76–83.
23. Schollhammer, H. (1977). Ethics in an international business context. *MSU Business Topics, Spring*, 56.
24. Radmann, J. (2004). Correlates of bribes giving in international business. *International Journal of Commerce and Management, 14*(2), 1–14.
25. Schwartz, N. D. (2002, Feb. 4). The Argentina effect. *Fortune*, 118–120.
26. Habib, M., & Zurawicki, L. (2002). Corruption and foreign direct investment. *Journal of International Business Studies, 33*(2), 291–307.
27. Pennar, K., Galuszka, P., Lindorff, D., & Jesurum, R. (1993, Dec. 6). The destructive costs of greasing palms. *Business Week*, pp. 133–138.
28. Sherman, S. (1992, Feb. 24). Mr. Rogers takes his dream trip. *Fortune*, 104–110.
29. Bahls, J. E. (2004, Sept.). Illicit affairs? If you do business overseas, be sure your administrative fees aren't really illegal bribes. *Entrepreneur*, 14–16.
30. Kelly, A. L. (1984). Case study: Italian tax mores. In T. Donaldson (Ed.), *Case studies in business ethics* (pp. 14–17). Englewood Cliffs, NJ: Prentice Hall.
31. Salacuse, J. W. (1991). *Making global deals*. Boston, MA: Houghton Mifflin.
32. Husted, B. W. (1999). Wealth, culture and corruption. *Journal of International Business Review, 30*(2), 339–360.
33. Donaldson, T., & Wunfree, T. W. (1999, Summer). When ethics travel: The promise and peril of global business ethics. *California Management Review, 41*(4), 47.
34. Schmidt, W. E. (1994, Apr. 17). Once chosen, tribal elites now suffer consequences. *The New York Times*, p. E3.
35. Engelberg, S., & Tolchin, M. (1993, Nov. 2). Foreigners find new ally is U.S. industry. *The New York Times*, pp. A1, B8.
36. Kolde, E.-J. (1985). *Environment of international business*. Boston, MA: PWS-Kent.
37. Sterngold, J. (1993, Aug. 29). Making Japan cheaper for the Japanese. *The New York Times*, p. E6.
38. Sanger, D. E. (1993, Oct. 11). Discounting finally makes it to Japan. *The New York Times*, pp. D1, D2.
39. Tuller, L. W. (1991). *Going global: New opportunities for growing companies to compete in world markets*. Homewood, IL: Richard D. Irwin.
40. Schlesinger, J. M. (1991, Jun. 10). U.S. contractors find they rarely get work on projects in Japan. *The Wall Street Journal*, A1, A9.
41. Chira, S. (1994, Apr. 13). Women campaign for new plan to curb the world's population. *The New York Times*, pp. A1, A12.
42. Perlmutter, H. V. (1969, Jan.–Feb.). The tortuous evolution of the multinational corporation. *Columbia Journal of World Business*, 9–18.

43. Pinto, A., & Knalkel, J. (1973). The centre-periphery system 20 years later. *Social and Economic Studies, 22*, 34–89.
44. Taylor, P. J. (1992, Jan.). Understanding global inequalities: A world-system approach. *Geography, 77*, 17.
45. Bayliss-Smith, T. P. (1982). *The ecology of agricultural systems*. Cambridge, UK: Cambridge University Press.
46. Fatehi, K. (1994). Capital flight from Latin America as a barometer of political instability. *Journal of Business Research, 30*(2), 187–195.
47. Naylor, R. T. (1987). *Hot money and the politics of debt*. New York, NY: Linden Press.
48. Ingo, W. (1985). *Secret money: The world of international financial secrecy*. Lexington, KY: Lexington Books.
49. Sesil, M. R., Witcher, K., & Hertzberg, D. (1986, May 27). Flight capital's destination often is U.S.: Political security attracts billions of dollars. *The Wall Street Journal*, 2.
50. Moline, M. J. (1991). Debt-for-nature exchanges: Attempting to deal simultaneously with two global problems. *Law and Policy in International Business, 22*, 133–157.
51. Kuttner, R. (1999, Dec. 20). The Seattle protestors got it right. *Business Week*, p. 25.
52. Useen, J. (2000, May 15). There's something happening there. *Fortune*, 244.
53. Sirkin, H. L. (2016, May 31). Reshoring has slowed but hasn't stopped. *Forbes.*
54. (2000, Apr. 24). What's behind the global backlash? *Business Week*, p. 202.
55. Wakefield, J. (2016, Jan. 19). Apple, Samsung and Sony face child labor claims. *BBC News*.
56. Baehr, P. R., & Gordenker, L. (1984). *The United Nations*. New York, NY: Praeger.
57. Goodrich, L. M. (1977). *The United Nations in a changing world*. New York, NY: Colombia University Press.
58. Rochester, J. M. (1993). *Waiting for the millennium*. Columbia, SC: University of South Carolina Press.
59. World Bank. (1962). *The World Bank, IFC and IDA: Policies and operations*. Washington, DC: International Bank for Reconstruction and Development.
60. Acheson, A. L., Grant, J. F., & Prachowny, M. F. J. (1972). *Berton Woods revisited*. Toronto, ON: University of Toronto Press.
61. Coady, E. (1992). Global change and the World Bank. *Bankers' Magazine, 3*, 25.
62. Mistry, P. (1991). World or wonder-land bank? *Banker, 788*, 40.
63. Orr, B. (1990, Mar.). Are the IMF and the World Bank on the right track? *ABA Banking Journal*, 74–82.
64. Bandow, D. (1990). The IMF: Forever in its debt. *Business and Society Review, Spring*, 4–7.
65. Olivares, G. (2001). The case for giving effectiveness to GATT/WTO rules on developing countries and LDCs. *Journal of World Trade, 35*(3), 545–551.
66. Thurow, L. (1992). New rules for playing the game. *National Forum, Fall*, 10–13.

Part II

Cultural and Behavioral

International Management and the Cultural Context

3

Chapter Outline

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_3

To manage a business organization effectively, it is essential to understand people's values and assumptions, which are shaped by their cultures. Cultural norms and values are not universal, although there are some similarities. Among these similarities are a desire to be helpful, respect for authority and power, and the tendency toward comfort. But even those concepts and values that at first glance appear to be universal show vast differences on closer scrutiny.

In this chapter, we learn how cultural differences influence the management of business organizations. The differences between the most prominent American cultural values and those of other nations are used as a framework for the discussion of the managerial implications of cultural differences. The definitions of national culture and corporate culture explain the relationship between the two. A discussion of the organizational typology illustrates how cultural diversity in multinational corporations (MNCs) could improve organizational capabilities.

Overview

Chapter Vignette

A few decades ago, when MNCs started sending their employees abroad, they learned about a phenomenon called cultural shock. Manifested as a feeling of bewilderment, loss, and anxiety, cultural shock beset people who, in a foreign land, do not find the familiar clues that make everyday life a comfortable exercise. Now, many MNCs are being introduced to another cultural shock. Strategic alliances between large MNCs create multicultural teams and result in many unforeseen problems between these teams that slow down projects.

Cooperative projects combining culturally diverse people should produce synergy. Americans, for example, look at objects and relate them in a linear fashion. Japanese look at the harmony between objects and spatial relationships. To Americans, harmony is asymmetrical balance when every object is balanced by an equal object on the opposite side. To Japanese, harmony is a fit, a match, and an asymmetrical balance that creates a coherent pattern without forcing parallels and matching opposites. Combining the two divergent styles could produce new solutions.

Take the case of the International Business Machines (IBM) when it began a cooperative project with Siemens AG of Germany and Toshiba Corporation of Japan to develop a new computer memory chip. At the East Fishkill, New York, facilities, in mostly windowless offices, more than 100 scientists from culturally diverse backgrounds were brought together [1].

Before getting together for the project, all the scientists were sent for training programs in their home countries. Toshiba, for example, provided language training. Siemens briefed its scientists about "hamburger" managerial styles. They were told that when criticizing a subordinate, Americans start with small talk: "How is the family?" This is the top of the hamburger. Then, they slip in the meat, the criticisms, which is followed by more bun, the encouraging words, such as "I know you can do better." With Germans, all you get is the meat. Japanese offer only the soft bun; you have to smell the meat.

From the onset of the project and before the full realization of potential synergies, problems began to slow down the project [1]. Siemen's scientists were shocked to find that Japanese seemingly fall asleep during meetings. It is a common practice for overworked Japanese managers to close their eyes and rest when talk does not concern them. The Japanese found it painful to sit in small, individual offices and speak English. The Americans complained that the Germans planned too much and the Japanese were not making clear decisions.

The toughest adjustment problem for the Japanese Toshiba scientists was in the area of corporate culture. They were accustomed to working in large rooms with a lot of people, constantly overhearing all the conversations, like living in a sea of information. IBM's small offices could not accommodate this important information exchange. The Germans were horrified to see windowless offices. They also did not like to step outside the offices for smoking. For a few months, they were all on their best behavior. With the passage of time, however, the three groups grew more isolated. Even softball games and after-hours socializing were marred by cultural differences. The Americans and Japanese knew softball, but the Germans did not. Participation in the project became a frustrating experience for everyone involved.

Introduction

The survival of an organization depends on its ability to respond to environmental changes and societal demands. Corporate culture consists of the assumptions and values created by the manner in which the organization adapts to these changes and demands. To survive, the organization must interact effectively with its environment. This includes the relationship between corporate culture and the cultural environment. Various aspects of national culture are reflected in the culture of the firm. Although the transfer from national culture to the culture of the firm is never complete, it is irresistible. Very seldom can irreconcilable contradictions exist between the two. Any difference is either temporary or a normal variance of the national norms (p. 80) [2]. Incongruity between corporate culture and societal values results in the death of the organization. The organizations that survive are those that adopt cultures reflective of the major values of the society and its dominant cultural characteristics.

What Is Culture?

Culture is a system of knowledge and standards for perceiving, believing, evaluating, and acting. It is a process of socially transmitted behavior patterns that serves to relate people to the environment [3]. Culture develops over time and is constantly and slowly evolving. A simpler definition is offered by Hofstede, who described culture as "the collective programming of the mind which distinguishes the members of one category of people from those of the other (p. 389–398)." [4] Another simple definition of culture is given by Schein [5] who states that "culture is the way in which a group of people solves problems and reconciles dilemmas". Although there is no unified definition of culture, one common denominator is that culture is the way or a system of knowledge/standard that determines the behaviors of people in a society. Then the question is what determines the system of knowledge/standard. To answer this, we need to understand the major components of culture.

The Major Components of Culture

Language, ethnicity, and religion are the major components of culture.

Language The language we use to communicate with others structures the way we perceive the world. One word in a country may have various meanings if translated into different languages, because people in the world perceive the world differently. For instance, the Korean word "*Jeong*" can be translated in English as "affection," "attachment," or "warm-hearted," but the meaning may also vary depending upon situations. As such, if one language is not perfectly translated into another language, it causes a confusion and miscommunication and thus creates language barriers and cultural difference.

Ethnicity Ethnicity refers to as an enduring, fundamental aspect of the self that includes a sense of membership in an ethnic group and the attitudes and feelings associated with that membership [6].

As long as ethnicity reflects attitudes and feelings of an ethnic group, it has psychological implications of culture. Ethnicity comprises of a number of different components including self-labeling, a sense of belonging, preference for the group, ethnic interest and knowledge, and involvement in activities associated with the group [6]. A notable example of cultural difference derived from the ethnic diversity of social group is between African Americans and American Whites. African Americans have their own history and experience that may have different impacts on their attitudes and feelings [7].

Religion To better understand a culture, one must have knowledge of its religious foundation. There are several major religions and many minor ones. The major religions are Buddhism, Christianity, Confucianism, Hinduism, Islam, Judaism, and Shinto. The three major religions originating from the Middle East—Judaism, Christianity, and Islam—have much in common and share the same basic framework. These three religions believe in one God who is omnipotent, omnipresent, and omniscient. The Asian religions such as Hinduism and Buddhism, however, have a different structure. Many abstract religious concepts that have shaped Western thoughts and beliefs are alien to followers of these two religions. A characterization of these differences by H. L. Telshaw Jr. is illuminating. Telshaw, who worked for General Motors for many years in international assignments, especially in Asia, asserted that:

> the adherents of Confucius, Buddha and Lao Tsu's Tao have been molded by the thoughts, ideals, and teachings of these Oriental philosophers which incidentally tend to concentrate on developing strong personal and family values unencumbered by such intellectual hurdles as "immaculate Conceptions", "Resurrections", miracles, etc. . . .
>
> We in the Occident having been reared on a battleground contested by the forces of good and evil, have developed an unusual capacity for guilt, not found in the same extremes in the Orient. Captivated by the promises of heaven and the threats of hell, we tend to be idealistically and fearfully motivated. Moreover, because of the widely held belief that we are individually accountable at the judgment seat for our deeds, we tend toward self-centeredness and egotism. Orientals, on the other hand, see themselves as merely another manifestation of the creation and strive to be "in harmony" with its other elements and therefore tend to be more realistic—more fatalistic, humble, even innocent [8] (pp. 250–251).

As just described, culture of a society can be determined by language, ethnicity, and religion. Thus, a country that is diverse in language, ethnicity, and religion tends to have a certain degree of cultural heterogeneity. For examples, countries using more than one language such as Canada (e.g., English and French), the United States, and India are made up of many subcultures, whereas countries using one language such as Korea and Japan tend to have a homogenous culture.

It is more demanding and challenging for expatriate managers to function in cultures with a high level of cultural heterogeneity and complexity. To perform managerial functions demands a more careful assessment of situations and an understanding of circumstances. It is more difficult for an expatriate, for example, to manage a firm in India than in the United States. While both the United States and India are culturally heterogeneous, India has a higher level of cultural heterogeneity and complexity. Conducting business transactions in a country with a relatively homogeneous culture is much simpler for a foreigner. Understanding the cultural complexity and heterogeneity of host countries should be a top priority of MNCs. To succeed in the multicultural environment of the world market, MNCs should show sensitivity to their host countries' cultures and try to understand the cultural differences. Also, focusing on the dominant culture in a heterogeneous culture may result in lost opportunities. The losses are due to not recognizing the needs of members of subcultures. For example, only recently have American businesses begun to cater to the Mexican-American subculture.

Exotic Cuisines

When people travel around the world, they may have to try different foods. Some of the exotic cuisines include insects, various plants, and unique animals. In Colombia, for instance, travelers may be offered termites and palm grubs or spread ground-up ants on bread. In the Philippines, the food selection may include beetles, grasshoppers, locusts, and dragonflies.

In Mexico, the custom of eating insects originates from pre-Hispanic inhabitants, who viewed insects as an important source of protein since there were no cows at that time. Now, not only do common people eat these exotic foods, they are also found in upper-class restaurants. Some restaurants include in their menus worms, nopales (a small, thick cactus leaf used in salads), huitlacoche (a brain-like fungus that grows on maize), and escamoles (ant's eggs). The worms are lightly fried in olive oil and served in a bowl with tortillas and guacamole. They taste between pork crackling and fried seaweed. In a small town called Oaxaca, grasshoppers are a popular fast food.

But today, these exotic foods are slowly gaining the status of delicacies and may be priced out of the reach of the poor. A chef lamented these developments saying it is a shame because half a kilo of grasshoppers for a few dollars has more protein than 20 kilos of beef [9].

Six Dimensions of Culture

While there are similarities among cultures, no two cultures are alike. There are many ways of comparing and contrasting cultures. In the literature on international management, a well-known typology of culture is offered by Hofstede [10]. He compared cultures using six cultural dimensions: individualism/collectivism, masculinity/femininity (gender values differentiation and rigidity), uncertainty avoidance, power distance, long-term/short-term orientation, and indulgence/restraint. The six dimensions of culture are as follows. While the validity of these dimensions has been a matter of controversy, they have provided a broad framework that has inspired much research and new theorizing (p. 365) [11].

Power Distance Variation in the distribution of power among the members of the society is called power distance (PD). It is the difference in the amount of power possessed by the least powerful and the most powerful members of the society. Various degrees of power inequality exist in all cultures. According to Mulder's power distance reduction theory, superiors will try to maintain and increase the PD between themselves and subordinates, and subordinates will try to reduce this distance [12]. Hofstede, however, proposed that there is a culturally based equilibrium level at which both the most powerful and the least powerful persons will find inequality acceptable. Cultures with a PD tend to concentrate influence and control in the hands of a few. Distribution of power and influence tends to be more equal among people of low-PD cultures.

PD can be measured using Hofstede's power distance index (PDI). The ten countries with the highest PDI are the Philippines, Mexico, Venezuela, India, Singapore, Brazil, Hong Kong, France, Colombia, and Turkey. Cultures with the lowest PD are Western Europe, Israel, New Zealand, the United States, and Canada. There is less emphasis on power among the people of low-PD countries. As one Swedish university official said, "In order to exercise power, he tries not to look powerful" (p. 94) [10]. Interpersonal relationships between the people of high-PD countries tend to be more along the hierarchical line. In general, Asian and African cultures maintain hierarchical role relationships.

Individualism vs. Collectivism It is the culture's emphasis on personal identity. It encourages self-serving behaviors. In individualistic cultures, it is expected that individuals primarily look after their own interest and those of their immediate family. Therefore, individualistic cultures are loosely integrated. The opposite of individualism is collectivism. Collectivist cultures emphasize groups (e.g., family, neighborhood, organizations, and the country), not individuals. In a collectivist society, the interests and goals of individuals are subordinate to those of the group [13]. Individuals seek fulfillment and happiness in the harmony of the group. Groups provide security to members and protect their interests in exchange for their complete loyalty. Compared with individualistic societies, collectivist societies are tightly integrated (p. 390) [8].

Individualism is directly related to the use of space and accessibility. Individualistic societies heavily emphasize owning space. The heavy emphasis on individual ownership, in turn, tends to distance people from one another, limit sensory stimulation, and promote privacy. Most Western cultures are individualistic, whereas Eastern European and most South American cultures are collectivist. People from individualistic cultures rely on personal judgment, while collectivists value collective judgment and emphasize harmony between people. Collectivist cultures are more interested in living in harmony with nature, while an individualistic culture attempts to dominate nature.

Uncertainty Avoidance Cultures view risk and uncertainty differently. Some cultures have more aversion to risk and uncertainty and avoid situations that are ambiguous and risky. Other cultures can tolerate such situations with less discomfort and anxiety. "Cultures with a strong uncertainty avoidance are active, aggressive, emotional, security-seeking, and intolerant. Cultures with a weak uncertainty avoidance are contemplative, less aggressive, unemotional, accepting of personal risk, and relatively tolerant (p. 390)." [8]

Hofstede's found that the top ten countries that are high on the uncertainty avoidance dimension are, in descending order, Greece, Portugal, Belgium, Japan, Peru, France, Chile, Spain, Argentina, and Turkey. The ten cultures with the lowest uncertainty avoidance are Singapore, Denmark, Sweden, Hong Kong, Ireland, Great Britain, India, the Philippines, the United States, and Canada (p. 122) [10]. Countries that are higher on uncertainty avoidance tend to be Catholic cultures, while Protestant, Hindu, or Buddhist cultures tend to be more tolerant of ambiguity and risk (p. 135) [10].

Masculinity vs. Femininity This dimension refers to the rigidity of socially prescribed gender roles. In some cultures, gender roles are narrowly defined, and people are expected to behave within their socially prescribed roles. An example is that getting behind the wheel by women without a permission from their male guardians is not widely accepted in Saudi Arabia [14]. Masculinity is identified with traits and behaviors such as strength, speed, assertiveness, competitiveness, dominance, anger, ambition, and the pursuit of wealth. Feminine characteristics and behaviors are associated with emotionality, affection, compassion, warmth, and nurturing of the weak and needy. The emphasis on one or the other set of attributes characterizes the masculinity or femininity of a culture. In societies where gender roles are more clearly specified, masculine manners are expected from men, and women are expected to behave in feminine ways.

Countries can be ranked according to gender role differentiation and rigidity dimension [10]. The ten countries with the highest masculinity index are Japan, Austria, Venezuela, Italy, Switzerland, Mexico, Ireland, Great Britain, Germany, and the Philippines. The highest feminine value countries on this index are Sweden, Norway, the Netherlands, Denmark, Finland, Chile, Portugal, Thailand, Peru, and Spain. Although not among the ten highest on masculinity index, the United States tends to be a masculine society. Compared with the people of most countries, American people of both sexes seem to be loud, aggressive, and competitive. In the United States, feminine people are more expressive, nurturing, and relational and provide more personal information. Masculine people are more dominant, argumentative, assertive, and goal oriented. Emotional expressions such as crying are associated more with femininity.

Long-Term vs. Short-Term Orientation It captures attitudes toward time on work, reward, and life. Long-term orientation focuses on the persistence, long-term future rewards (as opposed to immediate gains), and long-term relationship building. East-Asian countries such as Japan, China, and South Korea have a long-term future orientation. Short-term orientation, on the other hand, values more on the past and present than future and focuses on achieving quick results/rewards and spending (rather than saving). The United States, the United Kingdom, Canada, and Germany tend to have a short-term orientation. An example of cultural differences in people's orientation toward the time can be found in business contracts. In the early 2000s, many Sino-US joint ventures were formed. However, due to the cultural difference in time perspective (US, short-term vs. China, long-term orientation), those alliances were not successful. Long-term-oriented Chinese partners believed that signing up a business contract is the beginning of relationships that will be constantly examined and renegotiated depending upon the emergent contingencies, whereas American counterpart focused on the fulfillment/implementation of contracts.

Indulgence vs. Restraint Indulgence versus restraint refers to the gratification versus control of basic human desires related to enjoying life [15]. According to Hofstede, indulgence refers to the free gratification of basic and natural human desires related to enjoying life (personal feeling) and having fun. In contrast, restraint stands for a society that controls gratification of needs and regulates it by means of strict social norms; personal responsibility is more important than personal feeling/happiness. China, Russia, South Korea, India, and Islamic countries (e.g., Iraq) show a low degree of indulgence indicating a restraint culture, while English-speaking countries such as Canada, the United States, and Latin America countries (e.g., Mexico, Argentina, and Brazil) have a high degree of indulgence (Table 3.1).

Table 3.1 Cultural dimensions and their key differences

◀------------------ Low	Cultural dimensions	------------------▶ High
Low-power distance	**Power distance**	**High-power distance**
Use of power should be legitimate Hierarchy means inequality of roles		Power is a basic fact of society Hierarchy means existential inequality
Individualism	**Collectivism**	**Collectivism**
"I": Consciousness Speaking one's mind is healthy Others classified as individuals		"We": Consciousness Harmony should always be maintained Others classified as (in/out) groups
Low uncertainty avoidance	**Uncertainty avoidance**	**High uncertainty avoidance**
The uncertainty inherent in life is accepted Ease, lower stress, self-control, low anxiety Relatively comfortable with ambiguity and chaos		The uncertainty inherent in life is felt as a continuous threat Higher stress, emotionality, anxiety, neuroticism Need for clarity and structure
Femininity	**Masculinity**	**Masculinity**
No significant emotional and social role difference between the genders Balance between family and work Many women in leadership positions		Significant emotional and social role difference between the genders Work prevails over family Few women in leadership positions
Short-term orientation	**Long-term orientation**	**Long-term orientation**
Emphasis on quick results Social spending and consumption		Emphasis on persistence Large savings quote, funds available for investment
Restraint	**Indulgence**	**Indulgence**
More controlled and rigid behavior Lower importance of leisure In countries with enough food, fewer obese people		Freedom of speech seen as important Higher importance of leisure In countries with enough food, higher percentages of obese people

Source: Hofstede [15]

To understand cultural differences between countries, scrutinizing each cultural dimension is critical because each dimension of culture can differ significantly even between geographically proximate countries (e.g., the United States/Mexico and South Korea/Japan). Hofstede's cultural dimensions are useful in this manner. However, Hofstede's framework does not perfectly capture and measure all potential dimensions of national culture since he measured it based on the survey questionnaires distributed to the subsidiaries of IBM (an American Multinational Corporation) in different countries. Thus, it is important to consider other dimensions of culture that are not included in the Hofstede's studies.

Other Potential Dimensions of Culture

Work and Material Gain

Hard work is considered a requisite for the attainment of a goal. It is not only a requirement for success but also a virtue. The frontier heritage of America has made hard work the gospel. The prolonged siesta of other lands, the leisurely luncheon, and the hour-long teas are frowned on (p. 688) [16]. Without hard work, individuals should not expect to achieve their goals, in all likelihood they won't, and if by luck it happened, they do not deserve it. Americans take pride in hard work and believe it will eventually pay off. Work permeates all aspects of American life. Social occasions, religious gatherings, and leisure activities are quite often used as opportunities to facilitate or conduct business. Many Americans spend their weekends doing what others consider manual labor, such as painting the house, washing the car, mowing the lawn, or tinkering in the garage. It seems to others that Americans live to work, while others work to live.

To people of many cultures, work is a necessary burden, which if possible should be avoided. Australians, for example, seem to envy the "bludger," a person who appears to work hard while actually doing little work (p. 13) [17]. Most Middle Easterners look down on manual work with contempt and consider it undignified to engage in manual labor. The undignified status of manual work may be one reason why some oil-rich nations of the Persian Gulf region traditionally import virtually all their labor force from other countries, notably Pakistan. Manual work is particularly demeaning for the educated and the wealthy. Some Europeans do not share the American attitude toward work. The following story describes the Italian view of a person who is too much consumed by the work ethic. Italians consider such a person as one-dimensional [17].

> An Italian air force officer gave me his impressions of Germans. He likes Germany, but found the Germans very *lineare*, meaning direct, purposeful, and efficient. "Lineare" is not a compliment. It characterizes a one-dimensional person, while Italians feel it is important to develop the whole person, not just the work side. I said I thought the Americans were probably just as bad as the Germans, but he shook his head and grinned. "Worse," he said, "much worse." [17] (p. 13)

While Americans work hard because they consider hard work a virtue and enjoy it as an activity, Japanese work hard for a different reason. Japanese people work hard because of their loyalty and obligation to the group and because of a sense of responsibility to the group. To perform well is considered fulfilling a duty. When the group succeeds, so do the individual members, and when the group fails, its members have failed. The failure of an individual member to do his or her part in a group situation usually results in a deep sense of agony and shame, the loss of face. So people work hard, stay overtime, or come to work even when sick to ensure the group's success.

Japanese work more hours than their American or European counterparts. In Japan, very seldom does anyone refuse to work overtime. Since everybody seems to work hard, most individuals feel obligated to do the same. Doing otherwise could cause collective failure and result in loss of face. It would plunge the individual into a deep personal agony and shame. Japanese feel that if you lose face once, you lose face forever. The pressure to work hard, and the feeling of obligation and duty to do so, critics say, has resulted in a phenomenon called "karoshi," meaning sudden death from hard work [18].

While wealth has universal appeal, the significance of wealth and wealth acquisition varies among nations. Wealth has two basic dimensions. First, wealth is an instrument for the provision of sustenance and physical comfort for self and others. Second, wealth is a measure of success and accomplishment. The Americans' penchant for wealth is not only aimed at providing material comfort but is also an indication of accomplishment. Often, the Americans focus more on the second dimension. As Billington and Ridge have asserted, the American emphasis on wealth acquisition is a frontier heritage. From the early days of the frontier experience, the abundance of natural resources had resulted in a state of mind in which material progress was the only measure of the worth of people. Wealth was the talisman that would create social status, influence, and political power. Money was the primary objective in the life of many frontier settlers. The contemporary materialistic attitude of Americans is rooted in the affluence of the frontiers (p. 688) [16].

The Failure of an International Joint Venture

After two and a half years of alliance, Corning Company and a Mexican glass manufacturer, Vitro, had to call off their marriage. Corning is the glass and ceramic giant with a long history of successful joint ventures. More than half of Corning's operating income comes from joint ventures. Corning's success in alliance with other companies is mostly due to its ability to cope with the constant give-and-take that joint ventures require.

Not all of Corning's alliances, however, are successful. The joint venture with Vitro is an example. Vitro, Sociedad Anonima, is a well-known glass manufacturer based in Monterrey, Mexico. It has a large, well-educated, and highly trained workforce. While some past failures were due to economic and political factors, this one was attributed to cultural differences. In the

(continued)

beginning, the alliance seemed to be a perfect match. Both had the same corporate philosophy, which emphasized service to customers. On the surface, the companies appeared very similar. Deep down, however, they had some basic cultural differences. Corning managers, for example, were sometimes left waiting for important decisions about marketing and sales. In Mexican culture, only top managers could make those decisions, and at Vitro, those people were busy with other matters. Conversely, Mexicans sometimes saw the Corning managers as too direct, while Vitro managers, in their effort to be very polite, sometimes seemed unwilling to acknowledge problems. Often, the Vitro managers thought that the Corning people moved too fast, while the Corning managers thought that the Vitro people were too slow. The Mexican managers were taking very long lunch breaks, while the Americans had no problem eating lunch at their desks. While the Americans were willing to discuss what went wrong and learn from it, the Mexicans were reluctant to criticize anyone, especially a partner. Therefore, many mistakes were left unattended [19–21].

Other nations have different perspectives on wealth, money, and status. In contrast to Americans, Germans, for example, consider the intrinsic value of material things. Consider the purchase of books. Americans feel remiss if they buy books but do not read them. The Germans feel owning books, even if not reading them immediately, is important. For that reason, hardcover books sell more in Germany, and paperback sales are higher in the United States (p. 46) [22].

Americans have the tendency to display their wealth conspicuously and flaunt their material possessions. They enjoy displaying to others their accomplishments. Some cultures are more subtle about the display of wealth. Americans view wealth more from the consumption aspect. They view wealth as something to be used. Usefulness is a criterion to measure the worth of material things. If something is not useful, it should be thrown away. The American penchant for wastefulness is probably also an indirect result of the frontier mentality. To those settling in the frontiers, it must have seemed that the plentiful resources of America were inexhaustible. Therefore, there was no reason for conservation. The resulting wastefulness is evident in the activities of everyday life. To feel warm and comfortable at home, for example, a typical American, who is wearing only light clothes, may increase the heat and warm up the whole house. In contrast, a typical European would put on an additional sweater for warmth and comfort.

The worth of a position or an occupation is determined by several primary factors, including honor, power, prestige, and the monetary earnings associated with it, as well as the impact it may have on the family. In some cultures, the nonmonetary aspects of a job are more important. In other cultures, the monetary gains are emphasized more. It is not unusual for an American to set a goal of becoming a millionaire by a certain age and to take on more than one job in pursuit of that goal. This narrow pursuit of material gain is frowned on by many traditional cultures with close family relationships. Faced with an opportunity to earn more money or help a family member, for example, a Hindu may choose the latter. The method and manner of wealth acquisition are of concern to all cultures. However, the Americans' high regard for business and wealth acquisition through business is not universal. In cultures where there is no high regard for business, outsiders often fill the gap in business and commercial activities. The Indians in East Africa and the Chinese in Southeast Asia, for example, have been successful in business and commerce due to the tendency of locals to hold business and commerce in low regard (p. 119) [23].

Informality

Informality is a salient American characteristic that has its roots in the frontier experience (pp. 49–58) [24]. When Americans moved West in search of a better life, they left behind much of the complexity of Old World cultures. There were no rules or protocol and no opportunity to practice old customs. Very soon, a much more informal way of speaking, dressing, and engaging in social relationships developed, reflecting a more relaxed etiquette (pp. 347–350) [25]. The Old World's formal social rules, ceremonies, and traditions never took roots in frontier America. As Robert Cruden explains, frontier people under the pressure of hard work and isolation had to shuck off the grace and amenities of Eastern cities. They cultivated only those values necessary for survival: sheer physical strength and courage, pragmatic thinking, assertive egalitarianism, and an obsession with purely material things. They simply evolved their way of life [26].

This informality has persisted over the years, and Americans have never shown much interest in rules and practices that are impractical, restrict behavior or limit interaction with others. Americans consider too much formality as unfriendly, and they are ill at ease with it. A striking example of this fondness for informality can be found on the pages of American firms' annual reports. They are full of pictures of smiling executives. In contrast, in other countries, very seldom is a picture of a smiling executive seen on a corporate annual report. To other nations, the smiling face of an executive is not a dignified pose.

This informality has become such a strong American trait that many Americans assume it is universal. In reality, however, many cultures rigidly adhere to customs and ceremonies. Germans, for example, are very much aware of official and formal titles when addressing each other. In Germany, students never call college professors by their first names. Officially, a professor is addressed as *herr* (Mr.), *doktor*, or *professor*. At work and in office situations, Germans always use a formal address with each other. German executives call their secretaries by an honorific followed by the last name, such as *Frau Schmidt*. The use of the first name is regarded as too familiar and condescending by Germans (pp. 64–65) [22].

Latin Americans are very much interested in pomp and circumstance. Personal etiquette and hospitality rules are strictly observed. Any failure to observe the ceremonial practices is construed, at best, as a lack of culture and savoir-faire and, at worst, as impolite and rude. The practice of keeping family names going back several generations is a means by which Latin Americans can show a relationship to prominent families or to the Iberian Peninsula.

Japanese are very much concerned with strict observance of the rules of interpersonal relationships, proper manners, and discipline. In the days of samurai rule, a serious disregard for manners and the failure to show proper respect to a samurai could be punishable by death. They practiced a very precisely prescribed way of eating, greeting, gesturing with hands, wearing clothes, walking, and sleeping. Even today, the daily life of a Japanese is governed by a very strict code of conduct (p. 11) [17]. James Mortellaro, an American executive who worked for 10 years for Japanese firms, made the following observations on Japanese formality [27]:

> Employees at a typical Hitachi factory in Tokyo remove their shoes before entering their work areas. They wear slippers, color-coded for different jobs, functions, and departments. There are stripes of many colors painted side-by-side on the floor at the main entrance. Employees follow these stripes into the depths of the plant, each color leading off in a different direction. They must follow the color corresponding to their slippers. This practice constantly reminds them of their place and their position in the company. (p. 66)

A naive foreigner, uninformed about the Japanese code of conduct, for example, may lose a business deal just because of an inappropriate manner of exchanging business cards. When Japanese are handed a business card, they acknowledge each individual and his card, and they carefully study them and then respectfully stow them away. In so doing, they are trying to understand the person's relationship with the organization and his or her position within it. In a way, they create a context for future interaction.

Joking and Fun/Informality

Certain American characteristics are closely and directly related to their affinity for informality. In particular, Americans are very exuberant, they like simplicity and brevity of expression, and joking and kidding is common practice on most formal and informal occasions (pp. 49–58) [24].

Americans work hard and with the same vigor wholeheartedly participate in fun and games. Their open enjoyment of life and hearty expression of pleasure contrasts with the attitude of Latin Americans, who are much more formal and reserved. They never remove their jackets in public and are very careful to preserve a dignified composure. Relaxed manners, unabashed drinking, and hearty laughter are reserved for family and a circle of close friends. Latin Americans, or for that matter, people from many other cultures, would be truly at a loss at a Shriner's convention or a college class reunion and would certainly be surprised at a typical college fraternity hazing.

Americans favor simplicity and brevity of expression and frank, open, direct actions. The "bottom line" and "getting to the point" are common currencies of daily language. Americans practice a relaxed form of tact and diplomacy in their interpersonal relationships. The no-nonsense attitude of discussing directly the substance of business at hand is not correct in other cultures. Where social acceptance, preserving harmony, and saving face are considered important, people refrain from candor and frankness. To avoid embarrassment and hurt feelings, Japanese and many Asians are very reluctant to criticize others publicly, give direct answers, and put others on the spot. Americans, on the other hand, are very much interested in quick and timely feedback of the sort that requires a direct and frank response.

Americans enjoy joking and kidding very much. They use it to break the ice and feel comfortable around people. It also seems to be an equalizer that removes artificial social barriers and brings everyone to the same level. In the rest of the world, the American kidding and joking can be offensive. Outside of a close circle of friends, formality and courtesy govern all interpersonal relationships. The practice of roasting, a ceremony in which colleagues affectionately elaborate on the behavioral or physical shortcomings of a designated person, would be unthinkable in other cultures and extremely offensive. When a Chinese American consultant, who worked for both US and Chinese firms, met with an American finance chief, he was shocked to observe the following take place. His client's secretary burst into the meeting for a surprise birthday party for her boss. Along with a cake, she had hired a clown who poked fun at the finance chief. The consultant thought to himself, "This can never happen in a Chinese company" [28].

Americans like to lace their speeches and presentations with humor, and many formal presentations are opened with a joke. In other cultures, jokes are not suitable for formal occasions and should be told only among friends and in informal settings. It is considered abnormal to tell a joke in a formal presentation.

An American businessman was preparing for a business trip to Japan. His cultural consultant told him not to use a joke for the opening of his presentation. American jokes, he was told, lose much of their funny meaning in translation into Japanese. Besides, Japanese do not use jokes and funny remarks in business presentations. He followed the advice and started his presentation very formally. It seemed to him that the interpreter was translating his presentation very effectively. That gave the American confidence, and in the middle of his presentation when he remembered a very appropriate joke, he could not help telling it. To his surprise, the audience of Japanese managers broke into hearty laughter. When the speech was finished he asked the Japanese interpreter how he had translated the joke. The interpreter answered, "I did not. I told them, your American guest just told you a joke, you are supposed to laugh."

Attitude Toward Time

The phrase "time is money" explains the American attitude toward time. Time is a valuable and scarce commodity that should be employed in useful purposes. Americans are very conscious of time and try very hard to make the most efficient use of their time. In the eyes of many foreigners, Americans are always in a hurry.

Foreigners who spend some time in the United States have a common complaint: "There is a deadline for everything" or "From the beginning of everything, Americans look forward to the finish; they do not take time to enjoy life and whatever they do. Everything is instant. Instant coffee, instant pictures, instant messages, instant life." The high value that Americans place on time could explain their penchant for action and their disdain for inactivity. Moreover, Americans typically have a low tolerance for silence in meetings. In contrast, most Asians can remain silent for long periods when nobody utters a word. To them, the silent period is an opportunity for contemplation and for organizing and evaluating one's thoughts (pp. 42–44) [29]. The American dislike for long periods of silence may have gotten many American negotiators into serious trouble. An international vice president of a large US company illustrates this [29]:

> In one of my company's deals overseas, our buyer was sitting across the table from the Japanese manufacturer's representative for the purpose of bidding on an item in which we were interested. Following the usual niceties, our man offered $150,000 per batch. On hearing the bid, the Japanese sat back and relaxed in his chair to mediate. Our buyer, interpreting this silence to be disapproval, instantly pushed his offer higher. It was only after the session was over that he realized he had paid too much. (pp. 42–44)

Time Perspective

Individuals, organizations, and cultures vary in their attitudes and orientation toward time. The time perspective could be considered a continuum, one end of which is monochronic and the other end polychronic [30]. To engage in one activity at a time and finish each activity before beginning the next is monochronic, typical of the American and northern European time perspective. To do two or more activities concurrently or intermittently during a time period is polychronic, characteristic of many traditional societies (pp. 13–22) [22].

Polychronic Time Industrialization seems to be a major factor influencing time perspectives. We develop time perspectives in relation to the environment. Before the industrial revolution and the emergence of factory work, people in agrarian societies observed natural changes in the environment and used those changes to organize their lives. Life progressed through days, nights, seasons, and years. Time was measured by the occurrence of natural phenomena, not by artificial means. In a circular fashion, day led to night and night to day; spring led to summer, summer to fall, fall to winter, and winter to spring. Important events reoccurred and were interrelated. Work and activities did not have precise deadlines. While there were certain times for planting and harvesting, delaying either by a few days was not disastrous. Interrupting one activity to engage in another did not seriously hamper normal daily life. Unlike today's industrial societies, agrarian life went on without a rigidly imposed structure. In relating to the environment, people developed a time concept very much in tune with the requirements of their daily lives.

Similar to natural events that occur concurrently, polychronic people spend their time according to the dictates of the events. As events evolve around them, polychronic people tend to deal with those events according to their importance, without hesitating to postpone less important ones. They may do many things concurrently, moving from one to another, without predetermined deadlines. Rather than being governed by the modern concept of time, the progression of events and activities is more the consequence of momentary urgency and the requirements of interpersonal relationships. The life of a polychronic person centers around people and interpersonal relations, while for a monochronic person, time is the essence.

The industrial revolution with its requirements of working with machines and following a work schedule made **polychronic time** problematic. The natural measures of time were no longer appropriate for factory work and machine operations. A new abstract concept of time-based on the movement of a mechanical object, the clock, replaced natural time measurement.

Monochronic Time Monochronic cultures perceive time in a linear way, like a road that extends from the past into the future. **Monochronic time** is divided into segments, compartmentalized, and scheduled. Monochronic people devote their attention to scheduled activities, one at a time. They assign property values to time. Time could be owned, spent, saved, or given away. Since time is viewed in a linear fashion and activities are scheduled with a clear expectation of starting and finishing times, a request for an unscheduled task or meeting could bring the familiar response, "I don't have time for it." Similarly, monochronic people "spend" their time at work or at home, "save" or "set aside" time for family gatherings, and "waste" time waiting. If their expectations are met, monochronic people "enjoy" their time and have a "good time"; otherwise they have a "hard time" or a "lousy time."

Monochronic cultures emphasize punctuality and promptness. To be late for a meeting or not to finish a task on time can cause considerable annoyance. Therefore, unscheduled interruptions are avoided as much as possible. In contrast, polychronic people consider unscheduled meetings and events a normal part of social interactions where business and nonbusiness activities intermingle. The difference in time perspective for punctuality and strict adherence to timetables and schedules could create problems for international managers. In traditional societies, for example, a combination of polychronic attitudes and concern for interpersonal relationships results in business practices that, from a monochronic perspective, are unacceptable. In the Middle East, for example, changing work schedules and appointments to fit the regular visits by clients, friends, and relatives is very common. A northern European or an American manager unfamiliar with the cultural values of the Middle East could interpret such practices as a lack of concern for the business at hand. Similarly, a Latin American may be late for a business appointment due to a preference for finishing a conversation with a friend rather than due to lack of interest or commitment.

Age and Gender

Attitudes toward age and gender vary among cultures. Americans have a special admiration for youth, and females are gaining more equality with their male counterparts. Although in many aspects there is still some division between male and female with regard to rank, the equalization attempts are paying dividends. Laws have made it clear that there should be no discrimination between the sexes in business practices. American cultural values still favor males; however, both sexes are usually treated similarly. Unlike in traditional societies, where females play a subservient role, American females consider themselves equal to males, and societal values are changing in that direction. Other societies have a different attitude toward females. Except for a few Western societies, in the rest of the world, females are not granted the same opportunities as males and do not enjoy the same privileges. Japanese society, by all accounts, is still a strictly male society. Females do not play a prominent role in business and in government. Women who hold a job before they are married are expected to quit after marriage. The same is true for other countries in Asia, Africa, and even Australia. In some countries, women are denied the most basic rights, such as holding a job outside the home or voting in an election. In Saudi Arabia or Kuwait, for example, women do not have the right to drive a car; they can only be passengers. In many orthodox Muslim countries, women are expected to adhere to a very rigid code of conduct and personal appearance. They may not be seen in public in any fashion that draws attention to them. Males and females have different status and, consequently, different rights.

While Americans are aware that many countries have different attitudes toward women, they will be surprised to learn that the admiration for youth and youthfulness is not universal either. The United States is a very young country. The vigor and strength of its youth made this country expand and prosper. Unlike the Old World, there were no restrictions and limitations on how far a person could advance. Particularly, the rugged frontier life favored the physical stamina and strength of youth (pp. 68–69) [31]. Since then, Americans have come to admire youthfulness and consider young age as a favorable characteristic. Elderly people do not have as high a place in society as in other nations. In other nations, old age is a sign of experience and wisdom, and youth is synonymous with naivety and lack of sophistication. In many Asian countries, senior citizens are highly respected, and there is a clear ascending order of status according to age. Positions of authority and power, in business and in government, are occupied by mature people. It is very unusual to see younger people in high offices. American MNCs that ignore these cultural values and send the most qualified younger or female managers abroad may not receive a favorable reception. The assignment of a young person or a female is interpreted as an indication of lack of interest and commitment or the low value of the business to the MNC. Traditional societies will place a higher value on seniority than performance in choosing to fill a position.

In sum, culture is values and norms that shaped attitudes and behaviors of people in a society. And those dimensions can be used to better understand the culture of the society. Now, let us think about how national culture influences businesses. Companies (as an independent organization) have clear goals (e.g., making a profit), and most activities are aimed at achieving organizational goals. In this sense, companies develop their own values and norms and thus establish their unique organizational culture which may be different from the national culture. In the following section, factors influencing organizational cultures will be presented.

Corporate Culture

Corporate culture indicates organizationally shared values, beliefs, assumptions, and understandings that are the basis for relevant corporate norms and behavior patterns. A very simplified definition of corporate culture is "the way things work around here" (p. 13) [23].

Cultural phenomena are detectable in organizations at three levels [5]:

1. Overt behavior and other physical manifestations, such as artifacts and literature, are at the first level. Formal communication style and dress code are first-level examples.
2. The second level consists of values, a sense of what "ought" to be. Promoting from within the organization and lifetime employment are examples of the second level.
3. The third level contains the basic assumptions, including methods of coping with the environment. Strategic choices and ways of dealing with competition are the third-level examples.

Corporate culture, according to Davis [32], is based on **internally oriented** beliefs of how to manage and **externally oriented** beliefs of how to compete. Since organizational culture is influenced by societal culture, some organizational values reflect the basic attributes of the cultural environment [33]. Because of differences in national cultures, accepted managerial practices vary around the world, as do the norms of relating to other businesses and how they compete. For example, management by objectives (MBO), which was designed based on American cultural values, failed to work in Europe. In the hierarchical organizations of France, superiors and subordinates were uncomfortable negotiating future goals as required by MBO. In Sweden and Holland, MBO procedures were considered too autocratic [34]. What is considered a business gift in other countries might be regarded as a bribe in the United States. In contrast, lobbying, which is regarded by Americans as a normal political practice, is considered to be influence peddling and corruption in other countries.

Corporate culture is a product of the firm's environment and the interpersonal relationships among its members. Initially, the firm's culture is influenced by the culture of the country where it initially was established. Once the firm expands its operations outside its borders and the dominance of its home culture, the influence of the host country's national culture becomes a reality. The performance of business organizations depends on their ability to maintain internal consistency and external compatibility. Internal consistency is the equilibrium and balance between the various internal components of the firm, such as hiring, promoting, and rewarding employees. External compatibility is the harmony of the firm with its host environment, including relations with suppliers and ways of dealing with competitors. Organizations should be careful not to create too much internal inconsistency when creating external compatibility. In an effort to create external compatibility and to represent the cultural diversity of the global market in their corporate cultures, the MNCs may create a morass of cultural mismatch and cause internal inconsistency. The challenge is to bring about external compatibility and at the same time manage a culturally diverse workforce without creating internal conflict.

Many believe that cultural diversity enhances organizational competitiveness. Failure to manage cultural diversity properly, however, could lead to increased conflict and communication breakdowns.

The Mismatch of Corporate Cultures

Global media mergers in which products are information, ideas, words, and images, crossing national boundaries, are rarely without major difficulties. The acquisition of Diamandis Communication Inc. by the French magazine empire Hachette S. A. illustrates this point well. Two years after the merger, Diamandis, who was considered a great asset to the firm, and his two top lieutenants severed their relationships with the company. This move followed months of disagreement among the top managers.

Cultural differences were the root cause of their problems; they were manifested in the managerial styles of the American and French executives. Hachette's executives, like most Europeans, used instinct to guide them; they made most of their decisions on gut-level feelings, without the benefit of meetings or marketing studies. By involving themselves in the tiniest details, suggesting covers and new page designs for magazines, even deciding what pictures should be used and where they should be used, French executives clashed with US editors, who used a more systematic, planned approach (Adapted from Ref. [35]).

Consequently, depending on their approach to cultural diversity, MNCs could either enhance their worldwide competitiveness or fall victim to cultural quagmires.

When MNCs are unfamiliar with the culture in each environment, they face potential problems associated with the peculiarities of that culture. Not all areas of the firms are affected in the same way. The extent of difficulties arising from lack of cultural understanding is determined by how much various areas of the firm and the host culture interact with each other. The more the interaction between a functional area and the host culture, the more potential there is for problems. For example, sales and marketing functions interact with the host culture much more than the research and development (R&D) function. Consequently, sales and marketing have the potential to encounter much more cultural misunderstanding.

The success of an MNC's global expansion, therefore, depends on its ability to adopt the practical aspects of the host country's cultural norms while maintaining the core aspects of its corporate culture that are the basis of its competitiveness. Although cultural adaptation to national cultures is a given, no direct, one-to-one correlation between the MNC's corporate culture and the host country's culture is conceivable. Instead of seeking complete identification with the host country's culture, it is practical to aim for the avoidance of cultural incompatibility. A more realistic expectation is to achieve a certain degree of compatibility, or constructive neutrality, with the host country's culture (p. 82) [2].

Constructive Neutrality Kolde defines **constructive neutrality** as a positive system of principles and norms to guide the decision-making processes of all the entities and affiliates of an MNC. These principles and norms help the firm avoid or minimize clashes with its various national environments. The aim is to facilitate optimal involvement and participation of the company in the productive systems of its host countries (p. 83) [2].

It is easier to achieve constructive neutrality if MNCs adopt a multicultural composition and orientation. A unicultural organization not exposed to cultural diversity and an ethnocentric firm that believes in the superiority of its own culture may have difficulty relating to the idiosyncrasies of other cultures. In the multicultural environment of world business, it is, therefore, advisable for organizations to become multicultural and develop a geocentric mentality. This is done by adopting the best attributes of both local and corporate cultures to function effectively in different cultural environments. What are the characteristics of a multicultural firm? In the following section, we examine the cultural typology of the organization and discuss the attributes of multicultural firms.

Cultural Typology of the Organization

Trompenaars and Hampden-Turner [36] used two dimensions, egalitarian-hierarchical and person-task, to identify four types of corporate cultures (p. 6). The four types are metaphorically named the family, the Eiffel Tower, the guided missile, and the incubator (see Fig. 3.1). The four types are "ideal types." In practice, the four types are mixed and overlapping, with one culture dominating.

	Personal/Informal	Task/Formal
Egalitarian/ Decentralized	**Incubator** (Person/ Fulfillment Oriented) Country: Sweden Business: Small	**Guided Missile** (Task/Project Oriented) Country: U.S., U.K. Business: Large
Hierarchical/ Centralized	**Family** (Power Oriented/Dominant) Country: France, Spain Business: Small	**Eiffel Tower** (Role Oriented/Dominant) Country: Germany Business: Large

Fig. 3.1 Four types of corporate culture. (Source: Trompenaars and Hampden-Turner [36])

The Family Culture

The family culture is both personal and hierarchical, in which the "father" has much more authority and experience than his children. Such a corporate culture is power oriented, and the leader acts like a caring father, who knows what is good for them and acts accordingly. This type of power is intimate and not threatening. The atmosphere of the corporation is much like a home. By working hard and resolving conflicts, employees in this corporate culture derive pleasure from such relationships. Pleasing a superior (the father or elder brother) is a reward in itself. Power is not over the family members but through them. A big punishment is the loss of affection and place in the family. The general happiness and welfare of the family members (employees) are regarded as the concern of the family-type corporation.

The pressure to perform well is moral and social rather than financial. Familial cultures such as those of Greece, Italy, Japan, Singapore, South Korea, Spain, Turkey, and several Asian countries support such a corporate culture. These countries also industrialized late, and many feudal traditions have survived without much change and have become the norms of corporate culture.

To outsiders, the family culture is arbitrary, irrational, cozy, and full of nepotism and favoritism (corruption). Many modern American organizational practices, such as merit-based hiring or pay for performance, will not be popular in a family corporate culture. The reverse is true too. The following is a case in point.

A Dutch company was setting up a $15 million joint venture with a large Brazilian company. The Dutch delegations were surprised when the owner of the Brazilian company introduced a junior accountant as the key coordinator of the joint venture. They were puzzled as to why a junior accountant was given such a weighty responsibility, including the receipt of their own money. The Brazilian told them that this young man was the best choice among 1200 employees because he was his nephew. Who could be more trustworthy? Instead of complaining, the Dutch should be happy that he was available (p. 168) [36].

The Eiffel Tower

The bureaucratic organization with the division of labor and prescribed roles and functions resembles an Eiffel Tower. These roles and functions are coordinated from the top by a hierarchy that is symmetrical and narrow at the top and broad at the base. It is rigid, stable, and robust. However, its hierarchy is quite different from that of the family culture. Each level has a clear function, and roles to perform those functions are prescribed in advance.

The higher authority is an impersonal role that is occupied by a person selected for that position based on his or her abilities and qualifications and how those closely match the requirements of the position. The person occupying that position is not important. He or she could be replaced by anyone with similar qualifications. A new occupant of the position has very little freedom of choice and has to do the job as is defined in advance. Not much is left to personal preferences.

Because the authority comes from the roles and positions, it does not extend beyond the boundaries of the organization. Outside the organization, the boss is another person and would be treated accordingly. Both the boss and the subordinates accept this treatment as normal and natural. The boss is powerful only within the confines of the bureaucracy, and the rules sanction his or her organizational actions.

In the Eiffel Tower company, people or "human resources" are valuable for their effect on organizational goals, similar to those of capital and cash resources. They are moved around to positions where they can best serve the organizational mission and goals. Personal relationships are avoided because they can warp sound and objective judgment and create favoritism. Organizational logic dictates separating personal preferences and choices from those of the organization.

The Eiffel Tower corporate culture is common to North America, Northwest Europe, and those nations that are task oriented and put roles before people.

The Guided Missile

The guided missile culture is egalitarian and therefore is different from the family and the Eiffel Tower. It resembles the Eiffel Tower more because of its impersonal and task-oriented feature. But unlike the Eiffel Tower culture, where "means" are important, in the guided missile culture, the "ends" are vital. Everything must be done to accomplish the strategic mission and reach the target. It is a task-oriented organization in which teams or project groups undertake various jobs. These jobs (tasks) are not fixed in advance but will be determined as new targets are established.

This type of corporate culture and structure was pioneered by the US National Aeronautic and Space Administration. It used project groups working on space probes that resembled guided missiles. A large number of engineers and specialists were engaged in tasks that would change as the projects advanced. Their contributions could not be specified in advance. They had to work together harmoniously; otherwise, the projects would not succeed. Because they were all experts and no particular expertise could be regarded as less or more important than another, there could be no hierarchy. Leaders or coordinators who were responsible for the final projects knew less than the specialists, and so they had to respect them and their expertise.

Because it is very costly to have a workforce composed of professionals, guided missile culture is very expensive. The relative value of individual contributions to the project may not be clear as in the Eiffel Tower culture. Groups are project dependent; therefore, they are formed and dissolved as needed. However, a functioning organization requires some degree of permanency. Therefore, in practice, guided missile culture uses Eiffel Tower as a skeleton to give it stability and permanence. This results in an organizational structure that is commonly known as a matrix.

In a guided missile culture, changes are accepted very easily, and they happen regularly. People are moved around from project to project, and loyalties are more to the project and the profession than to the corporation. Motivation is intrinsic, and team members get enthusiastic about the projects. They identify with the project and work very hard toward its completion. The project becomes a common goal to which all members dedicate themselves.

This type of corporate culture can function where task-oriented relationships and egalitarian attitudes are valued. The United States, Norway, and Ireland are examples of countries in which the guided missile corporate culture could function.

The Incubator Culture

The metaphor of incubator culture should not be confused with "business incubator." However, the logic of both is quite similar. In both, the purpose is to enable individuals to be creative by removing the routine and mundane from daily work. The incubator culture is both egalitarian and personal. There is almost no structure and organization; it only serves as an incubator for the individual's self-expression and self-fulfillment. The minimum structure of the incubator is to provide for personal conveniences such as heat, light, and computer services so that individuals could tap their creative potentials.

Other people in the incubator culture are important in that they provide the much-needed evaluation and criticism of new ideas. They develop, procure, and provide the resources needed to produce the innovative products or services that the organization provides to the clients. Typical examples of incubator cultures are found in start-ups in the Silicon Valley, California, and Route 128 around Boston. These firms are usually entrepreneurial or founded by creative teams.

With a minimum of structure, the incubators have minimal hierarchies. The authority of the individuals comes from the nature of their ideas and the inspiration of their vision, which makes others work with them.

In the incubator culture, people often work with an intense emotional commitment. The commitment is more to the nature of the work than to the people. To the individuals, the groundbreaking and society-changing nature of the work unleashes the enthusiasm and commitment associated with a discovery trip—a trip to the unknown, in which the reward is the "journey." In the incubator culture, people are motivated by the nature of the task, which may result in revolutionary products or establish new and precedent-setting ideas, methods, and paradigms.

The close and intimate relationship among people serves as an effective nurturance for creative ideas. At its best, it can be a very effective and exciting place in which face-to-face relationships provide honest feedback that helps weed out ineffective ideas. Association in the incubator culture is voluntary and is often undertaken by idealists who are interested in being a part of the groundbreaking ventures. It can be a most significant and intense experience that would be difficult to sustain or repeat. Its success results in the need to bring in new people who are strangers, which would alter the existing special relationships.

Unlike the family culture, in which leadership is ascribed, or the Eiffel Tower, in which leadership comes from the roles and rules, in the incubators leadership is achieved. People whose ideas and progress impress others the most are followed. Politics that impedes group achievement is unacceptable and detested. Conflict resolution is either by trying the opposing alternatives to verify their validity or by voluntary departure.

Countries and Corporate Culture Types

Trompenaars and Hampden-Turner have researched the preference of countries for corporate culture types and scored them accordingly. They give the highest score for the guided missile companies to the United States and the United Kingdom and the highest score for the family business culture to France and Spain. The highest score for the incubator is given to Sweden and the highest score for the Eiffel Tower to Germany. They, however, suggest that these findings should be regarded cautiously. Smaller companies, regardless of their location, more likely take the family or the incubator cultures. Large companies have the Eiffel Tower or the guided missile cultures.

Monolithic, Plural, and Multicultural Organizations

On the basis of cultural diversity, business organizations could be categorized as monolithic, plural, and multicultural. We examine these organizations using the following six factors: acculturation, structural integration, informal integration, cultural bias, organizational identification, and intergroup conflict [37]. These factors influence the cultural diversity of the organizations and are depicted in Fig. 3.2. The following is a brief description of these factors:

1. **Acculturation** is the method of resolving differences between the dominant culture and any minority culture. Acculturation could be by assimilation, the

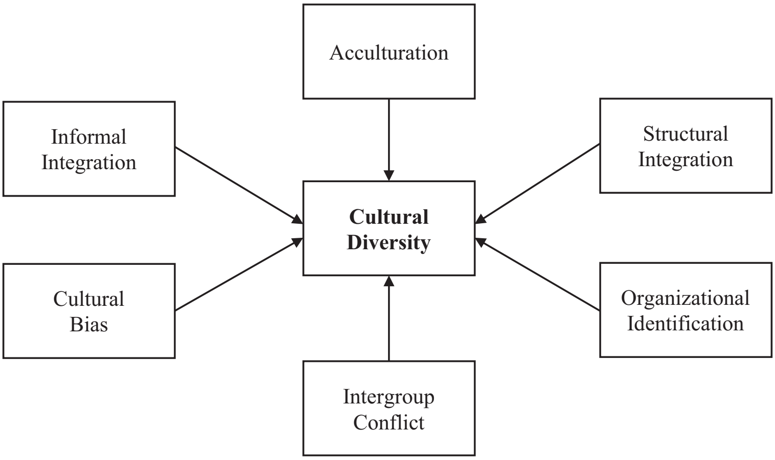


Fig. 3.2 Factors influencing the cultural diversity of the organization

unilateral adoption of the norms and values of the dominant culture by other cultural groups; by pluralism, combining some elements of the dominant and any minority cultures; or by separation, where there is a little adoption from either culture.

2. **Structural integration** is the presence of members of different cultural groups in various organizational levels.
3. **Informal integration** is the inclusion of members of minority cultures in informal networks and activities taking place outside the ordinary work activities.
4. **Cultural bias** is the existence and practice of prejudice and discrimination in the organization.
5. **Organizational identification** is the extent to which the workforce identifies with the firm.
6. **Intergroup conflict** refers to friction, tension, and power struggles between various cultural groups within the firm.

Having described the six different factors with which cultural diversity is examined, we now elaborate on the organizational types.

Monolithic Organization

Monolithic organizations are highly homogeneous with little structural integration. They consist of one dominant cultural group. If members of other cultural groups join the firm, they must adopt the existing cultural norms to survive. There are prejudice and discrimination against the members of the cultural minority because of the lack of structural and informal integration. Consequently, organizational identification among the host country personnel is very low. But there is little group conflict because of the homogeneity of the workforce.

Firms in early stages of involvement with international business are mostly monolithic. When they expand abroad, they represent the culture of their home country. Their parochial attitudes and ignorance of the host culture prevent them from taking full advantage of the opportunities the host culture could present to them. If the firms expand beyond simple import and export activities, the forces of competition for local talent and pressure from local governments for the inclusion of locals in the MNCs operations alter their cultural composition. Therefore, eventually, the homogeneity of the monolith firm gives way to the heterogeneity of a plural organization.

Plural Organization

The norms and values of other cultures are usually well represented inside plural organizations because these businesses try to include host country citizens in their workforce. Human resource management practices often change because they need to tap local knowledge to learn about the host market. Also, some governments require the employment of local personnel. As a result, MNCs gain a higher level of structural integration than monolithic firms, leading to a plural organization that is culturally heterogeneous. The home country personnel, however, are still dominant in number and occupy key decision-making positions at all organizational levels. The top managers of plural organizations have an ethnocentric attitude, believing that "our way is the best way." Examples of plural organizations include many subsidiaries of US MNCs operating abroad, such as Exxon, Ford, and Apple Computer.

Although structural integration is incomplete in plural organizations, partial structural integration results in some host country citizens being included in the MNCs' informal networks. This informal integration reduces prejudice and discrimination and heightens native workers' identification with the firm. Plural organizations experience more intergroup conflict than monolithic firms because of the higher number of host country personnel. Similar to monolithic organizations, plural firms rely on assimilation for acculturation. Personnel who are not members of the dominant culture of the firm and do not strongly ascribe to its prevailing cultural norms will have difficulty progressing in the organizational hierarchy.

Multicultural Organization

Both plural and multicultural firms are culturally heterogeneous. Plural organizations, however, do not value their cultural diversity, while multicultural firms do. They recognize the value of cultural heterogeneity and understand the potential contributions of cultural diversity to organizational performance. Multicultural organizations adopt a synergistic approach to management and have overcome the shortcomings of plural firms.

Multicultural organizations are characterized by full structural and informal integration, an absence of prejudice and discrimination, and minimum intergroup conflict. Members of minority cultures identify with the organization, and acculturation happens because all participating cultures are integrated into a synergistic whole. It is doubtful whether many MNCs have reached their goal of multiculturalism, but probably the global market's competitive environment will force MNCs to adopt a multicultural posture. The ability of MNCs to attract and maintain qualified personnel from host countries will depend on an attitude that values cultural diversity. To be competitive in the global job market, MNCs must not only provide good wages, fringe benefits, and a good quality of work life, but they should also offer foreign employees the chance to advance their careers through work opportunities in other countries [38]. Effective cross-cultural career advancement in firms that do not value cultural diversity is extremely difficult. Therefore, the future growth and fortune of global firms may depend on their success in forming multicultural organizations. Multiculturalism gives firms certain benefits and improves their firm's organizational capabilities. Asea Brown Boveri (ABB), a global firm that was originally established as a Swedish company, and Jamont, a subsidiary of James River Corporation operating in Europe, are examples of multicultural organizations. Both these firms are discussed in other chapters.

The Benefits of Multiculturalism

Until recently, most organizations were primarily concerned with the problems and costs created by the ethnic and gender diversity of their workforce. They ignored the potential benefits of cultural diversity. But the diversity of the workforce could be a source of competitive advantage. The following are the major potential advantages of multiculturalism [39]:

1. *Reduced costs*: There is evidence that as the cultural diversity of firms increases, so does the cost of poor integration. The experiences of minorities and women at work indicate that when cultural minorities are not fully integrated into the workforce, they tend to have lower job satisfaction and higher absenteeism and turnover. Firms that properly manage cultural diversity could have a cost advantage over those that do not, because of lower absenteeism and turnover rates.
2. *Resource acquisition*: With the increasing globalization of business, competition for qualified personnel has become more intense. Firms with a good reputation for handling cultural diversity attract more and better-qualified personnel. This benefit of cultural diversity is especially critical to an MNC's international expansion. A well-qualified pool of managers adds expertise and knowledge to the firm. In addition, these managers, with their diverse backgrounds, understand the value of cultural diversity and are better suited to nurture it. Consequently, they could set the stage for a mutually reinforcing process.
3. *Marketing advantage*: The insight and cultural sensitivity of the multicultural workforce improve marketing efforts. Multicultural personnel enables MNCs to understand and adopt the cultural perspectives of their multiple markets.
4. *Creativity*: Creativity flourishes when there is a diversity in perspective and less emphasis on conformity. Multicultural organizations are potentially more hospitable to creativity.

5. *Problem-solving*: Multicultural firms have access to a broader and richer base of experience. Heterogeneity allows a wider range of perspectives and a more thorough critical analysis of issues. Therefore, heterogeneous groups have the potential for making better decisions.
6. *Organizational flexibility*: Research has demonstrated that bilinguals have a higher level of divergent thinking and cognitive flexibility [40]. MNCs that value cultural heterogeneity actively recruit and employ host country personnel. Many of these employees are bilingual. The inclusion of bilinguals who also have different cultural perspectives enhances the cognitive flexibility of MNCs. Moreover, MNCs broaden organizational policies and procedures to accommodate the inclusion of culturally diverse people. A combination of less standardized norms and a tolerance for culturally different viewpoints should create more flexibility and a feeling of oneness.

These benefits can be realized only in multicultural firms, since by definition, they are fully integrated organizations. Communication problems and conflict could beset a firm that does not fully integrate and take advantage of cultural diversity.

The advantages outlined above could enhance the competitiveness of multicultural firms in the global market. To create a multicultural organization, MNCs should strive to create heterogeneity in their workforce through effective human resource management practices. Proper human resource management is also a function of organizational culture. This subject will be discussed in a separate chapter.

Chapter Summary

A firm's global business environment is made up of a multitude of value systems, cultural practices, and nationalistic viewpoints. To operate successfully in this diverse and dynamic environment, the multinational firm must change its frame of reference. The provincial local/national perspective that serves the domestic firm well cannot be effective in a global market and should be abandoned in favor of a global perspective. The firm needs to develop an understanding of cultural forces that could affect its global operations. As the firm learns how to deal with varying cultural forces and sentiments existing in various national markets, it learns to adopt appropriate strategies. These strategies aim to combine the diversity of national markets in an overall corporate plan yet allow it to be responsive to the unique characteristics and demands of each host country. A successful international enterprise is a firm that can be viewed by the host country as an "insider," a firm that understands and responds to the uniqueness of the host country. To gain the status of "insider," the MNC is required to understand the host country's national culture and learn how to avoid cultural pitfalls. Such practices should provide it with additional competitive advantage.

Discussion Questions

1. Define culture.
2. Describe cultural complexity. How does cultural complexity affect the management of international business?
3. Why do MNC managers find it more difficult to work in a culturally heterogeneous country?
4. List Hofstede's six dimensions of culture.
5. There are differences between the American and Japanese concepts of the "individual." How could such a difference affect the management of a business firm in either country?
6. According to Kurt Lewin, Americans form friendships more quickly and easily. Why?
7. Why are Americans more informal than other nations? How could this informality cause difficulties for American managers abroad?
8. How could Americans' penchant for informality create problems when doing business abroad?
9. Both Americans and Japanese value hard work, but for different reasons. Explain.
10. Explain why a monochronic manager would have difficulty with polychronic workers.
11. What problems would an American female manager face in foreign assignments?
12. What is corporate culture? Elaborate on the relationship between corporate culture and national culture.
13. Use the explanation of corporate culture provided by Trompenaars and Hampden-Turner and elaborate on the relationship between national culture and corporate culture.
14. How different is the family corporate culture from the Eiffel Tower type?
15. What factors differentiate between monolithic, plural, and multicultural organizations? Describe the differences between multicultural and monolithic firms.
16. Explain the benefits of cultural diversity. How can MNCs gain a competitive advantage through cultural diversity?

References

1. Browning, E. S. (1994, May 3). Computer chip project brings rivals together, but the cultures clash. *The Wall Street Journal*, A1–A8.
2. Kolde, E. J. (1974). *The multinational company*. Lexington: Lexington Books.
3. Allaire, Y., & Firsirotu, M. E. (1984). Theories of organizational culture. *Organizational Studies, 5*, 193–226.
4. Hofstede, G. (1984). Cultural relativity of quality of life concept. *Academy of Management Review, 9*(3), 389–398.

5. Schein, E. (1985). *Organizational culture and leadership*. San Francisco: Jossey-Bass.
6. Phinney, J. S. (1996). When we talk about American ethnic groups, what do we mean? *American Psychologist, 51*(9), 918.
7. Sewell, A. A., & Heise, D. R. (2010). Racial differences in sentiments: Exploring variant cultures. *International Journal of Intercultural Relations, 34*(4), 400–412.
8. Telshaw, H. L. (1985). ABCD—Asian business and cultural disparities. *Conference proceedings of the american institute for decision sciences*, pp. 250–251.
9. R. Lapper (2002, December 14/15). Opening a new can of worms. *Financial Times,* p.3.
10. Hofstede, G. (1984). *Culture's consequences*. Beverly Hills: Sage.
11. Leung, K., Bhagat, R. S., Buchan, N. R., Erez, M., & Gibson, C. B. (2005). Culture and international business: Recent advances and their implications for future research. *Journal of International Business Studies, 36*(4), 365.
12. Mulder, M. (1977). *The daily power game (pp. 3–5)*. Leiden: Marinus Nijhoff Social Sciences Division.
13. Triandis, H. C., Comtempo, R., & Villareal, M. J. (1988). Individualism-collectivism: Cross-cultural perspectives on self-grouping relationships. *Journal of Personality and Social Psychology, 54*, 323–338.
14. Gaouette, N., & Labott, E. (2017, Sept 27). Saudi Arabia to let women drive at last. *CNN politics.*
15. Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede model in context. *Online readings in psychology and culture, 2*(1), 8.
16. Billington, R. A., & Ridge, M. (1982). *Westward expansion*. New York: Macmillan.
17. Copeland, L., & Griggs, L. (1995). *Going international: How to make friends and deal effectively in the global marketplace*. New York: Random House.
18. Miller, K. L. (1992, August 3). Now, Japan is admitting it: Work kills executives. *Business Week*, pp. 35.
19. Mitchell, C. (1988, July 2). Partnerships are way of life for Corning. *The Wall Street Journal*, 6.
20. Nichols, N. A. (1993, September/October). From complacency to competitiveness. *Harvard Business Review,* pp. 163–171.
21. DePalma, A. (1994, July 10). Still under construction. *The Wichita Eagle,* pp. 1E–2E.
22. Hall, E. T., & Hall, M. R. (1987). *Understanding cultural differences*. Yarmouth: Intercultural Press.
23. Terpstra, V., & David, K. (1991). *The cultural environment of international business*. Cincinnati: South-Western.
24. Wallin, T. O. (1976). The International executive's baggage: Cultural values of the American frontier. *MSU Business Topics, Spring,* pp. 49–58.
25. Philbrick, F. S. (1965). *The rise of the West, 1754–1830* (pp. 347–350). New York: Harper & Row.
26. Cruden, R. (1980). *Many and one: A social history of the United States*. Englewood Cliffs: Prentice Hall.
27. Mortellaro, J. S. (1989, February). Japan's management imperialism. *Business Marketing, 24*(2), 62–72.
28. Hymowitz, C. (2005, July 5). Chinese acquisitions in U.S. mean changes for American workers. *The Wall Street Journal*, A11.
29. Whitehill, A. M. (1989, May/June). American executives through foreign eyes. *Business Horizons,* pp. 42–44.
30. Bluedorn, A. C., Kaufman, C. F., & Lane, P. M. (1992). How many things do you like to do at once? An introduction to monochronic and polychronic time. *Academy of Management Executive, 6*(4), 17–26.
31. Nugent, W. (1981). *Structures of American social history* (pp. 68–69). Bloomington: Indiana University Press.
32. Davis, S. M. (1984). *Managing corporate culture*. Cambridge, MA: Ballinger.

33. van Oudenhoven, J. P., & van der Zee, K. I. (2002). Successful international cooperation: The influence of cultural similarity, strategic differences, and international experience. *Applied Psychology: An International Review, 51*(4), 633–653.
34. Hofstede, G. (1971). Do American theories apply abroad? *Organizational Dynamics, 10*(1), 63–80.
35. Reily, P. M. (1991, February 15). Egos, cultures clash when French firm buys U.S. magazines. *The Wall Street Journal*, A1.
36. Trompenaars, F., & Hampden-Turner, C. (1998). *Riding the waves of culture*. New York: McGraw-Hill.
37. Cox, T., Jr. (1992). The multicultural organization. *Academy of Management Executive, 5*(2), 34–47.
38. Maruyama, M. (1992). Changing dimensions in international business. *Academy of Management Executive, 6*(3), 88–96.
39. Cox, T. H., & Blake, S. (1991). Managing cultural diversity: Implications for organizational competitiveness. *Academy of Management Executive, 5*(3), 45–56.
40. Lambert, W. (1977). The effects of bilingualism on the individual: Cognitive and sociocultural consequences. In P. A. Hurnbey (Ed.), *Bilingualism: Psychological, social, and educational implications* (pp. 15–27). New York: Academic Press.

4 International Communication and Negotiation

Chapter Outline

(continued)

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_4

No business transaction can be carried out without communication. International management involves communicating over national borders and dealing with cultural differences. To communicate, we use language, signs, and symbols, all determined by culture. In this chapter, we learn that effective international communication requires an understanding of cultural influences. We will learn about cultural differences in verbal and nonverbal communication. Finally, we conclude the chapter with a discussion of cultural differences in international negotiation.[1]

Overview

Chapter Vignette

Moda Esphenaaj was an Asian student on a training assignment with a large bank in New York. The bank had extensive business in Moda's home country. Bob Balladur had volunteered to become Moda's mentor and was assisting him during his stay in New York.

It was his second month of stay in New York City when Moda asked Bob, "Why do people sell their garages? Are parking spaces for cars at a premium in New York?"

Of course, Bob answered "yes" to the second question, on parking spaces. On many occasions, Bob and Moda had searched in frustration for a spot to park his black Saab. Surely, Moda by now should have noticed New York's parking problem. However, he could not understand what Moda was getting at with the first question. When he asked, Moda's response sent him into roaring, hearty laughter. Moda had seen many signs for "garage sales" and thought that people were selling their garages separately. When Bob explained the meaning of those signs, Moda's face turned red with embarrassment. Being a sensitive man, Bob shared his own experience of many years ago, which was not only embarrassing but also very costly.

The story went like this. Bob was working in an American bank in Paris as a senior manager in charge of "les cambistes," as the fast-and-furious foreign exchange traders are called. One day, a currency exchange trader from the Bourse (the word for "stock and currency market" in French) called to say that the US dollar was sinking fast. Bob yelled a profanity and slammed down the phone so hard that it broke into two pieces. A few seconds later, the trader called him on another phone and dutifully reported the purchase of a large block of US dollars. "You did what?" Bob angrily inquired. To which the protesting trader answered, "But you said

[1] The second part of Bob's story is adopted from Ref. [1].

'achet''"—the French word meaning "buy." That afternoon, Bob walked into his boss's office and said, "I've got a funny story to tell you, but it will cost you a quarter of a million dollars to hear it."

Moda could not wait for Bob to finish his story. Before he reached the end, both men were laughing loudly, and Bob was relieved.

Introduction

During the course of a day, we are judged by the effectiveness of our communication. We are appraised by the way we speak, by our accents or dialects, by our body language, by the way we listen, and even by the way we read and write. Communication is a skill that has to be learned and sharpened. As the world constantly changes, we must continue to improve our communication skills. Do you spend most of your time listening, speaking, or writing?

When people get together, communication is inevitable. It is impossible not to communicate in the presence of other people. However, it is guaranteed that the communication taking place is not always accurate, nor does it reflect the intention of the participants. Everything we do, every inadvertent move we make, even our silences are perceived and interpreted by other people. Sometimes, we send erroneous messages by the manner of our dress or tone of our voice or simply by the condition of our bodies. We may, for example, mistake someone as a successful financial consultant if he or she dresses in a conservative style, carries a leather briefcase, and reads a financial newspaper. However, if the person responds to a finance quiz with a far-fetched answer, it is obvious that we have made a mistake and the person just fits the stereotypic image of a financial consultant.

When managers and workers understand the company's mission and objectives, the organization is more likely to achieve its goals. Communication among organizational members is essential for task accomplishment. Members have to communicate in order to receive and send information. To work in a team, send a message, give an order, assist a coworker, report a task accomplishment, negotiate a business transaction, or do any of the myriad business activities in a typical day, we need to communicate.

As an organization becomes more complex, it becomes even more important for it to have an effective communication system. Because all business activities involve communication and because international management is more complex than domestic business, effective communication is crucial to the success of an international operation. To deal with customers, suppliers, government agencies, and a host of other organizations, it is necessary to communicate across national borders. To manage internationally, effective communication is imperative.

Micro and Macro International Communication

International communication can be viewed from two different perspectives, the micro and macro levels. The micro level involves communication and information flow between the directors of the firm, its employees, and its external constituencies.

At the micro level, intrafirm, interpersonal, and intercultural communication are connected to one another. Of course, multinational companies (MNCs) are more concerned with the communication issues at the micro level.

The macro level deals with the problems and opportunities that arise from the flow of information and communication between countries. At this level, international information is exchanged through mass media, telecommunications, and high-technology transfer, which could have far-reaching political, economic, social, and cultural consequences on nations. The macro-level issues of international communication and information dissemination may potentially be the source of future difficulties.

According to Mowlana [2], the macro level of international communication can be viewed from four different perspectives (pp. 180–182):

1. The idealistic-humanistic approach views international communication as a way to bring nations and people together. International communication is considered a source of power that international organizations (e.g., the United Nations) can use to serve the world community. Effective international communication can increase understanding among nations and peoples and improve conditions that are conducive to world peace. The first approach is idealistic and assumes the objective transfer of information and values—an impossible feat. It also assumes a universally accepted view of international order and peace.
2. The political proselytization approach considers international communication as a medium of propaganda and advertising. It is claimed that the political proselytization approach is used by industrialized countries to manipulate the people of the Third World. This has created distrust of the international media and has fueled intolerance and hatred among people and nations.
3. The economic power approach is an increasingly popular view that considers international communication the source of economic power. Weaker nations are dominated by industrialized countries through international business activities that result in technology transfer and "modernization." Developing countries become amenable to being controlled by Western powers once they have adopted the ways of Western industrialized nations. Countries that convert to Western ways may lose their cultural identity and indigenous creative power.
4. International communication may also be viewed as the source of political power. Countries communicate through mass media, literature, films, and data transmission. Increased communication among countries can potentially increase understanding among nations and peoples and improve conditions that are conducive to world peace. International communication through media, films, and so on conveys the cultural content associated with the source too. This, however, may not always be in the best interests of the recipient country. It may lead to cultural domination. The economic and political views have equated international communication with other commodities to be traded and used for manipulation and domination.

All four approaches have been criticized. An integrative view of international communication is more realistic. The integrative view considers international communication encompassing elements of the four approaches and can offer a more practical venue for addressing major cross-cultural and international concerns. Seen from this perspective, a major concern is a widening gap between developed and developing countries' capacity to deal with international communication and information management. While many people in developing countries are waiting for their first telephone, for example, the residents of the developed world are using the Internet to send and receive all sorts of information regardless of their location.

The world is becoming smaller due to the accelerating rate of technological development. This, in turn, creates interdependencies among nations, resulting in more communication and interaction among them. In this global village, communication technologies (e.g., World Wide Web, social media (such as Facebook), and Skype) are instruments that can be used or misused [3]. "Since information is a resource that can be converted into all kinds of power, there is intense competition and conflict over how information is produced and used" [2, p. 207].

Developing countries contend that the international flow of information and communication heavily favors the developed countries. They assert that the existing pattern of international communication is creating a dependent relationship similar to business and trade dependency. This means that developed countries are the source and supplier of information and developing countries are the naive consumers. The values, traditions, and cultures of developing countries are slowly and steadily being lost and are being replaced by those of developed countries. As Mowlana [2] puts it, "The nature, pattern, and direction of the world economy more or less parallel and depict the directionality of the world information flow" (p. 198). McPhail [4] argues that the pattern of information flow between developed and developing countries fosters "electronic colonialism":

> The dependency relationship [is] established by the importation of communication hardware, foreign-produced software, along with engineers, technicians, and related information protocols, that vicariously establish a set of foreign norms, values and expectations which, in varying degrees, may alter the domestic cultures and socialization processes. (p. 18)

Even if we consider the concerns of developing countries as exaggerated and paranoid, we cannot ignore the fact that the gap in information and communication technology may increase the vulnerability of these countries. Often, there is more information available, for example, about a developing nation in centers that study these countries than in the developing country itself. "When others know more about you than you know yourself, their power to dominate is enhanced significantly" [4, p. 56].

An international manager must cultivate an appreciation of these views and a familiarity with the concerns of the host nationals. A better understanding of these issues will foster more productive relationships. Sensitivity and empathy with the people of host countries will create a friendlier atmosphere in which to conduct international business transactions.

We next consider the various aspects of cross-cultural communication.

The Classic Communication Model

Communication comes from the Latin word *communis*, meaning "common." When we attempt to communicate with another person, we seek to establish "commonness" by sharing information, knowledge, ideas, or attitudes. Communication is a two-way process and takes place when a person transmits ideas, knowledge, meanings, and feelings to others.

A typical process of communication involves the sender (source) of communication, the receiver (target) of communication, and the feedback loop. A medium, such as a telephone, computer, letter, or face-to-face position, is used to send a message to the target. Communication can take place only if the sender's message falls within the receiver's realm of understanding and knowledge. The commonality in language, experience, knowledge, and culture provides a framework for communication between people. Cultural differences, language diversity, and differences in experience and knowledge create barriers to communication. If the receiver of a message, due to any of these differences, is unable to decode the message and comprehend it, the message will not reach its destination. The three components of the communication process are origination, destination, and feedback.

Origination

As Fig. 4.1 depicts, any communication process has three major segments, the origination, the destination, and the feedback loop. The origination segment consists of the sender and his or her field of experience, which includes attitudes, experience, knowledge, environment, sociocultural background [5], and values that differentiate him or her from others. Also, the origination segment includes the meaning and the information the sender intends to share. The sender "encodes" the meaning of the message into signs, symbols, and words that the receiver can understand. The sender ensures the accuracy of the information transmitted by composing the message in

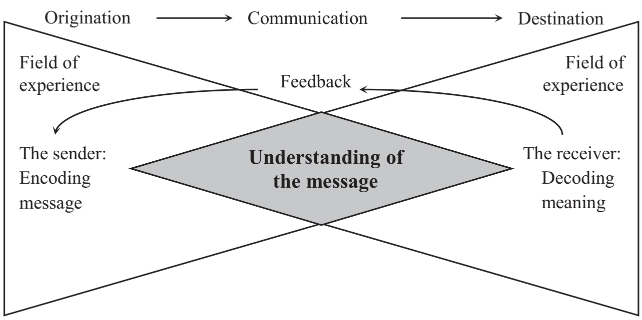


Fig. 4.1 Classic communication model

his or her mind and organizing it in a logical sequence. In doing so and in "encoding" the meaning into an understandable form, a message is created. After encoding the message, the sender channels the message to the receiver.

Destination

The destination segment consists of the receiver, decoding, and the meaning of the message. After receiving the message, the receiver attempts to decipher the meaning of the words, symbols, and nonverbal signals such as the hand gestures and tone of voice. Listening to the composition of words, the manner of presentation, and other signs and signals used in communication, the receivers use their field of experience to interpret the message. They may encounter some "noise," elements that can cause distortion, in the form of confusion and misunderstanding of the message. Many potential sources of noise exist when communicating across cultures. We will consider several of them subsequently.

Noise (Distortion)

Confusion can result when the sender and the receiver have not had the same common experiences. The field of experience is used as a frame of reference to interpret what people encounter in their daily activities. When the sender and the receiver have similar fields of experience, they have much the same frames of reference. Therefore, the information exchanged between them is usually not distorted very much. As Wilbur Schramm [5] described it:

> The greater the overlap of the source and the receiver's fields of experience, the greater the probability of successful communication. In other words, they have things in common that facilitate better communication. An individual engaging in communication with another person of a significantly different background should be aware that greater effort may be needed to ensure successful communication. (p. 6)

The commonality of fields of experience between the origin and the destination reduces noise and increases the fidelity of communication. Even in a domestic situation, for example, the sender of the message may be a manager who uses technical computer jargon. If the receiver is a new salesperson in the company, he or she may not have much experience with the technical language and may receive limited information from the manager. Consequently, the lack of enough commonality between the sender and the receiver results in some noise, which in turn causes the receiver to not understand the message.

There might be other reasons for communication noise. The receiver of the message may not pay close attention to the message. He or she might be a new recruit, nervous, and anxious to impress the supervisor. In this case, too, the message is distorted and is not the same as the original.

Cultural differences are the major source of communication distortion. Communication difficulties arise from cultural differences because of the lack of commonality of values, beliefs, and norms between people of two cultures. Sometimes, in cross-cultural communication, these differences could lead to misunderstandings and cause serious problems. An example of a serious cross-cultural communication misunderstanding happened years ago at Ain Shams University in Cairo, Egypt.

In the midst of a discussion of a poem, a British professor, explaining the subtleties of the poem to a sophomore class in Cairo, Egypt, was carried away by the situation. He relaxed back in his chair, put his feet on the top of the desk, and continued with his talk. The class felt insulted and became furious, and afterward, the entire student body demonstrated in front of the English Department. The incident even made the headlines of the local newspapers. To a stranger, this innocent act might seem ridiculous, baffling, incredible, incomprehensible, and even funny. But to the natives, the students' behavior was logical and in its context made sense. The indignant students and their supporters were outraged and felt offended because in the Middle East and in some Asian countries, it is extremely insulting to have to sit facing the soles of the shoes of another person.

Misunderstanding can happen even when people from different cultures communicate in the same language [6]. While the language is the same, the choice of words and the way of expressing the thoughts are not. German and Dutch negotiators, for example, will choose their words carefully to be exact and unambiguous. They want the other side to know precisely what is being discussed. Indonesians, Japanese, and Middle Easterners choose their words even more carefully, but for a different reason. They are concerned not to offend anyone. They try their best not to use any blunt words or negative remarks or directly reject and embarrass others. In these cultures, directness and frankness are equated at best with immaturity and naiveté and at worst with arrogance. To them, only children speak out what is on their minds and say exactly what they mean [7, p. 40].

Feedback

Feedback is a loop connecting the destination segment to the origination segment, providing information about the message to both the sender and the receiver. Through feedback, the receiver sends information back to the sender describing the results of the communication. Without feedback, the sender would not know whether the message has been received or understood. In short, feedback is a response and control mechanism in the communication process. For feedback to be an effective control, however, it must be given by the receiver and must be understood by the sender. The differences in the giving and understanding of feedback can further complicate communication in cross-cultural settings. For example, in a communication between a Japanese and an American, when the Japanese, who desires harmony and wants to save face, politely avoids publicly contradicting the American, the American may take this feedback at its face value. In this case, the feedback has not served its purpose.

International Verbal Communication

Like their domestic counterparts, international managers use verbal communication more than other media. What makes verbal communication different for international managers is the use of foreign languages. Often, when discussing the communication process, the assumption is that the sender and receiver are using a common language that they both understand. In MNC operations, this may not necessarily be the case. The most visible and important factor international managers deal with is language diversity. Because of the variety of languages spoken in an MNC, international managers without foreign language skills must rely on interpreters. No matter how competent the interpreter or how accurate the translation, some meaning is always lost in the process. There are always meanings and shades of meanings that cannot be conveyed by translation. Some words cannot be translated at all. The difficulty of translation is but one of the many problems associated with the use of interpreters. Good interpreters are in short supply. A good interpreter is more than a translator of words. There are many characteristics that make a good interpreter, including sensitivity to cultural and social differences, understanding of what makes people laugh in other cultures, and political sensitivity [8]. Sometimes, when using an interpreter, people may let their guard down and use less tact. In such occasions, a socially and culturally sensitive interpreter would not faithfully translate verbatim. The following is an example [8]:

> Before addressing a Chinese audience, a Western scientist noticed a number of children were playing and chattering in the aisles. To his dismay, no one was attempting to quiet them down. After impatiently waiting for a while, he exploded angrily at the interpreter, "Will you tell those little brats to shut up!" The interpreter quietly spoke into the microphone in Chinese what roughly translates, "Little friends, would you please be just a bit more quiet, if you don't mind?" (p. 265)

Humor is very difficult to translate. An important attribute of a good interpreter is the knowledge of what is funny in other cultures. Recall the story in Chap. 3 about an American executive in Japan telling his audience a joke. The interpreter probably knew the translation would not do justice to the joke and therefore told the audience, "The American guest just told a joke, you are supposed to laugh," and the audience responded with hearty laughter.

In translation, one can avoid potential minefields if one is aware that certain political issues are off-limits. For example, the Middle East is made up of a number of countries and cultures. A frequent mistake is the assumption that all are Arabs. This is politically and culturally a very sensitive matter to Iranians, Turks, and Kurds. A good interpreter would make an appropriate distinction and would refer to each culture accordingly.

Danish and Swedish Communication

In the Danish culture, the main purpose of interpersonal communication is maintenance of a familiar atmosphere and relation of affection. It is impolite to explain things, because such an act assumes that someone is ignorant. It is also impolite to ask questions on anything beyond immediate personal concern, because the respondent may not know the answer. It is often considered aggressive or offensive to introduce new ideas. One prefers to repeat the same old jokes. Discussion of politics or economics is taboo, except in marginal enclaves. Safe topics of intellectual conversation are art, literature, and music, on which people are expected to disagree without embarrassment.

In contrast, in Sweden, the purpose of daily interpersonal communication is the transmission of new information or frank feelings. One prefers to be silent unless he or she has an important message, while in Denmark one must keep talking [9, p. 49].

The reliance on interpreters reduces the amount of information an international manager may collect. It shrinks the circle of sources that could be contacted and increases the time involved in communication. The ability to communicate in the local language allows managers to convey the meaning more accurately than with the use of an interpreter. Choosing your own words and picking your own sentence patterns in a foreign language are superior to relying on someone else to correctly or incorrectly produce your ideas, phrases, and nuances. Foreign language skills also contribute to the international managers' adjustment to the local culture and society. According to Mendenhall and Oddou [10], language skills can be viewed as a means to create and foster interpersonal relationships or as a means to understand the dynamics of a new culture. Language skills not only allow international managers to communicate with the locals more easily and accurately; they also permit them to be treated more like "insiders," which by itself is a competitive advantage.

We have discussed language differences in communication and have noted that language differences make international communication very difficult. Additional difficulties arise from cross-cultural differences in nonverbal communication. Managers who are assigned to international operations may gain foreign language proficiency. They may, however, experience difficulty comprehending the full meaning of verbal communication unless they can read and understand nonverbal communication cues. We now consider issues in nonverbal communication.

Cultural Differences in Nonverbal Communication

Communication consists of verbal and nonverbal components. Nonverbal communication cues impart meanings that are usually not presented in verbal communication. Just as there are cultural differences among various national groups, so are there differences in communication patterns, especially in nonverbal cues. Differences in nonverbal communication cues can be a source of misunderstanding. International managers could greatly improve their understanding of people from other cultures by learning the subtleties of meanings conveyed by these nonverbal cues.

To elaborate on the differences in nonverbal communication cues among cultures, we could discuss country-by-country differences. This would be a tedious process. Signs and motions using the hands, fingers, eyes, and head, for example, convey different meanings in different cultures. Several examples of these motions are depicted in Table 4.1. Some of these signs convey just the opposite meanings in two different cultures. Although learning these signs is very beneficial and can prevent embarrassing experiences, it is very time-consuming. While those contemplating an international assignment are well-advised to make a specific study of nonverbal signs in the interested host country, a better alternative is to compare these differences on some common dimensions. We choose the seven most commonly discussed dimensions of culture [11]. The seven dimensions are expressiveness, emotions, individualism, gender role differentiation and rigidity, power distance (PD), uncertainty, and contextual variations. In the following pages, we will discuss cultural differences in nonverbal communication along these dimensions [12]. The four dimensions introduced by Hofstede, which were discussed in the previous chapter, are summarized here. While there are controversial arguments regarding the validity of Hofstede's cultural dimensions, the use of these dimensions is very common among international management scholars, and they are the basis for much research and discussion on cultural differences [13]. Other researchers have offered expanded lists that include these four dimensions [14]. However, the following dimensions are more relevant for our discussion of cross-cultural communication issues. Table 4.2 illustrates the differences between Americans and Japanese based on these dimensions and other cultural factors.

Expressiveness

If we consider the expressiveness dimension as a continuum, at one end of this continuum are actions that communicate closeness, accessibility, and approach. At the other end are behaviors that express avoidance and distance. In the United States, for example, smiling, touching, eye contact, nearness, open body positions, and more vocal animations are highly expressive behaviors. In a positive relationship, individuals tend to reciprocate expressive behaviors. Cultures in which people exhibit much expressiveness, such as standing closer to one another and touching more, have been labeled as "high-contact" cultures [15]. People of low-contact cultures tend to stand apart and touchless. South Americans, Southern and Eastern Europeans, Middle Easterners, and Indonesians are considered high-contact cultures. Asians, North Americans, and northern Europeans are classified as low-contact cultures. Australians and New Zealanders are moderate in their cultural contact level (Table 4.3).

Face-to-face communication and interaction between people of high- and low-contact cultures can create moments of uneasiness and anxiety. Americans'

Table 4.1 Implications of various nonverbal behaviors in different cultures

Nonverbal Behavior	Country	Meaning
Thumbs up	United States	An approval gesture/O.K./ Good job!
	Middle East	A gesture of insult
	Japan	A sign indicating “male”
	Germany	A sign for count of “one”
A finger circulating next to the ear	Argentina	A telephone
	United States	That is crazy!
A raised arm and waggling hand	United States	Goodbye
	India, South America	Beckoning
	Some Africans	Beckoning
	Much of Europe	A signal for “no”
Showing the back of the hand in a V-sign	England	A rude sign
	Greece, Middle East	A sign for count of “two”
Showing a circle formed with index finger and thumb	United States	Very good!
	Turkey	Insult gesture/accusation of homosexuality
Crossing first two fingers	United States	Good luck!
	Taiwan	No smoking!
Touching a person’s head	United States	Affection
	Thailand	A major social transgression
Eye contact, gazing	United States	A sign of attentiveness
	Japan	A rude behavior/invasion of privacy
	Most Asian countries	Sign of disrespect to senior people
Widening eye	Unites States	An indication of surprise
	Chinese	An indication of anger
	Hispanic	Request for help
	French	Issuance of challenge
Shaking the head side to side	Western countries	A sign for disagreement/no
	Bulgaria	A sign for agreement/yes
Nodding the head up and down	Western countries	A sign for agreement/yes
	Greece and Bulgaria	A sign for disagreement/no
A hand-shake	Western countries	A greeting action
Bowing	Japanese	A greeting action
Hands placed together in front of the face	India	A greeting action

Table 4.2 Comparison between Americans and Japanese on communication-related cultural factors

Factors	Americans	Japanese
Emotional intensity	Higher	Lower
Individualism	High	Low
Gender role differentiation and rigidity	Moderate	High
Power distance	Low	High
Uncertainty avoidance	Low	High
Contextual information	Low	High
Communication emphasis	Verbal/direct	Nonverbal/indirect
Nonverbal cues	Few/informal	Many/formal
Purpose of interpersonal relations	Self-satisfaction	Group harmony and compliance
Respect for authority	Moderate	Very high

Table 4.3 Expressiveness and nonverbal communication

Less expressive (low contact) cultures	More expressive (high contact) cultures
Distance	Closeness
Avoidance/restraint	Accessibility/open
Detachment	Approach
Less touching	Touching
Not interrupting others in communication	Overlapping communication

Table 4.4 Universal emotional cues

1. Facial expression for anger
2. Disgust
3. Fear
4. Happiness
5. Sadness
6. Surprise

preference for keeping their distance during interpersonal communication may be interpreted by South Americans or Middle Easterners as cold, suspicious, and unfriendly. Conversely, Americans may feel anxious and imposed on by the Middle Easterners' habit of staying very close and touching frequently during a conversation. Taiwanese, for example, tend to prefer seating arrangements that allow side-by-side contacts with persons of the same sex. Americans, on the other hand, prefer seating people of the opposite sex side by side.

People from expressive cultures get actively involved in the communication process and are not bothered by interruptions and overlapping conversations. The opposite is true for people from less expressive and more reserved cultures, who consider interruptions rude and impolite. While expressive communicators may interrupt each other, less expressive and more reserved people patiently take turns in communicating. Communication between the very reserved and polite Japanese is punctuated by moments of silence as well.

Emotions

Emotional expressions are important in communication. For many years, scientists assumed that nonverbal communication cues expressing emotions were culture-specific and were learned differently across cultures. Evidence gathered recently, however, suggests that there are at least six universal emotional cues: facial expressions for anger, disgust, fear, happiness, sadness, and surprise (Table 4.4). These emotional cues are understood by people of many cultures [16]. There are, however, some cultural differences in the experience and evaluation of emotions. The results of the cross-cultural research indicate that the antecedents of emotions vary between cultures. Matsumoto et al. [16] reviewed research findings regarding these differences. Americans and Europeans cited physical pleasures, cultural pleasures, the birth of a new family member, and achievement-related situations as the antecedents of joy. World news, permanent and temporary separations, and death brought about

Table 4.5 Antecedents and elicitors of emotion

	More frequently reported by	
	Americans and Europeans	Japanese
Emotions	Antecedents	Elicitors
Joy	Physical pleasures	
	Cultural pleasures	
	Birth of a new family member	
	Achievement-related situations	
Sadness	World news	
	Temporary or permanent separation	Relationships
	Death	
Fear	Strangers	Relationships
	Risky situations	
Anger	Relationships	Relationships
	Situations of injustice	

sadness for Europeans and Americans. For the Japanese, relationships were more frequent elicitors of sadness, anger, and fear. For Americans and Europeans, strangers and risky situations were more frequent elicitors of fear (Table 4.5).

The intensity and duration of these emotions vary among the three cultures, too. Americans report feeling their emotions more intensely and for longer periods of time than Europeans and Japanese. Emotion-eliciting events also cause Americans to feel greater positive self-esteem and self-confidence than the Japanese. This may be due to Americans' individualistic tendency, which emphasizes the self more than others. Finally, the Japanese appear to be more reluctant than Americans to name the cause of their sadness-producing experiences and usually take no action even when they report strong negative emotions.

The review of cross-cultural research by Matsumoto et al. [16] also revealed a difference in the physiological responses to emotional experience among the three cultures. In contrast to Europeans and Americans, the Japanese respondents reported fewer stomach troubles and muscle symptoms in response to the four emotions; less blood pressure change for joy, fear, and anger; and less feeling of cold for fear. These differences may be related to the differences in intensity and duration of the emotions reported by the people of these three cultures.

Observing nonverbal communication among different cultures provides expatriates an insight into cross-cultural communication. In some situations, the real meaning is not conveyed by the verbal language. Verbal communication might be a convenient way out of a potentially embarrassing situation. In a public discussion, for example, the Japanese may agree verbally to avoid the appearance of insulting others by disagreement. Verbal communication may intentionally be vague, which is an indication of disagreement. Also, the words spoken may be just the opposite of the real message, which is hidden under the surface. In these situations, the real meaning and the true message are conveyed through noncommittal phrases, nonverbal silent language, nonverbal behavior, or the context of the communication and the manner of delivery. Paying attention to vague messages and learning these signs, signals, and silent codes of communication could improve intercultural relations and, consequently, influence the managers' performance.

Individualism

Individualism is the culture's emphasis on personal identity. It encourages self-serving behaviors. In individualistic cultures, individuals are expected to primarily look after their own interest and those of their immediate family. The opposite of individualism is collectivism. Collectivist cultures emphasize groups (e.g., family, neighborhood, organizations, and the country), not individuals. The interests and goals of individuals are subordinate to those of the group. Individuals seek fulfillment and happiness in the harmony of the group. Groups provide security to the members and protect their interests in exchange for their complete loyalty.

The nonverbal behaviors of individualistic cultures are different from those of collectivist cultures. The daily activities of people of collectivist cultures demonstrate their interdependence. They live in close proximity to each other and synchronize their play, work, and sleep, while individualistic people tend to do "their own thing" separately [11]. Interdependence and socially prescribed interpersonal relationships are reflected in the way collectivist people use time. They tend to schedule more tasks simultaneously and interrupt meetings to tend to the requests of friends, family members, and business associates. In a way, they are more people-oriented than the people of individualistic cultures.

Because compliance with norms is central to collectivists, they may suppress emotional displays that are contrary to the group mood. Therefore, people of collectivist cultures seem to be more reserved and formal in their demeanor. This tendency may explain a frequently expressed stereotype that "Orientals are inscrutable." Conversely, since individual freedom is of paramount value in individualistic cultures, they encourage the expression of emotion.

In collectivist cultures, most of the norms governing interpersonal relationships are determined by society, while individuals bear this responsibility in individualistic cultures. Therefore, in individualistic cultures, personal initiatives are used for building many interpersonal relationships, including intimate relationships. In the United States, for example, flirting, small talk, initial acquaintance, and dating are more important than in collectivist cultures [11, p. 291]. In collectivist societies, families often arrange opportunities for young people to meet members of the opposite sex and eventually marry. Arranged marriages are not uncommon in some collectivist societies [17, pp. 47–66]. Consequently, it is easier to meet people, and communication is more open in individualistic cultures such as in the United States. The usually transient and casual nature of these relationships, however, may make it appear to collectivists that Americans are non-caring people.

Gender Role Differentiation and Rigidity

This dimension refers to the rigidity and differentiation of socially prescribed gender roles. In some cultures, gender roles are narrowly defined. People are expected to behave within the socially prescribed gender roles. Masculinity is identified with traits and behaviors such as strength, speed, assertiveness, competitiveness, dominance, anger, ambition, and the pursuit of wealth. Feminine characteristics and behaviors are associated with emotionality, affection, compassion, warmth, and nurturing of the weak and the needy. The emphasis on one or the other set of attributes characterizes the masculinity or femininity of a culture.

Power Distance

Variation in the distribution of power among the members of a society is called power distance. It is the difference in the amount of power possessed by the least powerful and the most powerful members of the society. Various degrees of power inequality exist in all cultures. In each culture, there is an equilibrium level at which both the most powerful and the least powerful persons will find inequality acceptable.

PD creates communication barriers among people and affects nonverbal behaviors. When there is a high level of PD, subordinates show more respect and appear to be more polite in the presence of superiors. Possibly, the continuous smiles of many Asians, who are reared in high-PD countries, are attempts to produce social harmony or appease superiors (Anderson and Bowman, 1985, as cited in Ref. [11]). Also, compared with low-PD countries, people of high-PD cultures appear to speak in a lower voice, apparently not wanting to disturb others. Conversely, those in low-PD cultures are generally less aware that their loud voices may be offensive to others.

Uncertainty

Cultures view risk and uncertainty differently. Some cultures have more aversion to risk and uncertainty and avoid such situations. Other cultures can tolerate such situations better.

Uncertainty and ambiguity could create stress and anxiety, especially in cultures with less tolerance for them. Since freedom can lead to more uncertainty, to avoid uncertainty, some cultures increase the rules governing behavior. Other cultures are able to tolerate freedom without excess stress or anxiety [12, p. 175]. On this basis, one could speculate that there are more communication formalities and more codification of nonverbal behavior among high-uncertainty-avoidance cultures. Conversely, among people of low-uncertainty-avoidance cultures, there might be fewer communication formalities and less codification of nonverbal behavior. Americans, for example, are less worried about the specifics of eating rituals in informal dinners than the people of most other cultures.

Contextual Variations

Cultures vary in their use of context in the communication process [15, 18]. High-context (HC) cultures pay attention to the surrounding circumstances or the context of an event for interpretation of the message [19]. The physical surroundings, the

Table 4.6 Cultures and contextual variations in communication

Information through	
High-context cultures	Low-context cultures
Physical surrounding, implicit	Message itself, explicit
Ambiguous	Unambiguous, specific
Indirect/evasive	Direct/outward
Facial expression, speed, location, pause/silent	Straightforward, yes/no answer
Contract document is to formalize business relationship	Lengthy legal document to anticipate all contingencies
Family honor and obligations, respect for ancestors	Display and reward personal initiatives
Group oriented, share the credit	Individualistic, self-centered
Relationship above achievement	Strong drive to accumulate knowledge and wealth
Appear to others to be sneaky, mysterious, non-disclosing, inscrutable	Stereotyped: Inflexible, efficiency/result oriented, excessively talkative, redundant
Tradition and informal understanding	Written rules
Self-reflective	Self-revealing

manner of delivery, the situation, and the nature of the issue at hand are all an integral part of the communication process and serve to impregnate it with information. This subtle information is understood within the culture because people are accustomed to it. In such cultures, words cannot be taken at face value, and not knowing the hidden meaning behind the words may lead to embarrassment and misunderstanding (Table 4.6).

People of HC cultures are self-reflective, group-oriented, and sensitive to group harmony. They have respect for the hierarchy of status and authority. Family honor and obligations are important to them, including respect for one's ancestors. Asians, most Africans, South Americans, the Southern and Eastern Mediterranean peoples, and Middle Easterners are considered to belong to HC cultures.

In contrast to HC cultures, people of low-context (LC) cultures convey most information explicitly by the message itself. Unambiguity and specificity are characteristics of LC communication, in which messages are spelled out clearly. People of LC cultures are interested in straightforward answers of "yes" or "no" to most inquiries, and they feel uncomfortable in situations where they have to decipher the meaning from the context of the communication.

To people of LC cultures, good communication is direct and does not leave much to personal judgment and interpretation. LC cultures attempt to remove all ambiguity and try to anticipate all contingencies in their contractual relationships. Consequently, most business contracts and agreements are lengthy documents. Conversely, in HC cultures, business contracts are viewed as documents formalizing business relationships that are already built on trust. A few pages would be sufficient as a legal basis for such relationships.

People of LC cultures are direct and outward in their communication patterns and problem-solving style. They do things in sequence, one thing at a time, and tend to be more individualistic. In contrast to the people of HC cultures, people of LC cultures progress better in a planned manner, are technology oriented, and display and reward initiative. LC cultures have a frontier spirit; possess a strong drive toward accumulating knowledge, material products, and capital wealth; need to control the environment to suit their individual needs; and rely on written rules and regulations for social interaction, cohesion, and control.

Because of these tendencies, LC cultures are stereotyped by others as selfish, individualistic, work driven, inflexible in dealing with human situations, using more external control, and result oriented. The major attributes that LC cultures are identified with "things" and "efficiency" over "people." They tend to use one-dimensional thinking in planning and problem-solving. Most Westerners, including Australians, Britons, Germans, New Zealanders, North Americans, the Swiss, and Scandinavians, are considered to belong to LC cultures. People of these countries are concerned with specifics, details, and precise timetables for most of their activities.

LC cultures put much emphasis on verbal communication and downplay the value of nonverbal communication. The people of LC cultures are usually perceived by others as excessively talkative, redundant, and belaboring the obvious. Conversely, HC people are described as sneaky, mysterious, and non-disclosing [11, p. 294]. Nonverbal communication is more important to people of HC cultures. LC cultures do not perceive many of the contextual communication cues that are common to HC cultures. Much meaning is communicated among the people of HC cultures by contextual cues, such as facial expression, tension, speed and location of interaction, pause and silent moments, and other subtleties of the occasion. People of HC cultures are more active participants in a communication and expect the same from the other party. They will try to interpret and understand the unspoken signs, unarticulated moods, and environmental cues present during a conversation. These cues are often overlooked by most people of LC cultures.

HC and LC cultures have contrasting communication styles. The differences in communication are often the source of misunderstanding and mistrust between people of HC and LC cultures. Understanding these differences can pave the way for better relationships and improved business activities among nations.

Communication Competence

It cannot be overemphasized that international managers must be competent in their communication with the host culture. Expatriates are heavily dependent on their communication skills to bridge the cultural gaps with locals and to overcome the experience of culture shock on foreign assignments.

Spitzberg and Cupach [20] have defined communication competence as the social judgment made by the parties involved in the communication process (interactants) regarding the "goodness" of self and others' communication performance. Communication skills are the basis of communication competence. Verbal and nonverbal behaviors are communication skills, while communication competence is the social judgment made by interactants regarding the possession of these skills.

There are two approaches to the study of communication competence: **culture-specific** and **culture general** [21].

The culture-specific approach views intercultural communication competence as the degree of adjustment to and adoption of the communication patterns and practices of the host country. In other words, skills in and familiarity with communication modes of the host country are considered as communication competence.

The culture-general approach assumes that there is a certain communication competence useful to all cultures. It focuses on those aspects of communication competence that can be generalized to intercultural communication.

In international communication, an integrative view is more practical, in which features of both approaches are combined. While universal communication skills may exist (the claim of the culture-general approach), there might be cultural differences in the behaviors that reflect those skills (culture-specific view). Communication skills such as empathy and respect, for example, might be universal. The expressions and interpretations of them, however, might vary across cultures [22].

The effectiveness of expatriate managers depends on their ability to adapt to cultural and environmental differences. Among the most important skills needed for cross-cultural adaptation are cross-cultural communication skills, the ability to deal with stress, and the ability to establish interpersonal relationships [10]. Cross-cultural research has identified seven communication skills that influence success in foreign countries [22]:

1. The ability to express respect for other persons and their cultures.
2. The ability to respond to others nonjudgmentally.
3. The recognition of the individual basis of our knowledge.
4. Empathy, the ability to see the world through other people's eyes.
5. The ability to function both in people-oriented and task-oriented roles.
6. The ability to take turns and not dominate the interaction and the relationship.
7. The ability to tolerate ambiguity and adjust to a new situation with little discomfort.

Mastering these skills prepares expatriate managers for building interpersonal relationships in most cross-cultural situations.

Intercultural communication competence is enhanced by learning the value systems of other cultures and by developing verbal and nonverbal communication skills. Knowing the foreign language alone is not sufficient for communication competence. In Japan, for example, a person speaking Japanese and politely interacting with people may not create a favorable impression if, in response to a polite bow of the Japanese, he or she naively extends a hand in greeting.

Sensitivity to cultural differences in communication styles improves intercultural communication competence. To be effective in intercultural communication, for example, one should be aware that the type and pattern of interaction and response are influenced by one's cultural upbringing. Most Americans' visualization of a classroom is a place in which students are informally dressed and where frequent interaction between the teacher and the students takes place. Asians, on the other hand, think of a classroom as a place with formally dressed students who listen silently to their teacher's lecture.

Interpersonal interactions and responses to the same questions vary even within a country. In the United States, for example, children of middle-class parents are generally taught more elaborate ways of communication at home. Therefore, these children's classroom answers tend to be long and involved. Children of lower-class parents learn more restrictive communication codes at home and are more likely to respond in the classroom with one-word answers. Much backchanneling is involved in Afro-American communication and interaction. While the speaker is talking, he or she is encouraged by the listener's backchanneling of vocal utterances such as "yeah," "right on," "ahuh," "tell it," "amen," and "go on." A white, middle-class teacher, who is uninformed about cultural differences, may misinterpret the short answers of these students as an indication of less knowledge. Similarly, such teachers are often offended by backchanneling and consider the constant interruption annoying rather than reinforcing [23].

Dos and Don'ts of Communication with Foreigners

Communication between people of different cultures is more difficult not only due to cultural differences but also due to differences in language. Many people who speak a foreign language may not fully comprehend its subtleties and nuances. Adler offers certain ways to improve communication with someone who is not fully proficient in a language [24]. Some recommended ways of improving understanding when dealing with people whose native language is not English include [25]:

- **Clarity:** Do not ***confuse*** foreigners by the use of colloquial expressions. Make it easier for them to understand you by enunciating each word clearly. Use simple vocabulary, and avoid long, compound sentences that require language proficiency. Repeat important ideas as often as you can, and pause frequently to allow time for mental translation and comprehension. Highlight important issues by providing summaries at important junctures in your discussion. Spontaneous translation takes time and energy.
- **Responsiveness:** Allow listeners enough time to think. Do not rush to fill the silent periods that are normal in bilingual conversations. And when either side raises questions or concerns, try to address them immediately.
- **Comfort:** Trustworthiness that leads to comfortable interaction between parties helps succeed intercultural negotiations. Because negotiators can reduce pressures and thus are less likely to misinterpret certain cues (e.g., silent during negotiation).

In addition to learning about other cultures, Frank Acuff suggests the following ten negotiation strategies that will work anywhere [26, p. 97]:

1. Plan the negotiation.
2. Adopt a win-win approach.
3. Maintain high aspirations.

4. Use language that is simple and accessible.
5. Ask lots of questions, and then listen with your eyes and ears.
6. Build solid relationships.
7. Maintain personal integrity.
8. Conserve concessions.
9. Be patient.
10. Be culturally literate and adapt to the negotiating strategies of the host country environment.

International Negotiations

One of the most difficult and important tasks facing international managers is negotiation. To successfully conclude a business deal, labor agreement, or government contract with foreigners requires a considerable amount of communication skill. International negotiation is very complex and difficult because it involves different laws, regulations, standards, business practices, and above all cultural differences. The popularity of the saying "When in Rome, do as the Romans do" is an indication of our awareness that to succeed in international negotiation, we need to suppress our ethnocentric tendencies. This awareness, however, has not translated into substantial knowledge and understanding. There are two types of negotiation, intracultural and intercultural. Today, much of the literature on negotiation deals with intracultural settings. Only recently has intercultural negotiation received the attention of management scholars.

Acuff has defined negotiation as "the process of communicating back and forth for the purpose of reaching a joint agreement about differing needs or ideas" [26, p. 21]. In any negotiation, we can identify three components: the process, the parties in the negotiation, and the agreement or the outcome of the negotiation. Negotiating entities could be from the same culture or from different cultures. In the following pages, we summarize the elements of negotiation from an intracultural perspective. Next, we study the role of cultural differences in intercultural negotiation.

Negotiation Process

Most writings on negotiation assume similarity in culture and fields of experience among negotiating parties. Based on this assumption, negotiation strategies are devised to influence the other party's position. Writing from a North American perspective, Goldman [27], for example, suggested that successful negotiation involves accomplishing three tasks (p. 6):

1. Bringing your own perceptions in line with reality.
2. Ascertaining the other side's perceptions of the proposed transaction and the available alternatives.
3. Finding ways to favorably alter the other side's perceptions.

He says that in negotiation what counts is not true reality but the parties' perception of reality. He assumes that negotiating parties are from the same culture and have similar views and perceptions of reality.

There are two extreme negotiating positions, "hard" and "soft." Those taking a hard position see every negotiation as a contest of wills. They believe that by taking extreme positions and holding out longer, they will fare better. Taking a hard position may lead to confrontation, however. Often, the other party responds by taking an equally hard position. This exhausts both parties and damages their long-term relationship. Whereas a hard position is confrontational and adversely affects long-term relationships, a soft position may create a one-sided deal and foster ill feelings. Avoiding confrontation and taking a more accommodating soft position may result in an undue advantage for the other party. By making concessions, a soft negotiator often ends up with less than a desirable deal and may feel bitter about it [28].

Neither the hard nor the soft approach to negotiation is constructive. Fisher and Ury [28] suggest that principled negotiation (PN), or negotiating on merits, is a better alternative. Although PN was proposed for intracultural situations, and has been criticized by others [29], with some modifications, it can be applied to intercultural negotiations as well. Cultural differences, however, render some of its aspects less useful for negotiations that cross cultural boundaries.

Principled Negotiation

The PN method is applicable to all stages of negotiation and involves four basic factors: people, interests, options, and criteria. The three stages of negotiation are analysis, planning, and discussion. In each stage, according to Fisher and Ury [28], you could consider the four factors of PN (Table 4.7).

In the following, we will discuss the four factors of PN, which could produce a constructive negotiation process.

People Separate the people from the problem. Often, negotiating parties become emotional, and instead of attacking the problem, they attack each other. This produces defensive behavior, which is not conducive to constructive negotiation. Reducing the emotional overtone and building a good working relationship improve the chances of success. Allow room to express emotions without taking them personally. In reserved cultures, such as those of Asians, negotiations and communication are expected to be free of emotional outbursts. Visible emotional expressions are considered signs of immaturity.

Table 4.7 Principled negotiation

	People	Interests	Options	Criteria
Analysis	×	×	×	×
Planning	×	×	×	×
Discussion	×	×	×	×

For strangers to reach an agreement, they must communicate well. Try to build a relationship with the other party that encourages good communication. Finally, allow the other party a "face-saving" position.

Interests Focus on interests, not positions. Sharing information creates understanding. Positions are "what" the parties say they want, and interests are "why" they want them. Try to discover what "interests" are behind the positions of the other participants. Be careful when one party tries to learn the other's interests without revealing its own.

Options Look for areas of mutual gain, and search for alternatives that give both sides something to gain. Considering multiple options, instead of one option at a time, may provide for more commonality of interests. Before deciding how to cut the pie, increase its size.

Criteria Insist on objective criteria that can be used in selecting the final option. Agreement on objective criteria, such as market value, expert opinion, custom, precedence, law, and industry practices, eliminates one-sided outcomes.

Do not give in to pressure, and do not permit the negotiation to become a contest of wills. Following these four factors in the three stages of negotiation should lead parties to an agreement that both can accept.

Now, let us consider the three stages of PN.

Analysis Make certain preparations before arriving at the negotiation table. The analysis stage deals with gathering and organizing information for diagnosing the situation. Review the issues pertinent to the four basic factors of people, interests, options, and criteria. Consider any people problems that might arise during the negotiation, such as perception, emotion, and communication. Define your interests and those of the other party. Review the options already on the table, and identify the criteria and framework suggested for the negotiation. Analyze intercultural negotiation that involves learning about other cultures, understanding their communication methods, and knowing their likes, dislikes, and preferences.

Planning In the planning stage, again you are dealing with the same four factors of people, interests, options, and criteria. Here, you want to generate ideas and decide how to use them and determine how to deal with people problems that may arise. Prioritize your interests, and set realistic objectives. Generate more options, and devise criteria for selecting the best option.

Discussion Parties communicate back and forth looking for ways to agree on various issues. Discussion is how perceptions, feelings, and difficulties in communication are addressed. Both parties acknowledge each other's interests, identify options that are mutually beneficial, and seek agreements on objective standards that could resolve opposing interests. Applied to intercultural negotiation, the discussion stage can be used to build and improve the relationship and create trust between parties.

PN provides parties to a negotiation with a method of focusing on basic interests and mutually advantageous solutions. Unlike inefficient bargaining within a political framework, PN enables parties to reach an agreement without all the haggling and posturing. By separating the people from the problem, PN makes an amicable and efficient agreement possible. Cultural differences, however, make some aspects of PN less viable for intercultural negotiations.

PN makes culturally based assumptions regarding the fields of experience and value systems of negotiators and views negotiations from a North American perspective. While these assumptions may be true for intracultural negotiations, they might not be as effective in intercultural situations. For example, separating people from the problems is not realistic in relationship-focused (RF) cultures. People from RF cultures are unable to separate people from the issues. The objective, abstract separation of people and problems or issues leaves them nothing tangible to deal with.

In the following section, we examine the American style of negotiation and its shortcomings. We discuss how these shortcomings could lead to ineffective intercultural negotiation.

The American Negotiation Style

Americans often enter international negotiations assuming their knowledge and experiences at home in dealing with suppliers, buyers, bankers, labor, and US government agencies will be sufficient in securing a good agreement. They take a self-centered, objective, problem-solving approach. Although they are very well aware that it takes two to make a deal, they concentrate on their side and attempt to maximize their gains. In the same vein, Kuhn [30] advises negotiators:

> Don't worry what others get. Don't worry what others think. Just know what you want to accomplish. Keep your eye on the ball and don't allow extraneous pressures to distract you. A good deal maker is constantly enhancing his or her perceived power. The trick is a track record. Everyone wants to associate with a winner. (p. 27)

Confident of their own skills and believing that most negotiations can be dealt with in a logical and systematic order, Americans venture into negotiations with others while making assumptions that can lead to problems. Most of these assumptions are similar to those made by the PN and can lead to ineffective international negotiation. Let us look at some of these assumptions (Refs. [26, pp. 41–66; 30]). Table 4.8 highlights the American and the Japanese negotiation characteristics.

Table 4.8 Negotiation factors of the Americans and the Japanese

Americans	Japanese
Self-assured	Group dependent
Win/lose attitude	Win/win attitude
Competitive/distributive outcome	Noncompetitive/integrative outcome
Self-promotion	Group promotion
Lone ranger (doing it alone)	Rely on group
Efficiency/task-oriented	Relationship oriented
Direct/open communication	Subtle/indirect communication
Active	Passive
Silence is avoided	Silence is accepted
Linear thinking	Holistic thinking
Fixed/written contracts/legal	Fluid, flexible contracts
Abstract concepts	Situational concepts
Verbal cues	Nonverbal cues
Ego-preserving attitudes	Relationship-building attitudes
Power-oriented attitudes	Harmony-seeking attitudes
Short-term perspective	Long-term perspective
Deal focused	People focused
Comfortable with strangers	Comfortable with friends and associates
Clarity and openness	Face-saving
Avoid small talk	Build relationship through small talk
Impatient	Patient
Act informally	Follow formal protocol

Doing It Alone

The individualistic tendencies of Americans lead them to believe that they can handle any situation alone. Americans often enter negotiations very self-confidently, thinking that they can handle whatever difficulties they encounter. They stress on individuality and the importance of asserting the self, and they value autonomy and independence [31]. They take the "Lone Ranger" approach to negotiations [26, p. 45]. From the other party's viewpoint, this may look as if Americans are not taking the negotiation seriously and are not prepared for it. In practice, by going it alone, Americans may find themselves in strange situations, in unfamiliar settings, and outnumbered.

Informality and Open Communication

To Americans, informality is not only a desirable attribute; it is efficient. It allows one to get down to business quickly without wasting time. The assumption is that getting to the point and discussing the "bottom line" save time and energy. Time spent on formalities and protocol is time taken away from doing business. Americans prefer direct and open communication. They believe that honest information exchange should facilitate negotiation. They like to put all their cards on the table and be direct, sincere, and honest, telling it as is. The desire for efficiency and getting things done in less time makes them appear hasty and impatient. Many foreigners see open and direct communication as crude. In some cultures, it is offensive and rude to jump into the final issue without proper preparation and without following protocol.

Foreign Language Skills

Most American managers are not proficient in foreign languages. In contrast, their foreign counterparts are often well versed in at least a couple of foreign languages. The inability to communicate in any language but English is a handicap for Americans. Often, American negotiators watch in frustration while foreigners argue among themselves in their mother tongue, aware that the Americans will not be able to comprehend the content of their arguments.

Silence

Unlike Asians, who use silent periods to reflect and organize their thoughts, Americans do not like silence. Because of their concern for time, silent periods appear to Americans as inactivity and a waste of time. They get frustrated in what appears to be a slow-moving negotiation process because of their inability to read the nonverbal, silent language of Asians. The following complaint is a typical example:

> I spent a week in Japan negotiating a deal that seemed to be good for both parties. For the life of me, I could not make any sense, one way or another, if they were interested or not. They just sat there listening to me, with no expressions on their faces. Yes! They apologized a lot for nothing. I am forced to make another trip just to find out if they like my proposal!

Persistence and Competitiveness

Americans prize persistence and will not give up easily. They do not take "no" for an answer. Their competitive nature and their desire to win make persistence a very valued attribute. "If at first, you don't succeed, try and try again" is a hallmark of the American mentality. Americans view negotiations as a win-lose situation. Moreover, they assume that others have the same view of the negotiation. Unfortunately, projecting such unwarranted similarities can lead to disappointment when negotiations get bogged down due to cultural differences.

Legalistic and Linear Approach

Most American negotiators use a linear approach to problem-solving. Complex problems are broken down into simpler issues, and each issue is tackled separately. In a linear fashion, one issue at a time is solved until the total problem is settled. Americans prefer precise, written contracts that cover every detail of the business transaction in a legal, formal framework.

Now that we have learned about the American style of negotiation, we can examine intercultural negotiations.

Intercultural Negotiations

Effective communication is the foundation of a successful negotiation. Intercultural negotiation has all the pitfalls of intracultural communication and is made more difficult by cultural differences. Based on the proposition suggested by Bangert [32], in the following paragraphs, we will examine the influence of culture on various components of negotiation.

Cultural Influences on Negotiation

The complexity of issues in a negotiation may determine the size of the negotiating teams. Negotiations on complex issues such as oil exploration and marketing rights with a foreign country require the use of many specialists. Most negotiations between MNCs and their foreign partners are complex. In these negotiations, MNCs employ many staff specialists. Not all members of the staff need to attend the negotiation session. Negotiating teams may simply benefit from the behind-the-scenes services of the specialist staff. Cultural differences influence the size of the team directly involved in the negotiation. Negotiating teams from collectivist societies tend to be large, whereas, in an individualistic culture, a single person can represent an acceptable negotiating team. The Japanese, for example, prefer to use a large negotiating team, while Americans may send only a couple of persons to the negotiation table. Those two lone negotiators at the table may be overwhelmed by the team of negotiators from a collectivist society.

Collectivist societies consider people very important. Long-term relationships, consensus, and harmony among organizational members are important to them. The blurring of boundaries between people and the environmental situations in collectivist cultures has already been discussed. Contrary to the suggestion of PN, it is difficult for collectivists to separate issues from the people. For the same reason, collectivists are very reluctant to express disagreement openly. They fear that this may cause hurt feelings. Consequently, nonverbal and indirect communication cues play an important role in negotiation with collectivists. To succeed in business in Korea, for example, a person needs an extraordinary skill to read *nunch'i* (noon-chee) [33]:

> *Nunch'i* means the look in a person's eyes, the nonverbal reaction of a person to a question, an order, or any interaction with another person. Koreans are very skilled at this subtle art and take it for granted that others are also. (p. 83)

In a classic case of cross-cultural communication failure, a foreign manager learned the role of *nunch'i* the hard way. Paul Dredge, a senior associate of Korean Strategy Associations, recounted the following incident [33]:

> The office of a joint venture company in Seoul, Korea was located in a prestigious but inconvenient area of the city. To make it more convenient for both the visitors and the employees, the foreign manager decided to move the office to a nice downtown location. In his discussion of the issue with his Korean colleagues, he did not encounter any objections. All along he assumed they agreed with his choice of the location. He was baffled, however, when at the last moment the Korean president, without any explanation, refused to allow the move. It created an impasse, and a great deal of ill will on both sides.
>
> From the beginning, the Korean president and personnel had opposed the move. They had not directly expressed their opposition, however. They did not want to confront him openly in a contest that they knew the foreign manager could not win. To be polite, in a face-saving attempt, they were not specific about their objection to the move. It was up to the foreign manager to ask the right questions and understand the right answers. They had relied on his ability to read *nunch'i*. His failure had caused the loss of face on both sides. (pp. 83–84)

Negotiations between people of **masculine** and **feminine** cultures may also run into difficulties. For negotiators from masculine societies, ego preservation is important. For them to compromise may give the appearance of giving in, which could be considered a sign of weakness. Consequently, they may be in greater danger of taking a rigid position, which may lead to a breakdown in the negotiations. Negotiators from a feminine culture may not be aware of the importance of ego to people of masculine cultures. Building the ego of their counterparts and focusing on the task at hand may help advance negotiations faster.

Similarly, negotiation is more difficult between people of different cultures with dissimilar value systems. Compared with **low-PD** cultures, negotiators from a **high-PD** culture may need more information to convince their superiors of the value of the agreement. They may also take more time because they have to clear most decisions with those in positions of power.

Views of the expected outcomes of negotiation may also be culturally based. Specifically, the expected outcomes of any negotiation may be either integrative or distributive.

Integrative outcomes, or win-win situations, produce mutual benefits to both parties. To produce integrative outcomes, both parties must locate and adopt options that reconcile their needs. Integrative negotiations result in great benefits for both parties and stable relationships. By cooperation, the parties increase the size of the pie that they will eventually divide among themselves [34].

Distributive outcomes are the result of competition among the negotiators, each trying to get a larger share of the same pie without attempting to increase its size. Distributive negotiation is a win-lose scenario, in which negotiators believe that they have opposing interests and incompatible alternative choices [35].

Similar to most Westerners, Americans view a contract, once it is negotiated and signed, as binding regardless of changed circumstances that might make it less attractive to one of the parties than it had been initially [36, pp. 65–66]. For Americans, a contract should not be modified: "A deal is a deal. For Easterners, agreements are often regarded as tentatively agreed upon guides for the future" [36, p. 196]. Americans tend to have a short-term, distributive view of negotiation. Since Americans are concerned with their own interests and view negotiations competitively, they often arrive at distributive outcomes. In contrast, most Asians view negotiation as a long-term relationship and a cooperative task. Based on laboratory experiments, we can make certain statements regarding intercultural negotiations. Viewing negotiations as a win-win proposition tends to produce an integrative outcome. Negotiations between those with distributive views (e.g., Americans) and those with integrative views (e.g., Japanese) tend to produce distributive outcomes [37].

We know that differences in the fields of experience create barriers to communication and may derail intercultural negotiation. Consider the following case:

> A young female interpreter in one of her early assignments ran into a very challenging situation. She had been assigned as an interpreter for the Russian delegations in India. One of her contracts was to be the interpreter for a cultural exchange program. On the Indian

side, she was working for an administrative officer, a post held in high esteem in the country. On the Russian side, the head of the delegation was the director of a cultural organization. The day the Russian arrived in India, she and her employer went to his hotel to welcome him to the country. The Russian was overjoyed to see them, and after greetings and introductions, he decided to make them more comfortable by narrating an anecdote of not quite innocent contents. Mistake number one. It was visibly evident that the Indian administrator was not at all amused. The astute Russian realized something was probably wrong and decided to rectify the situation in the true Russian style by pouring a round of vodka for everybody, without even asking them if they would like to have a drink. Mistake number two, and a major one. The Indian administrator, who was a very conservative person, did not drink. She was probably in the worst dilemma. She had lived in Russia for a few years and knew that the best way to insult a Russian is to not drink his vodka. But to drink it would be like slapping her boss in the face. Of course, she decided to keep her job and not even pick up the drink. But after such a head start you can imagine how the rest of the negotiation went.[2]

Deal-Focused and Relationship-Focused People

The people-oriented and task-oriented continuum often discussed in the leadership literature can be used in the typology of cultures and negotiation perspectives. According to Richard Gesteland [7], people of different cultures can be categorized as either deal focused (DF) or RF. DF people are fundamentally task-oriented, while RF types are more people-oriented.

RF types constitute the vast majority of the world's cultures. Africans, Asians, Pacific Islanders, Latin Americans, and Middle Easterners are RF. They prefer to deal with family, friends, and those well-known to them. In effect, they are more interested in doing business with those who can be trusted. Doing business with strangers makes them uncomfortable unless they are given a chance to get to know and develop trusting relationships with them. They are very interested in preserving harmony. Therefore, very seldom do they bluntly say what is on their mind.

Only a small part of the world is DF type. People of northern Europe, North America, Australia, and New Zealand are DF type, and they are relatively open to doing business with strangers. Clarity and sincerity are preferred by DF types over harmony and saving face. It is common for DF types to make initial contacts with prospective business partners without prior relationships or connections. For DF people, the sooner the business negotiations and business deals begin, the better. They prefer to waste no time over what they consider unnecessary, time-consuming, small talk and activities that are not directly related to the business at hand.

In doing business with RF types, referrals or introduction by a go-between who can be trusted is helpful. In business negotiations and transactions, RF people spend a great amount of time building relationships with prospective business partners, before getting into actual business negotiations.

To be successful in business negotiations, we should recognize the differences between the two types. Negotiations between RF and DF types can run into major difficulties if the idiosyncrasies of each type are not acknowledged and the ways of dealing with them are not devised. Consider the following example [7]:

[2] Told by Parvathy Menon, my graduate assistant.

> A northern European executive had been haggling for months in long drawn-out negotiations in Ho Chi Minh City. The deal was to start a joint venture with a Vietnamese company. Toward the end of a very frustrating day, the European manager lost his patience. He was no longer able to mask his irritation from what seemed to be endless inquiries and delays. His face began to turn red, very red. He started to shake with anger. Then he clenched his fist so hard that the pencil he was holding in his hand snapped. Instantly, the silence fell over the room at the sound of the breaking pencil. A moment later, all of the Vietnamese delegations got up and stormed out of the conference room. The next day a fax from them informed the European headquarters that Vietnamese would never again sit across the negotiation table with such a rude, and arrogant person. To them, openly showing anger had resulted in both sides losing face. (p. 36)

Negotiation Points to Remember

Given the differences in negotiation perspective that can occur between Americans and people of other nations, it is not surprising that international negotiations are marred by many difficulties, misunderstandings, and mistakes. Learning about the cultural perspectives of negotiation can reduce some of the problems of intercultural negotiations. The first step in improving international negotiations is to understand the influence of cultural differences in negotiation styles. Armed with knowledge about various cultural perspectives on negotiation, steps can be taken to reduce the difficulties and increase the chance of success in dealing with people of other cultures. The following examples illustrate style differences in international negotiation and point out the pitfalls to avoid.

We know, for example, that there are differences in time orientation and other cultural values between Americans and other people. These cultural differences influence the objectives, content, and direction of discussion in negotiations. Americans value youth and rely more on expertise and knowledge than on age and seniority in selecting the members of negotiating teams. Younger negotiators are not uncommon among American teams. In other cultures, such as the Middle East, South America, and Asia, team members are often selected on the basis of age, seniority, social standing, and family connections. Some foreigners may not look favorably on a negotiation when they sit across the table from the much younger managers representing American companies.

Sometimes, intercultural negotiation fails due to ignorance and unfamiliarity with the cultural values of the host country. The host may consider that ignorance disrespectful and insulting. This was the case with an American salesman who was attempting to secure a multimillion-dollar business in Saudi Arabia. He presented his Saudi client with a business proposal in a pigskin folder. He was astonished when he was unceremoniously tossed out of the country and his company was blacklisted. In many Muslim cultures, anything associated with pigs is considered vile [38].

The decision-making styles of Asians, and particularly Japanese, are different from that of Americans. The Japanese include more levels of hierarchy and much more people in most decision processes. Involving more people in the decision-making process when the intention is to arrive at a consensus becomes more time-consuming. The implementation of consensus decisions takes less time, however. The American style of proposal-counterproposal negotiation does not fit well with the Japanese consensus-building, group-based decision-making process. Persuasive arguments are not as effective with the Japanese as is detailed information. They would prefer first reaching an agreement informally and then formalizing it with a short, written contract [39].

Bargaining and negotiation are part of daily life in the Middle East. It is unusual to walk into a shop and purchase merchandise at a specific price. No one expects to complete a deal quickly without bargaining. Patience and protocol are prized. Middle Easterners enjoy flowery prose and poetry and often sprinkle their talk with the recitation of poetry. As RF-type people, they are more concerned with personal integrity and building a relationship than with the formality of concluding an agreement. Similar to the Asians, saving face and preserving their honor and reputation are very important to Middle Easterners. They take pride in their hospitality, are very generous, and appreciate generous people. They have little respect for those who are tightfisted with their wealth. Foreigners who want to establish business relationships in the Middle East should be ready to combine personal relationships with business transactions. In the following paragraph, a foreign negotiator's recounting of his experience is a typical example of the personal nature of doing business in the Middle East [26].

> The Labour Minister for the United Arab Emirates was in my office to help negotiate an end to a work stoppage by the local Dubai construction workers. The meeting went well until we finished our discussions. While walking with His Highness to the door of my office, I mentioned that he had a beautiful briefcase (mine was in a general state of disrepair). As I reached the door I noticed that he was no longer walking with me. I turned around to see His Highness emptying the contents of his briefcase on my desk.
>
> "Did you lose something?" I tried to ask helpfully.
>
> "No, no," he replied. "I want you to have," he added, as he presented his briefcase to me. "This is for you. You are my friend."
>
> After profusely apologizing, I convinced him that I really couldn't accept the briefcase.
>
> The lesson learned? In that part of the world, don't go around complimenting people on their possessions. You just might end up with them. (p. 57)

In negotiating with people from different cultures, understanding the proper negotiation behaviors and protocol can increase the likelihood of success. Astute negotiators pay close attention to greetings and addressing of people, proper dress, and the norms of formality/informality in various cultures. Along these lines, Table 4.9 summarizes some important points to remember.

In the unfortunate event that a negotiation runs into dispute and deadlock, there are ways of preventing a total failure. Changing the composition of the negotiating team may help, possibly even assigning a wholly new team. A less dramatic action may also be successful. A change of venue, adjournment of the session, or repackaging of the deal may be sufficient to break the deadlock. Popular cultural practices may offer opportunities in these situations. Arabs, for example, will take a recess for prayer, Japanese will bring in a senior executive to "see what the problem is, Swedes will go out drinking together, and Finns [will] retire to the sauna" [40].[3]

[3] This and the following question are based on the classroom material used by Betty Jane Punnett and Donald M. Wood, both from the University of West Indies.

Table 4.9 Points to consider in intercultural negotiation

Behavior	Cultural norms/values to consider
Punctuality	Are they polychromic or monochromic?
Greetings	What is the proper way of addressing and greeting people? The role of business cards?
Deal or relationship focus	Should the hosts focus on building a relationship first or accept the American-style business focus?
Formal versus informal	How much informality is accepted?
Dress code	What is the proper dress? What colors should I avoid?
Nonverbal cues	
Emotion	How reserved should a person appear? How much emotion can be displayed?
Eye contact	Is it polite to keep direct eye contact?
Silence	How is silence reviewed? Is it accepted?
Touching	Is touching a normal behavior?
Personal space	What is the proper distance between people?
Body language	What gestures and forms of body language are rude or insulting?
Dining protocol	What are the eating protocols? What manners should be avoided? What foods are taboos?
Gift giving	Is gift giving expected in business settings? What gifts should be avoided? What price range is acceptable?
Age and gender	How senior should the negotiator be? Are females viewed (un)favorably?

Chapter Summary

Without communication, no organization can function. By communicating, we share information, knowledge, beliefs, and values; we also share our ideas, opinions, and feelings with others. It is through communication that we negotiate a deal, buy and sell products, and exchange information. Communication is complete when the meaning we intended to send with our message reaches its destination and is understood by the receiver. This requires commonality of fields of experience between the sender and the receiver. Cultural differences that create different fields of experience make communication across cultures very difficult. International managers need to understand the influence of cultural differences in communication. They can improve intercultural communication by recognizing the cross-cultural variations in communication patterns.

Although verbal communication and written communication are the predominant forms of communication, nonverbal cues are used to supplement or replace the oral and written forms. Similar to differences in languages, there are cultural variations in the nonverbal cues, signs, and signals used in communication. Because language differences are apparent, we learn foreign languages to communicate with other people in their mother tongue. Nonverbal cues, signs, and signals used in communication are less evident; therefore, fewer attempts are made to understand them. International managers who do not familiarize themselves with the idiosyncrasies of

nonverbal communication will face more communication problems. Ignorance of nonverbal, cross-cultural communication can have serious consequences. Unfamiliarity in reading the meaning behind the verbal messages could lead to misunderstanding, confusion, and business failure.

To negotiate a business deal, international managers must recognize the cultural differences in communication and negotiation styles. The skills developed in intracultural negotiations are insufficient for conducting intercultural negotiations. "Projective similarity," assuming that others negotiate the same way as we do, could lead to disappointing results. The American view that negotiation is a competitive game is not necessarily shared by other people. Some cultures view negotiation as a relationship-building exercise. Such a view of negotiation calls for a different type of negotiation and different skills. Attempts at maximizing our gains with such groups may produce a short-term result but may damage the long-term relationships. International managers who succeed remember the saying "When in Rome, do as the Romans do."

Discussion Questions

1. What are the differences between macro and micro international communications?
2. Explain developing countries' concerns regarding international communication.
3. In what way can cultural differences cause communication problems?
4. Why is understanding of nonverbal communication more important to international managers?
5. Give an example of an American nonverbal communication that may have a different meaning in another culture.
6. Based on the material in this chapter, how would you advise a person from a culture that is high on the femininity index in negotiations with an individual from a culture that is high on the masculinity index?
7. Why do negotiators from high-PD societies need more information?
8. Use at least two cultural dimensions discussed in this chapter for explaining the assertion that Americans are very legalistic and short-term oriented in negotiations.
9. What is the PN method? How different is PN from other negotiation methods?
10. Compare the American style of negotiation with that of the Japanese.
11. How do you negotiate with RF people?
12. What strategies should be used in negotiation with DF people?
13. What are your recommendations for breaking a deadlocked negotiation?

(continued)

14. You are planning a trip to Riyadh, Saudi Arabia. The trip is for the purpose of negotiating a business deal with a prospective Saudi partner. As is customary in the Middle East, you are planning to take a couple of gifts for your hosts. Which one of the following should you take with you, and which one(s) should you not take with you? Explain.
    A. 20–30 lb. whole ham
    B. A bottle of whiskey.
    C. A book of American landscape paintings.
    D. A set of expensive pens with your company logos engraved on them.
    E. A Bible.
15. A few years ago, before accepting international assignments, you studied a couple of foreign languages, including Spanish. Your 2 years of work in Singapore did not provide you with an opportunity to practice your language skill. Now you are assigned to Brazil. When visiting your host in Rio de Janeiro, is it a good idea to speak in Spanish even though you are not proficient? Explain.

References

1. Brown, R. (1983, January 10). The Maverick who yelled foul at Citibank. *Fortune,* 46.
2. Mowlana, H. (1986). *Global information and world communication*. New York: Longman.
3. Nordenstreng, K., & Kleinwachter, W. (1989). The new international information and communication order. In M. K. Asante & W. B. Gudykunst (Eds.), *Handbook of international and intercultural communication* (p. 87). Newbury Park, CA: Sage.
4. McPhail, T. L. (1987). *Electronic colonialism: The future of international broadcasting and communication* (2nd Rev. ed.). Newbury Park, CA: Sage.
5. Schramm, W. (1963). How communication works. In W. Schramm (Ed.), *The process and effects of mass communication* (p. 6). Urbana: University of Illinois Press.
6. Clark, D. (2014, June 19). How to succeed in a cross-cultural workplace. *Forbes.*
7. Gesteland, R. R. (1999). *Cross-cultural business behavior*. Copenhagen: Copenhagen Business School.
8. Berris, J. C. (1991). The art of interpreting. In L. A. Samovar & R. E. Porter (Eds.), *Intercultural communication* (pp. 265–269). Belmont, CA: Wadsworth.
9. Maruyama, M. (1993). *Mindscapes in management*. Aldershot: Dartmouth.
10. Mendenhall, M., & Oddou, G. (1985). The dimensions of expatriate acculturation: A review. *Academy of Management Review, 10*(1), 39–47.
11. Anderson, P. (1991). Explaining intercultural differences in nonverbal communication. In L. A. Samovar & R. E. Porter (Eds.), *Intercultural communication* (pp. 286–296). Belmont, CA: Wadsworth.
12. Hecht, M. L., Anderson, P. A., & Ribeau, S. A. (1989). The cultural dimensions of nonverbal communication. In M. K. Asante & W. B. Gudykunst (Eds.), *Handbook of international and intercultural communication* (pp. 163–185). Newbury Park, CA: Sage.
13. Leung, K., Bhagat, R. S., Buchan, N. R., Erez, M., & Gibson, C. B. (2005). Culture and international business: Recent advances and their implications for future research. *Journal of International Business Studies, 36*(4), 365.
14. Javidan, M., Stahl, G. K., Brodbeck, F., & Wilderom, C. P. M. (2005). Cross-border transfer of knowledge: Cultural lessons from Project GLOBE. *Academy of Management Executive, 19*(2), 59–76.

15. Hall, E. T. (1966). *The hidden dimension*. Garden City, NY: Doubleday.
16. Matsumoto, D., Wallbott, H. G., & Scherer, K. R. (1989). Emotions in intercultural communication. In M. K. Asante & W. B. Gudykunst (Eds.), *Handbook of international and intercultural communication* (pp. 225–246). Newbury Park, CA: Sage.
17. Gannon, M. J. (2004). *Understanding global cultures*. Thousand Oaks, CA: Sage.
18. Hall, E. T. (1959). *The silent language*. New York: Doubleday.
19. Halverson, C. E. (1992). Managing differences on multicultural teams. *Cultural Diversity at Work,* May, 10–15.
20. Spitzberg, B. H., & Cupach, W. R. (1984). *Interpersonal communication competence*. Beverly Hills, CA: Sage.
21. Hammer, M. R. (1989). Intercultural communication competence. In M. K. Asante & W. B. Gudykunst (Eds.), *Handbook of international and intercultural communication* (pp. 247–260). Newbury Park, CA: Sage.
22. Ruben, B. (1976). Assessing communication competency for intercultural adaptation. *Group and Organizational Studies, 1*, 334–354.
23. Andersen, J. E. (1985). Educational assumptions highlighted from a cross-cultural comparison. In L. A. Samovar & R. E. Porter (Eds.), *Intercultural communication: A reader* (pp. 160–164). Belmont, CA: Wadsworth.
24. Adler, N. J. (1991). *International dimensions of organizational behavior*. Boston: Kent Publishing.
25. Liu, L. A., Chua, C. H., & Stahl, G. K. (2010). Quality of communication experience: Definition, measurement, and implications for intercultural negotiations. *Journal of Applied Psychology, 95*(3), 469.
26. Acuff, F. L. (1993). *How to negotiate anything with anyone anywhere around the world*. New York: American Management Association.
27. Goldman, A. L. (1991). *Settling for more*. Washington, DC: Bureau of National Affairs.
28. Fisher, R., & Ury, W. (1981). *Getting to yes: Negotiating agreement without giving in*. Boston: Houghton Mifflin.
29. Ertel, D. (2004). Getting past yes: Negotiating as if implementation mattered. *Harvard Business Review,* November, 60–68.
30. Kuhn, R. L. (1988). *Dealmaker: All the negotiating skills and secrets you need*. New York: Wiley.
31. Markus, H. R., & Kitayama, S. (1991). Culture and the self: Implications for cognition, emotion, and motivation. *Psychological Review, 98*(2), 224–253.
32. Bangert, D. C. (1993, October). *Culture's influence on negotiations*. Paper presented at the Academy of International Business, Maui, HI.
33. De Mente, B. (1991). *Korean etiquette and ethics in business*. Lincolnwood, IL: NTC.
34. Bazerman, M. H., & Neal, M. A. (1982). Improving negotiation effectiveness under final offer arbitration: The role of selection and training. *Journal of Applied Psychology, 67*, 543–554.
35. Pruitt, D. G. (1981). *Negotiation behavior*. New York: Academic Press.
36. Nisbett, R. E. (2004). *The geography of thought*. New York: Free Press.
37. Lituchy, T. R. (1993, October). *Negotiating with the Japanese: Can we reach win-win agreements? Paper presented at the Academy of International Business Conference*. Hawaii: Maui.
38. Sebenius, J. K. (2002). Cross-border negotiations. *Harvard Business Review,* March, 76.
39. Hellweg, S. A., Samovar, L. A., & Shaw, L. (1991). Cultural variations in negotiation styles. In L. Samovar & R. E. Porter (Eds.), *Intercultural communication: A reader* (pp. 185–192). Belmont, CA: Wadsworth.
40. Lewis, R. (1995, August). A clear-cut case for compromise. *Management Today*, 72.

5 Managerial Leadership and Motivation in an International Context

Chapter Outline

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_5

Effective managers lead and motivate their followers to perform their jobs successfully. The ability of a manager to lead and motivate affects his/her ability to manage. Organizational performance is based on the collective contribution of all members. Organizations could suffer without an effective leader to increase and combine these contributions. To attain an organization's goals, managers must be able to guide and direct its members to perform to the best of their abilities.

While leadership and motivation are not easy tasks, they are much easier in domestic firms than in an international enterprise. Providing direction and purpose for a culturally diverse workforce in an MNC is very challenging. Although there are many similarities between MNCs and their domestic counterparts, the operational requirements of MNCs are different in many ways. In a domestic firm, because managers and workers share the same cultural values and heritage, many issues do not require much elaboration and explanation by the managers. Cultural norms provide a basic framework for the fulfillment of duties and a simple means for control. Such a vehicle is not available to an international manager who works with a culturally diverse workforce. In this chapter, we will learn about the difficulties that international managers may experience in leading and motivating such a workforce. Also, we review leadership practices in Europe and Japan.

Like domestic companies, global companies rely on leadership and motivation to energize their employees toward reaching the organization's goals. Companies engaged in international business need to develop extra sensitivity to cultural variations in order to satisfy and motivate their employees. The cultural relativity of major leadership and motivation theories is reviewed in this chapter. The success of Japanese firms in competition with American companies has been attributed to their unique management style. Whether what motivates a Japanese worker will work in other cultures, including American culture, is a question worth investigating. According to some scholars, the fall of the Soviet Union and major developments in communication technology have fostered a trend toward a global culture. These developments, along with the influence of culture on leadership and motivation and their implications for international management, are examined in this chapter.

Overview

Chapter Vignette: Inspiring Leaders

South Africa has seen two world-renowned leaders, Mahatma Gandhi and Nelson Mandela, who used different means to achieve a broad common end—freeing their people from oppression and injustice. The means used by both of them to promote their cause included business and economic actions aimed at hurting the purses of their tyrant rulers.

Mohandas Karamchand Gandhi was born on October 2, 1869, in Porbandar, a city in the present state of Gujarat, in India. While he was a legal advisor for an Indian firm in South Africa, he witnessed the widespread denial of human rights to Indian immigrants. It was in South Africa that Gandhi propounded his philosophy of passive resistance and noncooperation as a strategy for opposing tyranny and human rights abuses. When he returned to India, Gandhi began teaching and practicing passive resistance and civil disobedience, which Indians called “ahimsa” (a Sanskrit word meaning nonviolence). He led Indians in a long and difficult struggle against British rule. Knowing the importance of economic pressure, he ordered the complete boycott of all British goods. Finally, under his leadership, India gained its independence in 1947.

Gandhi lived a spiritual and ascetic life. He wore only a loincloth and a shawl, which was how the lowliest Indians dressed. He responded to the abuses, beatings, and jail sentences that British authorities inflicted on him with fasting, prayers, and meditation and urged his followers to do the same. Gandhi was revered by Indians as a saint; they call him Mahatma (“great-souled”). He is the symbol of free India and the spiritual leader of the nonviolence movement globally. His teachings and philosophy have influenced and inspired nonviolence movements everywhere.

Rolihlahla Nelson Dalibhunga Mandela, who was elected as the first black president of South Africa in 1994, was born on July 18, 1918, at Mbhashe in Umtata District. His father was a chief, and his mother was one of his father’s four wives. In 1942, Nelson obtained his B.A. degree and became a student at the Witwatersrand University in the Faculty of Law. In 1944, Mandela joined the African National Congress (ANC), the political party that aimed at eradicating the segregationist practices of the South African government. In 1947, he was elected the ANC’s secretary, and in 1951, he became its president. At first, he followed the path of nonviolent resistance against the apartheid policy of South Africa, but dismayed by its apparent failure, he soon joined the armed struggle.

In 1960, police fired at unarmed pass-law protestors, massacring thousands. Consequently, civil strikes ensued, and the government declared a state of emergency. Thousands were arrested, and the ANC was banned. Mandela was forced to go underground in April 1961. He organized military training for armed operations against the apartheid regime. Soon, he was arrested and sentenced to imprisonment for 5 years. In 1963, following the arrest of the other ANC leaders, Mandela, while still in jail, was sentenced to life imprisonment for sabotage and attempting to overthrow the state. While in prison, he received many awards, honorary degrees, and even honorary citizenship from other nations. To force the dismantling of the apartheid regime, he pleaded with Western governments to impose economic sanctions against the South African government and urged MNCs to withdraw their investment from South Africa. Finally, the economic measures and worldwide condemnation forced the abandonment of apartheid practices.

When Mandela was released on February 11, 1990, some wondered whether he would be ready for compromise after spending more than a quarter of a century in prison. Some have argued that if he had been bent on vengeance, he could have caused mass riots and massive civil strife. But he, as the leader of South African blacks, set aside his personal feelings. He concluded his first speech after his release from the prison by saying, “I have fought against white domination, and I have fought against black domination. I have cherished the idea of a democratic and free society in which all persons live together in harmony and with equal opportunities. It is an ideal which I hope to live for and achieve. But if needs be, it is an ideal for which I am prepared to die.” [1–5]

Introduction

Many business failures can be traced to functional deficiencies, such as poor planning or marketing. Many more are due to managers' inability to lead and motivate employees. Effective managers are those who can lead their subordinates toward the accomplishment of organizational goals. This is a feat not easily managed. Among the managerial skills, leadership competency and the ability to motivate are two of the most difficult to master. While managers can rely on assistance from others in technical matters, they have to resolve leadership problems and motivation issues through personal initiatives. Leadership and motivation skills, therefore, are critical to a manager's success.

If leading and motivating are important determinants of success in a domestic business, they are much more important in an international operation. What constitutes a good leader in one culture may not necessarily be the case in other cultures. Also, what motivates people varies among cultures. Most Americans, for example, prefer democratic leaders who seek inputs from their subordinates. In other cultures, such a leader may be regarded as naive or incompetent. In some cultures, a leader should always know how to take charge and lead the subordinates without needing much assistance from them. Any failure to take charge would be interpreted as a sign of incompetence. For Americans, motivation is mostly an individual, personal issue. In some other cultures, however, personal factors are subordinated to the group's benefit.

Besides having technical expertise, international managers must possess the ability to organize and lead a workforce of diverse cultures and to achieve cross-cultural collaboration in spite of multicultural difficulties. They need to be proficient in motivating, coaching, mentoring, and assessing the performance of people with different values, beliefs, and attitudes. The requirements for managerial leadership in international contexts extend well beyond functional management practices and encompass a sensitivity to, and empathy with, cultural diversity. The task of leading under demanding conditions requires an understanding of leadership concepts and the ability to apply them to different cultural circumstances.

Major leadership theories, which have shaped Western managerial thinking and philosophies, have been developed and tested almost exclusively in the West. While these theories are based on Western cultural values and assumptions, they are often implicitly presented as universal theories. Consequently, practicing managers have applied them, along with other Western managerial concepts, to international situations without considering the need to modify them according to the context. Not surprisingly, the results have been less than stellar.

In the following section, we discuss the shortcomings of these theories and examine their applicability to different cultural situations.

The Shortcomings of Leadership Theories

The following discussion is based on the assumption that readers are familiar with the leadership theories presented in Appendix A.

Popular leadership theories assume that the leaders and followers have a lot in common within their value systems and culture and that the roles of leader and followers are universal. These theories, implicitly if not explicitly, advocate democratic, participative leadership behavior as the preferred choice. Almost all theories are developed in the United States and are based on American cultural values. As Reitz [6] asserted:

> the American culture has traditionally placed higher values on democratic than on authoritarian leadership, certain biases can be detected in the research on the effects of these leadership styles. A great deal of research is designed to prove that democracy is superior to autocracy, rather than to test that proportion. (p. 524)

Recent research is questioning the validity of these assumptions. We could claim that democratic behavior is "nicer" than authoritarian behavior, but it is not necessarily more productive [6]. Other kinds of leadership behavior, under different circumstances and in different cultures, may be more productive. "A single normative leadership style does not take into consideration cultural differences, particularly customs and traditions as well as the level of education and the standard of living" (p. 79) [7]. In developing countries, for example, where most people are preoccupied with scratching out a livelihood, there is less concern for participation in decision-making.

Modern leadership theories ushered in by studies at Ohio State University and the University of Michigan established a consensus that leadership skills can be learned. Also, these theories, implicitly or explicitly, assume a democratic environment, where participation in decision-making by all involved, including the workers, is favored and expected. They also assume that most of the physiological, lower-level needs of employees are reasonably satisfied. Such an environment provides a fertile ground for participative/democratic leadership practices. For example, Likert proposed that participative management is an effective managerial leadership approach characterized by open channels of communication and the inclusion of inputs by lower-level employees in the decision-making process. He proposed that participative management results in higher productivity and higher job satisfaction.

Other theorists expressed similar views. Tannenbaum and Schmidt, for example, suggested that there is no one best way to lead but made other assumptions pertinent to the work environment in the United States. They suggested that leaders use their power according to the situational demands. To them, the situational demands implicitly took place within an individualistic society and did not involve a multicultural environment. A combination of situational requirements may dictate the full use of power by leaders or involvement of subordinates in the decision-making process. Situational demands include the personalities of subordinates, their willingness to accept responsibility, their expectation about the leader's behavior, and the group ability to accomplish the given tasks. If individual subordinates are not self-directed and require close supervision, if the workgroup does not have the ability to solve problems, if they are not willing to take responsibility, and if they expect the leader to take charge, then a directive leadership style may be more productive. In situations contrary to the one described above, a relationship-oriented leadership style would be more appropriate. Situational factors, such as time pressure, the nature and scope of the problem, and organizational circumstances also have an impact on the manager's behavior. All these situational demands are related to work and a work environment that is implicitly American. Tannenbaum and Schmidt assumed that both managers and workers share the same cultural values. They assumed that both have the same perspective regarding work, authority, social interaction, risk-taking, and individual-group relationships.

A more recent concept seen in the leadership literature is self-leadership. It advocates the development of individual attributes that could lead to self-control and self-motivation. In effect, according to this theory, instead of managers acting as leaders, they should lead others to lead themselves [8]. It encourages empowering employees to identify with work and exercise self-direction and self-motivation. Consequently, through self-leadership, employee and organizational performance are enhanced.

Self-leadership assumes that organizations support self-control and personal initiatives and that the individual is self-directed and self-motivated. It also assumes that employees' value systems and cultural norms accept subordinates taking the roles that belong to superiors (see the discussion on "self" in the section on motivation). We know, however, that managerial leadership differences among nations may be the result of people's implicit assumptions regarding leadership qualities [9]. In most cultures, individuals believe that leaders should have certain personality characteristics, skills, and behaviors. These belief systems are referred to as cognitive categories, mental models, and stereotypes, as well as by other names, and could affect an individual's response to and acceptance of another, or oneself, as a leader. For example, in cultures that rank high on uncertainty avoidance, employees are very reluctant to take personal initiatives and look up to managers/leaders for instructions, encouragement, guidance, and support. Participative management is not popular in these cultures. As De Mente asserts (as cited in Ref. [10]):

> In China, the primary qualities expected in a leader or executive is someone who is good at establishing and nurturing personal relationships, who practices benevolence towards his or her subordinates, who is dignified and aloof but sympathetic and puts the interests of his or her employees above his or her own.

It is not practical to expect self-leadership in cultures where people have certain assumptions about leadership that preclude subordinates in leadership roles. Also, self-leadership may not be applicable where subordinates are not comfortable in situations that call for self-direction and self-motivation.

Among the theories of leadership, situational theories have the best potential for application in cross-cultural settings. While these theories do not specifically consider national cultures as a situational variable, the underlying theoretical framework allows for such an inclusion. Moreover, since they do not advocate a particular leadership style for all situations, situational leadership theories accept that different leadership styles can be effective in different cultures. They also indicate that leadership effectiveness can be improved by modifying the contingent situational variables, such as the group, the task, the followers' skills, and the organizational policies. Still, certain assumptions are embedded in all these theories. By learning about these assumptions, the managers of MNCs will be able to modify them to fit the work environment in different cultures.

The Cultural Relativity of Leadership

Cultural differences have a major influence on the effectiveness of various leadership behaviors. Norms, role expectations, and traditions governing relations between various members of society are strong determinants of effective leadership behavior. These differences are manifested in MNCs whose employees come from different cultural backgrounds. The challenge for international managers working with multicultural employees is to recognize these differences and adapt their relationships accordingly. To learn about these differences, we will review two cultural dimensions: acceptance of authority and dealing with uncertainty. While all cultural values influence the behavior of leaders, these two are of particular importance. Here, we will focus on their influence on leader-follower relationships. Using these two dimensions as a reference, we will discuss the predominant leadership practices in Europe and Japan.

Acceptance of Power and Authority

The use of power and authority is central to managing and leading. Power and authority are universal to all cultures. Hierarchical relations are the mainstay of social interactions. The importance, emphasis, scope, and application of power and authority, however, vary among societies. Hofstede called this variation the *power distance* [11]. In societies where power is more evenly distributed among the members, there is only a small gap between the most powerful members and the least powerful. In others, there is a wide variation in power distribution, and the difference between the most powerful and the least powerful is large. In such societies, the large differences in power are legitimate and acceptable to all members. Members often feel uncomfortable if the distance is knowingly violated. For example, if a superior in a large-power-distance society attempts to reduce the distance by acting more accessible and friendly, his/her subordinates may not willingly accept such openness. They may attribute some ulterior motives to this overture.

Matrilineal Leadership

Mosuo women and Khasi society are among the few surviving female bastions in the world. Mosuo women come from a small village in China called Yongning, and Khasi people live in northeastern India.

Mosuo women lead most of the businesses, head the households, control the family finances, and inherit their clan's assets. They are also the pursuers in relationships. Some of these women are married, and some of them have a lover who visits them at night and is sent home in the morning; this is called *zouhun* or "walking marriage." It is unbelievable that in a society like China, where female babies are often abandoned, women can be in charge of homes, businesses, and relationships.

According to Sunami Anna, who is a Mosuo woman, to run a family well, a woman must be in charge. Sunami has the power of choosing her successor, but it is obvious that her daughter will get the privilege. Men who work in Sunami's clan have to give her all the earnings, and she decides what to do with the money.

The situation is the same in Khasi society, where the youngest daughter inherits the property, and after marriage, her husband moves into the family house. Men have no line of succession, no land, and no business. According to one Khasi man, they play the role of breeding bulls and babysitters [12, 13]. (The article in Ref. [13] originally appeared in *The Times of India*, January 28, 1994.)

In small-power-distance societies, people believe in equality and will attempt to minimize inequality. Superiors do not see themselves as being very different from subordinates and vice versa. With minimum distance among them, superiors are accessible to subordinates. Powerful people do not flaunt their power, and they try to appear less powerful. Changes in small-power-distance societies take place incrementally through the redistribution of power.

People in large-power-distance societies believe in a hierarchical power distribution, where everyone has a rightful place and everyone is protected by this order. Superiors consider themselves different from subordinates and vice versa. The large power difference between superiors and subordinate leads to superiors being inaccessible. Power entitles people to certain privileges, which include obedience and respect from others. Powerful people will not hide their powers and, in fact, use various trappings to signal their power. Officeholders can be identified by their mode of dress, type of office, and entourage. Meaningful changes take place only through dethroning of the powerful. Since other people are seen as a potential threat to one's power, they can rarely be trusted.

Where power distance is large, subordinates may not feel quite comfortable with closer relationships between themselves and the managers. Since leadership is an interactive process that requires subordinateship, the followers' expectation of an ideal leader greatly influences the feasibility of certain leadership practices. To most subordinates in large-power-distance cultures, for example, a benevolent autocrat or paternalist is an ideal superior. Hofstede's research indicates that subordinates in larger-power-distance countries tend to accept authoritarian leadership more readily.

Managers moving to large-power-distance cultures learn that they can be more effective by behaving autocratically. This is borne out by the colonial history of most Western countries. Interestingly enough, among the ex-colonial powers, France, with a larger power distance, enjoys a much better relationship with its old colonies (p. 57) [14]. Among the European countries, it was in France, too, that the application of management by objectives (MBO) failed [15]. MBO requires an agreement between managers and subordinates on a set of objectives and the means of achieving them. This means that subordinates must have sufficient independence and autonomy to negotiate with their superiors. Low-power-distance cultures more readily meet these requirements. Both managers and subordinates of high-power-distance cultures, however, have difficulty coping with such arrangements. Hofstede [14] quotes French management scholars asserting that DPO (*direction par objectifs*, the French equivalent of MBO) does not work in France because:

> French blue- and white-collar workers, lower-level and higher-level managers, and "patrons" all belong to the same cultural system which maintains dependency relations from level to level. Only the deviants really dislike this system. The Hierarchical structure protects against anxiety; DPO, however, generates anxiety. (pp. 57–59)

Cultures high on power distance and uncertainty avoidance are not fertile ground for participative management. Underlining this point is the French experience with MBO. During the 1980s, the French government implemented laws that were designed to promote workplace democratization from the bottom up. The goal was to promote a new citizenship in the workplace and to make the worker the agent of change. It mandated the creation of "direct expression groups," where employees could freely express their concern and raise questions about the operation of the firm. The government said that French management needed reform because they had lagged behind managers elsewhere in developing productive relations with employees. Neither management nor workers showed much interest in the reforms, however, and the French business community adamantly opposed the reform. It saw the expression groups as a potential threat to their authority. Likewise, employees were not interested in the democratization of their workplace. They were more concerned with job security, higher wages, and shorter work weeks [16]. As Hofstede [14] noted, where both power distance and uncertainty avoidance are high, having a powerful superior whom we can both praise and blame is one way of satisfying a strong need for avoiding uncertainty (p. 53).

Managers from low-power-distance cultures find it easy to act and manage autocratically when working in a large-power-distance culture. However, they have difficulty operating in an environment with a power distance lower than their own. US managers, for example, have difficulty in fully accepting industrial democracy as it is practiced in Sweden or Germany. Power sharing and participation in decision-making take on a whole new dimension in an industrial democracy. From the American perspective, industrial democracy impinges on the prerogatives of management. American managers do not accept a power-sharing scheme that cuts across all levels of the organization and in which the lower levels have a major role [17].

Until recently, most leadership research in the West focused on transactional leadership. Transactional leaders use organizational resources to elicit employees' performance in a transaction/exchange process. "Transactional leaders do not generate passion and excitement, and they do not empower or inspire individuals to transcend their own self-interest for the good of the organization" (pp. 559–560) [18]. Today, transformational leadership is the most prominent among the theories of leadership [19]. There are four components of transformational leadership: **charisma**, **inspirational motivation**, **intellectual stimulation**, and **individualized consideration** [20]. Gifted people who are able to gain the respect, pride, trust, and confidence of their followers by conveying a sense of vision are considered **charismatic**. Through **inspirational motivation**, these leaders communicate high expectations and use symbols to focus efforts on important objectives in a simple way. **Intellectually stimulating** leaders encourage followers to think critically and use careful rationality in problem-solving. **Individualized consideration** refers to helping followers grow through personal attention and coaching, with each employee being considered individually.

Walumbwa and Lawler [21] found that in emerging economies such as China, India, and Kenya, collectivist orientation had a positive impact on the relationship between transformational leadership and work-related outcomes. On that basis, one could speculate that in collectivist cultures, transformational leaders may be more effective.

Avoiding Uncertainty

To live is to deal with uncertainty. Uncertainty is part of life, and all managers deal with uncertainty in running organizations. A critical aspect of managing and leading is dealing with uncertainty by giving subordinates enough direction and instruction to adequately perform their tasks. Society's orientation toward the handling of uncertainty is reflected in the management of its institutions and organizations.

Uncertainty avoidance is:

> the extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing greater career stability, establishing more formal rules, not tolerating deviant ideas and behavior, and believing in absolute truths and the attainment of expertise [14]. (pp. 42–63)

Cultures placing a strong emphasis on uncertainty avoidance consider life's uncertainties a continuous threat that must be fought. They avoid conflict and competition and strive for consensus. Security in life is valued greatly, which leads them to search for ultimate truth and values. People in these countries take less risk, worry more about the future, and rely on seniority for advancement in organizations. To avoid uncertainty, there is a heavy reliance on written rules and regulations. Matters of importance are left to the authorities, which relieves subordinates from assuming the responsibility. Hofstede [11] found that in countries high on uncertainty avoidance, loyalty to employers is considered a virtue.

People in cultures with low emphasis on uncertainty avoidance accept uncertainty as an inherent aspect of life and take it in their stride. They are contemplative and less aggressive, avoid expressing their emotions, and are tolerant of dissent and deviant behavior. There is less emphasis on rules and regulations, and people are more willing to take risks. They believe that a certain amount of conflict and competition is constructive for society and devise various mechanisms to promote competition. Authorities are there to serve the people, and if rules cannot be kept, they should be changed. Loyalty to employers is not seen as a virtue, and people do not hesitate to change their jobs if there is an opportunity for advancement.

A clustering of 40 countries according to their position on these two dimensions of power distance and uncertainty avoidance is depicted in Fig. 5.1. As can be seen from Fig. 5.1, the United States, Canada, and most northern European countries are low on power distance and low on uncertainty avoidance. Asians, people from the Mediterranean, and South Americans are high on both dimensions. A few Asian countries are high on power distance and low on uncertainty avoidance (upper left-hand-side quadrant), and a few European countries are low on power distance and high on uncertainty avoidance (lower right-hand-side quadrant).

Power Distance	Uncertainty Avoidance: Weak	Uncertainty Avoidance: Strong
Large	India Hong Kong Philippines Singapore	Argentina, Brazil, Belgium, Chile, Colombia, France, Greece, Iran, Italy, Japan, Mexico, Pakistan, Peru, Portugal, Spain, Taiwan, Thailand, Turkey, Venezuela, Yugoslavia
Small	Australia, Canada, Denmark, Great Britain, Ireland, Netherlands, New Zealand, Norway, Sweden, U.S.A	Austria Finland Germany Israel Switzerland

Fig. 5.1 Country clusters based on power distance and uncertainty avoidance

It is important to recognize that the leadership theories referred to in this chapter were all developed in countries that are low on power distance and low on uncertainty avoidance. Both superiors and subordinates in these countries value power sharing. These cultures have a more receptive environment for the practice of democratic-participative management. Therefore, it is not surprising that these theories generally advocate democratic-participative management. Subordinates gain more autonomy and freedom due to their participation in the decision-making process. Those who are low on uncertainty avoidance are better suited to deal with the autonomy thus gained. In these cultures, superiors are comfortable with the subsequent uncertainty associated with granting autonomy to their subordinates. Similarly, subordinates are not uncomfortable with assuming the risk and uncertainty associated with participation in decision-making. The lower power distance between members of these societies allows for a closer relationship between leaders and followers.

An essential aspect of leadership is the role and behavior of subordinates. Subordinate employees use various strategies to influence their superiors. Table 5.1 summarizes subordinateships for the two levels of power distance. At each level of power distance, both subordinates and superiors expect certain appropriate behaviors from the leader, and a mismatch poses problems. Which strategy is chosen depends on its perceived appropriateness in a given culture. What an American subordinate may find appropriate may not be viewed similarly by an Asian. This difference was observed in research among Chinese and Americans working in Hong Kong and Americans working in the United States. It was found that a difference exists between the Eastern and Western styles of upward influence. Americans preferred overt tactics involving image management that permit them to showcase their individual skills and abilities. They preferred, for example, to manage an independent project or make sure that important people in the organization hear of their accomplishments. In contrast, Hong Kong Chinese preferred a more covert approach that works behind the scenes, one that may involve using their family and trusted friends to obtain information and influence that may help them to succeed [22].

Table 5.1 Subordinateship for the two levels of power distance

Small power distance	Large power distance
Subordinates have weak dependence needs	Subordinates have strong dependence needs
Superiors have weak dependence needs toward their superiors	Superiors have strong dependence needs toward their superiors
Subordinates expect superiors to consult them and may rebel or strike if superiors are not seen as staying within their legitimate role	Subordinates expect superiors to act autocratically
Ideal superior to most is a loyal democrat	Ideal superior to most is a benevolent autocrat or paternalist
Laws and rules apply to all and privileges for superiors are not considered acceptable	Everybody expects superiors to enjoy privileges; laws and rules differ for superiors and subordinates
Status symbols are frowned on and will easily come under attack from subordinates	Status symbols are very important and contribute strongly to the superior's authority with the subordinates

Source: Ref. 11, p., 259

Managerial Leadership in Europe

Managerial leadership centers on the relationship between the manager and the followers. The manner of relating to employees, the style of projecting and using power, and the method of dealing with conflicts and crises set the stage for managerial leadership. The boundaries within which these issues are dealt with vary among cultures. Americans prefer informality and a moderate use of power. They are pragmatic and practical. While they are conscious of projecting a proper image, they do not sacrifice results for a proper appearance. They allow participation by the lower levels of organization when such participation can lead to improved performance and productivity. Assuming that Europeans, due to a shared cultural heritage, have the same preferences can lead to disappointment.

Cultural Prism: Authority and Leadership

> "The respect of subordinates depends on the appearance of strength and competence, but what comes across as strong and competent is not the same everywhere. In Mexico, machismo is important. In Germany, polish, decisiveness, and breadth of knowledge give a manager stature. . . . The point is, you should behave appropriately for your role, or your employees may be confused."

> "Americans are peculiar in their concentration of interest and effort into a few activities. With few exceptions, industrial leaders in the United States are known only for their corporate identity. Latin American management emphasizes the total person. Leaders are respected as multidimensional social beings who are a family leader, business leader, intellectual and patron of the arts. . . . French and Italian industry leaders are social leaders. . . . In Germany, power can be financial, political, entrepreneurial, managerial, or intellectual; of the five, intellectual power seems to rank highest. Many of the heads of German firms have doctoral degrees and are always addressed as 'Herr Doktor'."

> "To communicate rank or to estimate the power of a foreigner you have to know the local accouterments of success or position. . . . Appearance and clothing are extremely important to the Latin Americans. Arabs and American businessmen seem to value large offices. . . . Ostentatious displays of power are considered bad form by the Germans." [23] (p. 120).

Britain

On the two dimensions of uncertainty avoidance and power distance, the British are very similar to the Americans. Their high tolerance for ambiguity and low power distance is reflected in their industrial relations practices. Labor-management relations are less codified in England than in any other Western European country, which is not surprising in a country that does not even have a written constitution.

While French managers believe in a rigid separation of professional and private life, British executives perceive a fluid and much more obscure boundary between the two spheres. The British are more passive and empathetic, spending time relaxing, doing chores, and simply being together. While the career strategy of the French executive is more defensive, that of the British counterpart is more aggressive and risk-taking. The British see the most positive characteristics of the boss as persuasive-paternalistic or consultative [11].

Probably due to a high tolerance for ambiguity, the British prefer a generalized, nonspecialized education for managers. A British manager was quoted as saying, "the more difficult it is to plan, the less you need full-time professional planners" (Refs. [11], p., 118; [24]). Centuries of class conflict have left its mark on the workplace. Often, British workers consider their employers to be exploitative, since employers have exploited their ancestors for centuries. Over the years, British labor has developed a socialistic attitude that at times even advocates public ownership of corporations. It has produced a class-war outlook in which workers are not enthusiastic about toiling for the "boss class" (p. 458) [25]. The elitist and hierarchical organizational systems prevalent in Britain are not much concerned with nurturing the people in the factories. By and large, the workers carry out what they are told to do [26].

The British

An American executive advising a young manager who was being assigned to England: "Remember, the United Kingdom is a polyglot of ancient cultural influence—Angles, Saxons, Normans, Vikings, Celts, Picts, Romans, and others. Today this so-called homogeneous isle is becoming more pluralistic with the influx of immigrants from the commonwealth nations. . . . Normally, you will find them reserved, polite, and often friendly, but don't take them for granted. For all their simulated modesty, the British can be tough and blandly ruthless when necessary. They are masters at intelligence gathering, political blackmail, and chicanery, as a reading of book *Intrepid* will illustrate. Despite how quaint and eccentric they may appear to you at times, don't sell them short. They are a game people who built an empire with a handful of men and women. Although England and Wales are only the size of Alabama, and the population density is close to the size of France, the British once ruled 14 million square miles and more than 500 million souls. I remember reading once: 'Because their Union Jack once flew over a good portion of the globe, the people have an empire ethos that gave meaning to those who served it.'. . . . It explains their effortless superiority in world affairs, and their inward, invisible grace as a people. It produced a tradition of public service and an education and class system that was dedicated to the needs of the Empire. It also spawned a credo that natural leaders, not low-born self-made men and women, should rule among the multitude." [25] (p. 458)

The British are very protective of their "space." Outdoor cafes common in some parts of Europe are absent in Britain. Phillips [26] attributes this to the dislike of the British for being in close proximity to other people. "The worst thing that can happen to a Briton on holiday is for someone else to come and sit next to them on the beach."

France

The French tend to favor formal and ritual activities over informal activities (p. 95) [15]. They are idealistic and concerned with the essence of values. While the motto of the French republic is *Liberté, Egalité, Fraternité* ("Liberty, Equality, Fraternity"), the importance of social classes cannot be ignored. The French social classes are the aristocracy, the upper bourgeoisie, the upper-middle bourgeoisie, and the middle, lower-middle, and lower classes. The French are very status conscious. Social status depends on one's social origin. While Americans can aspire to the highest level of society through their own accomplishments and hard work, the best that the French can do is climb one or two stages of the social ladder. Education, a knowledge of literature and the fine arts, a tastefully decorated beautiful house, and the proper ancestral social origins are outward signs of social status (pp. 465–471) [25].

The top French managers are an elite group, very much aware of their *grandes écoles* (great schools/universities) roots. *Grandes écoles* supply almost all the top positions of the well-known and large public and private organizations. Military influence and tradition are very much in evidence in these schools, and therefore, they have maintained their strong male tradition. Mostly engineers by background, the graduates of *grandes écoles* excel in quantitative thought and expression and in the numerical dimensions of strategy. They have a great affinity for written communication, which reinforces a formality that permeates their relationships. To them, the manager should be able to grasp complex problems, dissect and synthesize them, manipulate ideas, and appraise solutions. They would rather be considered intellectuals than practicals, and they are obsessed with grammatical rectitude. French managers tend to have a bias for thought and intellect rather than action. In this vein, the witty detractors of the French inclination for theory have a caricature of one French civil servant telling the other, "That's fine in practice, but it'll never work in theory" (pp. 12–13) [26]. French organizations are highly centralized and hierarchical, and decisions are made at the very apex. Educational credentials are the basis of a finely graded distribution of positions and offices. Unlike in US companies, the highly credentialed managers in French organizations are allowed to accumulate all the responsibilities they feel capable of handling [27].

Managerial Leadership in France

"French managers see their work as an intellectual challenge, requiring the remorseless application of individual brainpower. They do not share the Anglo-Saxon view of management as an interpersonally demanding exercise, where plans have to be constantly 'sold' upward and downward using personal skills. . . . The design of French organizations reflects and reinforces the cerebral manager. France has a long tradition of centralization, of hierarchical rigidity, and individual respect for authority. French company law resembles the country's constitution in conferring power on a single person. . . . the *president-directeur-general* (PDG) . . . is chairman of the board and chief executive rolled into one. . . . The PDG is not answerable to anyone." [27]

French workers are very much concerned with the quality of life. Very seldom are they willing to sacrifice their free time and vacation for the sake of work. They cherish their 2–4 weeks of annual vacation, one of the longest in Europe. The French managers' leadership style is predominantly autocratic [28]. However, they tend to avoid face-to-face confrontation and conflict in organizations. Perhaps the social class distinction that separates the workers from the ruling executives leaves less room for face-to-face relationships. Therefore, impersonal rules are devised to protect both the superiors and the subordinates. "From below, one obeys the rules and thus does not submit to the absolute authority of an individual and as a result protects one's independence. From the top, editing the rules affirms the capacity of sovereign power" (p. 95) [15].

Germany

Small power distance and strong uncertainty avoidance are two characteristics of German society. According to Hofstede [11], societies that are strong on uncertainty avoidance are intolerant of deviant persons and ideas and consider them dangerous. People of these societies are nationalistic, aggressive, and consensus seeking, have an inner urge to work hard, are concerned with security, and are strong advocates of law and order. Almost all these characteristics are stereotypical of Germans. Germans are known for their industriousness and efficiency. They are an inward people who tend to be very private. They perform better when they are given clear instructions and know what is expected of them [28]. Compared with Americans, Germans seem to take a long time to develop friendly relations with others. Germans are status conscious and idealistic. They are reserved, and to outsiders, they appear to be cold. They are detail oriented and meticulous. When Ford Motor Company started its *world car* concept, integrating the worldwide production of automobiles, they learned firsthand about German precision. The Germans made components that required very fine fitting. Other countries, however, were not accustomed to producing, for example, doors and body parts with the precision of a few millimeters. The result was incompatibility of parts and components produced in Germany with those produced in other countries.

While Americans are satisfied with partial models that leave many questions unanswered, such as various motivational models, control mechanisms, and delegation, Germans have tried to develop more systematic models. This approach to management has produced the "Harzburger model." In this model managing is done by defining the tasks to be performed, creating job descriptions for the tasks, and defining behavioral roles for their performance [29]. Such a bureaucratic model approaches leadership and motivation from a logical, institutional, and economic perspective. It views the firm as operating in an economic free-enterprise system that "motivates" it to seek profit. Within such a system, individuals are considered as rational persons who seek to maximize their personal profit or utility in a manner consistent with the firm's objectives [30]. Viewed from an institutional perspective, leadership is, therefore, considered as a phenomenon comprising the acquisition, possession, and use of power. This view of leadership, however, is tempered with the institutional participation of employees in the management of the firm through *codetermination*. Additionally, it considers leadership's responsibility to improve employer-employee relationships on the basis of voluntary socio-ethical obligations. The aim is to develop a new relationship between capital and labor on a voluntary rather than a legal basis. It advocates consensus-based partnership between unions and management (p. 1390) [29].

Leadership Succession in a German Company

"I look carefully at the young people who are brought to my attention by my colleagues. I spend a lot of thought on these people. . . . I invite these young men to my home for dinner. Often I give garden parties for perhaps for 60 or 90 people in honor of some visiting foreigners. Then I can see how they behave, how their wives behave, how well they get along with foreign people, the quality of their education. . . . We don't like people who can't behave properly. . . .

We invest a lot in these people. If they have language deficiencies, we train them. If they are to work in Latin America, we send them to Spain for three months so they speak really good Spanish.

At the moment, I do not know that there is a member of corporate management whom I could propose as my successor. So I look (around) the world a bit, and we have identified two or three people who could qualify. So I might arrange a golf game with some of my fellow chief executives.. .. As we play, I might say to one chief executive: 'There is a chap in your organization who, we think, can do things for us. What are his chances with you?' He might respond: 'Well, his boss is only three years older, so I can't offer him anything like your opportunity. You can have him.'" [31] (p. 10)

German managers are predominantly from the engineering disciplines. With very few exceptions, these managers have middle- or upper-class backgrounds [32]. German workers are among the highest paid and best treated in the world. They have one of the shortest work weeks and among the longest paid vacations. While the majority of the German workforce is not unionized, contracts negotiated by labor unions cover both unionized and nonunionized employees. This is due to the fact that about 90% of employers are members of an employers' association, and collective agreements are on regional and industry levels.

Managerial Leadership in Japan Versus the United States

The nature of the decision-making process at the higher levels of organizational hierarchy influences the type of leadership employed throughout the organization. In the United States, of the two components of the decision-making process, decision formulation is the domain of top management, and implementation of those decisions is relegated to the lower levels. In the American system of decision-making, fewer levels and smaller numbers of people are involved. Therefore, a shorter time period is needed to formulate a decision. To implement these decisions, however, organizations are compelled to secure the commitment and support of the lower levels and a larger number of people. When successful, this method produces quick results. Securing the commitment and support of the lower levels in implementing these decisions requires certain leadership characteristics and skills that are very akin to those required in selling and marketing. To produce results, leaders have to be very persuasive and have to command resources that the subordinates desire, or they need to have the personal traits (charisma) that would make subordinates follow their directions.

Ringisei: Japanese Decision–Making

"When an important decision needs to be made in a Japanese organization, everyone who will feel its impact is involved in making it. In the case of a decision where to put a new plant . . . (for example) will often mean sixty to eighty people directly involved in making the decision. A team of three will be assigned the duty of talking to all sixty to eighty people and, each time a significant modification arises, contacting all the people involved again. The team will repeat this process until a true consensus has been achieved. Understanding and support may supersede the actual content of the decision, since the five or six competing alternatives may be equally good or bad. . . .

When a major decision is to be made, a written proposal lays out one 'best' alternative for consideration. The task of writing the proposal goes to the youngest and newest member of the department involved. Of course, the president or vice-president knows the acceptable alternatives, and the young person tries like heck to figure out what those are. He talks to everyone, soliciting their opinions, paying special attention to those who know the top man best. In so doing he is seeking a common ground. Fortunately, the young person cannot completely figure out from others what the boss wants, and must add his own thoughts. This is how variety enters the decision process in a Japanese company." [33] (pp. 44–45)

In contrast to the US decision-making process, the Japanese employ a consensus-building method known as *ringisei*, or *ringi* for short. In fact, the Japanese have no equivalent for *decision-making* (p. 27) [11]. *Ringiseido* literally means "a system of reverential inquiry about a superior's intentions." In this context, the term means obtaining approval on a proposed matter through the vertical, and sometimes horizontal, circulation of documents to concerned members in the organization (p. 34) [34]. In the *ringi* system, everyone who will feel the impact of a decision will be involved in making it.

The system originated in government offices and national enterprises at the beginning of industrialization. In a *ringi* system, the business plan or proposal about important problems that require a budget must be sent from the lower- to the higher-positioned staff and finally decided on by the president. The business plan or proposal must be sent from the lower group head to the head of the next level and, finally, to the department head. If at each succeeding level, the superior cannot consent to the plan, it must be sent back to the original lower-level manager for modification or total revision and then sent to the upper level again [35].

In a *ringi* system, the demand for information pulls the decision down toward the implementation level. At the same time, the need for decisions to match the corporate strategies pulls it upward. The equilibrium of these two conflicting demands usually takes place at the middle level. The success of the system depends on the competency and leadership skills of middle-level management, which serves as a bridge between the upper and lower levels of the organization. The effectiveness of middle managers depends on their personal relations with other managers. Unless they can obtain the required information from all corners of the organization, they will not be able to perform their job successfully (p. 39) [34]. Under the *ringi* system, managerial leadership at the top entails coping with crisis situations or charting new directions for the organization. The chief executive does not alter or disapprove of the decisions reached through *ringi*. The lower levels work hard to make sure that no *ringi* decision reaches the top that will not be approved. After the general direction and strategy of the firm are communicated to the middle and lower levels, operational decisions and methods of implementing those decisions are entrusted to them. In Japanese firms, chief executives spend most of their time in establishing and maintaining close relationships with government officers and other corporate heads (p. 41) [34].

High on both power distance and uncertainty avoidance, Japanese culture favors consensus and shuns deviant behavior. Japanese tend to favor authoritarian-paternalistic leaders. Respect for authority is central to Japanese society. From an outsider's point of view, the *ringi* system of decision-making appears to connote an egalitarian practice. Taken in the context of Japanese culture, however, it is another way of removing uncertainty and abiding by the power of authorities. As Prakash Sethi and his associates [34] assert, "The controlling and motivating mechanism in Japanese organizations are not humanism and egalitarianism, but hierarchy, authority, power, and domination. . . . egalitarianism as a cultural trait does not exist in Japan" (p. 267). Hierarchical authority relationships are not confined to the corporation but extend to all aspects of Japanese society. The use of authority and submission governs all interactions. Managers rely on the use of authority and its by-product, discipline, to achieve what American managers try to achieve by using other techniques, such as power sharing and MBO. As Bruce-Briggs [36] asserts, Japanese labor discipline was not created by skillful corporate management. Of course, discipline and hierarchy are Western terms. The Japanese speak of expected behavior and "harmonious relations" (pp. 41–44). Discipline and respect for authority have been there all along as part of the Japanese cultural character. Japanese do what is expected of them. They are expected to respect authority, work hard, work right, and not block productivity improvement. Consider the ordinary observation of the visitor to Japan:

> Early in the morning in Tokyo: Along the curb sanitation men carefully polish their tiny Isuzu garbage truck. Imagine the response of American garbage men to such a directive. . . . Just before opening time at a little middle-class shop in Kyoto: Before the main counter stands a young man in a business suit—obviously the manager. To his left and two steps to his rear, a slightly younger man—the assistant manager—listening intently. Lined up before them, in better formation than . . . (any) Army squad, the uniformed shopgirls, the No. 1 girl one pace forward, all in "respect" position—hands clasped before them, head slightly bowed, eyes fixed on the managers, receiving the orders of the day [36]. (p. 41)

While the use of authority is at the center of Japanese leadership, the desire for consensus and the subordination of the individuals to the group minimize its abuse.

Motivation

Motivation has long been a major concern for management because it is linked to productivity, creativity, job turnover, absenteeism, etc. Motivation is defined as the process through which behavior is mobilized to reach certain goals, which in turn satisfies individual and/or organizational needs. Motivation is the total of all forces within individuals that account for the effort he or she applies to the job at hand. Motivation begins with the search to satisfy needs. Figure 5.2 shows the three main phases a person undergoes during the need satisfaction process.

Although in their daily activities, managers primarily focus on accomplishing business objectives and satisfying organizational needs, to accomplish this, they must also see that their employees' needs are satisfied. An effective motivational program uses the individual's needs to generate internal energy and to direct energized behavior toward achieving organizational and individual goals. The individual's satisfaction with the job, and ultimately with his or her life, plays an important role in sustaining the desired behavior and achieving the much-needed predictability necessary for planning organizational activities.

Job satisfaction is a part of the overall satisfaction with life and, in turn, is affected by it. Employee dissatisfaction can lead to absenteeism, poor-quality products, accidents, family problems, and deterioration of mental health. Effective managers closely monitor both employee job satisfaction and work performance because they know that job satisfaction can lead to a better working relationship with

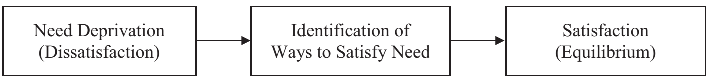


Fig. 5.2 Need satisfaction process

superiors, peers, and subordinates. A satisfied employee working in a less disruptive work environment will be a more productive worker. For most people of many cultures, work attributes are among the most important motivating factors. In a survey of more than 8000 randomly selected employees from Belgium, Great Britain, West Germany, Israel, Japan, the Netherlands, and the United States, Harpaz found that the paramount work goal, by a wide margin, was "interesting work." For these workers "good pay" and "good interpersonal relations" were second and third in degree of importance [38].

Motivation and Culture

Human motivation is the product of the interaction between people and the physical and social environment. It is important to recognize, however, that most of the management literature on motivation is psychologically oriented and is based on psychological models developed and tested almost exclusively in the United States. These theories are presented in Appendix B. While psychological models of motivation are very useful for the management of US businesses, they are inadequate for international management. We all accept, in principle, that there are differences among people of different cultures. In studying human motivation, however, United States-based researchers have taken a simplistic view by ignoring the cultural influences on people's behavior. To understand human motivation, we need to understand not only the people themselves but also their environment and their culture. More specifically, as D'Andrade [39] puts it, "to understand why people do what they do, we have to understand the cultural constructs by which they interpret the world" (p. 4).

Culture plays an important role in the formation of many of our needs, their relative importance, and the way we attempt to satisfy them. Many human needs, such as security, love, and esteem, are learned through cultural influences. Through socialization with others, people learn acceptable ways of satisfying their needs and follow these norms in pursuit of need satisfaction.

The importance and priorities that people assign to their needs are also determined by their cultures. Americans place a particular importance on individual needs, such as personal comfort and self-actualization. In contrast, Japanese may sacrifice individual comfort to achieve social acceptance. Middle Easterners often sacrifice personal comfort, and even encounter financial hardship, to offer hospitality to their guests. Cultural values are the foundation of socially acquired needs and define the acceptable methods of need satisfaction. Americans, for example, value individualism very much, and it is the basis of many other American values. Even the declaration of independence speaks of individualism, where it reads "life, liberty, and the pursuit of happiness." [40] To Americans, freedom of choice and expression is the basis for many individual needs and need satisfaction. Very few Americans, for example, would tolerate interference by others in their choice of a mate. In contrast, in many traditional families in India, China, and the Middle East, such decisions are made by parents, often with little or no consideration of the individual's opinion. Often, respect for parents inhibits children from even expressing their opposition.

In Chap. 3, we learned that culture influences people's perceptions of time and space, as well as attitudes toward work and authority. In turn, the perception of time and space and the attitudes toward work and authority influence people's motivation. Even among subcultures—various groups of the same culture—these differences are noticeable. Nord [41], for example, identified age, rural versus urban background, ethnicity, and sex as important factors that influence an individual's behavior in work organizations. Research in the United States has found that younger employees are more motivated by money, while for older employees, job security and fringe benefits are more important. In a comparative study of attitudes toward work in China and Taiwan, Derakhshan and Khan [42] found a generation gap in both cultures between younger and older workers, which influenced their work attitudes. There was also a difference between the attitudes of the two samples, with the Taiwanese sample reflecting attitudes closer to Western values.

In a case study, Whyte and Braun [43] identified a group of patterns in socialization and education that appear in less developed economies. Autocratic teachers, glorification of military heroes, and disrespect for businesspersons were among the factors that led to the lack of independence training and, therefore, the lack of motivation. However, in a study of similarities among 14 countries, Haire et al. discovered that countries cluster along ethnic rather than industrial lines [44]. Black and Porter [45] studied the managerial behaviors and job performances of Americans, Hong Kong Chinese, and American expatriates in Hong Kong. They found that those managerial behaviors that were significantly related to job performance in the United States did not seem to be relevant to job performance in Hong Kong. In short, the effect of culture on behavior is complex and cannot be discounted.

Cultural Influences on Motivation

Organizational performance is a function of employees' work contributions to organizational goals. The efforts exerted by employees at work are influenced by their motivation. A motivated worker is a more productive worker. If we consider motivation as a psychological state that compels a person to expend a certain amount of effort to accomplish a job, we are dealing with two main concepts: work and the person or "self." In studying cross-cultural motivation, we should be careful not to assume that these concepts have a universal meaning. There is a growing body of research that indicates that people of different cultures have different views about these two concepts. The perception of "self" is a product of cultural upbringing, and so is the meaning of work.

Cultural Definitions of Work

Throughout the history of Western civilization, work has been regarded variously as drudgery, a necessary evil, an obligation, a duty, and a way to salvation. To engage in physical work has been considered undignified and demeaning, on one extreme, and honorable, glorified, and exemplifying piety, on the other. According to Max Weber, a contributing factor to the emergence of modern capitalism, characterized by large organizations, was the value and importance that the Protestant religion accorded to work and the accumulation of wealth.

> Perhaps because of our Puritan work ethic and the basic belief in cause and effect, we take pride in our work; we conduct business at social functions and we take work home with us. . . . Work gives us identity; we often define ourselves and others by what we do; elsewhere identity often stems from religion, family, and village [23]. (p. 13)

Thus, personal introductions vary among Americans and the Japanese. In the United States, most individuals will typically talk about *what* they do—that is, the content of their work: "I'm a doctor" or "I'm a machinist." In contrast, in Japan, most people identify themselves by referring to their employer: "Morio of Mitsubishi" or "Tanaka of Toyota."

Regardless of the kind of work a person does, Americans expect the person to be willing to do whatever it takes to do the job. A common expression indicating such an attitude is that "we must be willing to get our hands dirty." Of course, the positive attitudes that many Americans have toward work is not universal. In some cultures, a negative attitude toward work is more pervasive. In some South American cultures, involvement in physical work is regarded as demeaning and beneath the dignity of a well-respected person. Work is classified as low or high status depending on what it involves. In extreme cases, college-educated people will not concern themselves with the problems on the shop floor. They consider that type of work degrading. They think that their college degrees should raise them above such low-status jobs [46]. The same is true in some Middle Eastern countries. Kuwaitis, for example, regularly hire non-Kuwaitis to perform most jobs that require physical labor, even the sensitive security tasks. Most, and particularly the educated, Kuwaitis consider physical work demeaning and undignified.

Americans' Faith in Hard Work

William H. Newman [46] has suggested that anyone contemplating a transfer of US management practices to other cultures should understand the premises of these practices. The American faith in rewards for persistent hard work and the value of hard work, for example, is not a universal belief.

"Both our lore and our experience underscore the necessity for hard work if objectives are to be achieved. Even among those who do not accept the Puritan ethic that hard work is a virtue in itself, there is a strong belief that persistent, purposeful effort is necessary to achieve high goals. Hard work is not considered to be the only requisite for success; wisdom and luck are also needed. Nevertheless, the feeling is that, without hard work, a person is neither likely to achieve, nor justified in expecting to achieve, his objectives.

This belief in the efficacy of hard work is by no means common worldwide. Sometimes a fatalistic viewpoint makes hard work seem futile. In other instances, it is more important to curry the favor of the right man; and in still other situations, hard work is considered unmanly."

People work for many reasons. The first reason that immediately comes to mind is the instrumentality of work, a term that means that to live a comfortable and dignified life, most of us need to work. Therefore, work is an important vehicle for obtaining what we need to live. To have a comfortable life, we are motivated to work. Taking only this meaning of work into account, organizations devise a variety of techniques, such as pay and fringe benefits, to motivate their employees.

However, work has other meanings. In addition to being a necessity, work can be an attractive activity by itself. It may also provide people with an opportunity to socialize and interact with others and satisfy their gregariousness. Many people will continue to work even if they are financially secure. It is the interesting nature of the activity itself that draws them to work. For others, work is a very important aspect of their life. Without work, they feel that something is missing in their lives. For these people, work assumes a very central position in their lives. We have learned that the centrality of work (its importance) in people's lives varies from culture to culture. In a seven-country study of the meaning of work, for example, researchers found a wide variation in work centrality among the countries studied. They found work centrality to be highest for Japan and lowest for the United Kingdom. The sequence of rank ordering was Japan, Yugoslavia, Israel, the United States, Belgium, the Netherlands, Germany, and the United Kingdom [47]. Jyuji Misumi's [48] research has confirmed that the Japanese consider work to be highly important in their lives. Among the four countries studied, Misumi found that work importance was highest among the Japanese, followed by Americans, Germans, and Belgians.

The cultural differences in the meaning of work have practical implications for international managers. Since there are variations in the meaning that people of different cultures attach to work, differentiated motivational programs need to be applied. To motivate those who consider physical work undignified, for example, we may have to rely more on the monetary outcomes of the work. For others, making the work more interesting or socially rewarding may be a better choice.

Although there are cultural differences in the meaning of work, cross-cultural research also suggests that there is a substantial commonality among cultures about certain facets of work. Among the major features of work that people of many cultures value are "good pay" and "interesting work." [38] The implication for international management is that if the pay is good and if the jobs are interesting, managers will have an easier time motivating people from diverse cultural backgrounds.

Cultural Definitions of Self

Many consider individualism as the most salient feature of American culture. Many American ideals, such as equality and objectivity in treating people based on their own merits and not on their social standing or political connections, are anchored to individualism. To describe Americans as individualistic does not fully explain the cultural differences between Americans and the people of other nations. Individualism only tells us about the societal and external view of an "individual," the view that the society holds with regard to a person and his or her relationship with other members of society. To fully comprehend the difference between

Americans and the people of other cultures, we need to explore the concept of "individualism" from the personal aspect of "self."

The concept of self has many facets. Westerners view the individual as a self-contained, autonomous, and independent entity. Based on this understanding, the individual comprises a unique configuration of attributes, such as traits, abilities, motives, and values. These attributes constitute the basis for the individual's behavior [49].

The three major facets of self are:

1. Physiological-ecological [50]
2. Inner-private
3. Public-relational [51]

We assume that people everywhere are likely to develop an understanding of themselves as physically distinct and separate from others. This is the **physiological-ecological** self—the self that is referred to as "I."

The **inner-private** self is the sense of awareness that each person has about internal aspects such as dreams, feelings, and the continuous flow of thoughts, which are private and cannot be directly known by others. Some aspects of the inner-private self are probably universal, but many other aspects may be culturally determined.

As we relate to others, we develop an understanding of the **public-relational** self, which is defined by social relationships. People of different cultures see the public-relational self as either *separate from and independent of* others or as *connected to and interdependent on* others.

For most Westerners, the self is an impermeable, free agent, with attributes that are independent of circumstances or a particular relationship, which can move from group to group and situation to situation without significant alterations. In effect, the self can be abstracted from its surroundings. For Easterners (and many other people), the person is connected, fluid, and conditional. The person exists in a web of relationships, such as the family and society. The person is mostly identified in terms of these relationships, and purely independent behavior is impossible. For example, in Chinese, there is no equivalent term for the word individualism. An American may describe himself/herself as a "fun-loving and hardworking person," whereas a Japanese, a Chinese, or a Korean may say, "I am fun loving with my friends" or "I am serious at work," which puts the person in relation to others and in a context (pp. 49–51) [52].

Many Westerners, including Americans, believe in the inherent separateness of distinct persons. It is the norm, and people are expected to become independent from others and discover and express their unique attributes. Markus and Kitayama [51] describe the attempt at developing such a self as follows:

> Achieving the cultural goal of independence requires constructing oneself as an individual whose behavior is organized and made meaningful primarily by reference to one's own internal repertoire of thoughts, feeling, and action, rather than by reference to the thoughts, feelings, and actions of others. . . . This view of the self-derives from a belief in the wholeness and uniqueness of each person's configuration of internal attributes. (p. 226)

The independent view of the self gives rise to concepts such as "self-actualization," "self-esteem," "realizing one's potentials," "being true to one's self," and many other expressions describing and canonizing the self and self-centered activities and concepts.

In contrast to the Western view, many Eastern cultures have maintained an **interdependent** view of the self. These cultures believe in the fundamental **connectedness** of humans to each other. Examples of common American expressions relating to the independent self are "stand up and be counted" and "do your own thing." In contrast, the Japanese saying that "the nail that stands up gets hammered down" represents the concept of the interdependent self. To experience the "interdependent self," one should see oneself as part of an encompassing social relationship. It also involves recognizing that one's behavior is determined by, contingent on, and to a large extent organized by what the person perceives to be the thoughts, feelings, and actions of *others* in the relationship [51].

An interdependent self is not separate from the social context. It is more connected to and less differentiated from others. Such a connectedness motivates people to fit in and become a part of the social context and to fulfill the obligation of belongingness with relevance to others. As Hernandez and Iyengar [53] put it, the crucial point for such a person is not the inner self but rather the relationships the person has with others. Experiencing interdependence entails seeing the self as a part of an all-encompassing social relationship. Therefore, interdependent persons are more motivated by those contexts that allow them to perceive themselves as fitting in with a social group, which in turn enables them to enhance their relationships with others.

The internal attributes of an **interdependent** self are less fixed and concrete and more situation specific, and they are sometimes elusive and unreliable. In such a case, the attitudes will not directly regulate overt behavior, especially if the behavior implicates significant others. In many social contexts, the interdependent self must constantly control and regulate its opinion, abilities, and characteristics to come to terms with the primary task of interdependence. In an interdependent, collectivist culture, an independent behavior, such as expressing an opinion, is likely to be influenced and somewhat determined by the forces of interdependence. Such behavior has a significance that is different from the one exhibited by an independent self in an independent culture [51]. The contrast between the external source of what Westerners consider inner attributes, such as conscience, and the external source of such attributes for the Japanese is described by Dore [54]:

> The Christian who believes that his conscience is the voice of God within him feels that it is a duty to God to obey its dictates and that he has sinned in the sight of the Lord if he fails to do so. The Japanese who conceives of the voice of his conscience as the voice of his parents and teachers feels it to be a duty towards them to obey it, and if he fails to do so it is they whom he has let down. Even after their death his feelings of guilt may take the form of imagining how displeased these honored parents and teachers would be (p. 385)

Parsons et al. [55] have suggested that **self-orientation** (independent self) versus **collectivity orientation** is an important variable that determines human action. Giving priority to one's own "private interests, independently of their bearings on the interests or values of a given collectivity" is self-orientation. Taking into account the values and interests of collectivity before any action is taken is collectivity orientation.

Interdependent cultures assume that a person is mostly defined by situations and by the presence of others. Therefore, a person is inseparable from the situations of others. This interconnectedness, for example, is the basis for the Chinese culture's emphasis on synthesizing the constituent parts of any situation or problem into a harmonious whole. The Japanese word *jibun*, for self, more accurately describes "one's share of the shared living space." [51] For the Japanese, according to Hamaguchi (as cited in Ref. [51]),

> a sense of identification with others (sometimes including conflict) pre-exists and selfness is confirmed only through interpersonal relationships. . . . Selfness is not constant like the ego but denotes a fluid concept which changes through time and situation according to interpersonal relationships. (p. 228)

In contrast to **independent** cultures, in **interdependent** cultures, relationships are often valued for and by themselves, not as a means of achieving personal objectives. People are constantly aware of others and will try to account for others' goals and desires in the pursuit of their personal goals. A reciprocal arrangement exists within which people passively monitor their contributions to others' goals and vice versa. The importance of others to one's life and the resultant relationships and social obligations are limited to persons belonging to "in-groups," such as family members or members of social group or workgroups. The following excerpt from Dore [54] illuminates this:

> The individual surrenders a part of himself not to a group of which he is a member, but to particular individuals whose leadership he accepts, with whose fortunes he identifies himself, on whose help he depends for securing his own advancement or happiness, on whose goodwill he depends for his emotional security, and whose approval he depends on for his self-respect. (p. 389)

A summary of the key differences between the independent and interdependent selves is presented in Table 5.2. The two different concepts of self have various implications for motivation. An independent self takes pride in its own attributes and accomplishments. In contrast, an interdependent self may be motivated to avoid such a selfish expression. Instead, the overt expression of pride may often be directed at a collective of which the self is a part (p. 237) [51]. The following is an example of how Japanese feel proud of the accomplishments of their superiors and how every member of the group experiences a shared pride in those accomplishments.

> In a Tokyo office, a company employee let me witness a gesture of devotion to his office superior which I had never experienced in the Western world. We were at the end of an interview in his office which, being that of a lower-middle ranking officer, was small and sparsely furnished. But the size and nature of his office were never part of our conversation. As I was preparing to take my leave, he said, "Let me show you the office of my Section Chief." He took me to an office three times as big as his, very well furnished, pointed to the empty chair behind the big desk ornamented with lots of bric-a-brac and proudly said: "This is the desk of my Section Chief." [56] (p. 215)

Table 5.2 Summary of key differences between independent and interdependent concepts of self

Feature compared	Independent	Interdependent
Definition	Separate from social context	Connected with social context
Structure	Bounded, unitary, stable	Flexible, variable
Important features	Internal, private (abilities, thoughts, feelings)	External, public (statuses, roles, relationships)
Tasks	Be unique	Belong, fit in
	Express self	Occupy one's proper place
	Realize internal attributes	Engage in appropriate action
	Promote own goals	Promote others' goals
	Be direct; say what's on your mind	Be indirect; read other's mind
Role of others	*Self-evaluation:* Others important for social comparison, reflected appraisal	*Self-definition*: relationships with others in specific contexts define the self
Basis of self-esteem[a]	Ability to express self, validate internal attributes	Ability to adjust, restrain self, maintain harmony with social context

Source: Ref. 51. Copyright 1991 by the American Psychological Association. Reprinted with permission

[a]Esteeming the self may be primarily a Western phenomenon, and the concept of self-esteem should perhaps be replaced by self-satisfaction, or by a term that reflects the realization that one is fulfilling the culturally mandated task.

According to most Western theories, motivation is more a personal phenomenon, and others indirectly influence the process as a means of contributing to individual goal accomplishments. The concept of an **interdependent** self implies a more fundamental and vital role for significant others in shaping and directing the behavior of a person.

In the preceding discussion, we have implied that in **interdependent** cultures, most of the motives of an individual are shaped by the group. Therefore, there are a number of motives that have more relevance to an **interdependent** self than to an **independent** self. Murray [57] presented a list of such motives, including **affiliation**, **avoidance of blame**, **similance** (the need to imitate others), **deference** (the need to willingly follow superiors and those we admire), **nurturance** (the need to nurture, protect, and aid others), **abasement** (acceptance of self-deprecation), and **succorance** (the need to seek aid, sympathy, and dependence).

Since for an **interdependent** self, it is imperative to socially integrate, seek harmony with others, and immerse the self in the collectivist whole, all these needs would be more relevant and even desirable to the **interdependent** self (p. 240) [51]. For the interdependent Chinese, for example, the achievement need is more socially oriented. Their achievement goal is to meet the expectations of others who are important and close to the individual [58].

Cognitive consistency has also been considered as a motivating force. Individuals seek to establish consistency in their cognition. Cognitive inconsistency creates dissonance [59], an unpleasant anxiety producing a psychological state that motivates the individual to take an action. An example of cognitive inconsistency is the case of a person who smokes cigarettes and believes that smoking is detrimental to his or her health. In this example, the individual can pursue a number of alternatives to eliminate the dissonance. An **interdependent** person whose internal attributes are more flexible is less likely to quit smoking as long as his or her reference group smokes. For this individual, the confirmation of self-harm comes from the group. In this case, the situational requirements regulate the private feelings of **interdependent** persons. Therefore, there is less room for experiencing inconsistency and dissonance.

Applicability of Major Motivation Theories

One major obstacle in the effective motivation of employees in MNCs is the assumption that the available motivation theories are universal. These theories erroneously assume that human needs are the same everywhere and that people will respond similarly to a motivation program. Of course, the assumption that "one size fits all" is faulty. There are culturally based differences in people's needs and the means they use to satisfy them. Because of the difficulties in understanding other cultures, and perhaps due to ethnocentric tendencies, many studies on motivation have, either explicitly or implicitly, ignored cultural differences. In fact, until recently, most management literature paid little attention to the effect of culture on motivation.

Stereotyping and Ethnocentrism

The roots of the universality assumption can be traced to stereotyping, oversimplified conceptions or beliefs about others, and ethnocentrism, which is the belief in the superiority of one's own ethnic group. When faced with an unfamiliar situation, we rely on stereotypes to simplify our perception of the environment. Stereotypes may be correct or incorrect. When confronted with an unfamiliar culture, people assume similarity with their own culture unless other stereotypes are present. Ethnocentrism leads to the belief that "our way is the best way of doing things." Ethnocentrism is an attitude found in almost any culture. Studies have found that people usually think of their country as disproportionately important in the world. In most countries, maps used in the classrooms usually illustrate that country as the center of the world. In Chinese writings, the character for China means the "center of the earth." [60]

Ethnocentrism often leads to prejudiced behavior. Many people of industrialized countries equate lack of industrialization with lack of culture. Equally erroneous is the tendency to equate the materialism of industrial societies with spiritual corruption. As Kolde [61] puts it:

> A widely propounded fallacy in the advanced industrial countries holds that all nations evolve in a series of evolutionary steps in a unilinear path. The Americans, British, and French are likely to place their own respective countries at the pinnacle of this path and look upon all other peoples' cultures as backward and inferior to theirs. Cultural maturity, thus, is rationalized to be a correlate of economic progress. The claim for cultural superiority by

> members of subindustrial societies, who regard the relatively greater reliance on materialistic considerations in industrial societies as evidence of moral and spiritual degeneration, is similarly irrational. (pp. 78–79)

Incorrect stereotypes and ethnocentric attitudes are often harmful. They can be changed, however, by training and exposure to other cultures. To be effective in motivating an international workforce, managers need to understand the influence of stereotyping and ethnocentrism, and MNC management development and educational programs should attempt to reduce ethnocentrism and stereotyping.

The Shortcomings of Motivation Theories

A detailed review of major motivation theories is presented in Appendix B. These include Maslow's hierarchy of needs, Herzberg's two-factor theory, McClelland's three motives, expectancy theory, equity theory, and reinforcement theory (learning theory).

Maslow's Hierarchy of Needs

Maslow identified five categories of human needs, which follow a hierarchical order of importance. Ranging from the lowest to the highest, these need categories are physiological, security, social (affection), esteem (self-esteem and esteem of others), and self-actualization. Each level of need is activated only after the preceding lower-level need has been sufficiently satisfied. The most potent need is self-actualization.

Maslow's need hierarchy has been criticized on the ground that it is only applicable to American culture. Hofstede [62] questioned the applicability of North American motivation theories, including McClelland's (discussed later) and Maslow's. He asserted:

> The ordering of needs in Maslow's hierarchy represents a value choice—Maslow's value choice. This choice was based on his mid-twentieth century U.S. middle-class values. First, Maslow's hierarchy reflects individualistic values, putting self-actualization and autonomy on top. Values prevalent in collectivist cultures, such as "harmony" or "family support," do not even appear in the hierarchy. Second, the cultural map suggests that even if just the needs Maslow used in his hierarchy are considered—the needs will have to be ordered differently in different cultural areas.

Most of the interpretations of the need hierarchy theory are made within the individualistic framework of Western cultures, which overemphasize needs such as self-esteem and self-actualization. Redding [63] suggested that it is questionable to apply Western "ego-centered paradigms," which focus on individual needs, to cultures that emphasize relationships. Similarly, Nevis [64, 65], in a comparison of Chinese and American cultures, suggested that society, rather than the individual,

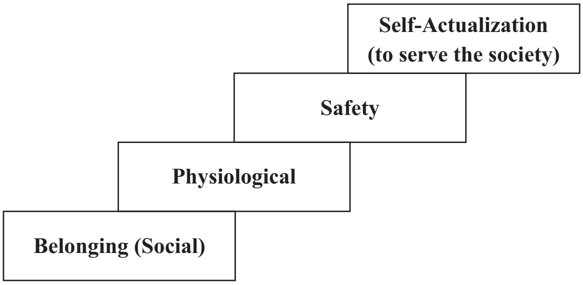


Fig. 5.3 Chinese need hierarchy

determines the four-level hierarchy of needs for Chinese. Ranging from the lowest to the highest, these needs are belonging, physiological, safety, and self-actualization in the service of society. As depicted in Fig. 5.3, there are three major differences between Maslow's hierarchy and the Chinese need hierarchy as suggested by Nevis.

First, belonging (social) need has replaced physiological need as the most basic need. Second, self-esteem is not included in the hierarchy. Self-esteem, according to Nevis, as a driving force makes sense for cultures that emphasize individualism. It is not a necessary, universal requirement that is found in all cultures. In particular, as F.L.K. Hsu (as cited in Ref. [64]) has pointed out, in the collectivist Chinese culture, the concept of self is quite different from the Western concept:

> The Chinese use a concept of "jen" (man), which is defined as the person plus the salient, intimate societal and cultural environment that makes her or his life meaningful. This implies much less differentiation in the self-concept of individuals and stresses identity as a *social* phenomenon. (p. 261)

Third, although self-esteem is considered unimportant, self-actualization is still present. In China, self-actualization is defined as a moral imperative and a social confluence: "My country needs me to be the best." [64] Therefore, it becomes a duty for the individual Chinese to fully develop the self. Failure in self-development could bring severe shame and loss of face. For the Chinese, achieving the goal of the extended family is more motivating than trying for individualized self-fulfillment [66]. In many cultures, social needs are much more prominent. It is common to mix business dealings with a heavy dose of socializing.

Within a given culture, ethnic and individual differences also complicate the applicability of Maslow's theory. To remedy this problem, Hofstede has suggested using work-related culture and job levels and categories to map need satisfaction hierarchies. Based on his study, he recommends using physical rewards for lower-level employees, while using challenge, autonomy, and cooperation as motivators for middle and upper managers [14]. Cross-cultural studies have found that managers and professionals are more responsive to higher-order needs in Maslow's hierarchy [67].

Andean Preference

An American company developing a copper mine in Chile experienced difficulty getting workers. Although it offered good meals, hot water, housing, movies, etc., the workers flocked to the French company. The workers who were employed by the French had the roughest housing and none of the comforts offered by the Americans. Baffled, the American company studied the situation and figured out what was happening. The French offered no perks but paid workers by the hour. The people of the Andes cared more about their time off. It was important for them to be able to come and go without question [68].

Although there is some support for the universality of the need hierarchy, the support is inconclusive. In an early study of 14 industrial countries, including Japan, Haire et al. [44] found some support for Maslow's theory. Later, in a study of eight countries selected from different parts of the world, Reitz [69] also found some support for the order of satisfaction as suggested by Maslow. The failure to find evidence supporting a universal hierarchy of needs has led critics to argue that the theory may be good only for European, and more specifically Anglo, cultures. They argue that, in studies that found support for Maslow's theory, the research samples were mainly taken from these cultures.

Some studies have shown that there may be a consistent rank ordering of needs in each culture, however. In his study of clusters of needs in several countries, Ronen [70] concluded that there is support for Maslow's contention that groups of needs appear in a sequence rather than simultaneously. Adler [71] suggested similar support for the existence of a need hierarchy in developing countries but one that emphasizes security and self-esteem needs (pp. 152–153). Recently, other writers have used the two clusters of developing and developed countries to study motivation. They suggest that while higher-order needs (like achievement) are more valued in developed countries, lower-order needs (security and affiliation) are more important in developing nations. Some have gone as far as to suggest that this gap is responsible for differences in economic prosperity (see the discussion later on McClelland's theory).

Finally, according to Maslow, lower-level needs have to be "reasonably satisfied" before the higher level is activated. While the idea of "reasonable satisfaction" and of what it comprises has been the subject of virtually no study to date, it seems logical to expect that what constitutes a reasonable level of satisfaction varies across cultures as well.

Motivators and Hygiene Factors

Herzberg [72, 73] identified two groups of factors, hygiene and motivators, that influence individual performance in work organizations. Hygiene factors could only create discomfort if they were not met, but they have no effect on motivation. Hygiene factors are external to the job (extrinsic), such as working conditions, pay, and relations with peers. Motivators include job-related (intrinsic) factors, such as the work itself, achievement, responsibility, and recognition. Herzberg emphasizes achievement as a strong motivator; therefore, the problems associated with its cross-cultural validity become shortcomings of this theory. (See also the discussion of this issue with McClelland's theory.) Additionally, studies have found little evidence in support of a universal list of hygiene factors or motivators. In a study in the Panama Canal Zone, Crabbs [74] found that some hygiene factors satisfied employees. Hines tested the theory in New Zealand and found that interpersonal relationships and supervision, both considered hygiene factors by Herzberg [75], contributed to employee satisfaction.

Hofstede [62] has suggested that although achievement may be a strong motivator in some cultures, security is more important in countries with a low tolerance for uncertainty. He argued that the word *achievement* does not even translate into many other languages.

> The consequence of country differences along these two dimensions is that management conceptions about the motivation of employees, common in North America, do not necessarily apply abroad. . . . [for example] the countries in which McClelland's nAch [Achievement need] is strong are characterized by weak uncertainty avoidance [personal risk taking] and strong masculinity. McClelland's nAch may represent one particular combination of cultural choices. (p. 396)

Research findings from several countries, including New Zealand [76], Israel [77], Zambia [78], and the United Kingdom [79], suggest that although there may be a clustering of two distinct groups of factors with functions similar to what Herzberg suggests (hygiene and motivators), their components vary across cultures.

McClelland's Three Motives

McClelland [67] identified three important individual drives (needs): achievement, power, and affiliation. He suggested that the need for achievement was the most important factor leading to economic success. He proposed that at the national level, the aggregate level of this need was related to the rate of economic development. McClelland believed that the need for achievement, and related attributes, could be taught.

Cross-cultural studies of McClelland's theory have produced conflicting results. Early support for this theory came from a study by McClelland in which he trained a group of entrepreneurs in India and later measured their achievement in terms of increased profits, starting new businesses, and investigating new products. He reported that as a result of his training, the rate of achievement-oriented activities among this group almost doubled [80]. Bhagat and McQuaid [81] have cited a number of studies in both developed and developing countries that support this theory. Hofstede found a positive correlation between the need for achievement and the need to produce and willingness to accept the risk. A number of researchers since that time have questioned McClelland's findings. Many studies have not found a link between this need and the rate of economic growth. For instance, Iwawaki and Lynn [82] found similar levels of need for achievement in their Japanese and English samples, despite a higher rate of economic growth for Japan. Two studies found unusually low levels of this need among Chinese and Czechoslovakian managers, which was inconsistent with the level of economic growth (p. 153) [60].

While McClelland's idea does permit cross-cultural theorizing, it assumes only one path to economic development manifested through a high need for achievement, which is characteristic of Western individualistic societies. Recent economic progress in some Asian countries indicates the existence of alternative paths. Moreover, the lack of a common definition for "achievement" restricts research on McClelland's theory. While achievement is measured in financial terms in American culture, in Japan it is determined by other factors, such as affiliation. As stated earlier, some argue that the word *achievement* does not even translate to some languages. Moreover, Bond's [58] summary of several studies leads to the conclusion that for the Chinese, achievement need is socially defined, with the ultimate goal being to meet the expectations of in-group members (p. 5).

The implications of the conflicting findings are clear. Many training and organization development programs exported to other countries to boost employees' achievement needs prove useless. In a study in India, McClelland and Winter [83] reported that their achievement training program had little effect. A follow-up study [84] revealed that the program had instead increased the participants' need for status, which is highly important in that culture. For a program to be successful, it should be designed for the importing culture. Moreover, the link between the increase in need for achievement and performance has to be established in that environment. Furthermore, these characteristics and motives are the results of cultural conditioning *early* in a person's life and, probably, cannot be changed in a brief training course.

Expectancy Theory

This theory proposes that motivation is a deliberate and conscious choice to engage in a certain activity for achieving a certain outcome or reward. Mathematically expressed, motivation (M) is the product of three variables (p. 6) [85]: (1) valence (V), the value (attractiveness) of the potential reward or outcome; (2) instrumentality (I), the expectation that performance will lead to receiving the reward; and (3) expectancy (E), the belief by the individual that exerting a certain amount of effort will lead to accomplishment of the task. This theory can be expressed mathematically by the eq. $M = V \times I \times E$.

Cross-cultural research on the expectancy theory involves answering two questions. First, does the multiplicative relationship between the three determining variables ($V \times I \times E$) hold for various cultures? Second, what effect does a given culture have on these variables?

There are very few cross-cultural studies that have tested the validity of the relationships among the various variables of the expectancy theory. The limited research on the issue, however, provides support for the first question. Eden [86] analyzed data collected from 375 male members of an Israeli kibbutz with regard to the relationship among intrinsic, status-oriented, and material rewards and motives. He concluded that the effect of externally mediated rewards on intrinsic motivation was explained on the basis of the expectancy theory.

To answer the second question, we need to examine variables individually for cultural effects. Valence, the value of the reward, varies across different cultures. In collectivist societies, social groups play an important role in determining the value of the reward and the expectation of achieving it. It should not be surprising when people in these societies prefer spending more time with family and friends over an increase in pay. To them, work is not the central point in life. Using Adler's [71] terms, "Expectancy theories are universal to the extent that they do not specify the type of reward that motivates a group of workers" (p. 159). Instrumentality and expectancy are based on an individual's evaluation of his or her abilities, past experiences with supervisors and the organization, and belief about what role he or she can play in determining his or her destiny. While Protestant cultures promote the belief that an individual is in charge of his or her destiny, Catholic and Muslim cultures encourage submission to the will of God. The belief that the individual does not have much control over his or her life should lead to lower expectancy scores in these cultures. In Hindu and Buddhist cultures, the emphasis on social relationships and harmony, instead of materialism and competition, is probably the reason for the lower value of individual achievement and the belief in luck.

Equity Theory

According to Adams [87], the individual's perception of inequity is a motivating force. More specifically, a person compares the ratio of his or her compensation, what he or she gets from the job (outcomes), to his or her contributions to the job (input) with that of others in a similar situation. Compensation comes in many different forms, including pay, job security, opportunity for advancement and promotion, good working relationships, and a safe and pleasant work environment. Inequity in either direction generates tension.

Culture influences our perception of the value of the job outcomes as well as our contributions to the organization. Culture also provides the frame of reference for a comparison of ratios. The sensitivity of people to inequity, and the avenues they use to remedy the problem, is also influenced by culture. For instance, if a less qualified peer receives a pay raise, a Japanese employee is more likely to reevaluate his or her perception of his or her outcome/input ratio compared with that of peers (refer to our earlier discussion on the cultural definition of self). Conformity to the group and organizational norms would inhibit more severe action. In a similar situation, an American employee would be more willing to file a formal complaint or even leave the organization.

In their research in an Israeli kibbutz, Yuchtman and Seachore [88] found support for the equity theory. More research is needed, however, to establish its cross-cultural validity. One practical bit of evidence for the validity of this theory is the worldwide practice of pay secrecy. Many organizations follow this policy to avoid unwanted comparisons and unnecessary complaints.

Motivation and Learning

B.F. Skinner and other learning theorists assert that behavior is a function of its consequences. Behavior that is followed by desirable consequences (reinforced behavior) tends to be repeated. In contrast, undesirable consequences have the opposite effect. In this way, we learn to change our behavior to experience desirable consequences and avoid the undesirable ones (e.g., punishment) [89–91]. (Also, for a description of the conditioning process, see Ref. [92].)

Like motivation, the two major concerns in learning are finding the right incentives and the correct way, or schedule, to administer them. The values and attractions of rewards vary across cultures. Similarly, cultural factors influence the undesirability of negative incentives. Also, culture is a major determinant of the types of reinforcement and the methods used for their application. Although all cultures use a combination of positive reinforcements and punishment, some tend to use more positive incentives, while others make more use of punishment. Positive reinforcement leads to longer-lasting and more predictable results, but the only effect it has is to make the behavior continue. Punishments cause the behavior to stop, but the effect usually lasts only a short time if the punishment is removed. Also, there are dysfunctional consequences to punishment, such as low self-esteem. While these ideas appear to be universal—consistent laboratory results have been obtained with animals using food as a reward and electric shocks as punishments—the challenge for us in a cross-cultural setting is to find out which rewards *really* reward in a given culture and which punishments *really* punish.

Motivation and Japanese Employees

In recent years, Japanese management and motivation practices have received worldwide attention. The success of the Japanese companies, particularly the auto industry, has spotlighted the way Japanese businesses work. According to William Ouchi [33], there are three fundamental properties of Japanese organizations that distinguish them from American firms: lifetime employment, internal promotion, and nonspecialized career paths. Many large Japanese companies offer lifetime jobs to their employees. While the recent downturn in the Japanese economy has eroded the foundation of this practice, fundamentally, the relationship between employees and employers remains long term. Lifetime employment, although desired by workers and a goal of employers, covers perhaps 35% of Japan's workforce. Promotions are entirely from within the firm. The process of evaluation is very slow and long-term oriented. Because of lifetime employment and internal promotions, employees receive broad-based training. They are moved between functions, offices, and geographical locations so that they become familiar with the whole organization (pp. 11–38).

Not only are there differences between American and Japanese companies, but there are differences between employees of the two nations as well. Americans emphasize individualism, nonconformity, and competition, while Japanese promote collectivism, conformity, and cooperation. Japanese employees are under more pressure to conform and work long hours. Long hours and job stress create health-related problems. Recent increases in the rates of heart attacks and suicides among Japanese employees are attributed to increased job stress. There is even a word for death from hard work and stress, *karoshi*, which means sudden death by a heart attack or stroke triggered by overwork. According to some estimates, more than 10,000 Japanese fall victim annually to *karoshi* [93]. The international expansion of Japanese industries has created additional demands on some employees' time and energy.

Global Trends and Motivation

Dramatic technological changes and political restructuring around the world have created new problems as well as opportunities. Acceleration of the rate of change in recent years has made it difficult to predict global trends in motivation. Two major questions have been raised regarding the changes in the management of motivation and human resources.

First, would the collapse of the Soviet system result in the integration of the socialist cultures into the Western cultures? Would this integration lead to more emphasis on social needs in Western organizations (i.e., make them more employee centered)? Some scholars of international management believe that this will happen. They argue that there will be more emphasis on relationships in Western companies and more attention paid to work and production in Eastern societies. So far, there is little evidence to support this contention. American companies have been reducing their staff and lowering employees' benefits despite increases in reported profits. Traditionally, increased profits have led to more hiring and increases in employee benefits. Recent practices, however, have been contrary to historical trends. This "getting lean and mean" strategy has left unemployment and the employee benefit problems for the individual or the government to solve. On the other hand, with the easing of restrictions on businesses in the former communist states, there is a noticeable rise in entrepreneurial attitudes and behaviors. Freed from the communist yoke, these societies have witnessed an explosion of emerging small businesses and privatization of government-controlled industries. Transformation to a market economy, however, has caused new political and economic problems that have yet to be resolved.

Second, will the expansion of global business, advancements in telecommunication technology, and widespread use of the Internet lead to more uniformity among cultures? There are some signs of this development. The popularity of American culture overseas and Americans' rising interest in learning about other cultures are early indications of such a trend. There are some indications to the contrary as well. For example, in a study of the macro-environmental characteristics of 18 industrialized nations over the 1960–1988 period, Craig et al. [94] found a diverging pattern. Contrary to the popular assumption, they found that countries were diverging rather than converging. Global economic problems and the resulting protectionist attitudes are major obstacles in the road to a global culture.

Adler [71] believes that employees bring their ethnicity into the workplace and promote or enhance their culture in their work organizations. In her words, Germans become more German, Americans become more American, Swedes become more Swedish, and so forth (p. 58). If the tendency to emphasize one's ethnicity and heritage are on the rise, the future may hold more problems for international managers, who are already burdened with problems and difficulties. An example is the experience of Bridgestone, the Japanese tire company, which bought Firestone of Akron, Ohio, to gain a foothold in the US market. Soon after the purchase, cultural differences between Akron and Tokyo surfaced. Besides the language difficulty, adjusting to styles of work proved to be an obstacle to smooth operations. "The Japanese, who work until 9 p.m. or later, won't fathom why their American colleagues won't stay that late, too. And the Americans complain about Japanese arrangements such as open offices and desks facing each other." [68]

The convergence or divergence of cultures will have a significant impact on how cross-cultural motivation is managed. Research findings are pointing in both directions [95]. Today's rapid changes call for continuous monitoring of cultural differences for effectively managing motivation.

Chapter Summary

Leadership A critical factor that determines the success of an organization is the leadership ability of its management. A review of leadership theories reveals that there is no one best way of leading. Many situational factors contribute to the effectiveness of managerial leadership. These factors include the leader's characteristics, the followers' characteristics and expectations, the task, organizational policies, and the top management's values and philosophies. An ever-present factor that influences other situational factors is the national culture. Most leadership theories have ignored the influence of national culture on the effectiveness of managerial leadership. The reason for this oversight is researchers' ethnocentric tendencies. The major leadership theories in use today have all been developed in the United States, to be used by American managers. These theories have avoided any discussion of the national culture yet have implicitly assumed American middle-class cultural values as a framework. Based on American values, most of these theories have advocated a participative-democratic leadership style. While the application of these theories could be effective in the United States, it is doubtful that they

(continued)

would be equally effective abroad. If cultural differences are not taken into account, the application of all leadership theories will be limited to their original home culture. Therefore, international managers should consider cultural differences while leading the multicultural workforce of MNCs.

While there are cultural differences among various regions of the world, such as Asia, Europe, and North America, there is diversity within each region as well. Some of the differences are very subtle yet can significantly affect behavioral responses and the leader-follower relationship. Although we certainly appreciate the cultural differences between the British, French, and Germans, we may neglect the differences among some smaller nations. Similarly, it would be a big mistake if we label all Asian cultures as Oriental cultures. The difference between Indonesia and Korea, for example, is greater than that between Japan and the United States. According to Maruyama [37], for example, Danish culture is closer to Indonesian culture than to Swedish culture in terms of the way people organize their thoughts and behavior. In Danish culture, the main purpose of communication is to maintain affection and a familiar atmosphere. In contrast, in Sweden, the purpose of daily interpersonal communication is the transmission of new information or frank feelings.

At present, there is no leadership theory broad enough to cover the values of different cultures. The existing theories, however, can be useful to international managers if they take into account cultural differences. Armed with an understanding of cultural differences, we may be able to chart a safe passage in the sea of international management. From such a perspective, we ask international managers to remember a few caveats. First, the use of authority is regarded differently in different cultures. The conspicuous use of power and authority is frowned on in some cultures and encouraged in others. Second, cultures vary in their practice of delegating authority and responsibility. Subordinates in some cultures are not comfortable with participating in decision-making. Third, the meaning of work varies according to the culture. For some, work is a necessary evil; for others, it is a source of pride and purpose. A different leadership approach is required for dealing with each of these attitudes. Finally, when abroad, observe the native management practices for cues as to what works well.

Motivation Culture plays an important role in managing motivation in work organizations. Culture affects employee perceptions and the way employees respond to rewards or punishments. For managers who plan to work overseas or have employees from other cultures, cultural understanding is a prerequisite to success. Motivating people without knowledge of their culture is an impossible task. For example, when followers of Herzberg suggest that money is not a motivator, it may be because in Western societies most of the basic

(continued)

needs are reasonably satisfied. In some developing countries where most people are less prosperous by Western standards, money is still an important motivating factor. Money, however, may not be a motivating factor in other cultures for a different reason.

> Money is not an incentive everywhere—it may be accepted gladly, but will not automatically improve performance. Honor, dignity and family may be much more important. Imposing the American style of merit system may be an outrageous blow to a respected and established seniority system. Merit which must be defined: "May the best person win" can mean "the most popular person" or "the person from the most aristocratic family." [23] (p. 14)

The cultural diversity of MNCs poses a problem for the universal application of motivation theories. Studies suggest that the need to belong and associate is a strong motivator in societies that emphasize the value of social relationships. In these cultures, the American concept of individualism is not a strong basis for motivation. Although individuals follow a hierarchical order to satisfy needs, this hierarchical order apparently varies across cultures. Unfortunately, the grouping of countries into large categories, such as developed and underdeveloped, without paying attention to cultural attributes, does not provide a good solution to understanding motivation. Understanding important needs and their rank order in a given society requires research designed for that specific culture. To be applicable in international settings, the traditional psychologically based motivation models should also take an anthropological orientation, whereby cultural influences on motivation are taken into account. This would provide international managers with an additional tool for understanding the idiosyncrasies of human behavior.

Discussion Questions

1. Discuss the way in which ethnocentric tendencies affect our lives as well as the way in which we run businesses in the United States.
2. Explain how variation in the concept of self could affect a person's motivation.
3. Individualism is a well-known attribute of Americans. Americans are also known to help their neighbors in times of need. Are these two traits in conflict?
4. Work by itself could be a motivating factor for Americans. Do other cultures consider work as a motivator or a necessity? Discuss the meaning of work from the perspective of another culture.
5. Do you know any examples of ethnocentrism in another country? If yes, describe it.

(continued)

6. Why is Maslow's hierarchy of needs considered ethnocentric? Is there a universal hierarchy of human needs?
7. Are motivators and hygiene factors universal? Explain.
8. Compared with the people of other countries, the Japanese tend to work longer hours. What cultural characteristics of the Japanese could you use to explain this tendency?
9. In your opinion, what are the reasons for the Japanese younger generation's interest in more leisure time?
10. What are the cultural implications of the expectancy theory of motivation? Does individual willingness to take risks make a difference in a person's motivation?
11. What leadership characteristics of Mahatma Gandhi and Nelson Mandela do you consider to be similar?
12. Why should international managers learn about the leadership theories that are developed in the United States?
13. Tannenbaum and Schmidt suggested that there are four forces influencing a manager's actions. Describe these forces.
14. How could a leader's philosophy regarding human nature affect his/her relationship with the followers?
15. By using Fiedler's contingency model, elaborate on the contention that leadership effectiveness depends on a match between the leader's behavioral inclinations and favorableness of the situation.
16. What is the meaning of the phrase "the cultural relativity of leadership"?
17. The leadership theories reviewed in this chapter favor a democratic leadership style. Do you think that these theories are valid for non-Western cultures?
18. What are the differences between managerial leadership practices in the United States and France?
19. This chapter refers to the difficulties that the Ford Motor Company experienced when it integrated its European operation of car manufacturing. What were the cultural differences causing those problems?
20. Briefly explain the Japanese decision-making process called *ringi*. In your opinion, why is *ringi* effective in Japan?
21. Elaborate on the statement "there is a functionality in the host country managerial practices."

References

1. Brown, J. M. (1989). *Gandhi: Prisoner of hope*. New Haven: Yale University Press.
2. Fatima, M. (1990). *Higher than hope: The authorized biography of Nelson Mandela*. New York: Harper Collins.
3. Mandela, N. (1993). *Nelson Mandela speaks: Forging a democratic nonracial South Africa*. New York: Pathfinder.
4. Wren, C. S. (1990, February 13). Mandela sees negotiations soon over political rights for Blacks. *The New York Times*, p. A16.
5. De Klerk, F. W. (2005, April 18). Seizing the historical moment. *Time, 165*(16), 96.
6. Reitz, H. J. (1977). *Behavior in organizations*. Homewood: Richard D. Irwin.
7. Hersey, P., & Blanchard, K. H. (1972). *Management of organizational behavior*. Englewood Cliffs: Prentice Hall.
8. Manz, C. C., & Neck, C. P. (2004). *Mastering self-leadership: Empowering yourself for personal excellence*. Upper Saddle River: Pearson.
9. Shaw, J. B. (1990). Cognitive categorization model for the study of intercultural management. *Academy of Management Review, 15*(4), 626–645.
10. Javidan, M., Dorfman, P. W., Sully de Luque, M., & House, R. J. (2006). In the eyes of the beholder: Cross cultural lessons in leadership from project GLOBE. *Academy of Management Perspective, 20*, 67–90.
11. Hofstede, G. (2001). *Culture's consequences*. Thousand Oaks: Sage.
12. Chen, K. (1995, August 30). Equal opportunity isn't big concern for Mosuo women. *The Wall Street Journal*, p. Al.
13. Ahmed, S. Z. (1994, February 15). What do men want? *The New York Times*, p. A21.
14. Hofstede, G. (1980). Motivation, leadership, and organization: Do American theories apply abroad? *Organizational Dynamics, 9*, 42–63.
15. Rojot, J. (1990). Human resource management in France. In R. Pieper (Ed.), *Human resource management: An international comparison* (p. 98). Berlin: Walter de Gruyter.
16. Wilson, F. L. (1991). Democracy in the workplace: The French experience. *Politics and Society, 19*, 439–462.
17. Fatehi-Sedeh, K., & Safizadeh, H. (1986). Labor union leaders and codetermination: An evaluation of attitudes. *Employee Relations Law Journal, 12*(2), 188–204.
18. Gomez-Mejia, L. R., Balkin, D. B., & Cardy, R. L. (2005). *Management: People, performance, change*. Boston: McGraw-Hill.
19. Bass, B. M. (1999). Two decades of research and development in transformational leadership. *European Journal of Work and Organizational Psychology, 8*, 9–32.
20. Avolio, B. J. (1999). *Full leadership development*. Thousand Oaks: Sage.
21. Walumbwa, F. O. & Lawler, J. J. (2002, August). *Building effective organizations: Transformational leaderships, collectivist orientation, work-related attitudes, and withdrawal behaviors in three emerging economies*. Paper presented at the Academy of Management Annual Meeting, Denver, Colorado.
22. Ralston, D. A., Gustafson, D. J., & Terpstra, R. H. (1993, October). *The impact of eastern and western philosophy on upward influence tactics: A comparison of American and Hong Kong Chinese managers*. Paper presented at the Academy of International Business Annual Conference, Maui, HI.
23. Copeland, L., & Griggs, L. (1985). *Going international: How to make friends and deal effectively in the global marketplace*. New York: Random House.
24. Marks, M. (1977). Organizational adjustment to uncertainty. *Journal of Management Studies, 14*, 1–7.
25. Harris, P. R., & Moran, R. T. (1991). *Managing cultural differences*. Houston: Gulf Publishing.
26. Phillips, N. (1994). *Managing international teams*. Burr Ridge: Richard D. Irwin.
27. Barsoux, J.-L., & Lawrence, P. (1991). The making of a French manager. *Harvard Business Review, 69*, 58–67.

28. Lewis, R. D. (1996). How to lead in another language. *Management Today*, pp. 82–84.
29. Wunderer, R. (1990). Leadership. In E. Grochla & E. Gaugler (Eds.), *Handbook of German business management* (pp. 1390–1400). Stuttgart: C. E. Poeschel.
30. Reber, G. (1990). Motivation. In E. Grochla & E. Gaugler (Eds.), *Handbook of German business management* (pp. 1490–1500). Stuttgart: C. E. Poeschel.
31. Shaeffer, R. (1985). *Developing new leadership in a multinational environment*. New York: Conference Board.
32. Bleicher, K. (1990). Management. In E. Grochla & E. Gaugler (Eds.), *Handbook of German business management* (p. 1395). Stuttgart: C. E. Poeschel.
33. Ouchi, W. G. (1981). *Theory Z*. Reading: Addison-Wesley.
34. Sethi, S. P., Namiki, N., & Swanson, C. L. (1984). *The false promise of the Japanese miracle*. Boston: Pitman.
35. Takahashi, Y. (1990). Human resource management in Japan. In R. Pieper (Ed.), *Human resource management: An international comparison* (p. 218). Berlin: Walter de Gruyter.
36. Bruce-Briggs, B. (1982 May 17). The dangerous folly called Theory Z. *Fortune*, 41–44.
37. Maruyama, M. (1992). Changing dimensions in international business. *Academy of Management Executive, 6*(3), 93.
38. Harpaz, I. (1990). The importance of work goals: An international perspective. *Journal of International Business Studies, 21*, 75–93.
39. D'Andrade, R. G., & Strauss, C. (1992). *Human motives and cultural models*. Cambridge, UK: Cambridge University Press.
40. Lipset, S. M. (1993). Culture and economic behavior: A commentary. *Journal of Labor Economics, 11*(2, Pt. 2), S330–S347.
41. Nord, W. (1972). Cultures and organizational behavior. In W. Nord (Ed.), *Concepts and controversy in organizational behavior* (pp. 205–206). New York: Goodyear.
42. Derakhshan, F & Khan, R. (1989). Attitudes towards older employees in PRC and Taiwan: A cross-cultural comparison. *Proceedings of Pan Pacific Conference,* pp. 68–71.
43. Whyte, W. F., & Braun, P. R. (1966). Heroes, homeworks, and industrial growth. *Columbia Journal of World Business, 1*(Spring), 51–57.
44. Haire, M., Ghiselli, E. E., & Porter, L. W. (1963). Cultural patterns in the role of management. *Industrial Relations, 2*, 96–117.
45. Black, J. S., & Porter, L. W. (1991). Managerial behaviors and job performance: A successful manager in Los Angeles may not succeed in Hong Kong. *Journal of International Business Studies, 22*(1), 99–113.
46. Newman, W. H. (1972). Cultural assumption underlying U.S. management concepts. In J. L. Massie, J. Luytjes, & N. W. Hazen (Eds.), *Management in an international context* (p. 347). New York: Harper & Row.
47. MOW International Research Team. (1985). *The meaning of working*. London: Academic.
48. Misumi, J. (1993). Attitudes to work in Japan and the West. *Long Range Planning, 26*(4), 66–71.
49. Sampson, E. E. (1989). The challenge of social change for psychology: Globalization and psychology's theory of the person. *American Psychologist, 44*, 914–921.
50. Neisser, U. (1988). Five kinds of self-knowledge. *Philosophical Psychology, 1*, 35–59.
51. Markus, H. R., & Kitayama, S. (1991). Culture and the self: Implications for cognition, emotion, and motivation. *Psychological Review, 98*, 224–253.
52. Nisbett, R. E. (2003). *The geography of thought*. New York: Free Press.
53. Hernandez, M., & Iyengar, S. S. (2001). What drives whom? A cultural perspective on human agency. *Social Cognition, 10*(3), 269–294.
54. Dore, R. P. (1958). *City life in Japan*. Berkeley: University of California Press.
55. Parsons, T., Shils, E., & Olds, J. (1951). Categories of the orientation and organization of action. In T. Parsons & E. A. Shils (Eds.), *Toward a general theory of action* (p. 81). Cambridge: Harvard University Press.
56. Hsu, F. L. K. (1975). *Iemoto: The heart of Japan*. New York: Wiley.
57. Murray, H. A. (1938). *Explorations in personality*. New York: Oxford University Press.

58. Bond, M. H. (1986). *The psychology of Chinese people*. New York: Oxford University Press.
59. Festinger, L. (1957). *A theory of cognitive dissonance*. Palo Alto: Stanford University Press.
60. Ronen, S. (1986). *Comparative and multinational management*. New York: Wiley.
61. Kolde, E. J. (1974). *The multinational company*. Lexington: D. C. Heath.
62. Hofstede, G. (1984). The cultural relativity of the quality of life concept. *Academy of Management Review, 9*(3), 396.
63. Redding, S. G. (1977). Some perceptions of psychological needs among managers in South East Asia. In Y. H. Poortinga (Ed.), *Basic problems in cross-cultural psychology* (pp. 338–343). Amsterdam: Swete & Zeitlinger.
64. Nevis, E. C. (1983). Using an American perspective in understanding another culture: Toward a hierarchy of needs for the People's Republic of China. *Journal of Applied Behavioral Science, 19*(3), 249–264.
65. Nevis, E. C. (1983). *Cultural assumption and productivity: The United States and China* (pp. 17–29). Spring: Sloan Management Review.
66. Yay, H. M. (1988). Chinese cultural values: Their dimensions and marketing implications. *European Journal of Marketing, 22*(5), 44–57.
67. McClelland, D. C. (1961). *The achieving society*. Princeton: Van Nostrand Rienhold.
68. T. F. O'Boyle (1991, April 1). Bridgestone discovers purchase of U.S. firm creates big problems. *The Wall Street Journal*. p. A1.
69. Reitz, H. J. (1975). The relative importance of five categories of needs among industrial workers in eight countries. *Academy of Management Proceedings*, pp. 270–273.
70. Ronen, S. (1979). Cross-national study of employee work goals. *International Review of Applied Psychology, 28*(1), 1–12.
71. Adler, N. J. (1991). *International dimension of organizational behavior*. Boston: Kent Publishing.
72. Herzberg, F., Mausner, B., & Snyderman, B. S. (1959). *The motivation to work*. New York: Wiley.
73. Herzberg, F. (1968). One more time, how do you motivate employees? *Harvard Business Review, 46*(January–February), 54–62.
74. Crabbs, R. A. (1973). Work motivation in the culturally complex Panama Canal company. *Academy of Management Proceedings*, pp. 119–126.
75. Hines, G. H. (1973). Achievement, motivation, occupations and labor turnover in New Zealand. *Journal of Applied Psychology, 58*(3), 313–317.
76. Hines, G. H. (1973). Cross-cultural differences in two-factor motivation theory. *Journal of Applied Psychology, 58*(3), 375–377.
77. Macarov, D. (1972, Autumn). Work patterns and satisfactions in an Israeli kibbutz: A test of the Herzberg hypothesis. *Personnel Psychology, 25*, 483–493.
78. Machungwa, P. D., & Schmitt, N. (1983). Work motivation in a developing country. *Journal of Applied Psychology, 68*(1), 31–42.
79. Kanung, R. N., & Wright, R. W. (1983). A cross-cultural comparative study of managerial job attitudes. *Journal of International Business Studies, 14*(2), 115–129.
80. McClelland, D. C. (1965, November–December). Achieving motivation can be developed. *Harvard Business Review*, 120.
81. Bhagat, R. S., & McQuaid, S. J. (1982). Role of subjective culture in organizations: A review and directions for future research. *Journal of Applied Psychology Monograph, 67*, 635–667.
82. Iwawaki, S., & Lynn, R. (1972). Measuring achievement motivation in Great Britain and Japan. *Journal of Cross-Cultural Psychology, 3*, 219–220.
83. McClleland, D. C., & Winter, D. G. (1969). *Motivating economic achievement*. New York: Free Press.
84. Pareek, U. N., & Kumar, V. K. (1969). Expressed motive of entrepreneurship in an Indian town. *Psychologica, 12*, 109–114.
85. Hampton, D. R., Summer, C. E., & Webber, R. A. (1982). *Organizational behavior and the practice of management*. Glenview: Scott, Foresman.

86. Eden, D. (1975). Intrinsic and extrinsic rewards and motives: Replication and extension with kibbutz workers. *Journal of Applied Social Psychology, 6*, 348–361.
87. Adams, J. S. (1965). Inequities in social exchange. In Berkowitz L (Ed.), *Advances in experimental social psychology* (Vol. 2). New York: Academic.
88. Yuchtman, E., & Seashore, S. E. (1967). A system resource approach to organizational effectiveness. *American Psychological Review, 32*, 891–903.
89. Skinner, B. F. (1971). *Beyond freedom and dignity*. New York: Alfred Knopf.
90. Skinner, B. F. (1963). Operant behavior. *American Psychologist, 18*, 503–515.
91. Skinner, B. F. (1969). *Contingencies of reinforcement: A theoretical analysis*. Englewood Cliffs: Prentice Hall.
92. Bass, B. M., & Vaughn, J. A. (1966). *Training in industry: The management of learning*. Monterey: Brooks Cole.
93. Miller, K. L. (1992, August 3). Now, Japan is admitting it: Work kills executive. *Business Week, 35*, 37.
94. Craig, S. S., Douglas, S. P., & Grein, A. (1992). Patterns of convergence and divergence among industrializing nations: 1960–1988. *Journal of International Business Studies, 23*(4), 773–787.
95. Ralston, D. A., Gustafson, D. J., Cheung, F. M., & Terpstra, R. H. (1993). Differences in managerial values: A study of U.S., Hong Kong and PRC managers. *Journal of International Business Studies, 24*(2), 249–275.

Part III

Strategic and Operational

International Environment and Strategy

6

Chapter Outline

International strategic planning as a response to environmental changes and challenges, in pursuit of organizational goals, is the subject of this chapter. In general, domestic and international strategic processes are very similar, differing only in specifics. The differences are due to forces governing the international business environment. These forces include the host government, political, and legal issues; currency exchange rates; competition from local business, government-supported

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_6

firms, and other multinational companies (MNCs); and cultural variations among nations. Cultural differences result in variations in the strategic planning process among MNCs. For example, similar to the American and European firms, Japanese MNCs prepare strategies to respond to changing environmental forces. They have, however, a different concept of strategy.

We analyze the relationships between host governments and MNCs as a major force in the process of planning a strategy. We examine the host governments' methods of dealing with MNCs and the MNCs' management of host government relations.

Notwithstanding the similarities between domestic and international strategic processes, the differences necessitate the application of specific strategies. Three different strategic choices—global integration, host country focus, and hybrid international strategy—are described.

Overview

Chapter Vignette

Samsung Electronics is one of the Korean companies that survived the market crisis in 1997. Nowadays, it is entering the top level of the world's technology companies, being the leader in wireless technologies with devices ranging from personal digital assistants to refrigerators. Today, Samsung is the world's largest producer of memory chips and flat-panel monitors. It also has built a strong position in the manufacture of DVDs and cell phones. The Samsung Group (chaebol) is the largest corporate entity in South Korea. It is the equivalent of what a combined IBM-Intel-Citigroup-Caterpillar-Aetna would be in the United States. It manufactures globally, employs more than 308,745 people in 79 countries (as of 2016), and generates 70% of its revenues outside Korea.

Many executives at Samsung Electronics are obsessed with competing against Sony. As a matter of fact, Sony is an important customer of Samsung—it buys semiconductors and displays from them. Also, Samsung is a valued partner producing components for large US firms such as Dell Computer, Hewlett-Packard, IBM, and Microsoft. It has a partnership with the Sprint Corporation.

Through the application of a new strategy, Samsung achieved the goal of becoming Korea's first great global company. The new strategy focused on improving the quality of its products and polishing its image. To achieve this goal, Samsung established a new mantra of "market-driven change." In the past decade, it radically improved its manufacturing to surpass those of the competitors. For example, to produce a new flat-screen television, the product planners, designers, programmers, and engineers brainstormed day after day with suppliers and argued over designs and technologies. According to the head of the product planning group, for the first time, Samsung developed a television appealing to customers' lifestyles. To change its image in the world's largest market, the United States, it consolidated its 55 advertising agency accounts into one with a new, imaginative campaign of surreal advertisements. Another way in which Samsung is creating its new image is by pulling out of big discount chains such as Walmart and Kmart, which emphasize price over quality, and moving into specialty stores such as Best Buy and Circuit City. It greatly improved its products' quality and designs, but it is planning to do more. It is aiming to double its sales in a few years and to become an innovation leader like Apple Computer or Sony Corporation. To promote itself as a global electronics company, it has opened up to foreign managers and appointed non-Koreans to its board. Also, foreigners own 60% of the company.

Despite all its efforts to be recognized as a global company, Samsung is firmly rooted in the Korean culture. For example, the CEO of Samsung made a trip to Japan just to apologize to Sony's CEO for a report that Samsung had commented on its intention to dethrone Sony. In Eastern cultures, these kinds of public remarks are not considered polite. Many business practices remain solidly Korean. On a business trip to the United States, for example, an entourage of 15 Samsung employees arrived at a client's office. The clients were startled and had to scramble to find a sufficient number of chairs for them [1–4].

Introduction

Planning is the process of establishing organizational goals and the determination of methods to attain these goals. Strategic planning is the alignment of organizational capabilities with the present and anticipated future environmental changes, in the pursuit of goal attainment. Because organizations are formed to satisfy societal needs and because their survival depends on securing the resources needed to achieve these goals, understanding and awareness of environmental forces are essential to the strategic planning process. Environmental forces are not constant; they change over time. In the past, organizations faced fewer environmental changes, at a slower pace. Today, more changes are taking place at faster rates, and this trend is accelerating. The environmental simplicity and relative stability of the past have been replaced by the dynamic complexity of today. Moreover, strategic planning itself is relatively new and can be traced back to the 1970s.

According to Harry Ansoff, known as the Father of Strategic Management [5], the predecessor of strategic planning is long-range planning [6, p. 13], which is based on two premises. First, environmental changes are assumed to be continuous. Second, these changes are assumed to be predictable through extrapolation of the historical growth. Both these premises, however, pose potential problems for today's planners. When environmental conditions were simple and relatively stable, firms could expect that the future would be an extension of the past. Under those assumptions, planning was an optimistic projection of past organizational performance, with the expectation of future growth. In other words, the future was presumed to be better than the past. Environmental factors were expected to change in magnitude and not in character. Long-range planning, therefore, was the pursuit of organizational goals by matching the organization's capabilities with the economic considerations of the market.

Recent events, such as the energy crisis, proved the fallacy of those assumptions. It became evident that the past may not be a reliable predictor of the future and that many environmental changes are discontinuous. With its questionable premises, long-range planning was displaced by strategic planning.

The premises of strategic planning are different: the future may not necessarily be an improvement over the past, nor may it be extrapolated. The patterns of the past events may not continue into the future. Most of the environmental changes are discontinuous. To succeed in such an unpredictable milieu, firms need to strategically plan and manage the present and future operations. As Fig. 6.1 illustrates, the strategic planning process begins with a determination of the organizational mission and goals. After the establishment of the mission and goals, the process proceeds with two interdependent and simultaneous analyses: **internal assessment** and **environmental scanning**. The internal assessment provides information regarding the internal capabilities (**strengths**) and limitations (**weaknesses**) of the firms. Environmental scanning enables the firm, domestic or international, to identify existing **opportunities** and **threats** in the environment. These interdependent, simultaneous analyses should permit the firm to assess the appropriateness of its goals and, if necessary, modify them. Changes in the premises on which the organizational mission and goals are based may require a modification or a total revision of those goals.

Once the appropriateness of the organizational mission and goals is resolved, two sequential phases of strategy formulation and implementation begin. The formulation phase creates the plan for future activities, and the implementation phase is the execution of that plan. Based on the two simultaneous analyses discussed earlier, the firm develops a plan to accomplish organizational goals and to exploit environmental **opportunities** through the deployment of its **strengths**. In doing so, the firm should be careful not to expose its **weaknesses** and should be prepared to face **threatening conditions** or avoid them altogether. The process is concluded when a control mechanism shows that the strategy process is being properly executed.

There are no substantive differences between the strategic planning processes of a domestic company and an MNC. The strategic process, for both domestic and MNCs, entails aligning organizational capabilities with the changing environmental conditions to achieve organizational goals. Regardless of the nature of the operation, the strategic management process remains basically the same for the domestic enterprise and the MNC. Just because a firm expands abroad, it does not mean that there will be a different strategy formulation and implementation process. The vignette at the beginning of the chapter discussed how the application of a new strategy by Samsung propelled it from a humble position to a global leader. By expanding to foreign markets, however, the firm will encounter additional complexity from operating across national borders.

Internationalization of the firm brings about many new problems that require careful resolution. These new problems increase the burden of managing an MNC. The multiplicity of cultural, sociopolitical, legal, and economic environments creates

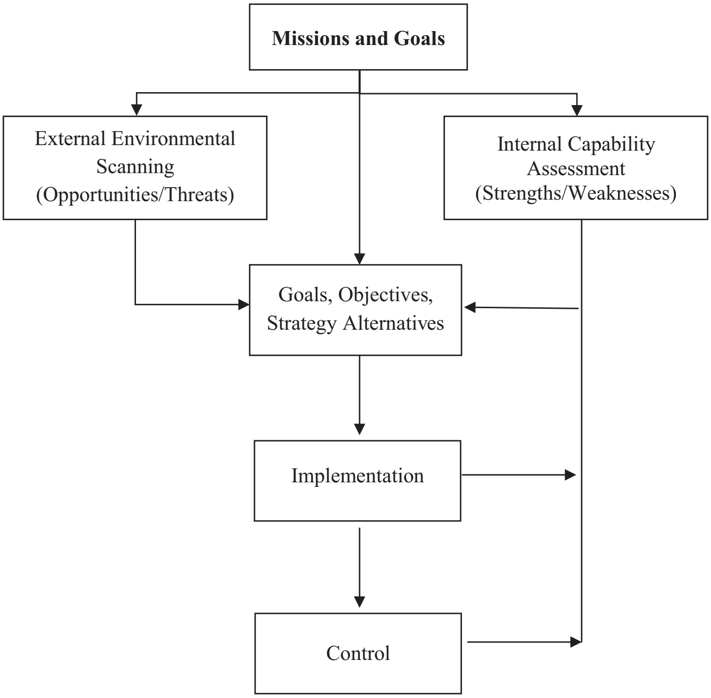


Fig. 6.1 Strategy formulation process

quantitative and qualitative difficulties. Quantitatively, there are many national markets, each with its own requirements and problems that demand special attention. Qualitatively, because of historical, cultural, political, and economic variations, each national market is unique. Each changes differently and at a different pace. Confounding the problems are the interdependencies among national markets in a network of customers, suppliers, creditors, competitors, and so on that culminate in a complex global market. Additionally, geographic separation between home and host countries creates its own problems.

Much has been said about the diminishing effect of distance on international business. It is argued that the improvements in communication made possible by modern information technologies and the ease of transportation have made the world a relatively small place. But some have addressed the issue of distance in a new light [7]. This view emphasizes that the distance between home and host countries adversely affects international business. However, it maintains that distance can be viewed along four dimensions: geographic, cultural, administrative or political, and economic. Geographic dimension of distance affects the cost of communication and transportation for some businesses. Other dimensions are elaborated in the section on environmental forces. Successful MNCs learn how to deal effectively with the multiplicity of environmental conditions.

International Business Environment

The central issue in strategy formulation is the identification of environmental factors that may have an influence on the organization and preparation of a plan of action to deal with them. The difference in strategy formulation and implementation processes between a domestic and an international operation is in the degree of environmental and organizational complexities and uncertainties. International operations are more complex because of environmental uncertainties and complexities (e.g., cultural, institutional, and economic environment). The major international environmental factors include [8]:

- **Cultural differences**
- **Host government, political, and legal issues**
- **Competition from local businesses, government agencies, and other MNCs**

We discussed the cultural differences in Chap. 3. The following sections delineate the host government, political, and legal issues and the competition. And the strategic implications in dealing with the host government and host country competition will be discussed.

Host Government, Political, and Legal Issues

The most influential of all international environmental forces are political, legal, and governmental. Legal and political issues could hinder the MNCs' overseas operations. The lack of understanding of local laws could cost the MNCs dearly. The political turmoil that simmers under the surface may be very difficult for outsiders to detect. Yet an inappropriate response could result in substantial earning and property loss.

Host governments use their sovereign power by restricting or assisting MNCs. When host countries believe that the operation of MNCs is compatible with their national goals, they may provide various incentives to attract and maintain MNC operations. If, however, the activities of the MNCs do not meet the host governments' expectations, many restrictions and obstacles are routinely placed in their paths. At the heart of this difficulty lies the difference between the objectives of the host countries and those of the MNCs. The major strategic goals of the MNCs and host governments are summarized in Table 6.1. The challenge is to find common areas where there are mutual benefits.

Host governments have a love-hate relationship with MNCs. It is safe to say that the feeling is mutual. In general, this feeling is more intense in the case of developing nations. The power of MNCs and the fact that they operate across national borders make their operations less susceptible to influence and control by the host governments. When the strategic requirements of MNCs are not compatible with the host government's economic plans, the relationship may not be very beneficial to the host country. The power, resources, and flexibility of MNCs could overwhelm most host governments' plans and render them less effective. However, MNCs are

Table 6.1 Strategic goals of host governments and MNCs

Host governments	Multinational corporations
National income	Return on investment
Maximization of tax revenues	Minimization of tax payments
Employment	Increased earnings
Skill diversity among the labor force	Specialization for efficiency
Economic development	Competitive advantage
Technology transfer and industry/ managerial skills	Low-cost production, efficiency
Diverse economy	Cost-effective operation/control on hiring and training
Local control over business firms	Headquarters control over subsidiary
Local research and development capability	Headquarters control over research and development
Balanced industrial activities geographically	Operations in cities with adequate infrastructure and support services
Control over pattern of economic development	Freedom of trade and investment
Balance of payments	Profit repatriation

a source of new technology, capital, and tax revenues. The global network of distribution channels of the MNCs could assist the host countries to reach world markets. For many developing countries that are burdened with heavy national debts, MNCs are the only source of needed capital.

Because of benefits and drawbacks of MNCs to the host country, there is always a certain degree of tension between MNCs and the host country. And the degree of tension affecting the business transactions in the host country is determined by the bargaining power of MNCs and host governments. For instance, Walmart (American retail giant) entered the Indian market in 2007 with a purpose of gaining a foothold in India's booming retail industry, albeit strict regulations on FDI (foreign direct investment) imposed by the Indian government.

Factors Affecting the Bargaining Power of MNCs and the Host Government

As mentioned above, the host governments and MNCs have a very complex and interdependent relationship. Business transactions and operations of MNCs are determined by the relative bargaining power between MNCs and the host government.

Bargaining Power of MNCs: An MNC's relative bargaining power increases under five conditions—first, if it has a monopolistic position; second, if it uses a technology that requires a large investment in R&D, without many viable substitutes; third, if it exports a large part of its outputs and has control over the market downstream (e.g., distribution channels); fourth, if it employs factors of production, such as labors, that are easily substitutable across countries; and fifth, if its operations require a small investment that could very easily be liquidated or moved, meaning that the operations are relatively immune from excessive pressures on the part of the host government [9, pp. 269–270].

Table 6.2 Factors influencing the bargaining power of host countries

Increasing bargaining power	Decreasing bargaining power
1. Control access to product market: Domestic market is attractive because of A. Size B. Low labor cost C. Member of a regional trade agreement (e.g., EU and Mercosur)	1. Dependence on MNCs for technology 2. Contribution of MNCs to the economic growth of the host country (e.g., job creation)
2. Control access to domestic capital market	
3. Control access to production technology	

Bargaining Power of the Host Government: Just as there are certain conditions that increase the relative power of MNCs, there are also conditions that influence the relative bargaining power of host countries (see Table 6.2). A country in the early stages of economic development that is heavily dependent on technology importation may be in a weak bargaining position vis-à-vis the MNCs. For these countries, the MNCs are the only vehicle of technology transfer, and they cannot afford to alienate them; a government in dire need of hard currencies can ill afford to restrict MNC operations. In general, the relative power of the host government depends on control over three factors: access to product markets, access to the domestic capital market, and access to production technology [9].

Host governments have the power to control access to domestic markets, and they usually exercise this power. The importance of access to a domestic market is a function of one or a combination of three factors. First, the MNC may desire access to the market because of its size. China, India, Brazil, and Mexico have large domestic markets. Their huge size and the fact that these markets cannot be supplied by locating plants in other countries make them attractive to MNCs. The low purchasing power in these countries, however, tempers their attractiveness. The control over a large domestic market gives the government a monopoly power, similar to that enjoyed by countries with desirable raw materials that are in limited supply. Second, a market may be attractive to MNCs because of its export potential. As part of its global strategy, an MNC may be interested in a country's low labor costs for setting up export-oriented manufacturing facilities. This is a major reason why some MNCs have established manufacturing facilities in China. Third, a country's domestic market could be attractive due to its membership in a regional trade pact. It could be used for entry into a market that would otherwise be difficult to access. Each of the members of the European Union, for example, could be an attractive alternative for reaching the European market.

The domestic capital market is typically controlled by governments. Host governments can generate alternative sources of capital, both internal and external, such as domestic savings and foreign commercial loans. This willingness and ability to provide or assist in securing investment finances increase the bargaining power of host governments and the attractiveness of their domestic markets. Likewise, the availability of indigenous technology or licensing agreements could improve the host government's bargaining position.

In sum, increased bargaining power of the host government allows to better control MNCs' activities, alleviate their negative impacts on the economies of the host country, and protect the labor market and industry. On the other hand, the bargaining power of MNCs can be a weapon to negotiate with the host government, particularly when MNCs face challenging issues of business operation (e.g., strict regulations on FDI and government requirements). The success of MNCs depends upon how well they manage host government relations. In the following section, strategic implications on the successful management of host government relations will be discussed.

The Two Faces of Globalization in China

While China is feeding the world's appetite for consumer goods and benefits from the globalization of business, the onetime "workers' republic" is becoming a nation of haves and have-nots. The positive and negative effects of globalization are evident all over the country. Some cities, such as Wenzhou, 200 miles south of Shanghai, that benefit from China's trade with the rest of the world are quickly modernizing, and their lifestyles are changing rapidly. Some other cities are not that fortunate. Wenzhou churns out shoes, pharmaceuticals, garments, sporting goods, optics, kitchen appliances, and paint and metal work. It has an annual per capita income that is almost double the national average. It has gated communities of opulent villas occupied by residents who drive Cadillacs, Mercedes-Benzes, BMWs, and even Hummers. China's economic growth has been phenomenal. In the two decades prior to 2000, the Chinese economy quadrupled, and it is expected to become the fourth largest economy in the world in a few years.

This growth has masked the suffering of millions who, for various reasons, are left behind and have not benefited from modernization. The socialist state suffers high levels of unemployment. Approximately 13% of China's 1.3 billion people survive on a dollar a day or less. Not only are these people suffering economically, but their political situation is also not much better. The government has demonstrated its contempt for basic human rights by its one-party politics, its rubber stamp judiciary, its censored Internet and oppressed minorities, and its notorious prison system.

Chinese can now afford televisions, refrigerators, and personal computers, which decades ago were considered luxuries. Many of the services that the state used to provide are, however, no longer available, and many people cannot afford to pay for them in the free market. Decades ago, the government jettisoned healthcare services to free market, and rent is now about half an average worker's wages. The lower class is suffering due to these free-market changes. They used to have guaranteed employment and could afford the services that were offered by the government, albeit bad services. This is no longer the case.

Source: Ref. [10].

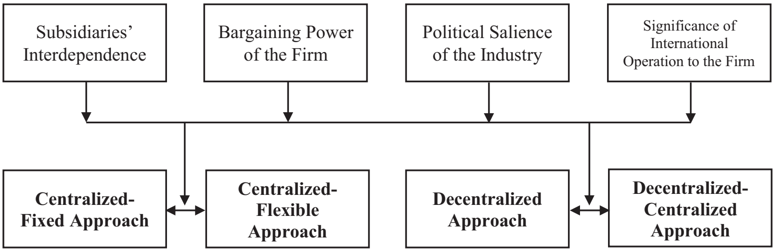


Fig. 6.2 Managing host government relationships

Managing Host Government Relations

MNCs handle government relations and respond to government demands and policy actions in many different ways. The response to government actions and demands may be centralized at headquarters, placed with the regional managers, or delegated to the country managers. The latter method, however, is not very popular with MNCs. Usually, country managers have limited authority and autonomy in their dealings with host governments. Mahini and Wells have identified four factors that largely determine the location of decision response in the organizational hierarchy and the method of handling host government relations: [11]

1. The firm's bargaining power in dealing with host governments.
2. The significance of the international operations to the enterprise.
3. The degree of interdependence of the subsidiaries.
4. The political salience of the industry, where the industry accounts for the major part of the host country's foreign exchange earnings and the host government revenues.

Considering these factors, there are four different approaches to host government relations (see Fig. 6.2):

1. Centralized-fixed
2. Centralized-flexible
3. Decentralized
4. Decentralized-centralized (combined/coordinated)

Centralized-Fixed Approach: The major areas of possible conflict with host governments are identified in advance, and policies are devised for handling them. Once the policies to handle the host government issues are set up, these policies are usually nonnegotiable and fixed. This approach might be employed where the firm is in a very strong bargaining position and the host government is dependent on the resources of the firm. Although the policies are made centrally at headquarters, the host government deals with the local MNC managers who implement them. Recent changes that were elaborated in Chap. 1 have made the use of the centralized-fixed approach unrealistic.

Centralized-Flexible Approach: This approach directs and supervises government negotiations from headquarters. The difference between the centralized-fixed approach and the centralized-flexible approach is in their dealing with the most important government relation matters. In the centralized-flexible approach, the headquarters is willing to negotiate on issues and flexibly alter policies.

Decentralized Approach: Foreign subsidiaries are responsible for host government relations. In this case, the headquarters grant a great degree of autonomy to subsidiaries as to the host government relations (e.g., negotiation and problem-solving). And thus, the control of headquarters is now decentralized. Depending on the issues at hand, the foreign subsidiaries, the regional manager, or a functional department such as marketing might be responsible for host government relations. The decentralized approach seems to be more appropriate when subsidiaries are geographically diversified and when there is a low (or zero) degree of interdependency between subsidiaries in different countries.

Decentralized-Centralized (Combined/Coordinated) Approach: A middle-ground approach, between the extreme positions of the centralized and decentralized approaches, is followed by firms using the combined/coordinated approach. This approach involves frontline managers, while headquarters maintain some degree of centralization. Although foreign subsidiaries can directly negotiate with the host government and deal with issues in the host country, the headquarters can be involved in the negotiation and decision-making process.

The Competition

A major difference between the management of MNCs and that of the domestic firm is the nature of the competition each faces. MNCs operate in a more competitive environment. In some or all aspects of their operations, many MNCs have to deal with competition from local and state-owned firms. Besides the competition from local firms, rivalry among MNCs creates very intense competitive pressure. Governments' involvement in business creates an environment of constraints and control. Through direct or indirect support and subsidies of local businesses, governments force MNCs to evaluate their strategies carefully.

Competition from Domestic and State-Owned Enterprises

Exclusive Distribution Channels: Domestic firms have an edge over the MNCs due to their insider position and familiarity with the cultural, legal, and logistical requirements of doing business. In some countries, the stigma of being a foreign company is by itself a drawback. The older generation of Japanese managers, for example, is still reluctant to deal with foreign companies. They tend to consider it unpatriotic to buy from the foreigners. Some US firms have capitalized on consumers' patriotic feelings as well. Walmart, for example, has used its support of American suppliers, whenever these suppliers are competitive on quality and price, as an effective marketing tool.

In addition, host governments can control an industry without an ownership share. A host government may be the only customer of the industry's products, and through its purchasing power, it can effectively bar MNC participation in that industry. By buying only from domestic firms, governments can create artificial entry barriers. Exclusive domestic purchasing may not be a formal government policy but a de facto practice. Nor does it have to be practiced only by the government to have an impact on MNC participation in the industry. The government of Japan, for example, only recently, and with extensive pressure from the United States, allowed American firms to participate in contract biddings for large public construction projects. Often, Japanese manufacturers restrict their purchases to domestic suppliers that are members of their keiretsu (a Japanese-type conglomerate that is made up of a family of firms in a supplier-buyer relationship, including banks and insurance companies). Such a practice makes it almost impossible for non-Japanese firms to compete in the Japanese market.

In many cases, when an MNC is successful in securing an initial contract, it can confidently expect a long-term relationship with the host government. Suppliers are abandoned only if the government becomes extremely disgruntled with their performance or technologies [12, p. 93]. For this reason, it is very difficult for a new manufacturer to break into established national markets that are controlled by governments. Only the new markets of developing countries, although small in size, offer significant opportunities for newcomers. These countries, however, rely on the advice of independent consultants and use only very reputable suppliers with proven performance in developed countries.

Protection of Key Industries: Certain industries are considered by host governments to be strategically important for national security, and these industries receive government support to compete with MNCs. Host government policies regarding domestic strategic industries vary. In some countries, these industries are government owned. In other countries, they are the exclusive domain of domestic firms, with the government effectively controlling them. In still others, MNCs are allowed limited participation in some aspects but are barred from others. Most host governments, however, effectively tilt the competitive position of strategic domestic firms against their MNC competitors. Industries commonly controlled by governments include airlines, coal, electricity, gas, oil, automobile, post office, railroads, shipbuilding, steel, and telecommunication. In all countries that have modern manufacturing capabilities, defense industries are the exclusive domain of governments and domestic firms. Where private firms are allowed to participate in arms production, their sales to foreign countries are under strict government control. In addition to the benefits mentioned earlier, sales of weapons to foreign governments is an important instrument of foreign policy implementation. Global weapon sales generate huge sums annually.

Potential Strategy to Remove Entry Barriers (Technology Offerings): In obtaining a new business contract in the government-controlled industries of developing countries, MNCs that can offer new technologies have a competitive advantage over those who cannot, or are unwilling to, do so. As noted, developing countries are very interested in technology transfer. For example, CIT-Alcatel, the French supplier of switching equipment, was able to win a sizable contract from the Indian government by providing technological assistance. CIT-Alcatel agreed to set up an Indian digital telecommunication equipment industry, backed by a guarantee and agreements between the French and Indian governments [12, p. 103].

To ensure that these industries remain responsive to national interests, some governments have demanded joint ventures with MNCs. In response to governmental demands, the MNCs have acted in two different ways. Some have established subsidiaries in each country with no interaction among them. The resulting firms are joint ventures that operate as domestic firms.

Competition from Other MNCs

Competition to MNC operation comes from other MNCs, as well as domestic firms. The nature of the competition, of course, varies with industry characteristics. For the automobile and consumer electronics industries, for example, competition is not limited to the MNCs in developing countries, because they employ mature technologies and have products and market characteristics that are less influenced by cultural norms. Similarities in consumer tastes and preferences provide opportunities for standardization in manufacturing and economies of scale, making them very attractive. Since these products do not require cutting-edge technologies, MNCs from newly industrialized countries, such as South Korea, Taiwan, and Malaysia, are joining the melee, too. In contrast, the leading-edge industries, such as medical technology, biomedicine, or computer chip design, are the exclusive domain of MNCs from a few advanced industrialized countries.

To encourage exports, many governments provide subsidies to domestic firms. With financial, and sometimes technological, assistance from governments, international markets are becoming the scene of very intense competition. For instance, Airbus Industries, a consortium of aviation firms from Europe backed by the French and British governments, has made successful inroads into markets that previously were exclusively served by Boeing. Airbus has used these subsidies to develop a technologically advanced passenger airplane and undercut Boeing prices. Consequently, in recent years, even some American airlines have chosen Airbus over Boeing.

In the preceding pages, we have argued that the international strategy process is the same for both domestic and MNC operations; however, the management of an international operation is more demanding and challenging. The difficulty of international management is due to the higher level of complexity and uncertainty involved in the international environment. Equipped with knowledge about the major environmental forces of international management, we now turn to the strategic choices available to MNCs.

Industry Characteristics and MNC Strategy

Firms depending on their industries may have different international business strategies. For instance, Apple Inc. producing standardized products (e.g., iPhone, iPad, and Mac computers) does not differ designs, features, and functionalities across countries. And the firm centralized its value-creation activities (e.g., manufacturing and R&D) in few locations; iPhones are assembled in China and exported to worldwide markets [13]. However, firms like McDonald's vary its food menus (e.g., no beef-based Big Mac in India and bagel cheeseburger in France) to better cater the local markets and change store policies in some countries (e.g., smoking has been allowed in McDonald's stores in Japan till 2014, not anymore though) [14]. As such, firms can alter global business strategies based on two dimensions: **(1) requirements for global integration** and **(2) requirements for local market adaptation.**

Global Integration: Firms are more required to integrate their value-creation activities (e.g., manufacturing, marketing, and R&D) across countries by centralizing the location of value-creation activities and standardizing product specifications. Firms usually have few manufacturing plants in a few locations where mass production is possible and involve in minimal product modification and adaptation. A typical example of firm that focuses on global integration is Apple Inc.

Local Market Adaptation: Firms are more required to adapt local market environments. Product requirements including product specifications, sizes, colors, shapes, tastes, functions, and features are usually high. And the business operations need to be modified depending upon each individual market characteristics such as local government requirements or regulations, unique distribution channels, and service needs/expectations. For instance, the requirements for local market adaptation are significant for firms in food and drink industries, where customers have different preferences and tastes and where a popular business model (i.e., franchise) is used yet difficult to apply across nations due to the variation in institutional environments such as weak intellectual property protection law.

Based on these two dimensions, we can classify four industries: **international, multidomestic, global, and transnational industry** (see Fig. 6.3).

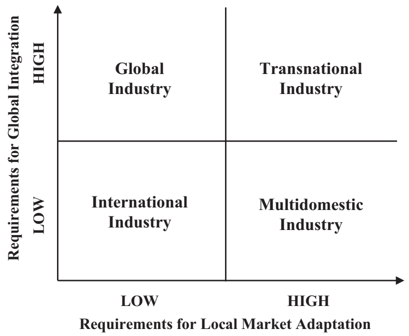


Fig. 6.3 Industry characteristics based on the global integration and local market adaptation framework

International Industries

The dominance of technological forces and the need to develop and distribute innovations in multiple markets are characteristics of international industries. Success in these industries depends on the ability to exploit technological forces, produce new products, and duplicate the process in different national markets. Typically, new products are developed in the home market. Then, these products are exported to foreign markets, and their related technologies are sequentially applied to other national markets. Since competitive advantage hinges on expensive technological development, the ability to duplicate the technology in multiple markets is an economic necessity. The imperative of the new-technology application in multiple national markets gives impetus to the emergence of international industries.

As Fig. 6.3 illustrates, an international industry is one in which firms face a low requirement for global integration and a low requirement for local market adaptation. In general, firms (usually a small one) producing raw materials and basic product parts do not seriously require global integration for manufacturing and product modification for local market adaptation. And they expand their businesses to overseas markets through an international trade (e.g., export).

Multidomestic Industries

Multidomestic industries are characterized by local product and market requirements. National, cultural, social, and political differences lead to diverse product standards and different consumer tastes. These differences create a strong need for customized products to meet local tastes and preferences. The operational requirements of multidomestic industries are on a national scale. Therefore, separate manufacturing facilities, to serve each national market independently, are economical. There are no economies of scale in functional areas, such as R&D and marketing, beyond the national market. This means that channels of distribution, for example, are unique to each country and R&D performed in one market cannot be duplicated in other markets. What a firm learns about the requirements of the construction industry in one country, for example, has little relevance in other countries. It also means that national subsidiaries are less dependent on headquarters for R&D.

Since benefits directly derived from headquarters are limited, the national subsidiaries behave more like domestic firms. The benefits of localization and headquarters' loose control over foreign subsidiaries provide opportunities for joint ventures with local firms. In fact, some have argued that a partnership with local firms is frequently a preferred option in multidomestic industries [15, pp. 31–54] in the sense that the foreign firms may learn from local partners allowing them to quickly adapt their operations to better cater the local market. Laundry detergents, cosmetics, construction, prepared food products, and furniture are examples of multidomestic industries.

The host country focus is an appropriate strategic choice for a multidomestic industry. The need to respond quickly to local standards and changes necessitates the responsiveness that is characteristics of a host country focus strategy. If a firm correctly identifies a local preference for a particular product or products with certain features or functions, it can effectively apply the host country focus strategy to that market segment. By doing so, it carves out a market segment representing domestic preferences. The example of an upstart British electronics firm, Amstrad, is a case in point [16, p. 113]. The company correctly identified the unhappiness of the English consumers with the modern hi-fi equipment referred to as "music centers." The equipment had been designed to global standards and was made to be simpler and more functional. Gone were the teak exterior and complex control panel that gave the user a feeling of technical mastery and wizardry. To the British consumers, the metal casing of the new global design, in silver or black, was no match for the old, warm, teak furniture look. Amstrad responded by bringing back the old exterior features and combined them with modern technology high-fidelity sound delivery. It then chose the largest discount retailer for its sales outlets. The results were that Amstrad captured the market leadership from its global competitors in England.

Global Industries

MNCs' international expansion can be attributed to their ability to exploit the economies of scale and experience, location, product differentiation, process technology, and control of distribution channels. The exploitation of some of these advantages is possible only with a global integration strategy [12, p. 19]. Certain technologies and products require a huge investment in R&D and manufacturing facilities. In such situations, organizational efficiency demands a large production run and a market share on a global scale. The efficiency imperative, therefore, creates global industries. Global industries are characterized by highly centralized large-scale manufacturing and R&D operations and standardized products.

The chemical, consumer electronics (e.g., mobile phones and laptop computers), heavy equipment, commercial aircraft, and shipbuilding industries are considered to be global.

The global operational requirement necessitates an enormous investment capital for establishing the global manufacturing and distribution network. R&D investment needs are large too. Economic imperatives have forced global industries toward globalization of their operation. Over the years, for example, successive technological innovations in consumer electronics have increased the minimum economic production run from 50,000 to three million units per year [16, p. 116]. There are no national markets with an annual absorption capacity of this size. This huge increase in the size of economic production run has made globalization a necessity. Falling transportation and communication costs, along with relatively low restrictions on imports, have also made globalization in these industries a possibility.

In these industries, because product and market requirements are worldwide, products are produced, sold, and serviced worldwide, without many variations. In other words, consumer product needs are homogeneous across markets. For these products, national and local tastes do not vary, and there is no need to customize products to national standards. Government intervention and regulation are relatively low in global industries. Therefore, firms can locate manufacturing facilities in any place in the world that provide the most economical advantages.

Theodore Levitt [15] has argued that technology is driving all national markets toward a converging commonality. A complete and total commonality of tastes and preferences may never arrive. In the global industries, however, this commonality has already taken place. The convergence of consumers' preference and technical standards allows the production of a narrow range of standardized products for all markets from these factories. Because rationalization and integration of these manufacturing facilities scattered worldwide require a strong internal control, there is no premium for partnership with local firms [17]. Local partners, whose knowledge of local culture is the source of the competitive advantage in multidomestic industries, have limited attraction for global firms. Therefore, global industries are dominated by MNCs that compete with each other on a global scale.

Transnational Industries

Firms in transnational industries face a high degree of requirements for both global integration and local market adaptation. It is a combination of multidomestic industry and global industry where firms need to integrate value-creation activities and localize business operations simultaneously. Given this complex nature of transnational industries, it is difficult to implement business strategies. Firms need to differentiate or adjust the product to respond to local market demands and host government requirements, while they integrate their business operations in order to efficiently perform value-creation activities. Firms producing automobiles focus on global integration and local market adaptation. For instance, Ford Motor has geographically diversified worldwide assembly plants where they assemble and alter auto vehicles to meet the technical standard of the host country and better cater the local customers but also has centralized research and innovation centers in only a few locations to efficiently share and transfer standardized technologies across business units.

Based on the four industry typologies, MNC strategies will be described.

Four MNC Strategies

In dealing with environmental complexities and uncertainties, MNCs have a range of alternative strategic choices. Because there are some similarities as well as differences among national markets, the choice of strategy is determined by considering these similarities and differences.

An emphasis on similarities calls for producing products that can be sold globally without modifications. To take advantage of the differences among national markets would necessitate strategies that treat each market based on its own merits. Therefore, each market is considered a unique business opportunity that requires a response to its special characteristics and demands. In terms of strategy, therefore, the choice is between global integration and national responsiveness. The old decision quandary of efficiency versus effectiveness prevails in the international marketplace too. An attempt to serve many countries with the same range of products is efficiency oriented. To serve the unique needs of each market by catering to its requirements is effectiveness oriented. Of course, the choice does not have to be between integration-efficiency and responsiveness-effectiveness. Depending on the circumstances, firms can establish a middle-ground position and lean toward either one or the other. Alternatively, a firm could combine some features of both strategies as circumstances demand. These choices are presented under four MNC strategies: **(1) international, (2) host country focus, (3) global integration, and (4) transnational**.

International Strategy

International strategy is suitable for firms in international industries where they focus on manufacturing products that serve universal needs such as raw materials and basic product parts. Since the international strategy requires a low level of global integration and local market adaptation, and its implementation costs are not significantly high, it is preferable among small firms. Those small firms focusing on domestic businesses have relatively less international business experience and thus tend to replicate their domestic business strategies when they involve in foreign operations through an exporting or a sales office. And they passively communicate with customers in the host country either through an intermediary or a sales office, and do not significantly alter the products they offer.

Host Country Focus Strategy

The host country focus strategy is the "effectiveness" option rather than "efficiency" through global integration. In a host country focus strategy, subsidiaries are treated as if they are autonomous national firms. They are allowed to respond to local demands as they see fit. The MNC's headquarters maintains overall coordination among various subsidiaries (using some of the techniques discussed previously) in a way that maximizes the MNC's global performance. A relatively complete range of products is manufactured by each subsidiary. Since each subsidiary is responsible for its own domestic market needs, a minimum amount of trade occurs between subsidiaries in different countries. Consequently, subsidiaries are not directly responsible for the total MNC efficiency.

The MNC that pursues a host country focus strategy has a different way of using its worldwide presence and resources for a competitive advantage. While the MNCs with a global integration strategy compete with other MNCs directly, firms using host country focus compete for market share with domestic firms and the subsidiaries of other MNCs that employ the same strategy. Whereas the competitive advantage of global integration strategy is based on corporate-wide standardization and similarities among national markets, host country focus strategy employs the MNC's worldwide resources for a competitive edge.

In competition with their domestic counterparts, the MNC subsidiaries use the resources of the headquarters in several ways [12, pp. 16, 17]:

- *First*, even when national subsidiaries are managed as fully autonomous profit centers, the financial umbrella of the headquarters allows more risk-taking by the subsidiaries.
- *Second*, because of the support from headquarters, lower-cost financing is available to national subsidiaries.
- *Third*, centralized R&D activities reduce costs and can increase the benefit to the subsidiaries.
- *Fourth*, the subsidiaries have access to a global distribution network and logistics that are beyond the reach of their domestic counterparts.
- *Fifth*, national subsidiaries may supply their customers the same product from several sources within the MNC's global operations. Through their sister subsidiaries, they can take advantage of bilateral trade agreements among many developing countries. Such arrangements potentially make them more competitive than their domestic or globally integrated counterparts.
- *Finally*, with central control in pricing and marketing policies by headquarters, each subsidiary can become a more resilient competitor. Instead of competing as individual firms in national markets, they can coordinate their competitive response for a better result. As an example, Goodyear's reaction to Michelin's entry into the US market was a very aggressive response in Europe. If Goodyear had to respond to Michelin in the US market only, it would probably have hurt itself more. In this vein, the inability to respond in the home market of their competition puts domestic firms at a competitive disadvantage versus MNC

subsidiaries. This is true only if MNC subsidiaries are centrally controlled and coordinated from headquarters. However, the drawback is a reduction in flexibility [12, pp. 16, 17].

Operating as semiautonomous firms, the entrepreneurial flexibility and innovation of national subsidiaries enable them to identify market needs and requirements and respond to them quickly. Since national subsidiaries operate autonomously and most of their activities are carried out on a local basis, unlike global firms, they are not affected by the extreme fluctuation of currency exchange rates. Among the firms that have followed this strategy are European firms such as Unilever, Philips Electronics, and Nestlé.

Global Integration Strategy

To capitalize on the economies of scale and to take advantage of the diverse opportunities for cost reduction that the global market provides, the choice of strategy is global integration. Following a global integration strategy, MNC production and distribution facilities expand over national borders in a network of specialized operations. Firms using a global integration strategy capitalize on the similarities among the national markets and sidestep the differences. Global integration can be based on product or process specialization [12, pp. 12, 13]:

Product Specialization MNCs using product specialization produce only part of a common global product range in each country. Each foreign subsidiary, however, offers a complete range of products in its national market. Through intrafirm trade, each subsidiary imports from other subsidiaries what it is not producing and exports to them its specialized outputs.

Process Specialization The process specialization involves a multistage manufacturing process, where each subsidiary produces certain parts and components for a common product or product range. American semiconductors have used this strategy by farming out to border plants in Mexico and the Far East.

Global integration benefits are realized through cost reduction by, for example, locating manufacturing facilities where costs of doing business are low. The emphasis on cost may come at the expense of flexibility and responsiveness to national markets. By using a global integration strategy, the MNC is compelled to find a mix of products for all its foreign markets. Standardization of products among its subsidiaries does not allow for customizing products to national criteria and tastes.

To take advantage of the large-scale operations that provide for economies of scale, manufacturing operations are centralized. The manufacturing concentration increases intercompany product shipment. If the pattern of intercompany shipments (trade) causes a country to be the net importer, it could raise the risk of host government intervention. Similar efforts to improve efficiency through centralization of R&D activities may raise the same risk. Also, large-scale centralized operations expose the MNC to foreign currency exchange risk [16]. Although MNCs face certain risks by concentrating on manufacturing and R&D activities, in general, the benefits outweigh the associated risks. Caterpillar, IBM, and Brown Boveri have relied on global integration strategies.

Transnational Strategy

An attempt by MNCs to combine the benefits of global integration and host country focus strategies brings about a transnational strategy. In choosing a combined transnational strategy, the MNC intends not to be committed to the extreme positions of global integration and host country focus. Both extreme strategies have certain shortcomings. As noted, the global integration foregoes the flexibility of the host country focus, whereas the host country focus does not enjoy the economies of scale and efficiency of global integration. A transnational strategy aims to combine both features and, therefore, enables the MNCs to decide each major situation based on its own merits and plan accordingly. For example, faced with a saturated market for soup in the United States, Campbell Soup is expanding abroad with locally responsive strategies. In Argentina, it offers split pea with ham; for the Chinese, it has a watercress and duck-gizzard soup; and in Mexico, it is selling Crema de Chile Poblano [18]. These locally developed products are supported by the vast marketing and financial resources of the headquarters office.

The transnational strategy is ambiguous compared with the clarity of the other two strategies. It is an option when there is no clear-cut preference for either global integration or host country focus strategies. It attempts to trade off the costs and benefits of the other two strategies on a case-by-case basis to maximize the overall results [12, p. 214]. Some situations may call for a host country focus strategy, with limited opportunity for global integration. Other situations may allow global integration, with moderate responsiveness to the host government's demands. Maintaining some manufacturing and R&D facilities and forming joint ventures with domestic firms in each country, for example, could satisfy host government demands yet allow for corporate-wide integration.

The transnational strategy requires a coordination capability: the ability to respond quickly to changing situations and to shift different aspects of the operation among countries when circumstances change. If interventions by host governments create unacceptable conditions, the MNC should have the alternative of shifting its priorities between national subsidiaries. It also calls for a close working relationship between the managers of national subsidiaries and host government officials. Headquarters, therefore, has to rely on the managers of national subsidiaries and permit their involvement in major decisions. Because of their working relationships with the local community and host government officials, these managers are in the best position to assess the need for local responses.

To benefit from the global resources of the MNC, the worldwide operations should be integrated. Integration, however, requires a global perspective and specialized resources [12, p. 214]. Local managers very seldom concern themselves with a global perspective. Similarly, specialized resources, such as a global marketing staff and manufacturing specialists, are more readily available at headquarters. Therefore, a close and supportive relationship between the subsidiaries and headquarters will improve overall corporate performance. At first, this may sound like an easy and acceptable choice. Closer scrutiny, however, reveals that it can cause problems. National subsidiaries may not be aware of, or willing to consider, the ramifications of their recommendations on the rest of the MNC operation. Or they may out of hand reject alternatives that would enhance overall corporate performance but would require a sacrifice on their part.

Chapter Summary

The strategy formulation and implementation process is a plan of aligning organizational goals with the environmental situations and requirements and the attempts to achieve these goals. The difference between the strategic planning process in a domestic firm and that of an MNC is the complexity and uncertainty of the international environment. The more demanding, complex, and uncertain the situations are, the more challenging is the strategy process.

The additional complexity, uncertainty, and challenge of international management are due to several factors, including political and legal differences; competition from local businesses, host government agencies, and other MNCs; and the involvement of the host government in business. In this chapter, we discussed the role of host governments and elaborated on the relationship between the host governments and MNCs. This relationship is portrayed as mutually beneficial and interdependent. We learned that host governments are concerned that their relationships with MNCs may lead to dependency and loss of their sovereign power. Therefore, host governments attempt to influence the operation and strategies of MNCs so as to serve their own national priorities. Consequently, MNCs employ various methods in their governmental relationships. Variations among these methods are a function of industry characteristics and the bargaining powers of the MNCs and the host governments.

The MNC strategic choices were presented in the form of four MNC strategies: international, global integration, host country focus, and transnational. We learned that industry characteristics and host government domestic policies may determine the appropriateness of each generic strategy. For instance, a global integration strategy may be effective in an industry where consumer preferences and tastes do not vary across national borders and standardized products could be sold in all markets. Also, a global integration strategy could be effective when host government involvement in the industry is at a minimum.

Besides the differences due to environmental situations, the cultural differences across countries create additional difficulties for international managers. Although the strategy is a response to environmental changes and challenges, the formulation process depends on cultural values and assumptions. Since the essence of strategy formulation is perceptual and intellectual, international managers with different cultural backgrounds approach their jobs from different mental frameworks. In this vein, there are differences between the Eastern and Western strategy formulation process. A simple way to explain this difference is by the use of analogies. Cooking practices among Americans and Japanese reflect their differences in thinking and relating to the environment. There is a tendency for Americans to adhere as precisely as possible to the recipe. People of other cultures, including the Japanese, cook more by playing with the ingredients and cooking techniques as the situations demand. The Japanese tendency for situational conformity is reflected in all aspects of life, including the work life. When a Japanese manager needs to get out of office for a while, all he or she has to say to the staff is "yoroshiku tanomu," meaning "do as you think fit." The staff would keep on working without needing any other instruction. An American counterpart usually provides specific instructions for the staff before leaving the office [19].

Discussion Questions

1. Describe the qualitative and quantitative difficulties that a firm faces as it goes international.
2. Why is there a love-hate relationship between host governments and MNCs?
3. Why have some developing countries expressed disappointment with MNCs?
4. What are the host country's major concerns when dealing with MNCs?
5. Elaborate on the argument that the relationship between a host country and an MNC is shaped by their relative bargaining powers.
6. Host countries use direct and indirect measures to influence MNCs' strategic and operational decisions. Give an example of each.
7. MNCs could handle host government relations in four different ways: the centralized-fixed approach, the centralized-flexible approach, the decentralized approach, and the decentralized-centralized approach. Briefly describe each approach.
8. In their competition with domestic firms, MNCs may enjoy a superior position. What are the sources of their superiority?
9. Under what conditions could a global integration strategy be effective?
10. What are the differences between the transnational strategy and the host country focus strategy?

References

1. Ihlwan, M. (2006, July 3). Camp Samsung. *Business Week,* 46–47.
2. Solomon, J. (2002, June 13). Back from the brink, Korea Inc. wants a little respect. *The Wall Street Journal,* A12.
3. Holstein, W. J. (2002, April 1). Samsung's golden touch. *Fortune,* 89–94.
4. Choi, H. W. (2002, March 22). Korea's Samsung seeks a bit more worldwide. *The Wall Street Journal*, A13.
5. Bedeian, A. G., & Mintzberg, H. (2002). In memoriam: H(arry) Igor Ansoff (1918–2002). *The Academy of Management News, 33*(4), 7–8.
6. Ansoff, H. I., & McDonnell, E. (1990). *Implanting strategic management*. New York: Prentice Hall.
7. Ghemawat, P. (2001). Distance still matters. *Harvard Business Review,* September, 137–147.
8. Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies, 41*(9), 1460–1480.
9. Encarnation, D. J., & Wells, L. T., Jr. (1986). Competitive strategies in global industries: A view from host governments. In M. E. Porter (Ed.), *Competition in global industries* (pp. 267–290). Boston: Harvard Business School Press.
10. Glain, S. (2006, May 26). A tale of two Chinas. *Smithsonian, 37*(2), 40–49.
11. Mahini, A., & Wells, L. T., Jr. (1986). Government relations in the global firm. In M. E. Porter (Ed.), *Competition in global industries* (pp. 291–312). Boston: Harvard Business School Press.
12. Doz, Y. (1987). *Strategic management in multinational companies*. Oxford: Pergamon Press.
13. Steenkamp, J. B. (2014). How global brands create firm value: The 4V model. *International Marketing Review, 31*(1), 5–29.
14. Hongo, J. (2014, Aug 11). McDonald's Japan bans smoking in its restaurants. *The Wall Street Journal.*
15. Levitt, T. (1983). The globalization of markets. *Harvard Business Review, May–June,* 92–102.
16. Bartlett, C. A., & Ghoshal, S. (1992). *Transnational management*. Homewood, IL: Richard D. Irwin.
17. Contractor, F. J. (1990). Contractual and cooperative forms of international business: Towards a unified theory of modal choice. *Management International Review, 30*(1), 31–54.
18. Engardio, P. & Weber, J. (1993. March 15). Campbell: How it's M-M-Global. *Business Week,* 52–54.
19. Iwata, R. (1982). *Japanese-style management: Its foundations and prospects*. Tokyo: Asian Productivity Organization.

International Strategic Alliance

7

Chapter Outline

Because of globalization and increasingly intertwined global business environments, international business operations have become an expensive complex process. It has necessitated many firms to appropriately adjust and coordinate value-creation activities (e.g., manufacturing, R&D, marketing, and distribution) depending upon the host country environments (e.g., regulations and local market competition). Before firms take the plunge into a global business, they estimate the cost of adjustment and coordination. During this process, firms may discover that they don't encompass all the necessary capabilities internally to make the adjustment and perform their

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_7

activities. To overcome this, firms may seek partners and form an alliance to share resources, technology, and even the risk of operations.

Overview

Chapter Vignette
"…The number of electric vehicles on the road rocketed to 2 million in 2016 after being virtually non-existent just five years ago, according to the International Energy Agency [1]…."

In 2014, Tesla Inc., an American electric vehicle (EV) manufacturer, has announced an alliance agreement with Panasonic to manufacture battery cells [2]. The two companies are jointly investing in a new $5 billion battery production facility (i.e., Tesla Gigafactory) where the companies intend to work together to integrate battery precursor material, cell, module, and battery pack production at a site near Reno, Nevada. Previously, Tesla buys battery cells from Panasonic in Japan which ships them to Tesla's factory in California. However, as demand of electric cars increases (e.g., Model 3: as of Spring 2016, nearly 400,000 people preordered to buy the Model 3 [3]), Tesla faces at least two critical hurdles that make the business model of importing batteries from Japan and assembling them in the factory costly to maintain: (1) mass production of electric vehicles and (2) delivery of assembled vehicles to customers in a timely manner. But the Joint Venture agreement between Tesla and Panasonic allows Tesla to reduce manufacturing costs since Panasonic puts a huge amount of capital resource into the Gigafactory for installation of its own production equipment and management of its own employees. In addition, the acquisition of NUMMI (New United Motor Manufacturing Inc., formerly known as a joint venture between GM and Toyota) in 2010 enables Tesla to achieve economies of scale in the production of electric vehicles which in turn allows the company to meet increased demand of new electric vehicle (e.g., Model 3).

Firms engage in strategic alliances for any value-creation activities including manufacturing product parts, final assembly, developing new technology (research and development), and marketing/commercialization. However, managing strategic alliance portfolio (i.e., the combination of all strategic alliances of a firm) is challenging, since the firm has a line of alliance partnerships with multiple different partners for different value-creation activities [4]. *First*, Tesla's former alliance partner Toyota (right before the acquisition of NUMMI), for instance, is a direct competitor of Tesla where the two produce EVs. Tesla, having its core competencies in production systems and engineering technology for electric vehicles [5], provides patented electric powertrain components for Toyota's electric vehicle development. However, given the nature of competition in the same EV market, it was also necessary for Tesla to monitor the powertrain component assembly in Toyota in order to reduce potential risks of technology leakage. *Second*, firms should not be myopic about the alliance portfolio management. Tesla had multiple alliances with different partners for different purposes (e.g., battery production and assembly). And each alliance is not mutually exclusive but complements each other in manufacturing

EVs. Thus, it is critical to combine alliance strategies (as a portfolio) to generate the overall value for a firm. *Finally*, to make firms' alliance portfolio sustainable, firms have to make sure that each alliance is a win-win deal that yields a reasonable amount of economic value to them. Otherwise, alliance partnerships can be breakable before achieving mutual goals. Because of the alliance agreement between Tesla and Panasonic, Tesla now has a capability to produce lithium-ion batteries and is able to promptly respond the increased demands. But also Panasonic can leverage its partnership to gain general information about the interplay between battery technologies and electronics. And this, in turn, allows Panasonic to attract other EV manufacturers than Tesla and increase market share.

Introduction

The unpredictable directionality of technological development and radically changing technology in the face of fourth industrial revolution has significantly changed the landscape of international business. It is more challenging for firms to do international business because of this uncertain environment. And it is not anymore guaranteed a business sustainability, because firms, regardless of their size, do not encompass the entire range of capability to cope with this continuously changing environment. Therefore, the need to ally with partners, even with international partners, has become more imperative.

However, because of inherently challenging nature of alliance, managing the interfirm relationship in an alliance while achieving mutual goals is not an easy task. As described in the chapter vignette, each partner, Tesla and Panasonic, pools distinctive resources (e.g., battery cell technology and EV engineering technology) into the alliance for mutual benefits. But integrating each unique resource to achieve a better innovation performance entails intensive inter-partner collaboration and combinatorial capability. In addition, it is quite common to ally with direct competitors; yesterday's competitor can become today's alliance partner and vice versa. It is sometimes necessary for each alliance partner to monitor a partner's task and activity and be able to control alliance partnership through an appropriate alliance governance mode (e.g., an equity-based mode such as equity joint venture vs. non-equity-based mode: licensing and contract manufacturing). As such, organizational ambidexterity which allows alliance partners to monitor and control alliance partnership while tapping into unique resources is essential to maximizing the benefits out of the alliance.

Given these critical aspects of alliances, this chapter covers two closely related topics: (1) the choice of alliance mode and (2) alliance performance-enhancing strategy (e.g., alliance portfolio strategy). To begin with, the next section describes the basics of strategic alliance such as motivations of alliance formation, types of alliance, and challenging issues in strategic alliances. And then, differences between equity-based versus non-equity-based alliances and factors affecting the choice of alliance mode in the context of international business will be followed. The final topic of this chapter is alliance portfolio strategy to enhance performance.

General Understanding of Strategic Alliance

What Is Strategic Alliance?

A strategic alliance can be defined as "a relatively enduring inter-firm cooperative arrangement that utilizes resources and/or governance structures from autonomous organizations [6]." Strategic alliances include equity joint ventures (EJVs), licensing agreements, distribution and supply agreements, research and development (R&D) partnerships, co-production agreements, franchising, and technical exchanges.

Its type may vary broadly depending upon:

1. The degree of interorganizational dependence in terms of resource (e.g., financial, human capital, and intellectual properties such as technology, trademark, trade secret/formula, and know-how).
2. The complexity of alliance task coordination and inter-partner interaction.

Figure 7.1 shows examples of alliance types [7].

- **Technical Training:** It is a type of alliance in which a firm provides technical training service/program to a trainee firm in a short duration. And usually, the technology or training service provider is compensated with a lump-sum service fee. The technical training agreement is commonly used in high-tech industries (e.g., telecommunication and aircraft) where knowledge transferring and skills learning are involved in the manufacturing process and product. For instance, due to the technological and technical complexity of operating aircraft, Boeing provides technical training services including maintenance training service and engineering support to airline operations.
- **Contract Manufacturing/Assembly Agreement:** It is associated with the outsourcing of manufacturing/assembly of products. A contract manufacturer with its own manufacturing capability designs and builds a product on behalf of customers. By outsourcing product manufacturing/assembly to contract manufacturers, customers can quickly achieve economies of scale (i.e., mass production)

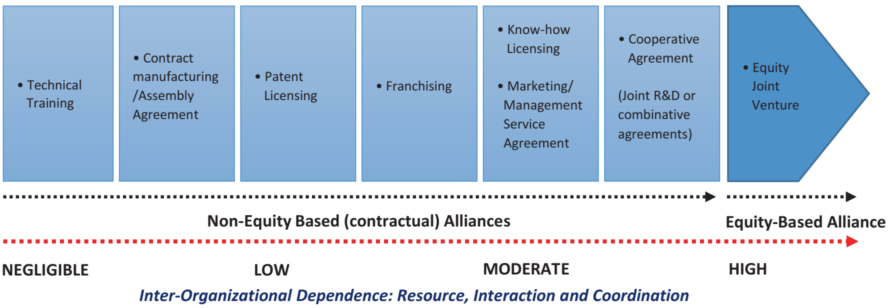


Fig. 7.1 Types of alliances

while reducing production costs and then better respond increased demands. A notable example of contract manufacturing agreement is between Foxconn and apple Inc. Foxconn (based in Taiwan), as a contract manufacturer of apple, has a facility with technologically advanced workflow and processes to match Apple's sleek equipment designs and supplies manufacturing services. And the degree of interorganizational interaction under this contract is hypothetically (not empirically tested) low because customers (e.g., apple Inc.) just outsource the manufacturing and rely on contract manufacturers. Thus, customers might not be aware of what's actually going on in the facility of suppliers [8].

- **Patent Licensing:** Patent/technology licensing is widely used in high-tech industries such as biopharmaceuticals where a licensor grants a licensee the right to use and distribute (e.g., sell and sublicense) its technology as a patent. Not only does patent licensing allow the licensee to get access to unique technology, but it also helps reduce R&D investments. In addition, it allows the licensor to maximize the returns on its R&D investments in the way that the licensor initially can get a lump-sum payment (i.e., licensing fee) from the licensee as well as a royalty payment based on post-license performance (e.g., milestone achievements: Development of new technology by using licensed technology and/or increased sales). And the degree of dependence between two parties is low to moderate depending upon the complexity of licensed technology.
- **Franchising:** Franchisors grant franchisees the right to use a package of business services including trademark/logo, trade secret, management (e.g., organizing, operating, and training), and merchandising. Usually, franchisees pay an initial franchise/signing fee as well as a royalty as a percentage of their revenues (e.g., gross sales) or profits. Given the financial benefits and relatively low financial risks, franchising allows a firm to expand its business quickly across geographically diverse markets. And to be successful, it is critical to establish a communication/interaction channel between the franchisor and franchisee through which the franchisor can monitor and control the quality of business operations of the franchisee, and the franchisee can provide feedback to the franchisor if its business model works well. Franchising is widely used in the food/drink and hospitality industry; a typical example of franchise includes McDonald's, Dunkin donuts, and Hilton international. However, it is hard to distinguish whether a business chain is franchised, licensed, or company-owned because firms prefer to use a mixed alliance strategy in order to be able to better respond challenging global business environments. McDonald's, for instance, opened 73 restaurants in Russia in 2016 [9]. Of those, 65 are company-owned (not franchised). And Starbucks stores which have long been company-owned or some of them licensed are now franchised in a certain country like London, UK [10].
- **Know-How Licensing:** Know-how licensing is different from patent licensing in a way that know-how licensing is associated with "tacit" knowledge which is not simply codifiable, imitable, and teachable [11]. Thus, the knowledge transfer process (in terms of teachability and learning) becomes more difficult, protracted, or even uncertain as the tacitness of knowledge in licensing contract increases. To access deeply embedded or tacit knowledge in a partner firm

(i.e., licensors), a more intensive interorganizational interaction and tighter scheduling of task coordination are highly required. However, a caveat is that uncertainty may increase at the negotiation stage since tacit assets and proprietary knowledge are more difficult to value by the prospective partner seeking access to such knowledge, and the prospective knowledge acquirer (e.g., licensees) suffers informational asymmetry [12].

- **Management Service Agreement:** A management service contract is a long-term agreement of up to 10 years or even longer (unless terminated early), whereby a management service provider provides a partner a broad scope of business operating services including day-to-day management/operation (e.g., human resource management), fiscal/procurement (e.g., finance, accounting, and budget), marketing/sales, and business consulting service. A management service fee is usually based on a percentage of revenue, or a lump-sum payment can be made to the service provider. And since the service includes day-to-day management operation consulting services, the degree of inter-partner interaction and task coordination is relatively high. An example of management service agreement can be found in the hospitality industry, where legal owners of the property and real estate enter into a contract with the hotel firm to run and operate the hotel on a day-to-day basis, usually under the latter's internationally recognized name [13].
- **Cooperative Agreement:** Cooperative agreement refers to non-equity-based contractual agreements (without the creation of a legal entity) between partners for joint activities such as coproduction and joint R&D (joint research and joint development). And the goal of the cooperative agreement is to share the cost and risk of production and R&D. For example, companies can reduce manufacturing costs through a co-production agreement, whereby each partner is responsible to produce a specific product (or part). In the case of joint R&D, both partners can share the costs and risks of R&D by pooling diverse resources (e.g., financial resource (R&D funds), research data, information, and materials) to the alliance. As long as partners jointly interact for an R&D project and share a broad scope of resources, the degree of interorganizational dependence of cooperative agreement is high compared to other types of non-equity alliance introduced above. In addition, the degree of inter-partner dependence of a certain type of cooperative agreement (i.e., a combinative agreement) is very high: A more complex type of cooperative agreement used in today's business world that combines multiple agreement components (e.g., licensing plus joint R&D plus marketing/commercialization) in one alliance contract [14].
- **Equity Joint Venture:** As opposed to a contractual (non-equity-based) alliance, equity joint venture (EJV) refers to the creation of an independent legal entity by two (or more) partnering firms. Partners usually pool complementary resources to pursue common business goals and objectives of a venture. And due to its organizational embeddedness (i.e., hierarchical organizational structure), the partners can have the greatest degree of interaction [15]. Moreover, since it is a legal entity of multiple partners, they share resources (e.g., tangible and intangible assets), profits and losses, as well as certain elements of the management and control of the venture.

What Are the Motivations for Strategic Alliances?

There are various motivations for strategic alliance formation. Firms may form an alliance to:

- **Reduce risk and cost of R&D.**
- **Achieve economies of scale.**
- **Get access to unique resources (e.g., technology).**
- **Overcome (international) investment barriers.**
- **Facilitate international expansion.**
- **Gain advantages of vertical quasi-integration.**

First, technological knowledge (or technology itself) is a basic resource of competitive advantage, particularly for firms in high-tech industries. However, due to the complex nature of applied science and complexly intertwined technologies, developing a new technology has become more costly and uncertain. Firms can access external/unique technology owned by alliance partners and then use it as a springboard to reduce their next-generation R&D costs. In addition, as long as firms pool a broad scope of resources (e.g., financial and technological resource) in the alliance, alliance partners can reduce costs and risks of R&D. *Second*, firms can quickly achieve economies of scale through alliance collaboration. As described above, a contract manufacturer (aka supplier) has its own manufacturing facility and capability to produce a significant amount of products. By outsourcing the manufacturing activity, firms can alleviate the need to have their own manufacturing plant and thus reduce manufacturing costs, as well as quickly achieve economies of scale. For instance, mass production of *Microsoft Surface* tablet was possible because of a contract manufacturing agreement with Taiwan-based Pegatron [16]. *Third*, firms can overcome investment barriers through alliances. In international business, firms may face investment barriers such as excessive regulations on foreign direct investment (e.g., ownership restriction), red tape, and local bureaucratic practices. These institutional barriers limit foreign firms to access the local resources such as local market knowledge and collaboration network with local firms (e.g., suppliers, buyers, and distributors). To overcome this, foreign firms may form a joint venture with a local partner. A partnership with a local partner enables the foreign firms to access the resources of the local partner and allows them to utilize local partner's network with suppliers/buyers or even government [17]. *Fourth*, foreign firms may facilitate international expansion by allying with a local partner, particularly when they are not familiar with local market environments (e.g., cultural, institutional, and economic environment). An alliance with local partners allows foreign firms to gain local market legitimacy and reduce local market uncertainty. *Finally*, firms can gain advantages of vertical quasi-integration through alliances. The concept vertical quasi-integration refers to the vertical integration of value-creation activities without the rigidity of ownership (e.g., acquisition). For instance, firms in the pharmaceutical industry where R&D activity is vertically disintegrated (i.e., R, drug discovery, and D, clinical trials) oftentimes ally with biotech firms; pharmaceutical firms access complementary biotechnologies, while biotech firms lacking clinical practice (due to their tendency to focus on drug discovery) leverage the diverse R&D value-chain experience of pharmaceuticals. This tends to be a feasible way to transform biotechnologies into a drug which can be commercialized. Without this collaboration, a biotech firm alone would unlikely be turned its drug candidates into medicines.

Succeeding in Strategic Alliances

Allying with partner firms is not a onetime irrevocable decision. But rather, it is a collaboration agreement that evolves over time depending upon its partner relationship, changing environments, and emergent contingencies. To be successful, it is important for firms to evolve their alliance strategy because of today's challenging business environments (e.g., increased global competition, radically changing technology, and uncertain/unstable market environment).

Challenging Issues and Risks of Strategic Alliance

Strategic alliances, as long as multiple partners involved, are inherently challenging. Sometimes potential risks outweigh potential benefits. And this may possibly lead to discontinuation of alliance collaboration. To be successful, at least two factors should be considered in any strategic alliance (see Fig. 7.2).

1. Challenging issues and risks of strategic alliances
2. Factors affecting the success of alliance (i.e., the area of intersection between two circles)

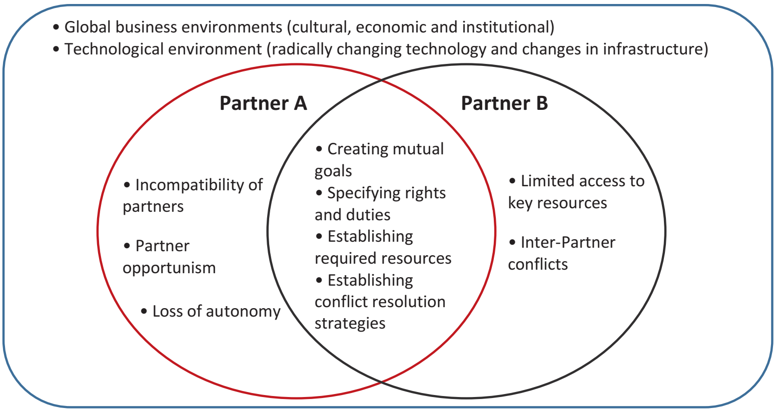


Fig. 7.2 Challenging issues and risks of alliances and successful factors

- **Incompatibility of Partners**

As we defined earlier, strategic alliances involve in collaborations between two or more partners. And each alliance partner, as an independent organization, has its unique organizational culture, operating styles, and core competencies and thus pools special yet complementary resources into an alliance. However, incompatibility of partners in terms of corporate culture, resources, and goals for alliance might lead to the failure of such alliance agreements. For example, the joint venture agreement between Tesla Inc. and Panasonic can be vulnerable in the long run because of incompatibility of expectations for alliance; the goal of joint venture for Tesla is to leverage battery pack technology and manufacturing capability of Panasonic, whereas Panasonic would like to potentially increase battery cell production and its market share as demand for battery pack of EVs has increased.

- **Partner Opportunism**

Partner opportunism refers to "behaviors by a partner firm that is motivated to pursue its self-interest with deceit to achieve gains at the expense of the other alliance partners [18]." In a case of joint R&D collaboration, one of the goals of the alliance is probably to gain access to unique technology owned by an alliance partner. However, an alliance partner realizing and knowing the value of technology may now want to internalize/acquire the technology as opposed to their initial alliance contract and modify/reconfigure it for its own purpose or use. And when the risk of technology/know-how appropriation is high, it increases monitoring and administration costs of the alliance. Moreover, if self-interests of a partner smudge the mutual benefits of the alliance, inter-partner trust can be eroded. As a consequence, it may reduce the likelihood of successful alliance collaboration performance.

- **Loss of Autonomy**

Alliance partners share resources, risks, costs, and profits (especially in the case of equity joint venture). And both partners are interdependent with each other especially for performing joint tasks, because each partner focuses on assigned tasks where it has its own specialized resources and competitiveness. Moreover, joint planning and joint decision-making throughout the performance of joint tasks may result in a loss of autonomy [19]; no partners can unilaterally control the tasks. A certain degree of autonomy is important to achieve a better alliance performance [20] because it grants each partner an operational and strategic flexibility allowing partners to enhance knowledge building through stimulating creativity. Nevertheless, granting autonomy to alliances should be carefully done. Partners may be sometimes unwilling to grant decision-making autonomy in order to protect their proprietary technologies/ know-how and to prevent opportunistic behaviors of partners who can further utilize those proprietary technologies for their own purpose if a certain degree of autonomy was granted.

- **Limited Access to Key Resources**

One of the challenging decisions that alliance partners sometimes have to make is whether to share their key resources (e.g., know-how, market knowledge, and core technology) or, once they have made that decision, then, the degree to which alliance partners grant access to the key resources. And if there was a limitation to access critical resources (due to the variation in value of the resources: the higher the value of a technology, the more likely is it that the partner limits the access to the technology), it may possibly change the bargaining power of an alliance partner and increase the likelihood of alliance instability [21]. For instance, each partner of a Sino-US joint venture pooling different types of resources (e.g., American partner, product/process technologies, production know-how, and management techniques vs. Chinese partner, local distribution networks, local suppliers, and local market knowledge) has a different level of access to key resources. It was relatively easier for the American partner to access and learn about local markets, while it was much more difficult for the Chinese partner to access resources and learn from its partner because of explicit measures taken by the American partner to protect its proprietary technologies [22].

- **Inter-Partner Conflicts**

Inter-partner conflicts may arise anytime in alliance collaborations for various reasons. A misfit across organizational cultures, the purpose of alliance agreement (not always completely congruent), resources contributing to the alliance, and managerial practices (e.g., decision-making styles and organizational routines) is one of the significant reasons for inter-partner conflicts, because these organizational and operational differences between alliance partners necessitate continuous negotiation and coordination. In addition, partner opportunism triggered by incompatibilities between private and common goals contributes to inter-partner conflicts. And inter-partner conflicts lead to distrust, reduce the level of alliance collaboration, and thus hamper alliance performance. Given this, it is critical for alliance partners to have a conflict resolution mechanism and a sense of mutual trust and commitment to each other in order to be more successful [23].

Factors Affecting the Success of Alliances

- **Creating mutual goals:** Due to their organizational incompatibility, relational susceptibility, and the likelihood of inter-partner conflict, strategic alliances are hard to succeed. To overcome these challenges and to be successful, it is critical to clearly set mutually shared goals (e.g., the intersection area of two circles in Fig. 7.2). Clear understanding of mutual goals through in-depth interactions between alliance partners helps build trust/mutual commitment and thus may reduce the probability of inter-partner conflict. In addition, it is also important to continuously reveal and update goals for the alliance, because strategic goals of alliance may change over time.

- **Specifying rights and duties on the contract:** To minimize behavioral uncertainty and potential inter-partner conflict and better achieve the joint value creation, specifying rights and duties of each partner on the contract is critical. The more the unspecified roles and responsibilities of partners on the contract, the more likely is it to increase control and coordination costs, reducing the efficiency of the alliance [24]. However, alliance negotiators should know that it is costly to draft more detailed (specifying rights and duties) contracts due to the unavailability of information at the time of contracting; when writing up a contract, alliance partners might not envisage all possible future contingencies. Moreover, it is also important to note that a relational-contract may reduce the need for more detailed contracts. Contracts can be less detailed or less complete when partners have already built trust from their prior alliance experiences [25].
- **Establishing required resources:** Once the mutual goals are agreed and duties/responsibilities specified, each partner should provide required resources for the alliance. When it comes to establishing required resources, alliance partners need to consider the following points. First, it is important to sustain mutual dependency since alliance partners pool complementary resources; if resources pooling into an alliance were too similar or overlapped, it would possibly reduce inter-partner dependency lowering the likelihood of successful alliance performance. Second, the assignment of required resources is critical for the success of alliance collaboration. Unsuccessful assignment of resources may limit or restrict a partner's potential to influence the implementation of alliance tasks [26].
- **Establishing conflict resolution strategies:** An effective conflict resolution strategy can improve the sustainability of inter-partner collaboration and alliance performance. To deal with conflicts, there are various conflict resolution strategies: Problem-solving (seeking mutually satisfying solution), compromising (seeking middle point), accommodation (accepting partner's perspective), forcing (forceful acceptance of solution), and legalistic (contract law) strategies [27]. And it is important to use an appropriate conflict resolution technique depending upon the types of conflict. For instance, a problem-solving strategy may better resolve the inter-partner relational as well as task conflicts than an accommodation because the accommodation strategy accepting counterpart's perspective reduces only the relational conflicts, not task conflicts [28].

In addition to those challenging issues mentioned above, global business environments make strategic alliances even more challenging and risky, because allies have to collaborate and operate under the culturally, economically, and institutionally different business environments. Immediately below, the next section will cover challenging issues of international strategic alliances and alliance governance mode choice strategy.

International Strategic Alliance and Alliance Governance Mode Choice

When it comes to international alliances, it is critical for alliance partners to understand national-level environments in which they collaborate and operate their alliances. Because of cultural difference between alliance partners, it is not always easy to communicate and collaborate and thus expect successful alliance collaboration. In addition, countries vary in terms of institutional environments where different rules (or regulations or levels of intellectual property protection) and contract laws are applied to international alliances. For instance, in a case of R&D collaboration with international partners, an alliance partner who owns proprietary technologies can never expect the same level of intellectual property protection as its home country; certain developing countries provide a weak intellectual property protection law. As such, understanding national environments before firms embark on international alliances is important for their successful alliance collaboration.

In general, the similarity in national, cultural, economic, and institutional environments between alliance partners increases the likelihood of successful alliance collaboration [29]. For example, the cultural proximity between alliance partners reduces misunderstanding, partner uncertainty, and the likelihood of conflicts and thus promotes interaction. Then the question is how alliance partners successfully collaborate when there is a significant difference between partners in terms of national-level environments. Firms by choosing an appropriate alliance mode (among those different types of alliances described in Fig. 7.1) respond these national-level environments and effectively manage alliances. Figure 7.3 illustrates national factors affecting the choice of international alliance mode.

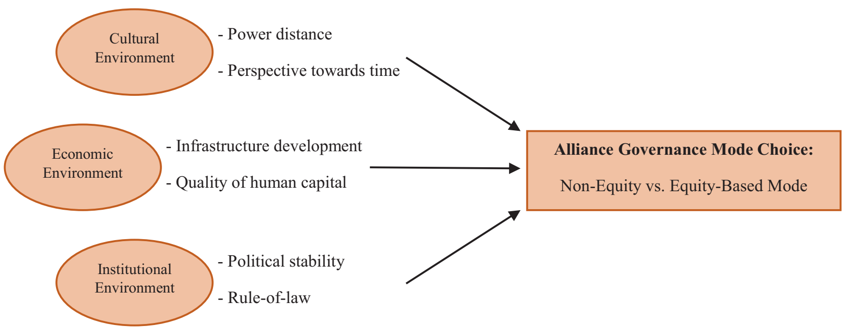


Fig. 7.3 National-level environments affecting the choice of international alliance governance mode

Cultural Environment

As described earlier in Chap. 3, there are at least six different dimensions of culture. Among these six, power distance and long-term orientation (i.e., perspective toward time) are particularly akin to the choice of alliance governance mode. These two dimensions and their relevance to the strategic alliance are discussed below.

Power distance is referred to as the extent to which the members of a society expect power to be distributed equally in organizations and institutions. Firms from high-power-distance countries, accepting inequality and hierarchy of power in the organization, prefer to have greater control in interorganizational relationships and seek more organizationally integrated (or equity-based) modes such as EJVs. On the other hand, firms from low-power-distance countries are more open and willing to work as a group or a team for a certain project without formally integrating rules or hierarchies [30]. With greater power distance between alliance partners (when firms from low-power-distance countries form an alliance with partner firms from high-power-distance countries), those allies prefer more organizationally integrated modes in order to better monitor and reduce the partner opportunism.

Perspective toward time (i.e., long-term vs. short-term orientation) is referred to as the degree to which individuals' actions are driven by long-term/short-term goals and results and the need for long-term/immediate gratification. Firms from a long-term orientation culture, that focuses more on future interactions and rewards, perceive more clearly the shadow of the future, as opposed to those with a short-term-oriented organization which tends to be more opportunistic and less likely to build long-term interfirm trust in an alliance. Hence, with a greater difference in the time perspective, alliance partner firms prefer a less-integrated or more flexible alliance governance modes (i.e., non-equity-based modes) where the investment is lower and where consequences of opportunism are less onerous (compared with say the dissolution of an EJV that necessitated a large up-front investment in capital and personnel). Non-equity-based modes are in that sense more flexible/reversible or can be terminated with lower costs or consequences [14].

Economic Environment

Economic environments affect international alliance collaborations. It would be hard to expect a high quality of alliance collaboration if there was a variance in levels of infrastructure development and the quality of human capital between the nationalities of alliance partners.

Infrastructure development of a country as part of economic environments is important for alliance collaborations. For instance, innovation infrastructure provides resources for innovation activity. And firms are more likely to collaborate internationally for their R&D in those nations with a developed innovation infrastructure [31]. However, if there is a gap in the level of infrastructure development between host and home country of alliance partnering firms, it increases transaction costs (e.g., technology searching cost) and uncertainty for R&D activities (e.g., accessing, transferring, and learning technological knowledge).

The quality of human resource (i.e., availability of skilled and educated workers) plays a critical role in international collaborations. A greater difference in the quality of human capital between the countries of partnering firms increases partner uncertainty and reduces the likelihood of in-depth collaborations due to the gap in the capability of understanding complex projects (e.g., technology innovation) at hand. If partner firms are from countries with widely different levels of human resource skills, it would not be prudent for them to increase their resource commitment through equity investments (e.g., EJVs). Instead, they are likely to choose a less costly alliance mode such as non-equity-based modes requiring a lower level of resource commitment and interaction (e.g., pure licensing: simply licensing out old technology to an international partner as licensee).

Institutional Environment

Political stability that contributes to a more predictable and stable policy helps sustain international alliance collaborations. For instance, Walmart decided to terminate the joint venture partnership with its Indian partner Bharti in 2013 due to the unpredictable/unstable FDI (foreign direct investment) regulations and enforcement that have made Walmart difficult to navigate regulations in India [32]. In general, foreign firms are more likely to rely on already legitimate local partners who have knowledge about rules and regulations and know how to cope with the politically unstable environment. And when the political environment is highly unstable and when the local government does not provide stable/consistent FDI policies, foreign firms may choose an equity-based mode (e.g., EJV) to minimize the uncertainties and risks while gaining legitimacy through the local partners [33]. Nevertheless, choosing an EJV is not always a panacea as we learned from the Walmart case. But it is important to evolve an alliance and business strategy over time after firms made the initial alliance mode choice decision.

Rule-of-law refers to the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, and the courts. And rule-of-law is one of important institutional criterion which is especially crucial for firms in knowledge-intensive industries where patents are key strategic assets and protecting intellectual properties is paramount. For instance, firms can use non-equity contractual alliance modes such as simple licensing for a technology transfer alliance collaboration. But it makes sense only when the market transaction cost (e.g., finding the ways to protect intellectual properties that include monitoring whether alliance partners use a counter party's proprietary technology opportunistically for their own purpose and safeguarding the contract) of licensing is low, where countries provide strong enforcement of contract law, regulations, and an intellectual property protection regime. However, when the difference in the institutional environment (in terms of rule-of-law) between countries of partnering firms is high, firms prefer a more organizationally integrated equity-based alliance mode (e.g., EJV) to non-equity-based modes (e.g., arm's length contract such as licensing) [14]. The reason for this is that an EJV provides a more effective mechanism in monitoring, controlling, and better protecting intellectual properties.

Other Contingency Factors

Besides these national-level environments, other contingency factors (e.g., industry factor: industrial knowledge intensity, and firm factor: technology diversity) also affect the international alliance mode choice, especially for the case of R&D alliance.

Industrial knowledge intensity refers to the degree to which firms in an industry focus on technology innovation activities. It is an important industry-specific factor that should be considered, particularly when firms engage in R&D alliances [34]. Countries vary in terms of R&D activity and concentration due to differences in the national innovation systems [35]. Because of well-developed innovation system such as innovation infrastructure, technology development policy (e.g., strong intellectual property protection regimes), better education system, and inter- and intra-industry collaboration networks, some countries provide more favorable environments for R&D activities than others and thus have location-specific advantages. Firms in a knowledge-intensive industry with a knowledge-seeking motive tend to locate their R&D activity in countries with similar levels of industrial technology development. And in a certain case, firms can promote learning and exchange of technological knowledge and create better fruits from their R&D alliance project by allying with a partner firm in the industry with a similar level of knowledge intensity to that of the home country and by increasing resource commitment through an equity-based mode (e.g., EJV) [14]. Both partners can reduce technology search and monitoring costs while protecting their core technologies. However, firms in high (low) knowledge-intensive industry involved in an R&D alliance in a country with low (high) industrial knowledge intensity can choose a non-equity-based mode (such as licensing) where the up-front commitment is lower than in EJVs and the consequences of dissolution of the partnership are less onerous.

Technology diversity refers to the dissimilarities between technological knowledge bases of the alliance partners. In general, there is a positive effect of the complementarities of the technological knowledge indicating that new products and new processes do not come from the combination of similar technologies but from the combination of different technologies. As such, a foreign firm can acquire complementary technology by allying with a local partner firm with a different technological basis. However, accessing, learning, and absorbing complementary technologies cannot be achieved easily as firms form an alliance. It requires absorptive capacity, as firms may not be able to benefit from complementary technologies when they lack technological capacity in related areas. Moreover, when the technological base difference between alliance partners is high, information asymmetries emerge which may lead to adverse selection (e.g., inappropriate technology can be chosen for their project) problems and thus increase relational uncertainty. In this case, firms can choose an equity-based mode to minimize relational uncertainty while facilitating understanding, learning, and transferring complementary technologies through a more organizationally integrated governance mechanism [36].

As just described, firms need to consider the multi-level factors (i.e., national, industrial, and firm) simultaneously when they engage in international alliance collaborations. But, due to the complexity of multi-level factors (all these factors are intertwined as business environments), there is no such thing as one-size-fits-all alliance mode choice strategy; the above-suggested alliance governance mode choice strategies (e.g., whether to choose a non-equity-based or equity-based mode) are not always consistent but rather contingent upon different types of value-creation activity such as manufacturing, marketing, and R&D. This means that multi-level factors may have different impacts depending on the types of value-creation activity. For instance, the cultural difference might have a very little or no impact on international manufacturing alliances because a manufacturing activity by nature is more standardized and formalized than R&D and thus requiring less in-depth interactions between alliance partners. A contract manufacturing agreement between Apple Inc. and Foxconn is an example of this case. Unlike the alliance mode choice suggestion mentioned earlier (i.e., the use of EJV when there is a cultural difference between partners in terms of power distance), Apple Inc. used a non-equity-based mode although Foxconn is a culturally different partner.

Managing Alliance Portfolios to Enhance Performance

Alliance Portfolio Strategy

As mentioned earlier in the chapter vignette, Tesla Inc. has allied with different alliance partners for various value-creation activities (e.g., manufacturing battery and final assembly). And the success (sustainability of business and long-term profitability) of Tesla depends not simply on a single alliance agreement but on the combination of all strategic alliances the firm has had. As such, it is strategically important for a firm to have alliance portfolio strategies for its long-term success.

Definition and Challenges of Alliance Portfolios

Strategic alliance portfolios can be defined as the sum of all types of strategic alliances that the focal firm is currently engaged in [37]. Like literally, a firm can have as many strategic alliances as possible depending upon its number of business units and value-creation activities in which it involves for alliances. And depending upon its motivations for alliance collaborations, alliance portfolios provide various opportunities to achieve their goals (e.g., 6 motivations described earlier). However, as it is a multiple collaboration with diverse partners, it is not simple at all in terms of selecting and negotiating with partners, managing an alliance, and implementing and monitoring alliance performance. Here are some of the challenging tasks of alliance portfolio management [38].

- **Portfolio Strategy**: Formulation of a portfolio strategy with implementation plans.
- **Portfolio Coordination and Resource Allocation**: To maximize its benefits, it is important to align multiple alliances for a primary joint goal.
- **Portfolio Monitoring:** This is to evaluate the contribution of the alliance portfolio to the focal firm's success and to initiate control measures (e.g., reconfiguring the alliance portfolio) if there are performance deficits.
- **Establishment of an Alliance Management System:** This is to institutionalize alliance management capability by developing learning mechanisms (e.g., articulating learning experience and codifying alliance management knowledge) and by formalizing and standardizing alliance management processes and tools. In this way, alliance portfolio managing experiences can be collected, shared and diffused throughout the organization.

The following cases (Fig. 7.4) illustrate the alliance portfolio management of a firm in the biopharmaceutical industry.

Background: The value creation of biopharmaceutical industry is highly diversified: research stage (drug discovery and preclinical (animal) test), development stage (Phase 1–3 clinical trials), and FDA (Food and Drug Administration) approval. And it takes on average 10 to 15 years to develop and commercialize a drug. Its average development cost (including the cost of failure) is $2.6 billion [39] (during the 2000s to early 2010s). The percentage of drugs entering clinical trials that end up resulting in an approved medicine is less than 12%. As such, developing a drug is highly risky and costly business. These conditions surge the need for strategic alliances, because firms, regardless of their size and age (new or old), cannot undertake the entire range of technology/technological knowledge needed to innovate increasingly complex drug products. Especially, in the areas with higher innovation risks (e.g., biopharmaceuticals), R&D alliances between diverse partners with various alliance contract arrangements are proliferated. Alliances in this industry are between domestic and international partners, small biotech-big pharmaceuticals, and firms-universities/research institutes and even between direct competitors (e.g., pharma-pharma alliances) operating in the same product market.

Vertex Pharmaceuticals Inc. which is known as a global biotech firm commercialized its first hepatitis C drug (Incivek®) in 2011. As can be seen from Fig. 7.4, Vertex has had multiple alliances with different partners for different value-creation activities (e.g., drug discovery and clinical trials). First, the firm allied with a pharmaceutical company, Eli Lilly, for research collaboration in 1997. Later in 2004, Vertex also allied with Japanese Mitsubishi Tanabe for the Phase 1 clinical trial. That was a combination of multiple deal components including license, clinical development, and commercialization agreement which allows Mitsubishi Tanabe to develop, commercialize, and distribute the drug across Asian countries. In 2006, Vertex allied with Janssen (a subsidiary of Johnson & Johnson) to conduct a complex later-stage clinical trial (e.g., Phase 2 entailing more complex study protocols

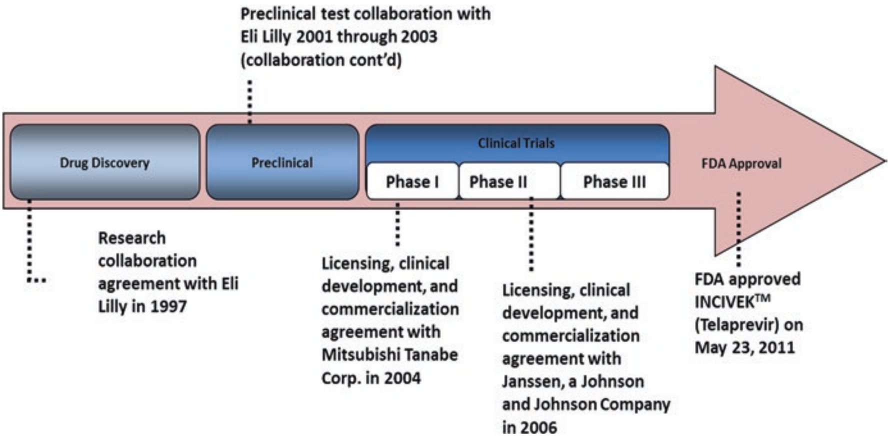


Fig. 7.4 R&D alliance portfolios of vertex pharmaceuticals

to prove the drug efficacy) and to commercialize the drug by utilizing the marketing capability of big pharmaceutical firm (i.e., Johnson & Johnson). This alliance between Vertex and J&J makes sense since it was its first drug development in hepatitis C. Vertex said on its 10-K annual report of 2007 that "We have limited experience in conducting and managing the late-stage clinical trials necessary to obtain regulatory approvals, including approval by the FDA." On the other hand, J&J as a generalist pharmaceutical firm has a broad scope of technology base and an entire range of R&D value-chain experience (i.e., drug discovery through clinical trials and FDA regulatory approval). Ultimately, this alliance allows Vertex to successfully get through all the challenging clinical trials and regulatory approval and finally commercialize the drug Incivek®.

As just described, Vertex had a successful alliance portfolio strategy that formulates the collaborations with multiple alliance partners to achieve a single goal (i.e., commercialization of a drug). And its coordination strategy (e.g., allying with an international partner, Mitsubishi Tanabe) allows the firm to diversify the markets internationally. In addition, Vertex was able to maximize the benefits of alliance with J&J by learning and absorbing knowledge about the later stage of clinical trial. If Vertex did not have an alliance portfolio management strategy, it could have been unsuccessful in developing a new drug where the firm has limited experience.

Alliance Portfolio Configuration

The case of Vertex Pharmaceuticals describes a successful alliance portfolio management strategy. But the question is how firms choose to configure/design their alliance portfolios (e.g., the appropriate number of partners and their resource diversity). Essential configuration parameters that reflect varying degrees of alliance portfolio include the size, quality, breadth and density, and flexibility of focal firm's position in alliance portfolios [40].

- **The Overall Size of Alliance Portfolio**

The number of alliances and alliance partners affect the overall performance of a focal firm. The more the alliance partners, the more the opportunity that the firm can have; more resources (e.g., tangible and intangible: human, technology, knowledge, experience, etc.) can be accessed, acquired, and utilized to achieve a primary goal of the firm. However, too many alliance partners and too much complex alliance portfolios might have a negative impact on the overall performance of the firm, because it raises an issue of resource allocation and coordination of all alliances across the portfolio. Thus, to be successful, it is critical to have an appropriate number of alliances and alliance partners and alliance portfolio management strategy.

- **The Breadth and Density of Alliance Portfolio**

The breadth of alliance portfolio refers to the extent of the connections of the focal firm's alliance partners. A broader alliance portfolio allows the firm to have better access to firm-specific resources, technology, and even partners' tacit knowledge [41]. Pharmaceutical industry shows good examples of R&D alliances between diverse partners (e.g., universities/research institutes vs. firms, small biotech firms vs. big pharmaceutical firms, and domestic vs. international). In addition, the density of alliance portfolio referring to the level of redundancy (or competitive overlap) in the portfolio also matters when it comes to designing the alliance portfolio. A high degree of density lowers the effectiveness of the portfolio because alliances give access to the same or similar resources and information. And it may also reduce the efficiency of the portfolio due to the increased resource commitment to the same or similar alliances.

- **The Quality of Alliance Portfolio Network**

Some alliance partners, albeit new to the focal firm, provide extremely valuable resources that are critical to achieve a primary goal of the firm. In network theory, there is a concept of "the strength of weak network ties" suggesting that relative strangers (e.g., new alliance partners that have no prior alliance experience with the focal firm) could offer an advantage over friends/colleagues in obtaining useful information [42]. If the quality of alliance collaboration with strangers (i.e., weak tie) is high, firms can access unique resources that are not found in their strong-tie relationships.

- **The Flexibility of a Focal Firm's Position**

The flexibility of a focal firm's position in the alliance portfolio is important because it helps broaden its innovative capabilities. If the firm constantly allies with the same partners over time, it may reduce the opportunities to collaborate with new partners and make the alliance network small, homogenous, and closed because of the interorganizational inertia [43]. Nevertheless, an alliance portfolio of strong dyadic ties (i.e., repeated partnerships) may also positively affect the innovative capabilities of the focal firm, but only if the partnerships are trust-based.

Firms can achieve their strategic goals and then be successful by effectively and efficiently designing their alliance portfolio. But also it is necessary for firms to reconfigure and change the alliance portfolio strategy over time since the nature of configuration of an alliance portfolio is generally not static. Once an alliance is not successful due to the inter-partner conflicts and failure of goal achievement, firms sometimes are forced to terminate the current alliance and need to form another alliance with different partners. In such a case, firms can change the design of the alliance portfolio by altering the configuration parameters.

Chapter Summary

Because of today's challenging global business environments and competitions, firms, regardless of their size and age, are increasingly engaging in strategic alliances.

Different types of alliances (Fig. 7.1) can be used depending upon the value-creation activities of firms (e.g., R&D, manufacturing, and marketing) and motivations for alliances. By forming a joint R&D alliance, firms can access, learn, and acquire unique technologies owned by a partnering firm. And a contract manufacturing agreement allows partnering firms to promptly achieve economies of scale (i.e., mass production). Moreover, alliances with international partners provide local market knowledge and experience allowing a foreign firm to overcome entry barriers.

Succeeding in strategic alliances, however, is not easy because of potential downsides of alliances such as partner opportunism, inter-partner conflicts, incompatibility of partners, and loss of autonomy (Fig. 7.2). And it is even more difficult and challenging if alliances are between international partners due to the differences in national-level environments.

Choosing an appropriate alliance governance mode (Fig. 7.3) depending on national-level environments (e.g., cultural, institutional, and economic) is therefore critical for a successful international alliance collaboration. In general, when the level of market uncertainty and risk for alliance collaborations is low, firms can use less-expensive (with reduced resource commitments) non-equity-based alliance modes such as licensing. However, it is not always true; firms, due to their strategic purpose, sometimes do not use licensing even when the level of uncertainty and risk is low. Specifically, because of a potential competition with alliance partners in the same product market, firms might not want to license out technologies, although the market uncertainty (i.e., a weak intellectual property protection law) is low; by using in-licensed technologies, alliance partners may develop and produce the same or similar types of products and then can become a direct competitor.

Firms can form multiple alliances with different partners depending upon their number of business units and value-creation activities in which they involve for alliances. Firms can maximize benefits from their alliance portfolio.

Alliance portfolio management strategies affect the long-term success of a focal firm. But as long as multiple alliances and partners are involved, it raises issues of negotiation, resource allocation, and coordination. Given this, it is critical for firms to have an effective and efficient alliance configuration strategy. When firms design their alliance portfolio, they can consider the following factors: the size, quality, breadth, density of alliance portfolio, and flexibility of a focal firm's position in the portfolio.

Discussion Questions

1. What are the basic differences between an EJV and other types of non-equity-based alliances?
2. What are the motivations for strategic alliances?
3. What are the differences between licensing and franchising?
4. Discuss about the factors affecting the success of strategic alliances.
5. What are the challenging issues in international strategic alliances?
6. When you form an R&D (technology development) alliance with foreign partners, what national-, industry-, and firm-level factors do you need to consider and why?
7. When you involve in an R&D alliance with foreign partners and when there is a significant difference in the institutional environment, then what kind of alliance governance mode would you like to choose and why?
8. Under what circumstances might a technology licensing be preferable over an EJV?
9. What are some of the challenging tasks of alliance portfolio management?
10. Compare and contrast the benefits and costs of allying with the same partners over time for the same or similar value-creation activity (e.g., R&D, manufacturing, and marketing).

References

1. Shankleman, S. (2017, Jun 07). Electric car sales are surging, IEA Reports. *Bloomberg Technology*.
2. SEC filing for Tesla Inc. 2015.
3. Mitchell, R. (2016, July 27). Elon Musk's Tesla Gigafactory idea was crazy, Panasonic exec thought. And yet .... *Los Angeles Times*.
4. Hoang, H., & Rothaermel, F. T. (2016). How to manage alliances strategically. *MIT Sloan Management Review, 58*(1), 69.
5. Rooney, B. (2010, May 21). Toyota to partner with electric carmaker Tesla Motors. *CNN Money*.
6. Inkpen, A. C. (1998). Learning, knowledge acquisition, and strategic alliances. *European Management Journal, 16*(2), 223–229.
7. Contractor, F. J., & Lorange, P. (1988). *Cooperative strategies in international business*. Lexington, MA: Lexington Books.
8. Wakefield, J. (2016, Jan 19). Apple, Samsung and Sony face child labor claims. *BBC News*.
9. Reuters Staff. (2017, Jan 31). McDonald's to open at least 50 new restaurants in Russia in 2017. *Reuters.*
10. Jargon, J. (2013, Nov 29). Starbucks tries franchising to perk up Europe business. *The Wall Street Journal*.
11. Contractor, F. J., & Choi, J. (2017). Global knowledge acquisition through alliances: Optimizing contracts and task complexity. In L. F. Mesquita, R. Ragozzino, & J. J. Reuer (Eds.), *Collaborative strategy: Critical issues for alliances and networks*. Edward Elgar Publishing.
12. Almeida, P., Song, J., & Grant, R. M. (2002). Are firms superior to alliances and markets? An empirical test of cross-border knowledge building. *Organization Science, 13*(2), 147–161.
13. Contractor, F. J., & Kundu, S. K. (1998). Modal choice in a world of alliances: Analyzing organizational forms in the international hotel sector. *Journal of International Business Studies, 29*(2), 325–356.
14. Choi, J., & Contractor, F. J. (2015). Choosing an appropriate alliance governance mode: The role of institutional, cultural and geographical distance in international research & development (R&D) collaborations. *Journal of International Business Studies, 47*(2), 210–232.
15. Rugman, A. M. (Ed.). (2009). *The Oxford handbook of international business* (p. 391). Oxford, England, UK: Edward Elgar Publishing.
16. Savitz, E (2012, Jun 21). Microsoft: First branded tablets; next, their own smartphone. *Forbes*.
17. Meyer, K. E., & Nguyen, H. V. (2005). Foreign investment strategies and sub-national institutions in emerging markets: Evidence from Vietnam. *Journal of Management Studies, 42*(1), 63–93.
18. Das, T. K., & Rahman, N. (2010). Determinants of partner opportunism in strategic alliances: A conceptual framework. *Journal of Business and Psychology, 25*(1), 55–74.
19. Gulati, R., & Gargiulo, M. (1999). Where do inter-organizational networks come from? *American Journal of Sociology, 104*(5), 1439–1493.
20. Glaister, K. W., Husan, R., & Buckley, P. J. (2004). *Strategic business alliances: An examination of the core dimensions*. Edward Elgar Publishing.
21. Inkpen, A. C., & Beamish, P. W. (1997). Knowledge, bargaining power, and the instability of international joint ventures. *Academy of Management Review, 22*(1), 177–202.
22. Yan, A., & Gray, B. (1994). Bargaining power, management control, and performance in United States–China joint ventures: A comparative case study. *Academy of Management Journal, 37*(6), 1478–1517.
23. Cullen, J. B., Johnson, J. L., & Sakano, T. (2000). Success through commitment and trust: The soft side of strategic alliance management. *Journal of World Business, 35*(3), 223–240.
24. Hoffmann, W. H., & Schlosser, R. (2001). Success factors of strategic alliances in small and medium-sized enterprises—An empirical survey. *Long Range Planning, 34*(3), 357–381.

25. Ryall, M. D., & Sampson, R. C. (2003). *Do prior alliances influence contract structure? Evidence from technology alliance contracts*. Simon School of Business Working Paper No. FR 03-11. Available at SSRN: https://ssrn.com/abstract=396601 or https://doi.org/10.2139/ssrn.396601
26. Swoboda, B., Meierer, M., Foscht, T., & Morschett, D. (2011). International SME alliances: The impact of alliance building and configurational fit on success. *Long Range Planning, 44*(4), 271–288.
27. Lin, X., & Germain, R. (1998). Sustaining satisfactory joint venture relationships: The role of conflict resolution strategy. *Journal of International Business Studies*, 179–196.
28. Bradford, K. D., Stringfellow, A., & Weitz, B. A. (2004). Managing conflict to improve the effectiveness of retail networks. *Journal of Retailing, 80*(3), 181–195.
29. Park, S. H., & Ungson, G. R. (2001). Interfirm rivalry and managerial complexity: A conceptual framework of alliance failure. *Organization Science, 12*(1), 37–53.
30. Richards, M., & Yang, Y. (2007). Determinants of foreign ownership in international R&D joint ventures: Transaction costs and national culture. *Journal of International Management, 13*(2), 110–130.
31. Demirbag, M., & Glaister, K. W. (2010). Factors determining offshore location choice for R&D projects: A comparative study of developed and emerging regions. *Journal of Management Studies, 47*, 1534–1560.
32. Banjo, S. & Krishna, R. J. (2013, Oct 09). Wal-Mart pulls back in India. *The Wall Street Journal*.
33. Michailova, S., & Ang, S. H. (2008). Institutional explanations of cross-border alliance modes: The case of emerging economies firms. *Management International Review, 48*(5), 551–576.
34. Choi, J., & Yeniyurt, S. (2015). Contingency distance factors and international research and development (R&D), marketing, and manufacturing alliance formations. *International Business Review, 24*(6), 1061–1071.
35. Furman, J., Porter, M. E., & Stern, S. (2002). The determinants of national innovation capacity. *Research Policy, 31*(6), 899–933.
36. Gulati, R., & Singh, H. (1998). The architecture of cooperation: Managing coordination costs and appropriation concerns in strategic alliances. *Administrative Science Quarterly, 43*(4), 781–814.
37. Hoffmann, W. H. (2007). Strategies for managing a portfolio of alliances. *Strategic Management Journal, 28*(8), 827–856.
38. Hoffmann, W. H. (2005). How to manage a portfolio of alliances. *Long Range Planning, 38*(2), 121–143.
39. PhRMA (Pharmaceutical Research and Manufacturers of America). (2016). *Industry profile*. Washington, DC. https://www.phrma.org/report/industry-profile-2016
40. Hoffmann, W. H., & Habasche, F. (2017). Managing the configuration and evolution of alliance portfolios. In L. F. Mesquita, R. Ragozzino, & J. J. Reuer (Eds.), *Collaborative strategy: Critical issues for alliances and networks*. Edward Elgar Publishing.
41. Ahuja, G. (2000). The duality of collaboration: Inducements and opportunities in the formation of interfirm linkages. *Strategic Management Journal, 21*, 317–343.
42. Granovetter, M. S. (1973). The strength of weak ties. *American Journal of Sociology, 78*(6), 1360–1380.
43. Wassmer, U. (2010). Alliance portfolios: A review and research agenda. *Journal of Management, 36*(1), 141–171.

8 Organization of Multinational Operations

Chapter Outline

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_8

In this chapter, we present the various organizational structures of MNCs, and we will learn about the many factors that influence an MNC's selection of the proper organizational structure. Some of these factors are external forces and demands, such as economic conditions at home and abroad, host government policies, product-market characteristics, and information technology. Factors related to the firm itself are the history of the company, top management philosophy, nationality, corporate strategy, and degree of internationalization. We first discuss the development of an organizational structure designed to deal with the export of products to foreign markets. The subsequent major structural designs for MNCs, including the autonomous foreign subsidiary, the international division, the geographic and product divisions, and the matrix structure, are explained in this chapter. Finally, we describe the newer forms of organization, such as market-based and strategic business unit organizations, virtual corporations, and networks.

Overview

Chapter Vignette

Born Global Internationalization used to be incremental expansion and a learning process for firms going through the successive stages of domestic, international, multinational, and global design and restructuring. Now, this norm is being revised. The unique feature of the global economy, which is dominated by the interlink between firms in the value chain covering R&D, production, logistics, marketing, and financial service, enables these firms to start from the beginning on a global mission. These firms are "Born Globals." [43] Born Globals can be defined as "Business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries." [44]

An example of a **Born Global** company is CMS Energy, which was a relatively small Midwest utilities firm generating electric power for the state of Michigan. In the 1990s, under the new management, it began transformation into global operation at a very fast pace. Within a decade, it became one of the leading companies in the world for building and operating the systems that bring energy to people. It operates worldwide businesses in energy and power production, in natural gas pipelines and storage, and in oil and gas exploration and production. It also builds and operates power plants, power lines, and distribution companies. It provides energy marketing and management services. CMS Energy has acquired assets totaling around $16 billion throughout the United States and in 22 countries around the world. It generates revenues worth more than $10 billion. It has achieved this phenomenal growth and globalization in less than a decade [1, 2].

Introduction

Collective endeavors, such as businesses, require a certain amount of order and organization, without which failure ensues. Organizational goal achievement depends on the effective combination of the contributions and work output of individual members. Because organizational activities are interdependent, complementary, and varied in type and timing, they require a certain degree of coordination and integration, which are facilitated through their operational proximity. Operational proximity means making allowances for the synchronization of activities in time and space. Simply put, physical proximity allows members of the organization to perform their tasks together and in a timely fashion. Organizational activities need to be grouped in a way that makes it easy for people to work together and expedites progress toward goals. Different methods and frameworks are used to arrange the operational proximity of organizational activities and tasks. The methods of organizing are based on the work specialization, division of labor, and economies of scale, principles that were first articulated by Adam Smith. The frameworks used should provide for appropriate job designs, reporting and communication arrangements, authority and responsibility distribution, and the physical layout of the organization. In short, an organization needs form and structure.

Definition and Functions of Organizing

The organizing function involves designing a skeleton and structure that delineate the nature and extent of formal relationships among various internal components, including tasks, jobs, positions, and units of the organization. It is the physical and nonphysical form the organization assumes in response to its internal requirements and external environment. It allows for the distribution of power and authority among the members and the establishment of communication lines between them. The internal requirements of a firm are related to the type of technology used, the nature of tasks performed, and the type of strategy employed. The external environment is the combination of outside constituencies and forces that are influential in determining the fate of the organization. Because firms have different internal requirements and external environments, they employ various structural configurations. In other words, the structure of a firm is a tool for attainment of goals and a means to an end.

The structure of the organization defines the boundaries of the organizational components (units); the relationships among the various parts; the extent, limits, and location of authority and power; and the formal communication patterns. The architects of the organizational structure need to answer four basic questions about the firm [3, p. 529]:

1. What should the units of organization be?
2. Which components should be joined, and which should be kept apart?
3. What size and shape pertain to the different components?
4. What is the appropriate placement of and relationship between the different units?

The basic principle for organizing is to group activities that have similar characteristics and functions from the lowest levels of the firm and proceed upward. In doing so, tasks are clustered into jobs, jobs are combined to form departments, and departments are put together to create business units. Larger firms that serve multiple markets and have many product lines, consequently, have a number of different business units. These business units are organized into a corporate structure. The clustering of activities just described is commonly referred to as *departmentalization*.

There are six common bases for departmentalization or grouping of organizational activities: knowledge and skill, work process and function, time (shifts in a factory), output (products), client, and place (geographic) [4]. Figure 8.1 represents organizational structures resulting from two of the most commonly used types of departmentalization: functional and geographic.

The relationships provided by the operational necessities that we have just described are basically internally oriented. These relationships are mediated by the strategic requirements that are dictated by the nature of the competitive forces that govern the external relationships. Organizational structure is often determined by both internal requirements and external forces. However, from time to time, one element, either internal or external, exerts more influence on the shape of the organization.

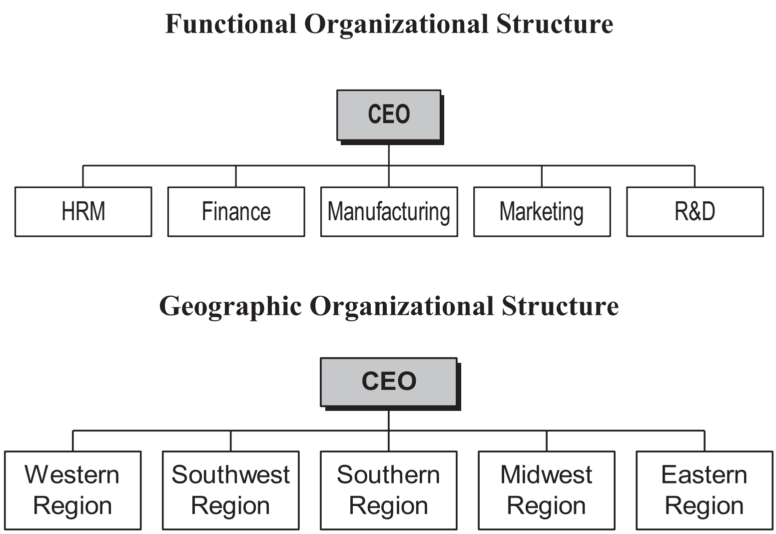


Fig. 8.1 Two types of departmentalization

The Organization of Multinationals

The fundamental structural considerations of MNCs are similar to those of domestic firms. Internal requirements and the external environment of MNCs, however, pose additional design challenges. The MNC structure should take into account physical distance, legal and governmental considerations, headquarter-subsidiary relationships, and many other factors. Because of the environmental diversity, the coordination and integration needs of MNCs are different from those of domestic firms. Therefore, the requirements of operating across national borders create additional concerns for organizing. In addition to those issues pertinent to organizing in domestic firms, there are three major concerns in the design of an MNC organizational structure [5, p. 5]:

1. How to encourage a predominantly domestic organization to take full advantage of the growth opportunities abroad
2. How to blend product knowledge and geographic area knowledge most efficiently in coordinating worldwide business
3. How to coordinate the activities of foreign units in many countries while permitting each to retain its own identity

As consumers' tastes converge globally, the firms that respond to this convergence in product preferences could gain competitive advantage. MNCs respond to these changes by adopting the various strategies that were discussed in the previous chapter. Therefore, we could add another item to the above list:

4. How to exhibit local responsiveness while maintaining a global orientation

An MNC's response to these concerns is influenced by many factors, including the size and history of the company, top management orientation, product-market characteristics, and corporate strategy. As MNCs expand abroad, under the influence of these factors, their structures evolve to facilitate the accomplishment of corporate objectives. Consequently, there are many variations among MNC structures.

The organizing variations among firms are usually at a level directly below the chief executive officer. That is why we focus our presentation at this level. We also confine our discussion to the managerial organization, as opposed to statutory or legal organization. To satisfy host countries' legal and statutory requirements, MNCs create legal entities that exist on paper only. The statutory entities are designed to fulfill legal obligations while promoting the MNCs' objectives of ease of operation and increased earnings. It is through these entities that the legal and ownership relationships between the headquarters and its various subsidiaries are specified. Many different statutory and legal forms link the parent company to its foreign operations, including branch offices, subsidiaries, and holding companies. The legal requirements of the host country and tax implications determine the MNC's statutory organization [6, p. 253].

Factors Influencing the Structure of MNCs

Many factors influence an MNC's choice of organizational structure: external environmental forces, factors related to the firm itself, or a combination of both.

External Forces

The major external environmental forces that influence an MNC's structure are economic conditions, host governments, technological developments, product-market characteristics, and information technology (see Ref. [7, Chaps. 3 and 8, pp. 97–99]).

Economic Conditions Changes in economic conditions at home and abroad create opportunities for and threats to the operation of MNCs. Unemployment and reduced purchasing power resulting from recessions and slower economic growth force adjustments in MNCs' business operations. Reduced market share and earnings in mature markets may prompt firms to diversify. Internationalization may partly be the consequence of home market saturation and maturity.

Technological Developments In some industries, the high level of risk and huge investment required for developing new products are straining the financial capabilities of many MNCs, prompting international joint ventures between competitors. Also, because of globalization, MNCs face the same competitors in many markets. Consequently, local advantages are quickly eroded by the immediate responses of international rivals. The reality of competition between partners of international joint ventures and the need for fast response require a flexible structure and a closer integration of worldwide operations.

Technological developments are considered to be the most important factor influencing structural changes in MNCs. New product development and new manufacturing methods offer opportunities for expansion into new markets. In turn, expanded foreign operations resulting from technological advances necessitate the provision of organizational support systems and structural changes. Technological advances have increased international competition and caused the global integration of MNCs. Telecommunications and information processing technology have improved the ability of the headquarters office to monitor the performance of subsidiaries in a timely fashion. Improved communication between subsidiaries and headquarters allows the adoption of either a centralized or a decentralized mode of control. In either case, the management of information provides an opportunity to devise a proper structure.

Product-Market Characteristics Newly industrialized countries such as South Korea and Taiwan have appeared on the international scene as competitors partly because of recent shifts in regional economic growth. The emergence of this new competition has increased market uncertainty and instability. Simultaneously, advances in manufacturing technologies, new product development, and marketing, along with the convergence of consumer tastes and preferences for certain products, have created a global market. To compete in this market, MNCs need global economies of scale and quick response. Consequently, firms require a greater degree of internal integration and coordination among their dispersed worldwide operations while allowing for local responsiveness to their national subsidiaries. Therefore, in designing a new structure, MNCs are concerned with the reconciliation of these two conflicting needs. An MNC's organizational structure should facilitate global integration and local responsiveness. Other product-market characteristics, such as diversity of product line and the nature of the competition, affect the organizing efforts of MNCs. A product division structure and a centralized decision-making process, for example, would serve well those firms that have a diverse product line and are competing with other MNCs in national markets. If competition in national markets is limited to local firms, granting more autonomy to the subsidiary would be appropriate. With competition limited to local firms, intimate knowledge of local conditions and a closer relationship with domestic businesses would be necessary.

Host Government Policies Host government policies are influential factors shaping the strategies and, in turn, the structure of MNCs. Investment incentives offered by host governments stimulate FDI and the expansion of MNC operations. Many forms of trade and business requirements and restrictions influence the management of MNCs. Taxes and tariffs, the need for local content, local ownership, technology transfer, local employment, and minimum exports exert pressure on foreign subsidiaries. Of course, an MNC's responses to host government policies influence headquarters-subsidiaries relationships and subsequently result in structural changes.

Company Factors

Major company factors include its history, top management philosophy, nationality, corporate strategy, and degree of internationalization (see Ref. [7, Chaps. 3 and 8, pp. 97–99]).

Company History Firms in the early stages of internationalization have a few managers with experience and expertise in coping with a complex worldwide operation. As the firms continue to operate abroad and learn how to manage their worldwide businesses, decisions regarding the organizational structure will be affected by those years of experience in foreign markets. Therefore, when there is a small pool of managers with international experience, the most feasible structure is an international division. The use of other types of structures has to wait for more advanced stages of internationalization.

Top Management Philosophy Top management philosophy regarding the autonomy granted to subsidiaries is reflected in various control mechanisms that the headquarters employs. The organizational structure is a means for exercising headquarters control over subsidiaries. A loose federation of national subsidiaries under the general direction of headquarters, for example, is a sign of management belief that local executives are better qualified to run their own operations.

Nationality There are differences among the organizational designs of American, Japanese, and European MNCs. European subsidiaries, for example, tend to have more autonomy than American subsidiaries. The type of control used also varies among the MNCs of different countries. US MNCs tend to exercise a higher level of output control over their subsidiaries, while Europeans usually exert a higher level of behavioral control [9]. Foreign subsidiaries of Japanese MNCs appear to have more local decision-making power. Executive selection, socialization, and acculturation of Japanese managers ensure the subsidiaries' strict compliance with the norms set by headquarters, reducing the need for other control mechanisms. Consequently, there is no need for foreign subsidiaries of Japanese MNCs to send extensive and frequent performance data to their headquarters like American subsidiaries are required to do. Another unique feature of Japanese MNCs is the structure of the *keiretsu* system. A *keiretsu* is a tight network of companies that share capital, R&D, customers, vendors, and distributions. *Keiretsus* are the intricate web of relationships linking banks, manufacturers, suppliers, and distributors with the government. Major *keiretsus* have the ability to control nearly every aspect of the value chain in a variety of industrial, service, and resource sectors. Many Japanese manufacturing firms have been using the *keiretsu* system. The Japanese have effectively used *keiretsu* systems to gain international competitiveness and successfully penetrate world markets.

Corporate Culture Another factor that influences the choice of organizational structure is corporate culture. Trompenaars and Hampden-Turner [10, p. 167] identified four types of corporate culture: the family, the Eiffel Tower, the guided missile, and the incubator. These were discussed in the chapter on culture (Chap. 3). Of course, corporate culture is a product of the national culture in which it operates. Therefore, these four types reflect the overall characteristics of their respective national cultures. Trompenaars and Hampden-Turner suggested the appropriateness of certain kinds of organizational structure for each corporate culture type. For example, matrix organizational structure may run into implementation problems in Asian countries, because, in these countries, a family corporate culture is a dominant form. In such a corporate culture, employees cannot give their undivided loyalty to two bosses. Superiors are regarded as fathers, and no one can have two fathers.

Corporate Strategy Corporate strategy greatly influences the firm's structure. From the pioneering work of Chandler [11], and subsequent research by others [12], we have learned that the strategy of the firm sets the stage for structuring the organization. The popular phrase "structure follows strategy" suggests the link between the two. An internationalization strategy that moves the firm away from the familiar domestic market also results in structural variations. Some organizational structures employed by MNCs appear to work better with certain strategies [13, 14]. For example, international division structure tends to fit a strategy that calls for a low level of foreign sales with a few products. Strategies that involve product diversity tend to be associated with product division structures.

Organizational Structure: Japanese Style

Like many other aspects of the Japanese economy, politics, and culture, there is a unique Japanese organizational form called *keiretsu*. *Keiretsus* are the outgrowth of *zaibatsus*, which dominated the Japanese economy before World War II. After the war, the occupational forces attempted to break up the monopoly of the *zaibatsus*, which had helped the Japanese government in the war. But soon, they realized that a strong Japan was needed to fight the Korean War and the expansion of communism. Substantial aid was poured into the Japanese economy, and the attempts to break down the Japanese corporate structure were abandoned. *Zaibatsu* companies that were broken down were free to regroup. Some regrouped around banks and trading companies that held shares in other firms too. The resultant conglomerates are the *keiretsus*. A *keiretsu* is a tight network of companies that share capital, R&D, customers, vendors, and distributions. *Keiretsus* also maintain ties with the government. Major keiretsus have the ability to control nearly every aspect of the value chain in a variety of industrial, service, and resource sectors.

There are two types of *keiretsus*: horizontal and vertical. A horizontal *keiretsu* is a cluster of companies around a bank from related or unrelated industries. Large horizontal *keiretsus* are found in many industries, including banking, insurance, steel, trading, manufacturing, electric, gas, and chemicals. Members use each other's products and services and are given preferential treatment. In effect, they form a production system that is distributed among many firms. Many assert that such preferential treatment and the purchasing habits of *keiretsus* are barriers to free trade and major impediments to foreign investment, products, and services. The major banks, Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Dai-Ichi Kangyo, belong to horizontal *keiretsus*.

A vertical *keiretsu* is a network of companies around a major manufacturer. The manufacturer itself may be a member of a horizontal *keiretsu*. While the members of a horizontal *keiretsu* are from diverse industries, members of a vertical *keiretsu* are from a single industry. The members consist of suppliers and distributions that serve a large manufacturer at the core. Vertical *keiretsus* include large manufacturers such as Toyota, Nissan, Honda, Matsushita, Hitachi, Toshiba, and Sony.

It appears that globalization and the changes that are taking place in the Japanese economy along with the demands by foreign governments are causing *keiretsus* to drift away from a "network" model and open up to—even form alliances with—foreign business.

Degree of Internationalization The degree of internationalization affects organizational structure through headquarters-subsidiary relationships. The foreign subsidiary's autonomy and internationalization of the firm are related. Internationalization can be defined as the number of foreign countries in which a firm has subsidiaries. As the number of foreign subsidiaries increases, so does the complexity of managing them. It is expected that MNCs with a high degree of internationalization may be forced to allow more autonomy to their subsidiaries for certain decisions such as marketing. For other decisions such as finance, however, they may exert more control because the intimate knowledge of local situations is more critical in marketing than in finance.

The Development of an International Corporate Structure

As a mechanism that facilitates progress toward goals, organizational structure evolves to accommodate the implementation of strategies. Firms follow different paths to international expansion, which assumes many different forms. The organizational structure of most international operations evolves to serve the growing needs of their diverse markets. Consequently, their choice of the structure depends on the type of strategy employed. An organization's structure not only signifies distribution of power and authority and a formal relationship between organizational members, but it also indicates the importance the company places on certain aspects of the business. A company organized along customer groups, for example, signals emphasis on meeting the needs of its customers.

As the firm grows, so does the significance of its structure. A small business requires a simple formal organization. But as it expands, increased specialization of tasks and duties creates an additional demand for coordination and integration. A more sophisticated structure is needed to handle the complexity of the operation and the coordination and integration requirements of a large firm. Such a structure would also facilitate the efficient distribution of the firm's resources and the execution of its strategies. The structure that served the business of a domestic firm may be ill-equipped to handle the diversity of the international marketplace. International expansion brings about structural changes. A three-phase evolutionary process characterizes the changes in the organizational structure of MNCs. The progression through these phases parallels the three stages of introduction, growth, and maturity of a product's life cycle (Sect. 13.4) [15]. The firm thus transforms from a domestically oriented one and passes through three phases—namely, international, multinational, and global.

International Orientation In the first phase, competition is limited to a small number of companies located in developed countries. These firms manufacture products with functions, features, and characteristics that are designed for the domestic market. International operation for these firms consists only of exports. Although exports may be an important source of revenue, they constitute only a small portion of the total corporate earnings, so international operations are merely an appendage to their domestic business. At this stage, firms continue using the existing domestic structures, with some minor additions to accommodate business activities across national borders.

Multinational Orientation In the growth stage, technology diffusion and price competition, particularly from domestic firms, force firms to establish manufacturing facilities in low-cost locations abroad. As increased foreign sales make up a larger share of corporate revenues, firms enter the second phase by changing the organizational structure to include the international division structure. All international business activities are organized into a division comparable with other divisions on the domestic side of the business. There is no attempt to integrate foreign subsidiaries, and operations within each foreign country remain separate from one another. Some firms go through a transition phase before entering Phase 3, in which they attempt to learn the intricacies of the international environment through their autonomous foreign subsidiaries. A major portion of the MNC earnings come from these autonomous foreign subsidiaries, which are given substantial decision-making freedom.

Global Orientation In Phase 3, most of the corporate revenues are generated from abroad. At this stage, MNCs organize their operations on a global basis. Domestic operation becomes one aspect of their business and receives corresponding attention along with foreign operations. Various forms of organizational structure that involve the transition from a domestic form to an international structure are discussed next.

A Global Company

Asea Brown Boveri (ABB) is a global electronic equipment company created by merging Asea, a Swedish engineering group, with Brown Boveri, a Swiss competitor, and adding on more than 70 other companies in Europe and the United States, with joint ventures in South Korea and Taiwan. ABB became very efficient by getting rid of excess capacity and eliminating duplication and reducing waste. There are no more than a dozen executives at the headquarters in Zurich, making up the executive committee that consists of American, German, Swedish, and Swiss managers. Since there is no common first language, they speak only English. The executive committee is responsible for ABB's global strategy and performance, and more than 50 business area managers report to them.

To leverage its core technologies and global economies of scale without sacrificing local responsiveness, ABB used a loose, decentralized version of the matrix organizational structure. ABB organized its operations along a matrix system of 50 or so business areas (BAs), which were grouped into 8

(continued)

business segments, each of which was the responsibility of a member of the executive committee. An example of a business segment is a group of five BAs that sells components, systems, and software to firms for automating their industrial processes. This business segment includes metallurgy, drives, and process engineering. Its office is located in Stamford, Connecticut.

BA managers devise strategies to optimize the BAs globally. They are responsible for the cost and quality standards, allocation of export markets to factories located around the world, and sharing of expertise by rotating people across borders. National managers, who are responsible for local firms within national borders, report to BA managers. Most of the national managers are host country citizens. The local companies act as national firms and have their own boards, which may include eminent outsiders, presidents, financial reporting, and career ladders for employee advancement. The managers of local firms have a global boss, the BA manager, who sets the overall framework for the operation of the BA. They also report to the country manager, who coordinates the activities of national firms [16–18].

The International Division Structure

At the early stage of international expansion, firms' interest and expertise are centered on domestic operations, and its international involvement is incidental. Often, international sales are triggered by foreigners' inquiries and are insignificant compared with domestic sales. The lack of competition and the firm's superior technology lead it to export the existing products or product line without many modifications. As international sales increases, the firms may set up an in-house export desk or export unit. An export manager, who reports to the marketing executive, is given the responsibility of handling all export activities. The export manager's position and reporting arrangement depend on the breadth of the product line. In a firm with a narrow product line, the export manager reports to the chief marketing officer. In a firm with a broad product line, the export manager reports directly to the chief executive officer [19, p. 82]. As the volume of sales and revenues increases constantly, the firm may establish an office abroad to handle product sales and service. Now, the firm is compelled to impose more coordination and control and needs an organizational structure that can deal with the diversity of expanded foreign business. At this stage, MNCs adopt an international perspective and use international division structures (Fig. 8.2). This organizational structure is typically associated with an international strategy introduced in Chap. 6.

Three factors prompt the establishment of an international division structure that enjoys sufficient organizational status on par with the other divisions [20].

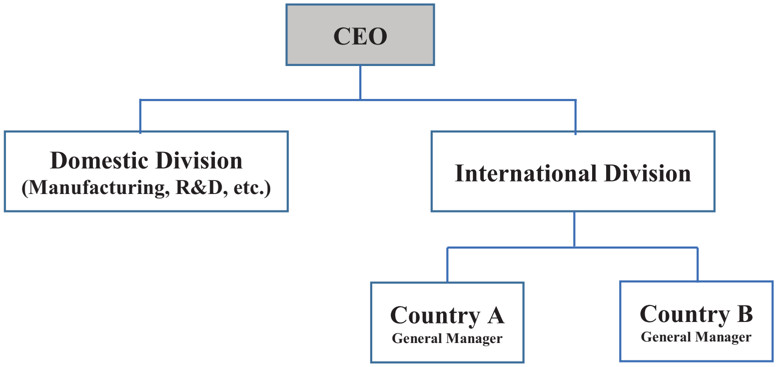


Fig. 8.2 International division structure

1. **Increased international involvement:** Operational and strategic attention and involvement of a senior executive and the structure of a separate organizational unit are required.
2. **The early stage of internationalization:** The geographic diversification of business operations is not significant. The concentration of all international activities in a single organizational unit is the best way to deal with the complexity of the global market and exploit worldwide business opportunities.
3. **The requirement of international market specialists:** There is a realization that internal specialists are needed to deal with the special features of global markets and assess global opportunities and threats rather than passively responding to conditions that are presented to the firm.

In an international division structure, the management of foreign operations is coordinated by an international division of the firm in the home country. Each subsidiary (or sales offices) manager reports directly to the head of the international division. The executive in charge of the division is a member of the corporation's executive board. All activities of foreign operations are centralized at the international division, and the head of the international division is given line authority over the foreign subsidiaries. Through the international division, the MNC headquarters exercises control and coordination over foreign operations without much change in the corporation's existing structure. With the creation of an international division, the loss of autonomy of the foreign subsidiaries is matched by a corresponding measure of guidance and support from the corporate staff (see Refs. [15, Sect. 13.5; 19, p. 155]). In effect, the international division allows the firm to maintain separate domestic and foreign businesses and to use its limited international expertise efficiently. Since the firm basically has a domestic orientation, not many executives have international experience. The concentration of international staff in the international division allows for integration, coordination, and control of foreign subsidiaries without placing undue demands on the other executives.

The international division corporate structure is likely to be adopted by firms with a dominant domestic business, a narrow product line, limited geographic diversity, and few managers with international business expertise and experience. With the dominance of domestic business over international operations, upward mobility of the executives in the corporate hierarchy is not tied to international expertise and experience. Therefore, not too many executives see the knowledge, experience, and expertise associated with international business as necessary for their career progress. Often, a foreign assignment may be an organizational hindrance that could limit their managerial advancement. By spending a few years abroad on foreign assignments, they could become outsiders to the domestic corporate network. They could be bypassed for promotion in favor of those who are active in domestic operations and who are a part of the internal power network.

An international division structure is a manifestation of the firm's international orientation and geographic interests, which are translated into design arrangements fitting the multinational nature of its foreign operations. The firm, at this stage, considers each geographic area to be a separate market that requires differentiated business practices that are handled by foreign subsidiaries. These subsidiaries, although separated operationally, could benefit from the overall guidance and integration efforts of headquarters. There is a need to balance the self-interest of foreign subsidiaries with overall corporate performance, by standardization of the information control mechanisms of foreign subsidiaries. The structure of the international division and the associated standardization allow for the application of international corporate practices that improve corporate performance, such as transfer pricing, resource acquisition and allocation, and product distribution (Sect. 13.5) [15].

Polaroid is an example of a firm that has used the international division structure. During the 1980s, nearly 40% of Polaroid's revenues came from international operations. Its international division controls all manufacturing and marketing functions outside the United States. It has three facilities, in Scotland, Ireland, and the Netherlands, that handle many aspects of manufacturing Polaroid products. It essentially sells abroad the same products as those sold in the domestic market, with some modifications to accommodate special market conditions, local regulations, and metric measures. The international division markets the full line of Polaroid products through wholly owned subsidiaries in 20 countries. It is treated as a profit center and seems to enjoy a degree of independence within the corporation that is envied by other divisions [21, p. 513]. The recent reorganization has carved the firm into three major business units—consumer, industrial, and magnetic. It seems that Polaroid is experimenting with the goal of creating a matrix organization design [22, p. 102].

Coleman Corporation, based in Wichita, Kansas, is another firm that has employed the international division structure for many years. Coleman is the largest manufacturer of outdoor products in the world. Its product line, especially gasoline-powered lanterns and insulated coolers, has gained worldwide recognition. Coleman started its international operations in 1919 and has had an international division structure since the 1940s. The division is headed by an executive-level vice president and is located a few miles from the corporate headquarters.

The international division structure works well for Coleman, which has a rather centralized manufacturing operation and a narrow, homogeneous line of products. Coleman has its principal manufacturing sites in Wichita and Inheiden, Germany. There are other, smaller manufacturing sites in Texas, South Carolina, Utah, and Washington. Outdoor products are manufactured at the Wichita, Inheiden, and Texas sites. The Utah and South Carolina facilities make textile products, such as sleeping bags and tents. Portable generators are produced in Nebraska and water skiing equipment in Washington.

Coleman outdoor products generally need little modification for sales in foreign markets. The changes that are made are generally cosmetic, such as labeling and packaging changes. In the United States and developed countries, Coleman products are used for recreational purposes. In these countries, advertising and marketing are relatively undifferentiated. Adjustments are made for variations in the infrastructure of the markets and for differences in cultures and languages. An example is Japan, where there are many small retailers and long channels of distribution. Products are used recreationally, however, so advertising and marketing tactics are similar to those in Europe and the United States.

In developing countries, Coleman products often serve basic utility functions. Lanterns are a primary source of light, and insulated coolers are a principal source of refrigeration. Therefore, in these countries, the marketing mix is differentiated, and the distribution is through dealers with an emphasis on product promotion. Coleman does not coordinate advertising but, instead, provides free products for demonstration based on the distributor's promotion efforts.

Except for Inheiden, the international division is centralized at the headquarters. At Inheiden, Germany, Coleman manufactures products for sale to European markets. Inheiden also coordinates European sales operations and regional sales and distribution offices in Bristol, England, and Alphen aan den Rijn, the Netherlands. The international division coordinates all other regional sales and distribution offices, including Tokyo, Singapore (which covers the rest of Asia), Sydney, New Zealand, and San Juan, Puerto Rico (which includes Latin America and the Caribbean).

The international division structure at Coleman reflects the characteristics of various foreign markets and Coleman's strategic approach in serving those markets. Europe has long held business opportunities in outdoor products. The interest in outdoor recreation and the higher level of income make Europe a large market for Coleman products. Consequently, European operations are significantly larger than operations in other countries and are afforded more local decision-making power. In a sense, market characteristics determine either centralization or autonomy of the operating units.

While Europe has been Coleman's largest foreign market, Japan is its fastest-growing market. During the 1980s, Coleman became the largest vendor of outdoor products in Japan. The increasing popularity of outdoor activities among the Japanese combined with the fast rate of market growth may make the Japanese market equal to that of the United States for Coleman's products. It is also expected that the market for outdoor equipment will increase in the rest of the Asian and the

Latin American countries. These changes in the external environment will have a structural impact on Coleman, as foreign sales surpass domestic sales. Until then, an international division structure seems to be appropriate for Coleman, based on its narrow product line and a dominant domestic business.

MNCs typically continue to use the international division structure as long as it remains smaller than most domestic divisions. It is abandoned in favor of other structures when it rivals the largest domestic divisions. However, the international division structure may last longer if the rest of the MNC is organized along the geographic structure, because there is a better fit between a geographic structure and an international division. The increased volume of business results in increased size, which in turn strains the capacity of the division to handle the MNC's product diversity and geographic dispersion. At this point, the worldwide activities need corporate direction. A very strong international division, however, hampers headquarters' direction of worldwide operations. The increased size of the international division, which is accompanied by more independence, "tends to insulate the headquarters from international operations and the corporate management from overseas problems and opportunities" [20, p. 257].

The international division needs the product expertise possessed by domestic divisions. Domestic division staff, however, are reluctant to share their expertise with foreign operations due to differences in their goals. Consequently, the need to reorganize leads to one of the two forms—an international product division or an international geographic division.

Advantages

The choice of any organizational design represents the trade-offs between the benefits gained and the limitations imposed on the management of the firm. The international division structure provides a few benefits, including the adequate top management attention to foreign business, the concentration of international management expertise at the headquarters, and the acquisition of capital and resources worldwide (see Refs. [6, pp. 259–260; 19, pp. 85–86]). Since the head of the international division is a member of the senior executive team, the firm is constantly reminded of the international implications of strategic decisions. The existence of international expertise at the headquarters expedites coordination between functional units, such as marketing, finance, production, and foreign operations. The presence of international managers at the top corporate hierarchy and their participation in strategy-making committees facilitate evaluation of investment decisions on a worldwide basis.

Disadvantages

The international division structure has some drawbacks (see Refs. [6, pp. 259–260; 19, pp. 85–86; 23, pp. 256–257]). There is an inherent conflict between the goals of the domestic and international divisions. Almost always, products that are sold abroad are those produced for the domestic market. The international division does not have its own R&D and engineering staff. Therefore, it cannot cater to the special needs of its foreign customers. Domestic functional specialists are reluctant to give priority to foreign customers because the evaluation of their performance is based on domestic criteria. The international division, therefore, relies heavily on the cooperation of domestic functional departments, and such cooperation may not be forthcoming. There is also another source of conflict. Some activities, such as financing and resource acquisition, need to be coordinated internationally at the divisional level. Attempts at the divisional level to exercise central control over financing clash with country-level activities, such as local marketing. Domestically, the firm gives high priority to product coordination as compared with area coordination (a divisional activity). The international division, however, needs both product and area (geography) coordination.

The Geographic Division Structure

The geographic or regional structure divides worldwide operations into regional divisions. The responsibility for managing each geographic area goes to a senior-level executive (see Fig. 8.3). These executives have operational and human resource management responsibilities for their regions, while the headquarters maintains strategic planning and control for worldwide corporate operations. The headquarters grant autonomy to foreign subsidiaries and allow them to operate freely as independent business units. Autonomous foreign subsidiaries can integrate into the economic context of the host country and develop their own competitive posture. They gain a competitive advantage by setting up local manufacturing, marketing, and purchasing. By operating as a local firm, they can tap the domestic source of cheap labor and are faced with fewer restrictions. In addition, their independence from headquarters enables them to consider local consumers' needs in making major decisions and to be sensitive to local markets and governments. The direct relationship between the foreign subsidiary and headquarters makes it possible to present the subsidiary's problems at the highest corporate level without additional levels of bureaucracy. It also elevates the prestige of the subsidiary's managers in the eyes of host government officials and immensely improves their negotiation status [6, p. 257].

However, when a subsidiary's contributions to corporate earnings become large enough to warrant closer scrutiny and when the rate of international experience accumulated by the headquarters increases, the headquarters begins a search for ways to exercise more control. Also, as the corporate executives become more familiar with foreign operations, they begin to feel more confident in establishing more coordination and control among foreign operations through organizational design modifications.

Given the nature of subsidiary independency, firms adopting a host country focus strategy (introduced in Chap. 6) tend to have a geographic division organizational structure. McDonald's is an example of a firm adopting the geographic division structure. McDonald's has over 36,525 restaurants in 119 countries (as of 2015) and is managed as distinct 5 geographic segments, comprised of the United States, Europe, Asia-Pacific, Middle East, and Africa [45]. And under the geographic

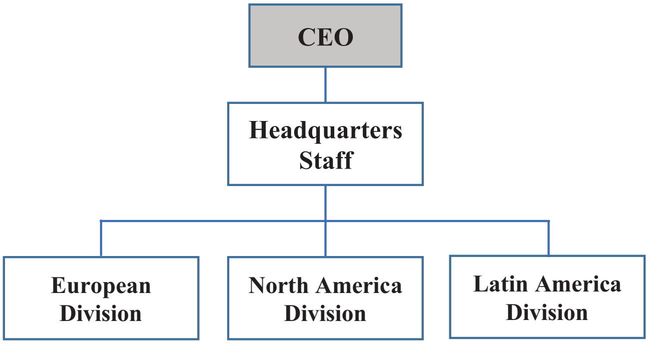


Fig. 8.3 Geographic division structure

division structure, subsidiaries of each region focus on their own regional market and customize a market-mix strategy (e.g., product, price, place, and promotion) to meet the cultural needs and customer tastes/preferences of that market.

Advantages

The geographic division structure is suitable for certain products and market characteristics. The advantages of the geographic division form are the possibility of regional economies of scale and the treatment of country subsidiaries as profit centers. The geographic division works well when regional similarities in customers' preferences allow for standardization and create the opportunity for economies of scale. It is also suited to situations where whole regions can be treated as a market, with modest marketing modifications for individual countries. Firms using regional structures tend to have mature businesses and narrow product lines and a greater growth prospect abroad, where their products are still new. Since these firms generate large earnings from foreign markets, they need an intimate knowledge of the local environment. They generally emphasize low-cost manufacturing by establishing large plants and using stable technologies. They try to create competitive advantages through marketing techniques and price and product differentiation. Automotive, beverages, containers, cosmetics, food, farm equipment, and pharmaceutical industries have characteristics favoring the regional structure (Sect. 13.7) [20].

Disadvantages

Although a regional structure simplifies the task of top management by creating regional specialists, it may cause problems (see Refs. [6, p. 264; 15, Sect. 13.9]). A firm with a diverse product range may find that the regional structure is inadequate to handle coordination among product lines and between the country subsidiaries. The regional structure tends to emphasize coordination and integration within an area at the expense of overall corporate integration. It may focus too much attention on regional performance, which may not necessarily optimize overall corporate interests. Rivalry among the regions may sacrifice the cooperation needed for global competition and may create too much duplication of functional and product specialists among the regions. Strong regional managers may block or delay the implementation of strategies aimed at taking advantage of global economies of scale and worldwide opportunities. MNCs using a geographic division structure may experience difficulties with the transfer of new production techniques and new product ideas from one country to another and the optimum flow of products and material from diverse sources to world markets. Firms facing this problem may respond by establishing a worldwide product manager at the corporate headquarters. This manager is assigned responsibility for particular products or product lines worldwide. Product managers promote the development, progress, and dissemination of product ideas and production worldwide. They recommend global product strategies and act as a clearinghouse for the transfer of successful developments from one area to the rest of the MNC. This represents experimentation with the matrix structure, which is discussed later. It is likely, however, that they will encounter an ambiguous operating relationship with geographic division managers, who have line responsibilities [20, p. 261].

The Product Division Structure

Firms using a product division structure arrange their business into product groups and assign a senior line executive total responsibility for each product division (Fig. 8.4). As in the regional structure, strategic decisions within each product division that affect the total MNC operations are made by headquarters. Products using similar technologies and having similar customers are grouped within a division. The total responsibility of serving the world market rests with each product division, which plans service strategies within the guidelines established by headquarters. These plans need headquarters' approval before they are implemented. Corporate staff provides financial, legal, technical, and other functional services and guidance to all product divisions. Thus, it is more a centralized organizational structure in which firms organize international operations based on their major products and plans made by the headquarters.

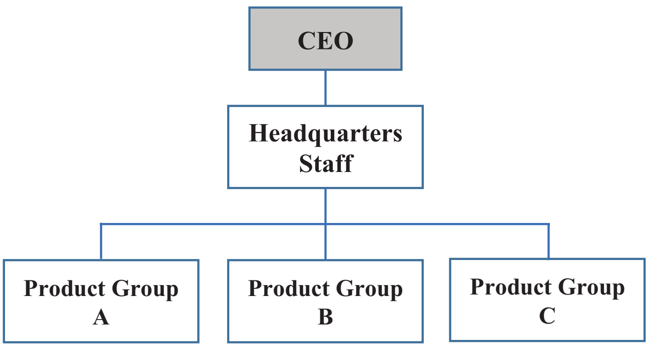


Fig. 8.4 Product division structure

Firms adopting the global integration strategy and with diverse product lines and a high degree of coordination within each product line for sharing of technology and manufacturing the product tend to use the product division structure. Their products typically have a relatively high level of technological content and different end users. Because of a varying requirement of marketing for these products, there is a need for product and market integration among them. The product division structure makes it easier to market such products and provides product and market integration.

Hewlett Packard is a firm that has been using the product division structure to serve the world market. In 1970, Hewlett Packard established its first product groups, with four divisions. In 1975, the product groups expanded to six: electronic test and measurement instruments, computer and computer-based systems, calculators, solid-state components, medical electronic products, and electronic instrumentation for chemical analysis. Each division was responsible for all aspects of business within its product group, including manufacturing, sales, and services. Product groups also prepared sales forecasts and recommended prices. The general managers of product divisions reported to two executive vice presidents who were jointly responsible for operations. Product divisions were supported by the corporate staff reporting to the vice president for administration [24].

Advantages

The benefits of product division are realized when high transportation costs, tariffs, and other considerations favor local manufacturing of the product. By emphasizing the product market and taking advantage of advanced technology and product expertise, multinational operations are better served by this type of structure. The flexibility of division by product allows the MNCs with growth strategies to add new product divisions without disturbing the rest of the organization [8, pp. 97–99]. It also facilitates fast response to the global competitive pressures against specific product lines. The global competitive maneuvers of international rivals are spotted faster by product division executives. Therefore, the MNC can effectively concentrate and apply its resources at the location of the competitive attack.

Disadvantages

A product division structure may result in wasteful duplication of management, sales representation, and plant capacity utilization within regions [25, p. 262]. A customer, for example, may be visited by representatives from different product divisions. To eliminate duplication and waste, coordination among divisions would be necessary. Within a given geographic area, however, the coordination of different product division activities may be difficult. The addition of country managers, who do not have profit responsibility, may overcome this shortcoming. Country managers report to appropriate product divisions for their share of local activity and perhaps to a regional staff specialist for their role in maintaining a local presence (see Refs. [6, p. 266; 15, Sect. 13.11]). In this manner, the country managers function as if they are operating in a matrix organization.

The Functional Structure

In a functional structure, the responsibilities of managing the MNC's operations are organized by functions. Each business function, such as manufacturing, marketing, finance, R&D, and human resource management, is assigned to a top-level executive. Each executive has a worldwide responsibility in his or her functional area and reports to the chief executive officer of the MNC (Fig. 8.5). The manufacturing executive, for example, has line authority over, and is responsible for, all manufacturing activities, domestic and foreign, within the MNC organization. This form of structure works well in a situation where the firm has a narrow, standardized product line [8, p. 94], and its global coverage and demand have reached a plateau, with no serious changes in the competitive challenge [6, pp. 259–260]. A functional organization allows tight centralized control with a small cadre of functional managers.

Except in raw material extractive industries, the functional form is less popular among MNCs. In a survey of 92 American MNCs, only 10 had a functional structure, and all were in the raw material extractive industry [26].

Advantages

A functional structure seems to work well in the raw material extractive industry because raw materials are very homogeneous and processes do not differ substantially from one country to another. Coordination among the functions, such as exploration, production, and sales, is of strategic importance, not the introduction of new products or marketing. All major oil companies, for example, have exploration, crude oil production, transportation (tankers and pipelines), refining, and marketing worldwide. Functional design permits line managers to control directly all activities, at each step, globally through the process of product flow.

Disadvantages

For a firm with a multiple product lines, the use of a functional structure could create problems. It puts undue demands on functional managers, which are not easily met. These managers would need expertise in multiple product lines and regions. Another problem is the inherent divergence of objectives among functional managers. The conflicts resulting from differences in objectives between functional managers, such as marketing and production, which cannot be resolved at the country

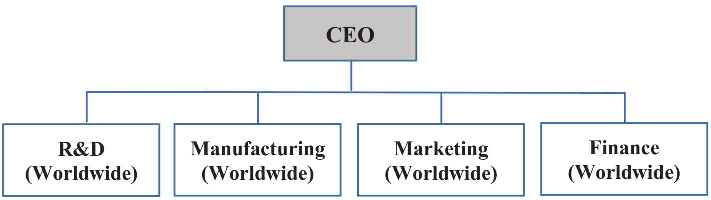


Fig. 8.5 Functional structure

level, need to be referred to headquarters. A headquarters overburdened with reconciling and resolving conflicts among the functional divisions has less time for strategic decisions.

Global Matrix Structure

Ever since its introduction, the matrix structure has been praised and criticized by both business scholars and managers. Matrix management is an organizational form in which normal hierarchy is overlaid by some form of lateral authority, communication, and influence. A matrix organization does not follow the traditional principle of unity of command, which prescribes that each subordinate will have only one superior. It usually combines two chains of command—one along functional/product lines and the other along geographic areas (Fig. 8.6). There are dual channels of authority, performance responsibility, evaluation, and control in a matrix organization.

Dow Chemical pioneered the matrix management structure since the 1960s and still uses a more flexible version of it. Dow's operations are arranged in the form of three overlapping components: functional, business, and geographic. The functional components include manufacturing, R&D, marketing, and so on. The business segment consists of product lines. The geographic part encompasses the countries where Dow has business operations [30]. As can be seen from Fig. 8.6, subsidiaries in different regions involve in the development of the same product; optimize operational efficiency by sharing resources, technologies, and manufacturing activities across subsidiaries through a flexible coordination mechanism; and adjust their operations to be able to respond to local demands/needs. As such, the global matrix structure is widely used by MNCs focusing on the transnational strategy (Fig. 8.7).

Given the nature of the global matrix structure, it could be viewed as the end product in a sequence of lateral coordinating arrangements that encompass liaison

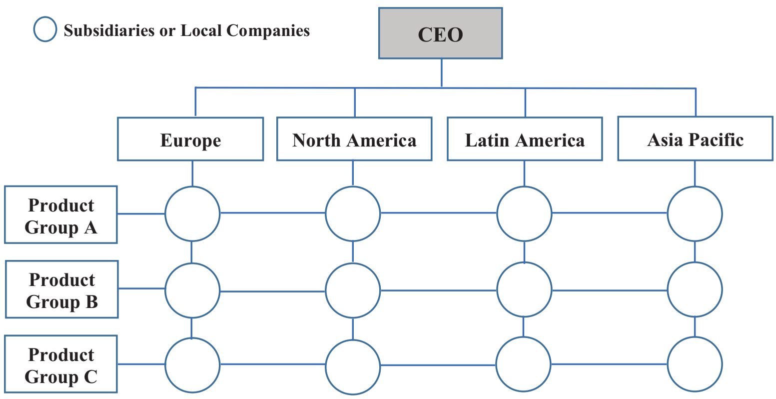


Fig. 8.6 Global matrix structure

roles, task forces, teams, integrating managers, integrating departments, and finally matrix [31]. The matrix structure is a delicate system to manage. Experience indicates that firms that succeeded in building multidimensional organizations, such as the matrix, are those that begin by building an organization instead of installing a new structure. In other words, these firms first altered organizational psychology and built a strong organizational culture. Then, they reinforced organizational psychology with improvements in organizational physiology by building the proper structure [32].

Citicorp, Digital Equipment, General Electric, Shell Oil, and Texas Instruments are among the well-known firms that have used matrix design [28, p. 333]. However, some large companies such as Xerox and Philips have recently abandoned the matrix structure, claiming it had created a stranglehold on product development and slowed decision-making [29, 30]. Peters and Waterman [31] even asserted that the tendency toward hopelessly complicated and ultimately unworkable structures "reaches its ultimate expression in the formal matrix organization structure" (p. 49). Now, we describe below the pros and cons of global matrix organizational structure.

Advantages

A matrix structure offers many advantages. It enables the efficient use of organizational resources. Specialists, as well as equipment, can be shared across multiple projects or countries. It also provides a clear and workable mechanism for coordination work across functional lines, facilitating project integration. Vertical information flow should improve in a matrix form since one role of the country manager or the project manager is to be a central communication link with top management. In addition, lateral communication is normally very strong due to the necessity of such communication. The result is improved interaction both vertically and laterally. Frequent contacts between members from different areas expedite decision-making and enhance management flexibility.

Disadvantages

The matrix structure has several disadvantages. Proponents praise its efficiency and flexibility, while critics say the matrix is costly, cumbersome, and overburdening to manage. It has a built-in tension between country managers and product managers, who are in competition for control over the same set of resources. Such conflict is viewed as a necessary mechanism for achieving an appropriate balance between product issues and unique country requirements. The effect on morale, however, can be very damaging. Oftentimes, work conflicts resulting from differences in objectives and accountabilities disputes about credits or blames, and infringements on professional domains spill over to a more personal level. Any situation in which equipment and personnel are shared across projects lends itself to conflict and competition for scarce resources. The time-consuming nature of shared decision-making, while enhancing flexibility, also increases costs. The additional managers increase administrative overhead. The very nature of matrix structures creates situations in which "when everyone is responsible, no one is responsible." In effect, "passing the buck" is easy in a matrix organization.

Firms using the matrix structure are aware of the problems, and some have moved to minimize their impact on the organization. Dow Chemical, for example, found that instead of promoting communication, a matrix design created a labyrinth of bureaucracy (e.g., complex communication between headquarters and business units), many committees, and miles of red tape. Given this disadvantage, the company revamped its organizational structure. To be more flexible and responsive to local markets and to reduce communication costs between headquarters and geographic business units, the firm gave the ultimate authority to geographic managers.

"Moving forward, we will have less structure at the top of the company with more deployment and implementation in the markets and out in the field" said Chairman and Chief Executive Andrew N. Liveris. "We will have less centralization and more decentralization." [27]

Mixed Structure

Some firms may find geographic and product division structures inadequate for their expanding operations. These forms are too restrictive for the ever-changing pattern of international business activities. Therefore, these organizations have opted for either a mixed design or a matrix form. The mixed or overlapping design is a combination of the other structures. One option is to combine functional and product divisions. Another choice is to mix geographic and product lines. A third version combines functional and geographic divisions. Or firms can simply adopt multiple organizational structures depending upon their product divisions. For instance, DuPont company uses a functional structure for oil division, a product division structure for pharmaceuticals division, and a matrix structure for plastic division.

A major reason for the adoption of a mixed structure is that other designs do not allow for optimum integration of inputs from regional, functional, and product areas. An optimum level of interaction and cross-fertilization among the three areas is necessary to gain a competitive position in the ever-changing global market. MNCs are constantly in search of a structure that combines area knowledge with product and functional skills [8, p. 95].

Newer Forms of Organization

MNCs and domestic firms alike are in constant search for the best possible organization design. Although functions, products, and geographic areas remain the three basic models of organizational structure, each has shortcomings that limit its application. The efforts to combine the benefits of all three models while keeping the drawbacks at a minimum produced the matrix structure. Although the matrix design offers the flexibility and quick response needed in a dynamic global business environment, it is not the final answer to the organizing needs of the MNCs. Many firms that were enthusiastically promoting the matrix earlier are now not quite sure of its benefits. Some have found it too cumbersome and confusing and have abandoned it in favor of market-based designs.

Market-Based Design

A market-based design takes into account market differences in structuring the firm. A market could be a group of countries that have a similar pattern of needs, purchasing behaviors, and product use. Based on these criteria, the world could be divided into a few markets that could be served with similar products and services. The advent of the Internet and modern communication technologies has reduced the problems associated with geographic separation between different units within each market. Therefore, the physical proximity that is the basis for the geographic division structure is abandoned in favor of more meaningful market characteristics. Instead of dividing the world into geographic regions, such as South America, Europe, and East Asia, for example, countries could be categorized by their level of economic development. On that basis, for example, Brazil, Mexico, South Korea, Taiwan, Turkey, and the OPEC countries could form one market (Sect. 13.14) [15].

Strategic Business Units

Based on the logic of market-based design, General Electric established its planning around "strategic business units" (SBUs)—families of businesses that encompass product and geographic dimensions. The older structure serves as a supportive skeleton on which the newer structure of an SBU is overlaid. Xerox Corporation has done similarly by discarding its matrix structure in favor of SBUs [29, p. 58]. While the limitations of travel and communication over long distances coupled with the advantages of physical proximity for managing were the basis for adopting the geographic division structure, advances in telecommunications and information processing have reduced both the limitations and the benefits. Such developments have, in turn, enabled firms to use market-based and SBU structures.

Networks

There are two paths to internationalization: the traditional path and the new path. The new path is provided by the free trade system and the network of its participants, which act as a springboard from which firms can launch themselves directly to the global stage. In doing so, they become a part of the network and acquire network structures.

Previously, not having a large home market was a hindrance to growth and internationalization. While many European firms by necessity were engaged in cross-border businesses, their operations were merely an expansion to neighboring markets that were within a few hours of travel time. Today, globalization has made it possible for the firms from small home markets to expand globally. Because of their small home markets, these firms are forced to use innovative strategies that consider the whole world as a market. Also, they are free to design organizational structures that are not burdened with intermittent, large-scale modifications, such as those that traditional companies had to go through—namely, progression through domestic, international, multinational, and global structures. From the beginning or at an early stage of their growth, they become global players.

Characteristically, globalization makes it possible for small- and mid-sized firms, as well as start-ups, to become global operators. A global market is a vast network of many firms, in many industries, with a multitude of links to each other in the form of supplier-buyer-customer, marketer-middle man-service provider, and so on. According to the United Nations, for example, there are 60,000 firms with more than 800,000 national affiliates operating in the global market [30]. This vast network is at the disposal of those who have the ingenuity of knowing how to use it.

Unencumbered by the organizational memory of old methods and free from organizational habits, traditions, culture, and structure that are past-oriented, newcomers to the global market can move quickly and effectively. Often, it will take these firms much less time to become global players than their traditional counterparts took to reach a global status. Particularly, the development of the organizational structure of these firms follows a less cumbersome path, which takes them directly to global design. Traditionally, the organizational structure of the firm goes through successive states—namely, domestic, international, multinational, and global. But innovative newcomers, all of which start with a much smaller size than existing global companies, acquire a global posture and structure in a short time. Because they move quickly to the global level, these firms do not use any of the conventional designs. They use an innovative, fluid, and organic structure. This structure is in congruence with the network character of the global economy.

The global economy is emerging as a worldwide web of interfirm connections [2, p. 41]. Internationalization, therefore, can be defined as the process by which firms are becoming integrated into the worldwide web of economic activities. From this perspective, the major features of the global economy—namely, the size and the weblike character, the free trade system, and the existence of global customers—push and pull firms to become global players using innovative organizational designs.

The push comes from the size of the network of the global market, which cannot be managed by conventional methods if a firm does not have a considerable resource base. Also, from their inception, most of these firms have a global mission.

The pull comes from the free trade system, which allows cross-border transactions without many restrictions and makes faraway people the next-door customers. Even niche players, which previously did not have enough customers at home to grow, can find enough customers in distant places. The pull also results from the fact that existing global companies need suppliers to service their operations in multiple markets. These global customers pull competent and imaginative newcomers to the global stage. If the newcomers are to serve these customers and move quickly, they cannot be burdened with the rigidity of traditional forms. They devise their own forms, which do not fit into conventional designs. These firms are characterized by their connections with suppliers, marketers, and other firms and, where needed, with the local governments. We call these forms a “network” design. The network, however, is neither a solid form nor a design that has a permanent skeleton on which the organizational requirements of job design, authority-responsibility designation,

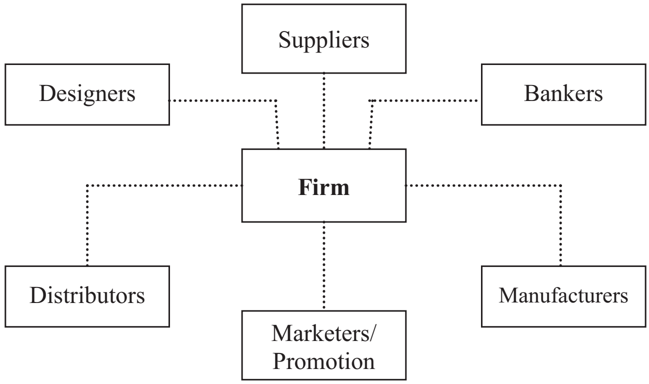


Fig. 8.7 A simple view of network organization

communication, and relationships could be fleshed out. It is more of a multidirectional organization rather than either a vertical or a horizontal organization. It is in a permanent state of evolution and mostly involves external relationships with other firms and their own subsidiaries and joint ventures. The framework of a traditional organizational structure cannot portray a network organization because this form of organization relies on dynamic relationships. It is not a hierarchical and authority-based firm but a "hyperarchy."

The network structure is very young. It is closely tied to another form of organization called a *virtual corporation*. In 1992, Davidow and Malone [36], after a careful observation of the world's most advanced companies, suggested that the successful future firms of the twenty-first century will be the "virtual corporations." When asked what a virtual corporation would look like, they replied:

> There is no single answer. To the outside observer, it will appear almost edgeless, with permeable and continuously changing interfaces between the company, supplier, and customer. From inside the firm, the view will be no less amorphous with traditional offices, departments, and operating divisions . . . [but] even the very definition of employee will change, as some customers and suppliers begin to spend more time in the company than will some of the firm's own workers. (p. 7)

Instead of asking "How does it look?", maybe we should ask "How does it work?" To describe the nature of the products and production processes of the virtual corporation, Davidow and Malone borrowed the words of the manufacturing expert Earl Hall:

> The complex product markets of the twenty-first century will demand the ability to quickly and globally deliver a high variety of customized products. These products will be differentiated not only by form and function, but also by the services provided with the product, including the ability for the customer to be involved in the design of the product. . . . A manufacturing company will not be an isolated facility of production, but rather a node in the complex *network* [italics added] of suppliers, customers, engineering, and other "service" functions.

The virtual corporation is very tightly coupled with customers and suppliers. Customers participate in product design, and suppliers have access to most of the company's resources that previously were the exclusive domain of the firm. Suppliers, the firm, and customers are partners. In short, a virtual corporation appears "less a discrete enterprise and more an ever-varying cluster of common activities in the midst of a vast fabric of relationships" (p. 7) [36].

The network structure has been used by the apparel industry for a long time. Many clothing designers do not make their own clothes. Others do it for them much cheaper and better. At the heart of a virtual corporation is the readiness to rely on other companies, technologies, and engineers, all of which may be scattered around the globe [40]. Flexibility, speed of response, low costs, and local connections are the obvious benefits of a virtual corporation, but there are some risks involved. First, there is a loss of control over the functions of the partners, who may not fulfill their part and may not be vigilant in safeguarding proprietary information. Second, the structure poses new and demanding challenges to managers [37]. They need to work in a less hierarchical organization, become accustomed to having less control, and accept that the top-down strategy approach is inappropriate in the global economy, where "on-spot information" disperses knowledge throughout the firm, to its suppliers, customers, and other relevant businesses. This is a new reality acknowledged by the organizational theorist, who envisions even radical forms of "disposable organizations."

> As rates of change have accelerated, processes of knowledge acquisition that emphasize direct experience within a particular organization have probably become less important to competitive advantage than those processes that emphasize more analytical and broader knowledge. Research and education have become more important; individual and organizational experience has become less relevant. As a result, the comparative advantage of the individual organization as a sustained accumulator of idiosyncratic experiential knowledge has declined. [38, p. 430]

Let us take a look at the mechanisms of two networks in practice: one is the case of Taiwanese ventures into Mainland China and the other is practiced by an American corporation.

1. *Case 1*: To take advantage of China's low labor costs and export quotas, Taiwanese companies set up intermediary firms in Hong Kong. They established links with the local government of Guangdong and Fujian to set up manufacturing subsidiaries that were tied to the intermediary firms in Hong Kong [39]. These subsidiaries farmed out work to small shops in the surrounding villages. This network provided them with flexibility and enabled them to capture the advantages of costs and locations, benefit from government support services, use several countries as export platforms, and diffuse technology throughout the system [40, p. 173].
2. *Case 2*: Cisco Systems does almost no manufacturing of its own products. Moreover, over 50% of its customer orders via the Internet go directly to its contractors. Also, Cisco handles more than 80% of its orders and customer service

> issues over the Web. Cisco customers receive their orders directly from the contractor, and Cisco receives payment for those products. By not being burdened with manufacturing, Cisco concentrates on what it does best: R&D, design, engineering, information, technical support, marketing, and building a reliable network of suppliers [40, p. 182].

With these two examples in the background, we can identify two types of organizations that have used networks: first, those that from a traditional base, by necessity and by the nature of their worldwide operations, have embraced a network structure and, second, those that from the beginning have used a network form to reach the worldwide market. Well-known MNCs such as Nike, Ford, IBM, Toyota, and Cisco Systems are in the first category. Acer, Ispat, Cemex, and Nexia International [40] belong to the second group. (The stories of Acer, Ispat, and Cemex are well documented by a number of authors, including John A. Mathews [2]).

The development of a network organization can be attributed to rapid technological changes, which increased uncertainty and unpredictability. This, in turn, made corporate flexibility a desired characteristic. Globalization magnified the need for flexibility. Firms were forced to abandon vertical bureaucracy in favor of a horizontal-flat design that measured performance by customer satisfaction, which required the maximization of contact with suppliers and the customer and information availability at all levels of the organization.

The network structure is well suited to firms operating in an unstable environment, which requires quick response and innovation. Well-established relations with suppliers and distributors replace vertical integration with the benefit of added flexibility. Spreading business functions all over the world, instead of having them at a central location, exposes the organization to multiple sources of information and new trends. It enables the firm to cope with rapid technological change and increasing globalization of competition.

Sophisticated information technology provides easy access to the global network of suppliers and vendors, even to the smallest firms, at a very low cost. Low-cost information makes vertical integration more expensive as compared with the network, which is more economical. The Internet has reduced the transaction costs of doing business externally instead of relying on in-house suppliers. As formal, hierarchical controls are replaced with informal and personal relationships, internally and externally, the boundaries of firms become porous and permeable. This will lead to a blurring of the line that separates the firm from its suppliers, buyers, and competitors and creates a hospitable condition for the emerging alternative organizational form, the network. Traditionally designed and managed companies cannot operate successfully in such an environment.

With all its versatility, flexibility, and adaptability, some believe that the network structure is inherently unstable and transitional. In a case study of Nexia International, a network of independent public accounting firms, Koza and Lewin [41] came to the conclusion that the network structure is an unstable form. Nexia has more than 100 affiliated independent firms that pool some of their resources to gain access to a wide spectrum of competencies and respond to the global changes in accounting, auditing, and consulting services. Nexia also enables members to receive referrals from the affiliates, all of which want to remain local. Some affiliates began offering their own services in other national markets, either because of their dissatisfaction with the fees they were receiving due to referral of businesses to other members or because they had gained exposure and experience in the international market. This introduced a potentially disruptive and destructive condition in the network.

It is hard to disagree with the claim that such a network is unstable. But Nexia is a contractual, alliance network, unlike a network built on equity participation and ownership, such as Acer. Established in 1976, Acer is among the world's top 10 branded PC vendors. Acer employs marketing and service operations across the Asia-Pacific region, Europe, the Middle East, and the Americas, supporting dealers and distributors in over 100 nations. In addition to offering a broad spectrum of IT products and services, Acer is also a leading innovator of e-business, providing MegaMicro e-enabling solutions that combine IT products with a range of micro services delivered via Acer's mega infrastructure (http://global.acer.com/about/index.htm).

Acer's rapid international expansion into emerging markets began with its becoming a leading IT supplier, partnering with Computec in Mexico and Wipro in India. The partnership arrangement of Acer is not a network of contractual alliances. Mathews [2] describes Acer's self-propagating partnership model, which enables the firm to use an accelerated mode of internationalization through networking, as follows (p. 89):

Step 1: Firm A looks for new markets, forming links with many firms in Countries 2, 3, and 4.
Step 2: In Country 2, Firm A experiments with Firms B, C, and D for reliability.
Step 3: Firm A selects Firm C as a partner and forms joint ventures (JVs) in Country 2.
Step 4: JV AC seeks a new partnership in Countries 5, 6, and 7.
Step 5: JV AC experiments with Firms E, F, and G in Country 6.
Step 6: JV AC selects Firm F to form a new JV, ACF, in Country 6 and then looks for partners in neighboring countries.

Thus, the process of accelerated expansion is propagated from country to country. The network model of Acer, which at the beginning is based on alliances and contractual agreements, ultimately transforms most of the alliances into an equity position.

The astounding performance of East Asian economies during the 1970s and 1980s has prompted much research in comparative organizational theory. This research indicates that the business systems of these countries are mostly network-based, although they are of a different form [2]. These firms do not follow the traditional Anglo-Saxon pattern, embedded in property rights, individualism, and separation of business and government [42].

Networks are either centered on a major MNC or formed on the basis of alliances and cooperation between them. Most economic activities in leading industries are organized around five types of networks [43, pp. 5–6]:

1. *Supplier networks*: These include original equipment manufacturers, the subcontractor, and the links between clients and their suppliers, as well as original design manufacturers.
2. *Producer networks*: These include all involved in co-producing, enabling competing producers to broaden their portfolios by pooling their resources.
3. *Customer networks*: These include the linkage between manufacturing companies and distributors, marketing channels, value-added resellers, and end users.
4. *Standard coalitions initiated by potential global standard setters*: They try to enlist as many firms as possible into agreeing with their propriety product or interface standards.
5. *Technology cooperation networks*: These facilitate the acquisition of product design and production technology. They enable the participants to share generic scientific knowledge and R&D, and production and process development.

Small- and mid-sized firms with their characteristic flexibility seem to be suited for the emerging informational economy. The large companies, however, are still at the center of the new global economy. But the success of small- and mid-sized firms with innovative strategies and organizational structure creates doubts about the value of the traditional model of organization based on vertical integration and hierarchical functional management.

Chapter Summary

Organizational structure is a means and a tool with which the firm can accomplish its goals and implement its plans. The same basic organization design concepts used by domestic firms can be useful for MNCs. To operate on a worldwide basis, however, MNCs need to examine the organizational structures more carefully. Since their organization is spread across the globe, it is only through an effective structure that they can maintain a productive relationship between the various foreign operations and the headquarters.

External environmental conditions and circumstances, along with the firm's characteristics, determine an MNC's proper organizational structure. The MNC's history, top management philosophy, nationality, corporate strategy, and degree of internationalization are attributes that affect the proper choice of an organizational structure. Also, economic conditions, host government policies, product-market characteristics, and information technology are major external forces that influence an MNC's attempts to choose an organizational structure.

(continued)

Five types of organizational structure are commonly used by MNCs. At the early stage of expansion into foreign markets, firms use the international division. When the revenues from foreign sales become a substantial part of corporate earnings and when the firm has gained sufficient international experience, other forms are employed. When an international division is no longer adequate for dispersed MNC operations, product division or geographic division structures are employed. Some firms go through a transition stage before establishing a product or geographic division. In the transition stage, independent foreign subsidiaries handle almost all the MNC's business transactions. A functional organizational structure is used by firms with limited product diversity, such as the raw material extractive industry. Finally, the need for flexibility, coordination, and integration among their worldwide businesses prompts some MNCs to establish matrix structures. Newer forms of organization design, such as market-based designs, SBUs, virtual corporations, and networks, attempt to reduce the drawbacks of the conventional forms but benefit from the flexibility and adaptability that these forms can provide.

Discussion Questions

1. What are the similarities and differences of the organizing needs of MNCs compared with those of domestic firms?
2. Use the product life cycle theory to explain the development of the organizational structure of MNCs.
3. When do MNCs abandon the use of an existing domestic organizational structure and reorganize to support their international expansion?
4. In modifying a domestic organization to handle international operations, what is the most common structure employed by MNCs?
5. Describe the structure of an autonomous foreign subsidiary. What are its strengths?
6. Explain the differences between the structure of an autonomous foreign subsidiary and that of an international division.
7. Elaborate on the conditions that prompt a firm to use the international division structure.
8. Why might a firm with diverse products find a geographic organizational structure inadequate for its needs? What type of organization do you recommend for such a firm?
9. While the functional organizational structure has not been very popular among MNCs, some have used it effectively. Do you think more firms may use it in the future? Elaborate on your answer.

10. What are the advantages of using a matrix structure? Which MNCs benefit from it? How can we minimize the problems associated with using a matrix structure?
11. Discuss in detail two internal and external factors that influence an MNC's choice of organizational structure.
12. What are the differences between a *keiretsu* and a *sogo shosha*?
13. Virtual corporation and network designs differ from the conventional forms. What are their differences?
14. Is it easier or more difficult for a small firm to internationalize?
15. Do you think that small organizations threaten the domination of the global market by large MNCs? Elaborate.

References

1. CMS Energy. (2001). *Annual report*. Jackson, MI: CMS Energy.
2. Mathews, J. A. (2002). *Dragon multinational*. New York: Oxford University Press.
3. Drucker, P. (1974). *Management*. New York: Harper & Row.
4. Mintzberg, H. (1988). The structuring of organizations. In J. B. Quinn, H. Mintzberg, & R. M. James (Eds.), *The strategy process* (p. 283). Englewood Cliffs, NJ: Prentice Hall.
5. Duerr, M. G., & Roach, J. M. (1973). *Organization and control of international corporations*. New York: Conference Board.
6. Robock, S. H., & Simmonds, K. (1989). *International business and multinational enterprises*. Homewood, IL: Richard D. Irwin.
7. Organisation for Economic Co-operation and Development. (1987). *Structure and organization of multinational enterprises*. Paris: Author.
8. Prasad, S. B., & Shetty, Y. K. (1976). *An introduction to multinational management*. Englewood Cliffs, NJ: Prentice Hall.
9. Egelhoff, W. G. (1984). Patterns of control in United States, United Kingdom and European multinational corporations. *Journal of Business Studies, 15*, 73–84.
10. Trompenaars, F., & Hampden-Turner, C. (1998). *Riding the wave of culture*. New York: McGraw-Hill.
11. Chandler, A. D., Jr. (1962). *Strategy and structure*. Cambridge: MIT Press.
12. Egelhoff, W. (2002). The importance of strategy-structure relationship in MNCs. In M. J. Gannon & K. L. Newman (Eds.), *The Blackwell handbook of cross-cultural management* (pp. 99–120). Oxford, UK: Blackwell Business.
13. Stopford, J. M., & Wells, L. T., Jr. (1972). *Managing the multinational enterprise*. New York: Basic Books.
14. Egelhoff, W. G. (1988). Strategy and structure in multinational corporations: A revision of the Stopford and Wells model. *Strategic Management Journal, 9*, 1–14.
15. Davis, S. M. (1988). Organization design. In I. Walter & T. Murray (Eds.), *Handbook of international management*. New York: John Wiley and Sons.
16. Rappoport, C. (1992, June). A tough swede invades the U.S. *Fortune,* 77–79.
17. Taylor, W. (1991). The logic of global business: An interview with ABB's Percy Barnevik. *Harvard Business Review, March–April,* 91–105.
18. Morais, R. (2000, January). ABB reenergized. *Continental,* 47–48.
19. Phatak, A. V. (1989). *International dimensions of management*. Boston: PWS-Kent.

20. Clee, G. H., & Sachtjen, W. M. (1988). Organizing for worldwide business. In J. C. Baker, J. K. Ryan Jr., & D. G. Howard (Eds.), *International business classics* (pp. 265–266). Lexington, MA: D. C. Heath.
21. Mintzberg, H., & Quinn, J. B. (1991). *Strategy process: Concepts, contexts, cases*. Englewood Cliffs, NJ: Prentice Hall.
22. Adams, S., & Griffin, A. (1990). Polaroid corporation. In T. L. Wheelen & J. D. Hunger (Eds.), *Cases in strategic management*. Reading, MA: Addison-Wesley.
23. Byrne, J. A., Kerwin, K., Cortese, A., & Dwyer, P. (1994, May 23). Borderless management. *Business Week*, 24–26.
24. Mintzberg, H., & Quinn, J. B. (1991). The Hewlett Packard company. In H. Mintzberg & J. B. Quinn (Eds.), *The strategy process: Concepts, contexts, cases* (pp. 462–463). Englewood Cliffs, NJ: Prentice Hall.
25. Zenoff, D. B. (1971). *International business management*. New York: Macmillan.
26. Daniels, J. D., Pitts, R. A., & Tretter, M. J. (1984). Strategy and structure of U.S. multinationals: An exploratory study. *Academy of Management Journal, 27*(2), 292–307.
27. Dow. (2012, September 04). Dow announces new business structure and executive leadership appointments, from https://www.dow.com/en-us/news/press-releases/dow-announces-new-business-structure-and-executive-leadership-appointments
28. Pearce, J. A., II, & Robinson, R. B. (1991). *Strategic management*. Homewood, IL: Richard D. Irwin.
29. How Xerox speeds up the birth of new products. (1984, March 19). *Business Week,* 58–59.
30. Edmondson, G. (2000, August 28). See the world erase its borders. *Business Week,* 113–114.
31. Peters, T., & Waterman, R. (1982). *In search of excellence*. New York: Harper & Row.
32. Galbraith, J. (1972). Matrix organization design: An information-processing view. In J. W. Lorsch & P. R. Lawrence (Eds.), *Organization planning: Cases and concepts* (pp. 49–74). Homewood, IL: Richard D. Irwin.
33. Bartlett, C. A. & Ghoshal, S. (1990). Matrix management: Not a structure, a frame of mind. *Harvard Business Review, July–August,* 140.
34. UNCTAD. World Investment Report. (2001). *Promoting linkage overview*. New York: United Nations.
35. Davidow, W. H., & Malone, M. S. (1992). *The virtual corporation*. New York: Harper Business.
36. The virtual corporation. (1993, February 8). *Business Week,* 98–103.
37. March, J. G. (1995). The future, disposable organizations and the rigidities of imagination. *Organization, 2*(3/4), 430.
38. Hsing, Y.-T. (1996). *Making capitalism in China: The Taiwanese connection*. New York: Oxford University Press.
39. Castells, M. (2000). *The information age: Economy, society and culture: The rise of the network society (p. 173).* Oxford, UK: Blackwell.
40. Koza, M. P., & Lewin, A. Y. (1999). The co-evolution of network alliances: A longitudinal analysis of an international professional service network. *Organizational Science, 10*(5), 638–635.
41. Clegg, S., & Redding, S. G. (Eds.). (1990). *Capitalism in contrasting cultures*. Berlin, Germany: Walter de Gruyer.
42. Ernst, D. (1996). *Inter-firms networks and market structure: Driving forces, barriers and patterns of control*. BRIE research paper, University of California, Berkeley, CA.
43. Cavusgil, S. T., & Knight, G. (2015). The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization. *Journal of International Business Studies, 46*(1), 3–16.
44. Knight, G. A., & Cavusgil, S. T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies, 35*(2), 124–141.
45. The Financial Times. (2015, January 29). McDonald's and its challenges worldwide: A market-by-market look. *The Financial Times*.

9 Control of International Operations

Chapter Outline

(continued)

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_9

No organization can accomplish its goals without proper control. The imperative of organizational control is heightened when firms cross national borders and expand into unfamiliar foreign markets. This chapter is all about how international operations and foreign subsidiaries are controlled. We first look at various control mechanisms and discuss, in detail, three approaches to control. The cultural aspects of MNC control, which is effective in dealing with the uncertainty and complexity of the international market, are elaborated. Finally, within the context of the historical evolution of the international environment, the corresponding MNC coordination and control mechanisms are summarized. There are differences between the control of an MNC and that of a domestic firm. These differences are due to the complexity of and uncertainties surrounding the MNC environment, with a resulting potential for difficulty. The relationship with the host government creates additional problems. Following a discussion of control problems of the MNCs, the influence of host government actions on MNC control is analyzed.

Overview

Chapter Vignette
During the 1980s, many developing countries experienced financial crises. Most of them were forced to block the transfer of hard currencies abroad. Multinational companies (MNCs) operating in these nations were unable to repatriate earnings or assets. In effect, the MNCs' control of these funds, and indirectly a partial control of their businesses, was subject to host government policies. Some firms used unique methods to move the blocked funds abroad. Columbia Pictures, for example, filmed a movie in Kenya to use up blocked funds generated by its parent company, Coca-Cola. In Tanzania, another firm found a creative way to spend money blocked in the country. For a while, it booked all its airline tickets for all destinations in or out of Tanzania at Dar es Salaam, the capital of Tanzania [1].

The blocking of funds is only one way host governments interfere with the normal business operations of MNCs. Often, MNCs lose some control over their foreign subsidiaries due to host government demands. A common practice is to renegotiate contracts, often because the original agreement is so much in favor of the MNC that a renegotiation is expected. A famous example is the case of General

Motors (GM), a wholly owned subsidiary in Australia in the mid-1950s. In 1954 to 1955, the GM subsidiary's profit after taxes amounted to 560% of the original investment, and the dividend paid to GM represented 8% of the Australian balance of payments [2].

One-sided contracts are not always the reason MNCs lose control over foreign subsidiaries, nor does this necessarily happen because of renegotiations. Cases of outright takeover of foreign subsidiaries for political reasons have occurred. Whenever, and for whatever reasons, host governments initiate a renegotiation process, MNCs are usually reluctant participants. Consider the Government of Papua New Guinea and the three mining companies that own most of the big Porgera Gold Mine in that country.

The Government of Papua New Guinea shared ownership of the Porgera mine with subsidiaries of Placer Dome of Vancouver, Canada; Hanson PLC of Britain; and M.I.M. Holdings Ltd. of Australia. The three companies each owned 30%, and the government-owned 10% of the mine, until the government decided to increase its share to 25%. This reduced each firm's stake in the mine to 25%. To finance the purchase of the additional 15% worth of shares, the Government of Papua New Guinea proposed that the $136 million needed for the purchase would be generated by the cash flow from the same amount. In effect, according to a financial analyst, Papua New Guinea was paying the firms with their own money, at a price 20% below its market value. When it declared the intention to raise its stake, however, the Government of Papua New Guinea suggested that production and profit from the mine had exceeded initial expectations. It claimed that the companies had withheld information and understated the mine's potential in their first negotiation [3].

Introduction

The effective management of an organization, among other factors, depends on securing continuous and sufficient progress toward goals. Management must determine if the organization is following the right strategies and if these strategies are being implemented correctly. Sound management also involves asking whether the organization is moving in the proper direction and if the results obtained are those intended. Organizational control could provide answers to these questions. Control is needed not only for detecting problems and deviations from plans but also for anticipating problems before they occur. Simply put, control and strategic planning functions are very closely related and interdependent. A good plan has a built-in control system that monitors the implementation of the plan and provides information on goal attainment. It often involves highlighting problem areas and identifying the difficulties in carrying out the plan. Information supplied by various control mechanisms also assesses the validity and appropriateness of a strategy.

In the following pages, we introduce the major elements of the traditional control system. Using this introduction as a background, control tactics for MNCs are then discussed.

Purpose and Functions of the Control Process

Organizational control refers to the process of monitoring and evaluating the effectiveness and efficiency of organizational performance and taking corrective action when performance falls short of expectations. Based on this definition, there are four major components in a control system.

First, spell out the intended results, and establish the standards against which organizational activities and accomplishments can be measured. Second, monitor and collect information on organizational activities that are aimed at goal accomplishment. Third, evaluate organizational performance and results for effectiveness. Fourth, make necessary adjustments to correct deficiencies during and after the implementation of the strategy.

Deficiencies could be due to shortcomings in implementation or flaws in the strategy. The failure of a strategy could also be related to changes in the environmental factors that were the basic premises of the strategic plan. In any case, a properly constructed control mechanism should provide information regarding the shortcomings. Therefore, control could be viewed as the last step in the strategic management process, coming after planning and implementation but with the potential to feed information back into those systems as it is acquired.

Problems may arise at any point along the four stages of the control system. Inadequate information, for example, could result in inaccurate standards being established. In turn, the use of deficient standards in measuring progress toward goals could falsely indicate performance failure on the part of organizational members.

Based on the differences in time horizons and scope of coverage, planning may be either strategic or operational. Strategic planning involves the total organization, deals with its long-term survival, and requires non-routine solutions. Routine solutions deal with recurring issues. Non-routine solutions involve problems that are unique, and past experience is not very useful for their resolution.

Operational planning takes into account shorter-term performance requirements and deals with recurring problems that are often the domain of individual organizational units. The two types of planning have their corresponding controls, strategic and operational.

Control Mechanisms

Several control mechanisms can be used individually or in combination in an organization. Some are very formal, such as various reports from lower levels of the organizational hierarchy to higher levels. Others are informal, such as socialization and acculturation, which instill organizational values in members and create uniformity in decisions and actions. In the following section, we will review the major control mechanisms.

Input and Output Controls

Organizational activities and performance may be regarded either as inputs or as outputs. In using various control mechanisms, a firm has the choice of controlling the inputs, the outputs, or a combination of both. Input control is regarded as behavioral control, where expectations are communicated to employees in advance. Then, through personal supervision and surveillance, they are guided and directed to reach goals. Of course, rewards and punishment are the instruments that are used to induce goal-oriented behavior modification. Input control relies on feed-forward information. It works best in small organizations and where the low level of complexity allows managers to identify the desired behavior in advance. Also, input controls could be more useful at the lower levels of the organization, where activities and their outcomes are more predictable.

Output control is result oriented and uses impersonal measures such as the difference between the expected and the final outcome. It relies on feedback information to correct deviations. Output control works well for large organizations, where the complexity and heterogeneity of activities require standard objective measures of comparison. Organizations tend to use more output controls at the higher levels of the hierarchy, where there is a high level of complexity and interdependence among tasks. Output control systems are reactive, whereas input controls are proactive. Of course, the two control systems are complementary.

Locus of Decision-Making

Usually, all major strategic and critical decisions are made by top-level executives. Some organizations may allow dispersion of decision-making power for other important matters among lower-level managers. *Centralization* of decision-making is characteristic of a firm in which most decisions are made by top-level managers. In a centralized MNC, foreign subsidiaries have limited decision-making authority, and most important matters are decided by headquarters. The opposite is *decentralization*, where decision-making power is dispersed among more managers. Decentralized MNCs give more autonomy to their foreign subsidiaries. Centralized firms exert much tighter control over various parts of the organization than decentralized firms.

Many factors determine the degree of autonomy granted to the subsidiary. Major factors include the nature of the decisions that need to be made and their impact on the rest of the MNC, the type of technology used, and the product and industry characteristics. In situations where the decision outcomes affect only the subsidiary and the host country market, managers are often given more autonomy. In large, globally integrated firms, decision-making is more centralized so that the activities of various subsidiaries can be closely coordinated. Also, for the most important matters, such as negotiating new agreements with host governments, subsidiaries are required to clear their decisions with headquarters.

Technology and market characteristics may dictate the need for closer coordination among various subsidiaries. When products are mature, price competition is the norm in the industry. Also, when product components are manufactured by a number of subsidiaries, they become very dependent on each other. Price competition and interdependency require uniformity of activities and coordination among subsidiaries. Consequently, in a mature market and when there is a higher degree of interdependencies, headquarters is more apt to exercise central control.

Decision-making autonomy also varies within the functional areas. In a study of 116 MNCs and subsidiaries in the United States, United Kingdom, Germany, Japan, and Sweden, Hedlund found that subsidiaries had the highest autonomy in matters of personnel decisions and lowest for financial decisions. For production and marketing decisions, subsidiary autonomy was in the middle (pp. 51–64) [4]. A study by the Conference Board for 109 U.S., Canadian, and European MNCs reported similar findings. They found that these firms exercised stricter financial control and allowed greater local freedom for labor, political, and business decisions. Also, the home office of these MNCs made the decisions to introduce new products and to establish R&D facilities.

Communication and Information Flow

Information collection on organizational performance is the linchpin in any control system. To assess the firm's viability and the relevance of its strategy, a variety of data must be collected from inside and outside the firm. To monitor performance, a variety of information is communicated between different parts of the organization. Strategies, goals, and expectations are communicated from headquarters to subsidiaries. Data on implementation of strategies, fulfillment of goals, and market information are sent by subsidiaries to headquarters.

Communication and information flow ranges from periodic financial and operations reports to occasional face-to-face meetings. Telecommunications technology has expanded MNCs' information-processing capability and has resulted in movements toward both centralization and decentralization. Through telephone, facsimile, electronic mail, and the Internet, headquarters is able to receive timely information from dispersed foreign operations and even remotely control equipment and machinery. The timely information allows more centralization of the decision-making process. However, decentralization efforts have also been aided by the speed and accuracy of surveillance and better control. Headquarters realize that they are well-informed and can potentially take more control, if need be. As a result, they are more amenable to granting decision-making authority to subsidiary managers. On the other hand, when circumstances call for centralization, headquarters will have more confidence in making decisions that are going to be applied in faraway operations.

Formal Reports

Formal reporting on financial and operational aspects along with local market data are essential means of subsidiary control by the MNC. Most MNCs rely heavily on financial reports for control of foreign subsidiaries. Financial data such as return on investment and inventory turnover allow comparison with industry norms and provide information on the progress made in strategy implementation. Intrafirm business transactions and corporate tax variations among host countries make the use of financial data by MNCs more complex. This aspect of MNCs' control is the subject of conflict between host countries and the MNCs. Often, host countries claim that MNCs abuse intrafirm transactions and, through financial manipulation called transfer pricing, reduce taxable earnings and, consequently, corporate taxes.

The use of financial data for control of foreign operations has several limitations. For example, currency exchange rate fluctuations distort financial data, and strategic decisions by headquarters may limit the subsidiary manager's choice of the best possible business options. MNCs are aware of these limitations and temper the use of financial data with personal judgment.

Informal Communication

Informal communication is used along with formal communication to convey to members of the organization what the performance expectations are and to cajole them to comply with the norms. Informal communication is more subtle and indirect in enforcing organizational standards. Some firms, for example, communicate dress codes to members without making a formal statement about it. Note, however, that physical distance and limited opportunities for regular face-to-face contacts with subsidiary managers compel MNCs to place greater reliance on the formal system of control.

Developing Global Control

One of the key points of international expansion is to organize and coordinate local operations with their headquarters; otherwise, confusions and misunderstandings might cause internal problems, and the possibility of growth would be diminished. An American company, Lincoln Electric (LECO), a manufacturer of welding machines, faced these problems. LECO changed recently: Lincoln changed from private ownership to be traded on the NASDAQ exchange. LECO came up with different approaches to solve its coordination and control problems: Lincoln began a process to customize its markets which allowed the company to enhance its sales performance [5].

In Lincoln, operations around the world used to depend on the US market. The first step was to level people from all over the world to the US hierarchy. Then, local branches began to develop products for each specific market considering regional differences and final usages. Another approach was transferring personnel to different locations to change American processes. It made an agreement with a Japanese control systems and robot firm to include its hardware in Lincoln's automated welding machines.

Organizational Structure

In Chap. 8, we discussed MNC organizational structure within the framework of the organizing function. As a tool in implementing strategies, and as a skeletal framework that regulates and channels activities in prescribed directions, organization structure is an effective control mechanism. It is within this structure that formal communication channels and superior-subordinate relationships are established.

Increased competition and changing market conditions require a timely, concerted, and uniform response from various organizational units. To increase the organizational capabilities for a proper response to competition and other market forces, firms may need to institute more central control. For example, MNCs that find themselves faced with intense competition may require tighter control and could centralize their operations by restructuring. In response to increased competition in the United States, for example, Sony consolidated its electronics and entertainment operations under one corporate umbrella headed by an American executive. When Sony bought its entertainment companies, it was hoping to capitalize on the synergies between the electronics and the entertainment businesses. The expected synergies did not fully materialize because of the strained relationship between the two divisions. The electronics executives were often critical of the huge amounts that Sony spent on its Hollywood operations. Also, there was a cultural gap between the more prosaic hardware operations and the glamorous entertainment division. With the restructuring, Sony intended to bring the two sides closer together and eliminate each division's preoccupation with its own priorities [6].

Integrative Mechanisms

Various integrative mechanisms are used to control and manage interdependencies among different organizational units. The more common integrative mechanisms are liaison positions, cross-unit committees, integrators, and the matrix structure [7, 8]. These mechanisms form a continuum from simple to complex, moving from liaison to matrix in terms of complexity. Obviously, effective control is gained by matching the level of interdependency among organizational units with the complexity of the integrative mechanisms. A low level of interdependency calls for the use of a simple integrative mechanism, such as a liaison role. A more complex integrative mechanism, such as a matrix, is appropriate for the management and control of a high level of interdependency. Therefore, it is of no surprise that some global firms with a high degree of interdependency among their worldwide operations, such as Asea Brown Boveri, have used a matrix form.

A liaison role could be used to improve coordination among interdependent divisions and to facilitate communication between them. If the two units have to refer to a higher level in the corporate hierarchy for solving their differences and working out their interdependence, a liaison can bypass these long communication lines. Liaison roles are used more at the lower and middle levels of organizations and, therefore, are more appropriate for operational control.

To solve problems of control and interdependence, integrative roles or departments are created whose responsibility is to enable the two units to work together smoothly. Typical titles and positions are product managers, program managers, and project managers. A product manager, for example, may integrate the marketing and production activities of a product between two separate divisions. Committees are frequently used at various levels of an organization for control problems that other mechanisms cannot handle, and they can be used on either an ad hoc or a permanent basis. Many firms have permanent executive committees that handle corporate-wide strategic problems of control and integration.

Resource Allocation

The primary relationships among various units of a business organization center on economics. One way of exerting control is through resource allocation. The pattern of distribution of resources (anything that people value, e.g., money, material, promotion, knowledge, technology, vacation, a large office, etc.) indicates to the members the performances and outcomes desired by the organization. By changing the allocation of resources among subsidiaries, MNCs effectively exercise control over them. In some MNCs, the direction of resource flow is from the headquarters to the subsidiaries; in integrated MNCs, however, the flow of resources is multidirectional. A subsidiary's influence and its autonomy within the MNC is a function of the amount of resources it provides to the rest of the MNC. Ultimately, however, it is the headquarters that determines the pattern of resource allocation and control, and it generally uses the budgeting system as the associated control system. We will elaborate on resource allocation as a control mechanism in a subsequent section on intrafirm business transactions.

Paper Tissue Control

Years ago, Jamont, a James River Corporation partnership with Italian and Finnish corporations, acquired 13 companies in 10 European countries. Through the process of integration across national borders, it learned a lot about selling toilet tissue to people of different cultures. The assumption always has been that German-speaking consumers bought strength, the French wanted soft, and Americans craved very soft. It turned out that consumers everywhere wanted both softness and strength. All these years, the manufacturers were dictating tastes instead of the consumers.

Product standardization proved to be a difficult task as well. Paper tissues were produced in different sizes in various countries. There were other problems. The French, for example, were using 20 outside suppliers. That was reduced to two. Each company used to make its own deep-colored paper tissues, a very time-consuming process. This was assigned to one plant.

Creating uniformity in measuring efficiency proved to be challenging. Some companies were counting a year with 330 days, allowing for holidays

(continued)

and maintenance time; others counted it with 350 days. This made the comparison between the operations of different plants a difficult task. A 95% uptime of one was not necessarily better than an 89% of another.

Through consolidation, cost-cutting, and instituting of control measures, revenues increased significantly and net profit doubled. These efforts made Jamont one of the largest paper producers in Europe [9].

Budgeting System

Budgeting is the allocation of resources among various organizational units on the basis of present needs, past performance, and the projection of future needs. Budgets are standards against which actual performance can be measured. Firms use different budgets for monitoring important activities and functions, such as the capital expenditure budget, the marketing and promotion budget, and the research and development (R&D) budget.

With a budgeting system, MNCs not only monitor subsidiaries' activities, they also establish priorities that reflect corporate strategies. Increasing or decreasing the budget is an effective way to dictate the direction of a subsidiary's development and progress. Earlier in this chapter, it was mentioned that because of physical separation and the unique relationship between foreign subsidiaries and the home office, MNCs are very concerned with the performance of their dispersed global operation. One way to reduce the level of concern is to centralize the most critical decisions at headquarters. The most obvious and easily centralized decisions are those dealing with finance. Through a budgeting system, most of the activities of the subsidiaries are translated into financial reports and are available for closer scrutiny.

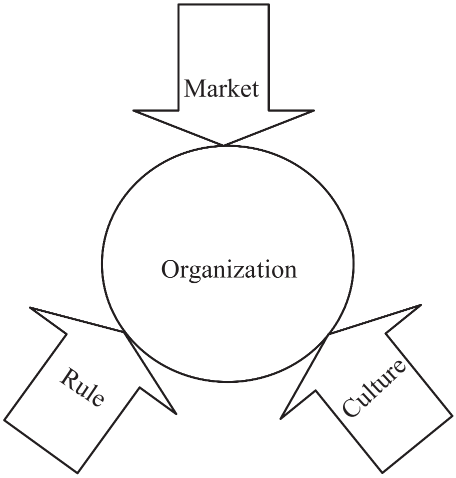
Control Approaches

The three approaches to control are the market approach, rules approach, and cultural approach. Based on the ideas of Ouchi and Maguire [10], Lebas and Weigenstein [11] proposed that the three approaches form a triangular continuum along which organizations use a combination of two methods of control: input control and output control (Fig. 9.1) (pp. 259–272). The three approaches do not exist in pure form. Each, however, may be a dominant form in a given organization. Among the three approaches, as we will argue, cultural control may be needed to respond to the uncertainty and complexity of the international environment.

The Market Approach

Control mechanisms employed in a market approach are external market forces. Competition, supply and demand, and contractual agreements are among the

Fig. 9.1 Three approaches to control



external forces that govern the relationships among organizational units. An MNC using the market approach resembles a federation of autonomous units that are free to deal with internal (other units and subsidiaries) or external suppliers. Output control is the dominant method in a market approach, which includes transfer pricing, bargaining, and management compensation. The market approach is efficient in situations where performance requirements are clearly spelled out and various goals are not compatible with one another (p. 129) [12]. The market approach seems to be a more practical way to implement control in MNCs. Some researchers [13] have even advocated the use of internal markets as an ideal model of corporate management by creating what they call *the democratic corporation*, in which corporate headquarters impose minimal constraints on their profit centers or subsidiaries. The full benefit of international operations, however, can only be realized through coordination and integration of the activities of dispersed subsidiaries. This, in turn, necessitates the active management of internal and external resource flows as headquarters' means of exercising control. Resource flow as a control method will be discussed later.

Rules Approach

In most organizations, the rules approach seems to be more visible than other controls. A rules-oriented organization uses both input and output controls. It relies extensively on established rules and procedures, such as planning, budgeting, formal reports, performance evaluation, and hierarchical structure. Rules work best when both goal incongruence and performance ambiguity are moderately high and when the environment is relatively stable. When there is less congruence among the various goals pursued by the members, a rules-oriented control system provides a common ground for action and coordination. In a relatively stable environment, rules provide the specifics needed to clarify goals and performance requirements.

A rules-oriented system will only be viable when the environment allows sufficient time to respond to feedback information when corrections are needed. Of course, environmental conditions, and particularly those of the international environment, are unstable. Often, there is not enough time to make corrections and adjustments. Therefore, very seldom does the feedback process of error-information-correction work well for MNCs.

Cultural Approach

In a cultural approach, external rules and procedures are internalized. Instead of the supervisory surveillance that is common in a rule-oriented organization, individuals exercise self-control and abide by cultural norms and expectations. Less time is needed to respond to feedback information, and the cost of control is lower than is the case in the other two approaches. Also, culture is a vital factor in the globalization of the firm. It facilitates control over foreign operations [14].

The most common example of the cultural approach is found in Japanese organizations. In terms of structure, Japanese organizations are generally more loosely organized. Group norms and peer pressure, as well as the desire of individuals to be good group members, are the main tools used for control. Consequently, Japanese firms have fewer bureaucratic procedures than many of their Western counterparts [15].

The shortcomings of other control systems make the cultural approach more attractive for MNC operations. Because of their specificity and narrow scope, and the required response time, rules-oriented controls have a narrow application and are tied to an organizational unit. There are always exceptions to the rules with which upper-level managers have to deal. Since MNCs operate in a dynamic environment, the market and rules approaches will have limited applicability, and MNCs will need to make increasing use of cultural controls. Since the efficiency of the market approach depends on clearly defined performance requirements and a high level of compatibility among various goals, the market approach cannot be very effective for organization-wide application and for dealing with the global economy in which MNCs operate.

When through cultural controls, the norms, values, and goals of the organization are internalized, there is no need for personal supervision or formal rules. Since they are not narrow and specific, when applied to input and output controls, cultural norms are applicable on an organization-wide basis. The internalized values provide guidelines that are broad enough to cover most situations. These guidelines allow individuals to follow cultural norms where the ambiguity of the situation renders rules and established standards inappropriate—for example, in budgeting and performance criteria. People's knowledge of these broad informal rules enables them to project them into new situations and to act quickly (p. 264) [11]. Therefore, compared with the market and rules approaches, the cultural approach to control provides a better ability to handle the performance ambiguity that is a characteristic of MNC operations.

Ouchi explains the limitations of the market and rules approaches and describes the advantages of a cultural approach.[1] He builds his argument on the informational prerequisites of each approach, which are prices for the market approach, rules for the rules approach, and internalized values for the cultural approach. Prices charged for intrafirm business transactions are the basis for control in a market system. Rules and procedures form a foundation for control in a rule-oriented system. Internalized values and norms are the basis for control in a cultural approach.

> Prices are a highly *sophisticated form of information* decision making. However, correct prices are difficult to arrive at, particularly when technological interdependence, novelty, or other forms of ambiguity obscure the boundary between tasks or individuals. Rules, by comparison, are relatively *crude informational devices*. A rule is specific to a problem, and therefore it takes a large number of rules to control organizational responses. A decision maker must know the structure of the rules in order to apply the correct one in any given situation. Moreover, an organization can never specify a set of rules that will cover all possible contingencies. Instead, it specifies a smaller set of rules which cover routine decisions, and refers exceptions to the hierarchy where policymakers can invent rules as needed. (pp. 138–139) [12]

The amount of information required by both the market and the rules approaches is huge. Compared with the market and rules approaches, the cultural approach has minimal informational prerequisites. Cultural norms and expectations are implicit, rather than explicit, rules that govern behavior. They prescribe performance and evaluation requirements in a general way, which must be interpreted in a particular situation. These norms, however, "in a formal organization may produce a unified, although implicit philosophy or point of view, functionally equivalent to a theory about how that organization should work. A member who grasps such an essential theory can deduce from it an appropriate rule to govern any possible decision, thus producing a very elegant and complete form of control" (p. 139) [12]. The characteristics of the three approaches are summarized in Table 9.1.

Cultural control has the potential to be very effective in dealing with the diversity, complexity, and uncertainty of the MNC environment. MNCs, however, cannot totally abandon market and rules approaches. Creating culturally based controls takes a long time—cultures are not built overnight. Also, cultures change very slowly, whereas most environmental conditions are subject to sudden changes. Additionally, MNCs comprise diverse people. Diversity always makes it difficult to create uniform cultural norms. Therefore, it is impractical for the MNC not to apply

Table 9.1 Characteristics of control approaches

Control approach	Dominant method of control	Information prerequisite	Scope
Market	Output	Prices	Wide
Rule	Input/output	Rules	Narrow
Cultural	Input/output	Norms and expectations	Wide

[1] The terms *clan* and *tradition* used by Ouchi are very much the same as cultural traits. Since the framework of his writings was adopted by Lebas and Weigenstein to elaborate on cultural control, we too use Ouchi's argument on "clans" and "tradition" in our discussion of cultural control.

other means of control and wait for the development of a corporate culture and the accompanying cultural controls. Moreover, it is important to acknowledge the influence of cultural diversity on the effectiveness of the market and rules approaches to control. In the following, we elaborate on this aspect of cultural control.

The effectiveness of various control systems is influenced by the cultural differences among nations. Because of cultural differences, for example, the usefulness of different control mechanisms could vary in the United States and European and Asian countries. In a country such as France, for example, where the hierarchical authority is more readily accepted, "a vertical organizational structure, minimal lateral relationships, dependence on the chain of command (bosses are more distant), and rules and procedures set by superiors are natural control system components" [11]. A market-oriented or cultural control system may be more appropriate in a country such as Sweden, where inequalities among the members are minimized and participative decision-making is favored. In traditional societies, which avoid radical departures from established norms and where resistance to change is strong, such as in some Asian countries, people prefer the specificity of rules and regulations. Therefore, organizational hierarchy and formal authority could be an effective control system. Cultures also vary in their emphasis on the role of individuals in society. Where individualism is dominant, a market-oriented control may function better. In contrast, where the individual's concerns are subordinate to the collective interests and benefits of groups or institutions, a culture-oriented control system may be more applicable.

Cultural Aspects of MNC Control

Culture is the most effective control mechanism. Societies effectively manage and control their people by devising cultural controls. Through the socialization process, members internalize the values and norms of society, which become the criteria for judging behavior. The internalized values are also strong motivating forces that induce people to behave according to society's expectations. Organizations employ culture and socialization for control purposes too. Because the MNCs operate in culturally diverse environments, the challenge, however, is to build a control system that capitalizes on the synergy of cultural diversity.

Corporate Socialization

Corporate socialization could be described as the process by which members learn what behaviors and perspectives are customary and desirable in the work environment (pp. 209–264) [16]. Through the corporate socialization process, new members "learn the ropes" and are indoctrinated about the basic goals of the organization, the preferred means of goal achievement, the responsibilities of the members, the behavior pattern required for effective performance, and the rules for the maintenance of corporate identity and integrity (pp. 210–224) [17].

Corporate socialization takes place through a combination of obvious and subtle means. The obvious means of corporate socialization include job rotation, management development programs, and informal company-sponsored events. Of course, the corporate reward and compensation system is an obvious and powerful tool for shaping employee behavior and promoting the socialization process. A subtle socialization process encompasses the interaction and interpersonal relationship of top management with colleagues and the rest of the employees. The socialization process is closely related to the values inherent in the corporate culture. In this vein, corporate culture is both a reinforcing mechanism and an ever-present instrument of corporate socialization.

For a domestic firm, socialization of employees is a relatively routine process. Almost all organizations establish "the way we do things around here." Every management veteran has stories to tell about the process of breaking in new employees, a process that makes future control less troublesome. One manager's strategy of dealing with what he considered unwarranted arrogance on the part of new engineers, for example, was to demonstrate to them their lack of practical knowledge and their dependence on experienced managers.

He would ask the new engineer "to examine and diagnose a particular complex circuit, which happened to violate a number of textbook principles but actually worked very well. The new [engineer] would usually announce with confidence, even after an invitation to double-check, that the circuit could not possibly work. At this point, the manager would demonstrate the circuit, tell the new [engineer] that they had been selling it for several years without customer complaint." Then, he would direct the engineer to explain why it did work. None of the new engineers he had tested were able to do it but were convinced of the need for supplementing their textbook knowledge with practical know-how. From then on, establishing a good give-and-take relationship with the new engineer would be easy (pp. 214) [17].

The dispersed operations of an MNC make the socialization process more difficult and challenging. Aware of the challenge, many MNCs use job rotation to introduce employees early in their careers to the firm, the culture, and "the ropes" around their global operations. For example, to demonstrate that contrary to employees' perceptions, international experience was not a roadblock to career advancement, General Electric revamped its job rotation program. It started sending its brightest stars to foreign assignments rather than the run-of-the-mill managers it used to pick for posts abroad [18]. Motorola is another US MNC with a similar program. Motorola has included foreign engineering recruits in its job rotation program. The program is designed to permit its operation in the People's Republic of China to put up to 20 top recruits into leadership training and rotate them through its worldwide operations [19].

Evolution of Coordination and Control of MNCs

Because of the additional coordination and control difficulties that MNCs face, they need more sophisticated control mechanisms than are used by domestic firms. The need to respond simultaneously to the different strategic requirements of foreign countries demands much flexibility. MNCs have to be flexible in order to take advantage of global opportunities while remaining responsive to local differences. This calls for developing a much more sophisticated control mechanism. Consequently, in addition to formal means of control and coordination, MNCs need to rely on a wide range of informal mechanisms [20], including informal networks of communication, corporate culture and socialization, and career path management (p. 500).

As the international competitive environment changes, so do the MNC's strategies and operations. The implementation of new strategies and the management of new operations require different methods of coordination and control from those used in day-to-day management. As a result, the MNCs' coordination and control tactics are an evolutionary response to their environmental circumstances. The evolution of the international environment and the corresponding pattern of coordination and control mechanisms used by MNCs are summarized in Table 9.2.

1. **Multinational/Multidomestic:** The control and coordination mechanisms of firms focusing on the multidomestic strategy are dependent upon the national-level business environments. These business environments affecting international business activities included nationalist sentiments, protectionist barriers, and communication and transportation difficulties. The strategic response to environmental imperatives was the establishment of semiautonomous businesses within each country. European firms, in particular, adopted country-centered strategies. They organized a decentralized, loosely connected federation of independent national subsidiaries. Each subsidiary served its domestic market. They did not seek to integrate local subsidiaries into total corporate operation; these local subsidiaries were nationally responsive firms. The management of a federation of semiautonomous firms needed little coordination and control. MNCs managed their foreign subsidiaries as a "portfolio" of investments. As long as the subsidiaries were generating earnings, they were left to the discretion of expatriate managers. These managers were the equivalent of "Roman proconsuls that were given responsibilities only after years spent absorbing the values and practices of the parent company (p. 118)" [21]. Headquarters control was ensured through loyal, expatriate managers who provided an informal link with subsidiaries and preserved the corporate management style even in faraway countries. Direct reporting of subsidiary managers to the head of the MNC was a formal means of control exercised by headquarters. Subsidiaries supplied the headquarters with periodic financial reports, assuring headquarters that they were keeping in line with the profit objectives of the MNC.
2. **Global:** Because of more favored economic and political environments (e.g., market liberalization and deregulation), advancements in production technologies increased economies of scale and decreased transportation and communication costs, and firms have become more centralized in production and marketing activities. They centralize manufacturing plants in a few locations and standardize the product design which allows them to achieve economies of scale. Firms adopting a global strategy centralize the decision-making process, and the headquarters exercise direct control over foreign subsidiaries. In terms of control, the firms relied on formal mechanisms, centered on budgeting and on

Table 9.2 The evolution of the international competitive environment and corresponding coordination and control

Pattern of international competition	Strategic response of MNCs	Coordination and control
Multidomestic *(or country-by-country basis)*	*Country centered*	*Limited control and coordination*
Competition in each country is essentially independent of competition in other countries	Direct investment in many countries	MNCs manage their activities as portfolios of subsidiaries (especially Europeans)
	Self-contained and autonomous branches	No integration
	Differentiated and responsive strategy	Decentralized federation of national subsidiaries
	Competitive advantage in mainstream value activities	Periodic financial reports
Global	*Global*	*Formal*
Firm's competitive position in one country is strongly influenced by its competitive position in other countries	Concentration of production in few plants to achieve scale economies	Budgeting, standardized programs (e.g., marketing, manufacturing)
	Serve the world from these few manufacturing locations through exporting	Centralized R&D
	Centralized control of worldwide marketing activities	Structural mechanisms: Product divisions, regional divisions
	Standardization of product design	Centralized "hub" Output control
Transnational *(or complex global)*	*Global with increasing foreign investment*	*Formal and informal*
Firm's competitive position in one country is strongly influenced by its competitive position in other countries	Decentralization of production in many plants in the world, each specialized in processes and/or products, with a strong interdependence among them	Period I and II mechanisms, plus task forces, committees, integrators Informal communication networks
	Interorganizational transfer of technology and ideas	Socialization of home country and foreign managers
	Simultaneous response to national interests and local needs and to economic forces toward globalization	Corporate culture

Source: The first two columns are adapted from Ref. [20] (Tables 4a and b, pp. 504–506). With permission

standardized programs in manufacturing and marketing. In addition to frequent financial reports, subsidiaries provided the headquarters with reports on all major functional areas. Formalization and standardization of policies, rules, and procedures strengthened headquarters' tight output control over subsidiaries' operations.

3. **Transnational:** Because of increased global competition and radically changing global business environments, the need to flexibly manage subsidiaries (or business units) has become more significant; the requirement to centralize and decentralize interorganizational control and coordination has increased. Technological developments have resulted in the globalization/standardization of business and competition in many industries. On the other hand, many governments demand that firms invest locally to create jobs, transfer technology, and contribute to the balance of payments. These factors plus a rise in nontariff barriers and protectionist tendencies called for local responsiveness. In turn, the contradictory demands of global strategies and local responsiveness required a higher level of coordination and control. The firms discovered that the hands-off approach that relied on formal control and coordination mechanisms under the multinational and global strategy was inadequate. Recognizing the need for flexibility and responsiveness, they instituted both formal and informal control mechanisms. In addition to the formal control and coordination mechanisms, firms are using informal and subtle means that overlap the existing organizational structure and formal reporting procedures. Included among the new control mechanisms are teams, task forces, committees, and integrators. Additionally, the free flow of informal communication among all managers—from the headquarters to subsidiaries and vice versa and among the foreign subsidiaries—supplements the formal communication channels. Philosophical changes at the headquarters allow the firms to offer career paths that enable all managers, regardless of their country of origin, to advance to positions previously reserved for home country executives. In doing so, the firms create a corporate culture that effectively controls managerial actions without the reliance on formal rules and procedures. Acculturation of these managers, through continuous assignments to key positions throughout the global operation of the firms, works to develop a strong corporate culture and induce the internalization of organizational objectives, values and beliefs, and the corresponding policies and procedures.

Of course, the evolution of control mechanisms is not uniform among all MNCs. Technological developments and the competitive forces of the industry, among other factors, may propel a firm to use specific control mechanisms. The trend toward globalization, however, has been compelling MNCs to abandon the less appropriate control mechanisms. Also, MNCs may not change their structural and formal tools of coordination and control but may additionally establish more informal mechanisms hidden under the surface. Procter and Gamble and Unilever, for example, have not significantly changed their formal coordination and control mechanisms for a long time. Instead, the internal management processes have changed. “Subsidiaries have assumed new and specific roles to respond to changing local conditions, and the headquarters’ control mechanisms have evolved from ubiquitous ‘company ways’ to multidimensional gestalts that are applied differently to different parts of the organization” (p. 620) [22].

Control by Standardization

Prior to the advent of globalization, many MNCs, such as Whirlpool, grew in different national markets without much integration and without the benefit of standardization across products and markets. This is a luxury that globalization has made impossible to afford. Now, to compete globally, successful MNCs implement product/market standardization as a means of controlling the operations of dispersed subsidiaries. In its attempt at standardization, Whirlpool determined that its products, such as dishwashers, refrigerators, and other household durable products, had two groups of major components. The first group, which consumers did not see, consisted of subsystems and parts that were common among all, such as electric motors, alternators, and fans. Because this group was culture-free and was not affected by consumer taste and preferences, it could be standardized as platforms. The second group, which consumers could see, such as size, color, and exterior design, was affected by local tastes and preferences. This group could not be standardized but could be added and built into the standardized platform. In doing so, the number of platforms worldwide was reduced from 135 to 65. As a result, the annual development costs were reduced by 10% and purchasing part by 30% [23].

Additional Control Problems of MNCs

In addition to the control problems associated with managing dispersed subsidiaries in economically and politically diverse environments, MNCs also encounter several other specific control problems:

1. Language and cultural differences.
2. Geographic distance between the headquarters and subsidiaries.
3. Legal differences.
4. Security issues.
5. Intrafirm business transactions (transfer pricing).
6. Currency exchange rate fluctuations.

Currency exchange rate fluctuations were briefly discussed in the chapter on strategy. In the following, we discuss the other control problems of MNCs.

Language and Cultural Differences

Diversity in language and culture among various foreign operations is the source of many of the difficulties the MNCs' headquarters encountered. Some of the problems can be reduced by assigning expatriates who are "acculturated" at headquarters to key managerial positions in the subsidiaries and identifying local managers who are proficient in the language of the headquarters. Typically, however, most staff at headquarters have limited or no foreign language skills, and the language problem remains real. The result is that communication between much of the headquarters staff and foreign subsidiaries is limited to contact with those subsidiary employments who can speak the language of the headquarters. This reality reduces the amount of information the headquarters staff receives and processes. Without the ability to directly reach the sources of most information, they are at the mercy of subsidiary staff who have the language skills or interpreters.

This problem is magnified if several languages are spoken by the local workforce. Such is the case in Africa and India. Even in European countries, which employ a large number of guest workers, control problems arise from the linguistic variety. In Germany, for example, many plants employ guest workers from Spain and Turkey, as well as the local German workers. The codetermination laws (covered in the chapter "International Labor Relations") require periodic meetings with workers. These meetings are held in Spanish, in Turkish, and, of course, in German. Additionally, the German subsidiaries of American firms that have American general managers hold top management meetings in English (p. 36) [24].

Language diversity often creates fewer strategic and more operational control problems. In part, it is typical for upper-level managers to be involved in strategic control, and there is a higher level of foreign language proficiency among this group of managers. In contrast, there are two reasons why language diversity creates problems in operational control, particularly in developing countries. First, and as noted, operational control affects more lower-level foreign subsidiary personnel, and they are less likely to be proficient in the MNC's home country language. Second, since language and culture reflect the level of technological development, the language of many developing countries does not have equivalents for the technical, industrial, and commercial terms used in modern business enterprises. Often, it is impossible to translate these terms into the local language. The use of a common language, which in most cases is English, is very difficult for a workforce with minimal education and may require the MNC to institute language-training programs. To overcome the language problem for servicing of its equipment, for example, Caterpillar has devised a unique method. They have developed an 800-word vocabulary called Caterpillar Fundamental English. With this tool, it is possible for local suppliers, dealers, and service personnel to work with Caterpillar equipment without the need for a translation [25].

Even without language difficulties, cultural differences have the potential to create control problems. Cultural norms and role expectations may result in inaccurate information and misunderstanding. Criticism in public, for example, is avoided in most Oriental cultures; therefore, on-the-spot suggestions for improvements may not produce the intended results. Group harmony and cohesion are very much valued in many Asian countries. Consequently, people from these cultures may not report problems to higher levels immediately, hoping instead to find a solution without unduly disturbing the group.

Geographical Distance

Telecommunication technologies and improvements in transportation facilities have greatly aided the expansion of MNC operations. Vast geographical distances between the MNCs' subsidiaries, however, pose control problems that even today's modern telecommunications and ease of travel have not been able to fully overcome. Nothing can substitute for face-to-face communication and personal visits. Written communication, telephone calls, and voice and computer messages are not the same as personal visits. Often, to travel from the headquarters and visit a foreign subsidiary takes at least a couple of days and much advance preparation. Distance matters even within a host country [26]. When an MNC has a number of business operations in a country, the physical distances between them can have a negative influence on the ease with which headquarters manages them. In some cases, this added travel time permits host country staff to rig personal visits by headquarters to show a different and rosier picture of the operations. Consider the following incident.

An American paint manufacturer gave a foreign importer in an Asian country exclusive regional distribution rights. The importer was supposed to act as a middleman between the retailers and the paint company. Therefore, by contract, he was not permitted to be a retailer as well. In violation of the contract, the importer had established a full retailing operation and in effect had become a monopoly. He had set up a bogus wholesale office, separate from his main business, which would be temporarily staffed only when he was expecting a visit from headquarters. Language barriers and long physical distance allowed this masquerade to go on undetected for a few years.

Legal Differences

Although a whole chapter is devoted to the legal aspects of international management, here we briefly examine some major legal problems with MNC control. Laws and legal procedures are central to the concept of organizational control. The control of a business firm depends on the legal institutions and practices of the host country. The practices that legally are accepted or rejected in one country are not necessarily honored by the other. The MNCs' control of foreign subsidiaries can take place only within the confines of the legally accepted business norms of host countries. In effect, the host country's legal system may place limitations on the control that headquarters can exercise. In Germany, for example, most firms, including the MNCs, are bound by codetermination laws, which require the membership of labor representatives on the board of directors. Because the law dictates power sharing and sharing of organizational control between management and labor, managers cannot unilaterally make certain decisions, such as the closing of a plant.

The host country's legal requirements in virtually all aspects of business operations, including labor relations, finance, marketing, and manufacturing, limit MNCs' control over subsidiaries. Some countries limit the equity ownership of domestic firms by MNCs. Equity ownership limits are more common among developing countries. In these countries, instead of direct control over the operations of the subsidiary, the MNCs may assume the minority position and may have to rely on advice and persuasion. The major problems of sharing equity ownership with host countries are discussed in a subsequent section.

Security Issues

Most nations have benefited from globalization. However, increased international trade; the information explosion, including the use of the Internet; and increased immigration have also made it easier for various groups to engage in terrorism. Terrorism adversely affects international business and poses serious questions regarding control of MNC operations. For a long time, developing countries had certain concerns over the loss of control to MNCs. Now, developed countries are facing a similar dilemma, albeit of a different nature. Europeans and especially Americans are reluctant about, if not completely against, handing over to foreigners the management of the firms they consider either national jewels or subject to security concerns. A number of European countries, for example, have blocked the takeover of local firms even by MNCs from other European countries.

The issue of national security as it relates to the increased acts of terrorism has become a very sensitive and important matter in the United States after the tragedy of September 11, 2001. Experts have been sounding alarms about securing the US borders and particularly the ports [27]. The issue of port security drew a very strong uproar after the purchase of a British firm, which operated five terminals at the US ports, by Dubai Ports World (DPW). The DPW is in the United Arab Emirates, a country south of the Persian Gulf. Some argued that this event may create, in the minds of international investors, a country risk for the United States similar to those of politically volatile developing countries. Such a development could disrupt an increasingly interdependent world economy. It may discourage foreign investment in the United States, on which it is heavily dependent. An outcry against similar big acquisitions in Europe raised concerns about a rise in economic nationalism and a backlash against globalization [28].

The national security issue of MNCs' control can be viewed from the two different perspectives of **economic benefits** and **less favored nations**.

First, from the **economic benefits** point of view, control of the MNC operations grants decision-making authority and, ultimately, distribution and the use of revenues. Previously, this aspect of control was thought to be directly related to ownership rights. This assumption, however, proved to be less critical when it was tested against the sovereign power and rights of host governments. Developing countries learned that even without ownership rights, they could use their sovereignty to achieve their strategic goals. Earlier, this was discussed under the topic of creeping expropriation. This characteristic of control is more relevant to developing countries. Host governments of developing countries are interested in influencing the MNC decision-making processes and steering those decisions in a desired direction that serves their strategic goals. Developed countries, however, often allow free-market forces to govern this feature of control.

Second, the **less favored nations** view is a more recent phenomenon that has attracted the attention of experts and scholars [29, 30]. The rise of international terrorism has made the control of MNC operations a national security issue. International terrorism has negatively affected the operations of all MNCs. Some MNCs, however, have been more severely affected. With or without merits, MNCs with the headquarters or ownerships in certain countries are negatively affected by this issue. From this perspective, certain MNCs should not be granted the opportunity to manage and control business enterprises, if such operations posed national security concerns. An example of this type of control feature was underlined when the sale of the laptop computer division of IBM went through a very rigorous examination by the US Congress. Another example was the case of DPW.

It is the second perspective of MNC control that will be discussed by international scholars and security experts for years to come. In the future, this feature of MNC control more likely will influence host country-MNC relationships.

Intrafirm Business Transactions

Firms can use various strategies for entering into foreign markets, including exports, contractual agreements, and direct investment. An export-oriented firm is dominated by product flows from the home country to foreign markets. The flow of capital from the home country to host countries characterizes the firms using investment as an entry strategy. Knowledge flows from MNCs to host countries through licensing and contractual agreements. Within this context, therefore, an MNC could be viewed as a network of resource (products and components, capital, technology and knowledge, and personnel) flow across national borders among business units controlled by the headquarters. In this network, resources flow from the MNC's headquarters located in the home country to subsidiaries in foreign countries. Additionally, there are inter-subsidiary business transactions between them and the headquarters that are controlled by headquarters.

Because the flow of resources among various units of a domestic corporation takes place within national boundaries (i.e., where the firm manufactures in one area of the country but sells its products in others), it creates no special problem. The same is not true for MNCs. In some countries, MNCs cannot fully exercise their property rights. Various host government restrictions imposed on the MNCs limit the free flow of resources among subsidiaries. When repatriation of profits is restricted by host governments, for example, control and exercise of property rights on corporate earnings are limited. Some countries even go further and establish production and export requirements for the MNCs, which effectively curtail operational control over the subsidiary. China, for example, requires most MNCs to export a significant portion of their production that takes place in China.

Global Control

A couple of decades ago, Black & Decker (B&D), the US-based hand tool manufacturer, was faced with competition from Makita, a Japanese company that was producing and marketing standardized, low-cost products globally. Makita was able to compete both on prices and on quality, resulting in substantial increase in its market share. Prior to 1985, B&D had an assortment of extremely independent subsidiaries. The British, French, and German subsidiaries manufactured products independent of one another's input and sold them locally. Standardization was nonexistent. The diversity of products, parts, and components was enormous, with over 100 different motors across the globe. This, of course, had created massive overhead.

The new strategy to control costs, improve quality, and recapture market share was implemented. The strategy focused on standardization of products among all subsidiaries for distribution around the world. Motor models, for example, were reduced to 20, with plans to reduce that number to only 5. The R&D improvements resulted in streamlining efforts and more effective production, including time reduction for output. The company also concentrated heavily on innovative design, which resulted in worldwide design recognition. Marketing was made consistent, resulting in a global image that did not vary from market to market. It reduced its advertising agency network by consolidating from more than 20 to 2 principle agencies focused on coordination of advertising around the world. Together, these combined strategies resulted in a 30% increase in revenues in a few years (pp. 94–182) [31].

Resource allocation is an effective measure in support of a global competitive strategy (p. 621) [32]. The complexity and mixed characteristics of MNC activities require the use of standard objective measures for comparison. These measures are characteristic of the market approach. Resources include anything of value and, therefore, comprise not only the flows of finances and products but also the flows of technology, people, and information. The pattern of resource allocation among foreign subsidiaries is an important means of control. This is particularly important when dealing with some developing countries where sociopolitical instability and capricious government policies are often the source of political risk [33]. To reduce political risk, the control of resource flow is considered an effective strategy. MNCs can exert substantial control even from a minority ownership position through the flow of technology, management know-how, and control of export-marketing channels [34]. Centralization of R&D activities at the headquarters is a common and effective means of control that ensures the dependence of foreign subsidiaries on headquarters. For this reason, MNCs, in many cases, are very reluctant to establish R&D facilities outside their headquarters. Prior to the 1970s, oil-producing countries that had nationalized MNC operations were forced to invite the MNCs back because the local governments lacked the technological and managerial capabilities to run the very industries they had nationalized. Similarly, export-marketing channels were dominated by global oil companies at that time. Those dominating companies effectively manipulated the situation against the risk of nationalization.

Furthermore, resource flow patterns between headquarters and the subsidiaries, on the one hand, and between the subsidiaries, on the other, raise special control issues. Although the pattern of resource flow is mostly from the MNC headquarters to subsidiaries, increasing globalization of business and diffusion of technology are beginning to alter this arrangement. An MNC may find it necessary to concentrate certain aspects of their business in a country. In the microcomputer industry, for example, it would be beneficial to locate R&D facilities in Silicon Valley (San Jose, California). Proximity to, and interaction with, a large number of firms at the cutting edge of a new technology provides easy access to a highly qualified workforce and immediate knowledge of the latest developments. A foreign subsidiary located in Silicon Valley could become responsible for the supply of advanced technology to the rest of the company. The dependence of various units of the MNC on this subsidiary for technology increases the subsidiary's importance to the MNC and along with it the amount of attention and scrutiny it receives from the headquarters. In fact, internal resource interdependence is believed by many researchers to have a very important influence on decision-making patterns within the various units of an MNC (p. 32) [35]. Some even consider the headquarters' resource dependence on its subsidiary the most important determinant of subsidiary autonomy (pp. 893–908) [36]. Examination of the relationship pattern between the headquarters and their subsidiaries suggests that the higher the importance of a subsidiary to the parent MNC and the rest of the firm, the lower its decision-making authority. The more the parent company delivers to and receives resources from a subsidiary, the more the critical decisions, such as investment and finances, that are concentrated at the headquarters. Thus, there is a negative relationship between the importance of a subsidiary to the MNC and its decision-making authority (p. 33) [35].

The pattern of intrafirm resource flow could be used to chart the decision-making autonomy of MNC units. Fig. 9.2 illustrates the pattern of intrafirm business transactions along a two-dimensional model (patterned after Ref. [37]). One dimension of this model is the flow of resources from a subsidiary to the rest of the MNC, and the other dimension is the flow of resources from the rest of the MNC to the subsidiary. Four types of subsidiaries are represented in this model: net supplier, net receiver, balanced subsidiary, and marginal player. A net supplier sends more resources to the rest of the MNC than it receives. A net receiver is just the opposite of a net supplier; it receives more resources from the rest of the MNC than it sends to them. There is a roughly equal inflow and outflow of resources between the balanced subsidiary and the rest of the MNC. A minimum number of business transactions with the rest of the MNC characterize a marginal player.

Based on this model, there could be variations in a subsidiary's importance and autonomy within the MNC. A subsidiary's importance to the multinational network and to the headquarters is predicated on where the subsidiary stands on the overall pattern of resource flows. Generally, those subsidiaries that provide

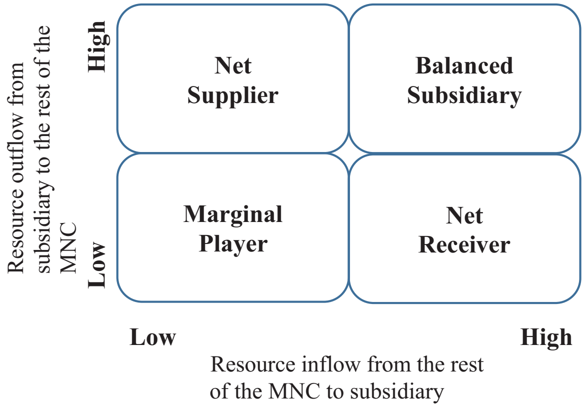


Fig. 9.2 Intrafirm resource flow

and receive a high volume and value of resources are considered more important to the MNC. Similarly, those subsidiaries that provide and receive few resources are considered marginal to the interests of the corporation. Subsidiaries that provide more than they receive and receive more than they provide have an importance in between that of the balanced subsidiary and the marginal player. Looking at this from the MNC's point of view, one may make the argument, based on standard rules and norms, that the more important type of subsidiary is the balanced subsidiary. Similarly, one may make the argument that the relatively less important type of subsidiary is likely to be the marginal player. Extending this line of thinking, the net supplier is likely to be more important than the net receiver. The reason the net supplier is more important to the headquarters than the net receiver is that an interruption of resource flow from the net supplier could affect the rest of the MNC operations, while any interruption of resource flow to the net receiver could affect the net receiver's operations only. The net receiver, in turn, is likely to be more important than the marginal player. Both the net supplier and the net receiver are less important than the balanced subsidiary. All other things being equal, the importance of a subsidiary to MNC operation is directly related to the amount of resource (value and volume) inflow and outflow that occurs between the subsidiary and the rest of the MNC. On this basis, a balanced subsidiary will be more closely controlled than the other subsidiaries, and marginal players may be afforded considerable freedom from controls. Table 9.3 depicts these relationships.

Other Factors

The pattern of resource allocations and the amount of control exerted by the headquarters is determined by many factors; among them are the importance of a subsidiary to the MNC and the required relationship between the subsidiary and the host government. A subsidiary, for example, may be given more decision-making authority if it has to establish certain links with the local community, and to do so, it

Table 9.3 Resource flow, subsidiary importance, and headquarters control

	Resource flow to subsidiary	Resource flow from subsidiary	Importance of subsidiary to headquarters	Control exercised by MNC
Marginal player	Low	Low	Very little	Very little
Net receiver	High	Low	Some	Some
Net supplier	Low	High	Moderate	Moderate
Balanced subsidiary	High	High	Very much	Considerable

requires more autonomy. Also, the headquarters' confidence in the managers of subsidiaries determines the amount of central control exercised over them. The MNC's confidence is a function of a manager's skills, experience, and nationality. More experienced and competent managers are given more decision-making authority. Also, expatriates have more autonomy than host national managers.

Ownership and Host Government Involvement

In discussing control concerns of multinational corporations, two separate, but interrelated, issues stand out. The first one is the control of organizational performance as just discussed. It deals with the activities and operation of the enterprise and provides information and assurances that the corporate plans have been accomplished. Typically, it is the control of organizational performance that comes to mind when discussing the subject of control. The second issue is the legal and ownership control that deals with business-government relationships and participation of the host country in the ownership of a foreign subsidiary. The legal and ownership issues of control are even more challenging and complex than those involving corporate strategies.

Host Government Involvement

Host governments regularly interfere in the normal business operations of MNCs and infringe on their decision-making power and control, typically getting involved with the subsidiaries rather than at the headquarters level. Consequently, the amount and type of control exercised by the headquarters over foreign subsidiaries are altered as host government involvement increases. Host government interference falls into three major categories: financial and investment decisions, business decisions, and human resource management (pp. 13–14) [38].

Financial and Investment Decisions

The most prevalent demand by host governments is for financial participation in foreign subsidiaries. Particularly in Asia and South America, host governments pressure MNCs to share equity ownership of their subsidiaries with domestic investors or host government agencies. Under pressure, some MNCs succumb to these demands. Most MNCs do not strongly object to a minority equity ownership by locals. In fact, sharing of ownership with host country investors is an effective protection against host government policy decisions that could adversely affect the MNC operations. Some MNCs, however, have refused to do business with countries where they are not permitted to assume a majority equity ownership. From the MNCs' point of view, effective control of a business is much easier with a majority equity position.

Interference in repatriation of assets is another financial restriction imposed on MNCs. Some host governments limit repatriation of MNC assets. This limitation is considered most troublesome by MNCs because it severely curtails their investment strategies and forces them to reinvest in the host country. Reinvestment in the host country may not necessarily be the best alternative. Asset repatriation restrictions are more common among developing countries with growing markets.

Another financial decision that is a source of contention with host governments is the allocation of R&D expenses to foreign subsidiaries. Some host governments have policies limiting the amount of fees the MNCs charge their foreign subsidiaries for R&D work carried out by their central laboratories. Another R&D issue is the location of research facilities. All countries, particularly developing nations, are very interested in technology transfer and demand that MNCs establish research laboratories in the host countries. Not only are R&D facilities a source of new technology, but they also contribute to the improvement of skills and knowledge of the local workforce.

Sharing equity ownership with host countries affects utilization, and sometimes control, of MNC resources. Without full control over a subsidiary, MNCs may be unwilling to use the best available technology. To transfer state-of-the-art technology that could not effectively be safeguarded against pilferage and piracy is not a wise choice. It may not, however, be wise to limit technology transfer. One MNC executive expressed this dilemma in the following terms: "Local participation can interfere with the free flow of the best technology available for each market. When you slow the development of the local units this can sometimes result in the loss of management control over the decision-making process (p. 18)." [38] The requirement of a large local equity ownership may reduce an MNC's control over how to maintain and expand a business. The extractive industry is an example where the full development of a business requires a large investment. In some countries, sufficient local capital may not be available to meet a 50%, or more, local ownership requirement. In such a case, MNCs may be forced to operate the foreign subsidiary with a less than optimum size. This is also in line with the findings that indicate that in a joint ownership, the MNC's control has a significant positive impact on the survival of the subsidiary [39].

Business Decisions

Host governments interfere with business decisions by establishing certain performance criteria for foreign subsidiaries. These criteria include the local component requirement, market share limits, tie-in products, and export quotas. Local component requirements involve the demand of many host governments that products sold by the MNCs in the host markets incorporate locally produced components or raw materials. For instance, there is a requirement on FDI (foreign direct investment) imposed by the Indian government that foreign firms, single-brand retailers, have to order 30% of parts/components to local Indian suppliers [47]. The aim is to increase the MNCs' contribution to the local economy and employment and to reduce hard currency spending. Host governments are also very interested in regulating domestic competition and preventing MNCs' total domination and control of local markets. Setting a limit on the local market share that foreign subsidiaries can gain ensures the viability of fledgling domestic businesses. Also, tie-in products are used to increase the MNCs' contribution to the domestic economy. As a condition for allowing access to the domestic market, a host country may "tie-in" by requiring that the MNC produce or sell certain products. These requirements and demands transfer partial control of the business operation from the MNC to the host country and reduce the decision-making authority of MNC managers.

Human Resource Management Decisions

The host governments' desire to increase the employment, skills, and knowledge of their people is manifested in several ways. The host government may demand that host nationals be appointed to top managerial positions within local subsidiary operations. Compliance with this demand makes the control of local operations more difficult, especially where trust and competence become issues.

MNCs become more cautious and increase headquarters control when they are forced to appoint a host national as the head of a foreign subsidiary. Most MNCs grant more decision-making authority to expatriate managers than to host nationals, and having home country nationals at the head of foreign subsidiaries is perceived to reduce the need for other means of control. When the MNC is strategically dependent on the subsidiary, it is more likely that for control purposes, an expatriate is appointed as the subsidiary's manager [40]. An alternative effective control technique used by most MNCs is to identify local managers who have internalized corporate values. This requires constant and close monitoring of local managers' development and progress through the corporate hierarchy.

Appointments at lower organizational levels are considered less important. These and other human resource management issues, such as hiring, promotion, and negotiation with locals, are made by the subsidiary. Usually, only important and critical decisions are centralized at the headquarters. Other matters are left very much at the discretion of the subsidiary. Those decisions that might directly affect the headquarters or other subsidiaries or might influence the profitability of the affiliates or the parent company are closely controlled. Often, these decisions are exclusively made by the parent MNC. Sometimes, subsidiaries are allowed to participate in making these decisions, but the final choice is still made by the headquarters.

Ownership and Control of Foreign Affiliates

Besides the nature of the decisions, other factors influence the centralization of decision-making at the headquarters and reduce the autonomy of affiliates. We have already referred to a few of these factors, including the skills and experience of managers and their nationality. Other factors are the size and degree of internationalization of the MNC, the type of product produced by the subsidiary, the markets that the affiliate serves, and the size of equity owned by others. From a survey of US affiliates in Mexico and France, Garnier [36] concluded that a subsidiary's autonomy is less when:

1. It belongs to a large MNC that operates in many countries.
2. Its products are fairly standardized.
3. The MNC is fairly integrated, with important intrafirm flow of resources.
4. Besides its own home market, it serves other markets as well.
5. A large portion of its equity is owned by the parent MNC (p. 906).

In business organizations, domestic or international, regardless of the locus of control (centralization vs. decentralization), the firm is interested in the full application of the strategic decisions made at the headquarters. Compliance with headquarters' decisions will be higher when an MNC's strategy-making process is judged to be fair by the top managers of its subsidiaries [41].

Five conditions determine the fairness of the strategy-making process:

1. Headquarters is knowledgeable about the local conditions of the subsidiaries.
2. A two-way communication exists in the multinational's strategy-making process.
3. The headquarters' decisions are fairly consistent across subsidiaries.
4. The subsidiaries can legitimately challenge the headquarters' strategic views.
5. The MNC's final strategic decisions are fully explained to the subsidiaries [42].

A firm may prefer joint ownership with locals, at the outset of expansion abroad, due to unfamiliarity with the host country environment. At that time, the MNC may not have a majority equity ownership and, therefore, not have full control over the foreign operations. The MNC, however, can exercise significant control through other means. As it gains experience and self-confidence, it will probably favor creating an integrated global operation that requires a majority or full ownership of foreign subsidiaries (p. 32) [43]. We discussed the Acer Group in Chap. 8, describing the network organization. Acer, a newcomer to the global business, at the beginning of its push to become a global company, attempted to independently own and operate subsidiaries listed in the local stock markets. This vision of globalization proved to be very difficult, if not impossible, to implement. The difficulties forced Acer to reaffirm its ownership and control of these regional business units (p. 77) [44]. Of course, even with a majority or full equity ownership by the MNC, host governments control a wide range of the subsidiaries' operating decisions, such as profit repatriation and expatriate employment.

The ownership pattern of US MNCs indicates that they prefer to retain total ownership of foreign subsidiaries (pp. 32–34) [43]. The management of a jointly owned foreign operation is a very difficult undertaking. Cultural differences and limited commonality among partners exacerbate the operational and strategic problems of a joint venture. Except for the learning period at the beginning of expansion into a host market, a jointly owned firm is less attractive to the MNC than a wholly owned subsidiary. Sometimes, however, as mentioned before, in a politically unstable environment, a joint venture with host country partners reduces the risk of adverse host country policy decisions. Joint ventures are inherently unstable and subject to frequent "renegotiation" imposed by the majority partner. Usually, through these renegotiations, the joint venture is converted into a wholly owned subsidiary [45].

It is much easier to manage a firm without having to share decision-making authority with other parties. The preference for full ownership of foreign subsidiaries is therefore almost a direct result of control problems. In a marketing-oriented MNC such as Coca-Cola, for example, where commitment to certain marketing strategies for the global operation is very important and where the firm possesses special marketing skills, a wholly owned subsidiary is preferred. To implement the overall marketing strategy at the subsidiary level, headquarters needs full control. In this case, strategy implementation could be compromised if conflicts arise with the partner over centralized control. Particularly in a transition economy, the delegation of marketing matters to the local staff involves performance risk [46].

Where control could be exercised by other means than equity ownership, MNCs have shown a considerable amount of practical flexibility. An MNC, for example, may agree to share equity ownership in a joint venture manufacturing project with a host government if it can maintain control by full ownership of sales operations. Consequently, the host government's demand is met, and headquarters maintains control over subsidiary operations.

Chapter Summary

An effective control system is needed to manage an organization successfully. In MNCs, control is a much more complex and demanding issue than it is in a domestic business. Unlike a domestic operation, a foreign subsidiary cannot, for long, subordinate its business requirements, which are often dictated by the host country, to those of the parent MNC. An effective MNC control system should allow for local adaptability and responsiveness to the host country environment. A challenging task for MNC top management is to build a control system that, while promoting the overall corporate competitive position, is beneficial to individual subsidiaries as well. In other words, if subsidiaries consider the strategy process and associated control system fair, they will accept it more readily. Subsidiaries' managers consider a corporate strategy more attractive when it includes interests important to the subsidiaries. Moreover, when subsidiaries' interests are not totally abandoned in favor of promoting corporate objectives, the strategy process will be considered to be fairer. This, in turn, provides greater incentive for compliance by the subsidiary and makes corporate control much easier.

(continued)

Of course, a fair strategy-making process has a built-in control mechanism that is also fair. This means, for example, that if the return on investment is used to evaluate the performance of a subsidiary manager, allowances should be made to compensate for the shortcomings of this evaluation technique. Return on investment evaluations do not reflect the impact of decisions made by the headquarters for the benefit of the whole MNC operation. Those decisions may have a negative impact on the subsidiary's earnings.

Various control mechanisms and approaches used by domestic firms are applicable to MNCs. The diversity of the international environment, however, makes it more difficult to apply these controls. Effective MNC control employs a combination of formal, informal, direct, and indirect mechanisms to account for the uniqueness of each subsidiary while addressing the total MNC strategic and operational requirements.

Discussion Questions

1. What are the differences between the control processes of MNCs and domestic firms?
2. Describe the various control mechanisms that the MNCs could use.
3. What control mechanisms work well for an integrated MNC?
4. Why is MNC control more difficult than the control of a domestic business?
5. Does geographical distance create any difficulty for the control of the MNC?
6. What is the impact of an increase in intrafirm business transactions on control of a foreign subsidiary?
7. What attributes of managers influence the amount of autonomy granted to a foreign subsidiary?
8. Why do host governments interfere with MNC operations?
9. Which one of the three approaches to control is more appropriate for MNCs? Why?

References

1. Sesit, M. R. (1984). Funds blocked abroad by exchange controls plague big companies. *Wall Street Journal*, 1.
2. Penrose, E. T. (1956). Foreign investment and the growth of the firm. *The Economic Journal, 66*(262), 220–235.
3. Greenberg, L. M. (1993). Mining firms cede portion of Porgera. *Wall Street Journal*, A2.
4. Hedlund, G. (1981). Autonomy of subsidiaries and formalisation of headquarter-subsidiary relationships in Swedish multinational enterprises. In L. Otterbeck (Ed.), *The management of*

headquarters subsidiary relationships in multinational corporations (pp. 51–64). Stockholm: Grover.

5. Zacks Equity Research. (2017, Jan. 17). Lincoln Electric (LECO) hits 52-week high on growth drivers. Nasdaq.com, from https://www.nasdaq.com/article/lincoln-electric-leco-hits-52-week-high-on-growth-drivers-cm734120.
6. Reilly, P. M. (1993). Sony combines U.S. operations under Schulhof. *Wall Street Journal*, B1.
7. Galbraith, J. R. (1977). Organization design: An information processing view. *Interface, 4*, 28–36.
8. Nadler, D. A., & Tushman, M. L. (1988). *Strategic organization design*. Glenview: Scott, Foresman.
9. Guyon, J. (1992). A joint-venture papermaker casts net across Europe. *Wall Street Journal*, B6.
10. Ouchi, W. G., & Maguire, M. A. (1975). Organizational control: Two functions. *Administrative Science Quarterly, 20*, 559–569.
11. The Economist. (2011, Nov. 19). The French way of work. The Economist, from https://www.economist.com/node/21538733.
12. Ouchi, W. G. (1980, March). Markets, bureaucracies, and clan. *Administrative Science Quarterly, 25*, 129.
13. Ackoff, R. L. (1994). *The democratic corporation*. New York: Oxford University Press.
14. McGune, J. C. (1999). Exporting corporate culture. *Management Review, 88*, 52–56.
15. Birnberg, J., & Snodgrass, C. (1988). Culture and control: A filed study. *Accounting, Organizations and Society, 13*(5), 447–464.
16. Van Maanen, I., & Schein, E. H. (1979). Toward a theory of organizational socialization. In B. M. Staw (Ed.), *Research in organizational behavior* (Vol. 1, pp. 209–264). Greenwich: JAI Press.
17. Schein, E. H. (1977). Organizational socialization and the profession of management. In B. M. Staw (Ed.), *Psychological foundations of organizational behavior* (pp. 210–224). Santa Monica: Goodyear.
18. Bennett, A. (1993). GE redesigns rungs of career ladder. *Wall Street Journal*, B1.
19. Engardio, P. (1993, May 17), Motorola in China: A great leap forward. *BusinessWeek*, 59.
20. Martinez, J. I., & Jarillo, J. C. (1989). The evolution of research on coordination mechanisms in multinational corporations. *Journal of International Business Studies, 20*(3), 489–514.
21. Franko, L. G. (1978). Organizational structure and multinational strategies of continental European enterprises. In M. Ghertman & J. Leontiades (Eds.), *European research in international business* (p. 118). Amsterdam: North-Holland.
22. Ghoshal, S., & Bartlett, C. A. (1990). The multinational corporation as an interorganizational network. *Academy of Management Review, 15*, 620.
23. Whirlpool's platform for growth. (1998, March 26). *Financial Times*, p. 8.
24. Terpstra, V., & David, K. (1991). *The cultural environment of international business*. Cincinnati: South-Western.
25. Caterpillar designs easier maintenance manuals. (1973, April 6). *Business International*, p. 107.
26. Ghemawat, P. (2001). Distance still matters. *Harvard Business Review*, September, 137–147.
27. Giermanski, J. (2006). Boxing clever. Cargo Security International, February–March, p. 40–44.
28. Hitt, G., & Ellison, S. (2006). Dubai firm bows to public outcry. *Wall Street Journal*, 1.
29. Tucker, P. (2006). Redefining national security. *Futurist, 40*(2), 6–7.
30. Busch, K. G., & Weissman, S. H. (2005). The intelligence community and the war on terror: The role of behavioral science. *Behavioral Science and the Law, 23*, 559–671.
31. Yip, G. S. (2003). *Total global strategy II*. Upper Saddle River: Prentice Hall.
32. Doz, Y. L., & Prahalad, C. K. (1992). Headquarters influence and strategic control in MNCs. In C. A. Bartlett & S. Ghoshal (Eds.), *Transnational management* (p. 621). Homewood: Richard D. Irwin.
33. Fatehi, K. (1994). Capital flight from Latin America as a barometer of political instability. *Journal of Business Research, 30*(2), 187–195.

34. Fayerweather, J. (1981). Four wining strategies for the international corporations. *Journal of Business Strategy, 2*(2), 25–36.
35. Organisation for Economic Co-Operation and Development. (1987). *Structure and organisation of multinational enterprises*. Paris: Author.
36. Garnier, G. H. (1982). Context and decision-making autonomy in the foreign affiliates of United States multinational corporations. *Academy of Management Journal, 25*, 893–908.
37. Gupta, A. K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review, 16*, 768–792.
38. Berenbeim, R. E. (1983). *Operating foreign subsidiaries: How independent can they be?* (Report No. 836, pp. 13–14). New York: Conference Board.
39. Lu, J., & Hebert, L. (1999, August). *Foreign control and survival of joint venture: An examination of Japanese IJVS in Asia*. Paper presented at the Academy of Management Annual Meeting, Chicago.
40. Blderbos, R. A., & Heijltjes, M. G. (2005). The determinants of expatriate staffing by Japanese multinationals in Asia. *Journal of International Business Studies, 36*(3), 341–354.
41. Kim, W. C., & Mauborgne, R. A. (1993). Procedural justice, attitudes, and subsidiary top management compliance with multinationals' corporate strategic decisions. *Academy of Management Journal, 36*, 502–526.
42. Kim, W. C., & Mauboregne, R. A. (1991). Implementing global strategies: The role of procedural justice. *Strategic Management Journal, 12*, 17–31.
43. Negandhi, A. R., & Welge, M. (1984). *Advances in international comparative management*. Greenwich: JAI Press.
44. Mathews, J. A. (2002). *Dragon multinational*. New York: Oxford University Press.
45. Blodgett, L. L. (1992). Factors in the instability of international joint ventures: An event history analysis. *Strategic Management Journal, 13*, 475–481.
46. Child, J., Chung, L., & Davis, H. (2003). The performance of cross-border units in China: A test of natural selection, strategic choice and contingency theories. *Journal of International Business Studies, 34*(3), 242–254.
47. Goel, V., & Raj, S. (2018, Jan. 10). India extends hand to Apple and others by easing rules on foreign firms. *The New York Times*.

10 International Information Systems Management

Chapter Outline

This chapter is coauthored with Mohammad Dadashzadeh, Professor of MIS and Director of Applied Technology in Business (ATiB) at Oakland University, Rochester, Michigan.

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_10

In this chapter, the basic issues of international information systems (IS) management are introduced. The chapter discusses the characteristics of computer-based information systems (CBIS) and the benefits they will bring to the firm. It elaborates on the IS applications that enable the firm to link with its suppliers, customers, and other organizations, including the government. These include supply chain management (SCM), enterprise resource planning (ERP), and electronic data interchange (EDI), as well as the use of the Internet. The chapter explores the ramifications of internationalization on the IS function in the firm. It examines various IS options and suggests the alternatives available to MNCs. Also, in this chapter, we learn about the impact of information technology (IT) on MNC operations. Based on the MNCs' requirements and the environmental limitations that they experience, this chapter makes several suggestions for the deployment of specific IS. Finally, the impact of the internationalization of the firm on the chief information officer's (CIO's) responsibilities and duties is discussed.[1]

Overview

Chapter Vignette

Rohm and Haas (R&H) is one of the world's largest manufacturers of specialty chemicals. R&H's worldwide headquarters is located in Philadelphia, Pennsylvania. With more than 17,000 employees and multibillion dollars in sales, it operates approximately 140 research and manufacturing locations in 27 countries. Some of R&H's businesses are adhesives and sealants, automotive coatings, electronic materials, plastics additives, powder coatings, and salt.

Inadequate global information was causing R&H to spend millions of dollars carrying unwanted inventory, which was costing the company a lot of money and lost business. Its 35 production units around the world operated independently. For example, if a customer needed a product that was out of stock in France but thousands of units of the product were in storage 20 miles away, across the border in Germany, no one had access to this information. To improve its information-processing capability, R&H installed a new company-wide materials management system and a global demand-planning system. It also upgraded the manufacturing, execution, and control system and the worldwide order entry system. These changes reduced inventory costs by $40 million and improved on-time delivery performance by 10%. It gave R&H a stronger position in the global market. Consequently, customers around the world can now receive the requested products on time even if the products are not available locally.

R&H has built a management and IT infrastructure to improve its capacity for receiving and sending the right information within its different global business units. This new management and IT infrastructure also helps researchers and marketers in extracting the information they need. With this infrastructure, R&H can

[1]The substantive contributions of Soheil Rezai, CEO of SolutiaNet, Inc., are gratefully acknowledged.

standardize the software applications throughout its global organization. These applications include accounting, human resources, materials management, production scheduling, procurement, maintenance, and sales and distributions. All data are stored in a central database providing every employee the required access to the most accurate and up-to-date information. This enables R&H to make better business decisions, improve forecasting and report capabilities, and have faster and better e-commerce connections between the company and its suppliers and customers. Another advantage is that R&H is able to close its books in 3 working days at the end of the fiscal year, a process that usually took 12 days.

IT was also used to implement the Environmental Health and Safety Management System (EHSMS) worldwide. The EHSMS, which was installed in the 1970s, provides specific requirements and guidance covering areas such as safety, employee health, and environmental protection programs for each global unit. The system enables R&H to maintain worldwide operations that protect the environment, enhance the safety and health of all employees and the public, and improve the safety and environmental impact of R&H processes, products, and services [1–4].

Introduction

We are living in the information age. Information and IT are governing every aspect of our lives. The ever-growing reach of the Internet and the World Wide Web has brought together individuals and public and private organizations like no other time in human civilization. The Internet, as a decentralized global network of computers, has become the de facto standard medium to transfer data, voice, and video anywhere and anytime.

Information can be considered the lifeblood of business and a strategic resource that can provide a competitive advantage. The ability to gather, store, and process information is essential for making timely decisions. As much as 80% of an executive's time is devoted to receiving, communicating, and using information in performing a variety of tasks (p. 8) [5]. Because all organizational activities depend on information, systems must be developed to produce and manage them. No complex organization can function without an IS. "An information system is a set of people, data, and procedures that work together to provide useful information" (p. 8) [5]. Organizational success greatly depends on effective information management and dissemination. The need for an effective management information system (MIS) function is particularly crucial for the survival and success of MNCs. Crossing national borders, MNCs are vulnerable to the uncertainties associated with the multiple political, cultural, and economic systems within which they operate. Therefore, an effective MIS is integral to the success of MNCs.

An organization's MIS is a system for obtaining, processing, and delivering information that can be used in managing the organization (p. 6) [6]. The mission of IS is to improve the performance of people in the organization through the use of IT (p. 14) [7]. Before the advent of computers, due to technological limitations, the bulk of MIS consisted of paper reports generated by functional areas, such as accounting, manufacturing, and marketing. Accessing this information was very slow and time-consuming. There was a time lag between the generation of information and its use. Depending on the physical distance between the source and the user of information, the time lag ranged from a few hours to weeks. As a result of the limitation in information management, greater geographical distances from the headquarters implied a higher degree of autonomy for the subsidiaries. Today, IT comprises computers and telecommunication networks that allow instantaneous access to information regardless of the physical distance between the source and the user of information. The newfound MIS capability not only allows more timely decision-making; it also enables a better control of distant operations. Such a capability is especially beneficial to MNCs. IT affects MNCs in two different ways. First, it provides a coordination mechanism for geographically dispersed activities, thereby facilitating globalization. Second, it provides a mechanism for building a coalition among separate organizations, making global operation more cost-effective [8].

Computer-Based Information Systems

CBIS play a vital role in today's business. The many benefits organizations seek to achieve through CBIS may be classified as follows: (1) efficiency gains, (2) effectiveness gains, and (3) competitive advantage.

Efficiency gains are concerned with doing more with the same or fewer resources. CBIS can bring about efficiency gains by automating tasks in the factory as well as in the workplace.

Effectiveness gains are concerned with doing the right things and achieving the established goals. CBIS can bring about effectiveness gains by improving internal as well as external communications and by facilitating superior managerial decision-making.

Competitive advantage is concerned with providing the organization with a significant and long-term benefit vis-à-vis the competition. CBIS can bring about competitive advantage by allowing the firm to differentiate itself from its competitors, become the lowest-cost/price producer in the marketplace, or carve market niches for itself through innovative services and/or products.

It is precisely because of the major impact that IS can have on corporate strategy that today's managers must not only be computer literate but also IS literate. Computer literacy is the knowledge of computer technology. IS literacy encompasses how and why IT is applied in organizations. A knowledge of organizations, managerial levels, information needs, and decision-making approaches is an important aspect of IS literacy.

Today, no company of even modest size can operate without support from IS. But at a time when business is increasing its dependence on IT, technology is changing so rapidly that businesses are threatened by its pace. New developments arise before older ones can be assimilated, and systems purchased today are, at times, outdated even before they are put into use. It is, however, too late to stop. The use of any tool creates dependence, and computers—the most enabling tool created by man—are heavily used already. By the same account, nearly half of all capital investment in the United States is being put into IT [9]. To cease to invest, or even invest slowly, is to accept the premise that new operations and opportunities can be developed without IT support, when the old ones cannot be sustained without it! Therefore, management of IT investment has become a critical concern, because there are real risks associated with an inept organizational response to the rapid pace of developments in IT.

Information Architecture (IT)

The solution that emerged in the late 1980s to deal effectively with the rapid pace of change in IT was to build an *information architecture*—that is, to create a framework within which current as well as future organizational needs for information could be met with impunity from changing technology. The IS architect, however, must often pay dearly for the mistakes of the past. IS, like buildings and streets, have a tendency to grow haphazardly. As in a building, we do not like to break down an "outside wall," but if we cannot modify the inside walls to make the architecture useful for today's context (i.e., information needs), then there is no other choice. A well-planned information architecture should, as much as possible, obviate the need for the demolition of outside walls [10].

Figure 10.1 depicts a model information architecture. It is based on providing infrastructures for communication integration as well as data integration on which the IT portfolio (i.e., the various application systems ranging from purchase order entry to R&D planning) would be developed [11]. Together, communication integration and data integration ensure that data are stored in a nonredundant fashion and that every authorized user can gain access to and update the required information from anywhere. These infrastructures must be provided to support the tactical deployment of IT, ensure that developing problems and opportunities can be addressed, and guarantee that catch-up time would be short and, thereby, little ground would be lost to a competitor who leads with an innovative business idea based on IT.

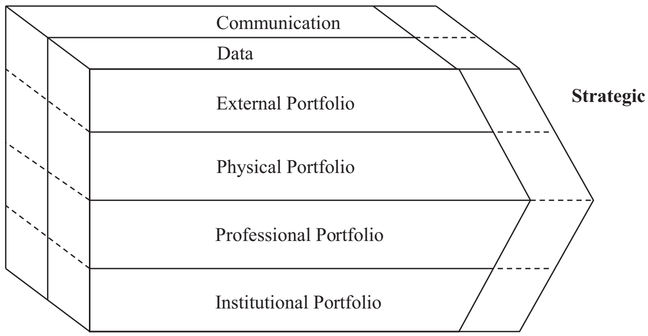


Fig. 10.1 Model information architecture

In addition, the above model emphasizes four application portfolios that a mature IS would comprise:

1. *Institutional Portfolio*: IS applications are directed at recording and reporting on business activities. Examples include transaction processing systems such as payroll, order entry, purchasing, production scheduling, and accounting IS.
2. *Professional Support Portfolio*: IS applications are directed at managerial problem-solving and decision-making, competitive intelligence, and personal productivity. Examples include critical success factor reporting systems, decision support systems, and expert systems, and such tools are used for document preparation, computer-based messaging, electronic meetings, and workgroup computing.
3. *Physical Automation Portfolio*: IS applications are directed at replacing manual work with IT, both on the factory floor as well as in offices. Examples include computer-aided design and engineering, robotics, automated response units, and workflow automation.
4. *External Portfolio*: IS applications are directed at linking the firm with its suppliers, customers, or other firms for the purpose of creating a strategic alliance. Examples include ERP, SCM, EDI, and interorganizational systems.

It is important to note that while the above model acknowledges that the application portfolios must address the information requirements at all levels of management, it neither assumes a particular hardware or software architectural platform nor advocates a centralized or decentralized approach to building the architecture. These choices are left to the eventual architect, who must fit the suggested architectural form to the specific context of the organization. The remainder of this chapter will use this model architecture as a backdrop to examine the ramifications of internationalization on IS architecture. However, because of the significant role that SCM, ERP, and EDI play in helping MNCs manage their worldwide operations, they are discussed subsequently.

Supply Chain Management

Supply chain management can be defined as the way a company finds the raw components it needs to make products or services, produces those products or services, and delivers them to customers. To have a better SCM, most companies implement the following five basic steps.

1. *Plan:* Establish a plan to manage all the resources that go toward meeting customer demand for products or services.
2. *Source:* Choose the suppliers that will deliver the required components, materials, parts, or services. Also, develop a set of pricing, delivery, and payment processes with suppliers and create measurements for monitoring and improving the relationships with them. Then, put together processes for managing the inventory of goods and services that are received from suppliers, verifying them, transferring them to the manufacturing facilities, and authorizing payments.

3. *Make:* Schedule the activities necessary for production, testing, packaging, and preparation for delivery of the goods or provision of the services.
4. *Deliver:* Coordinate the receipt of orders from customers, develop a network of warehouses, select carriers to deliver the products to customers, and set up an invoicing system to receive payments.
5. *Return:* Create a network for receiving defective and excess products back from customers and supporting customers who have problems with the delivered products (www.cio.com/research/scm/).

As an example, Walmart has implemented the global SCM system. The global SCM system gives its major suppliers complete visibility into the inventory position of their own products in each of Walmart's stores. Therefore, Procter & Gamble can make Tide detergents and ship them to Walmart's distribution centers based on the actual sales performance in stores. Or, similarly, a supplier in Taiwan can make DVD players and ship them to Walmart as needed in what amounts to a vendor-managed inventory.

Enterprise Resource Planning

ERP's main objective is to attempt to integrate all departments and functions across a company onto a single computer system that can serve all those departments' particular needs—for example, building a single software program that serves the needs of people in the finance department as well as those of the human resources (HR) department and in warehousing. ERP creates a single, integrated system that runs on an enterprise-wide database, so that the various departments can more easily share information and communicate with each other. The integrated approach can have a tremendous payback once the organization adopts and adapts to the business processes implemented by the ERP software.

Each department typically has its own computer system optimized for the particular ways that the department operates. For instance, when a customer places an order, that order begins a mostly paper-based journey from one in-basket to another in-basket around the company, often being entered and reentered into different departments' computer systems. As a consequence, the repetition of the in-basket process and data entering causes delays and lost orders. All the data being entered into different computer systems invites errors. Meanwhile, no one in the company truly knows what is the status of the order at any given point, because there is no way for the finance department, for example, to get into the warehousing's computer system to see whether or not the item has been shipped.

ERP substitutes the old stand-alone computer systems in different departments and replaces them with a single unified software system. The finance, manufacturing, and warehousing departments still have their own software, except that now they are all linked together by an enterprise-wide integrated database. Consequently, people in the finance department can look into the warehousing records to see if an order has been shipped (www.erpcentral.com/, www.erpfans.com/).

General Motors, for example, uses ERP software to connect all its worldwide operations as well as its suppliers and dealers in a global network that permits sharing of up-to-the-minute information. An assembly plant in Atlanta, Georgia, for instance, knows exactly when it will receive body parts from the plant in Mexico and leather seat covers from China. It can also make adjustments if one of the suppliers runs into problems and faces delays.

Electronic Data Interchange

EDI [12–15] is the exchange of documents and information in standardized form between organizations in an automated manner directly from a computer application in one organization to an application in another. EDI's roots go back to the time of the Cold War. In 1948, for 1 year, the Soviet Union shut down the access between Germany and the parts of Berlin that were controlled by the United States, England, and France. To deal with such a crisis, in 1949, a US Army Master Sergeant Edward A. Guilbert and other officers developed a manifest system that could be transmitted by telex, radio-teletype, or telephone. By 1968, truckers, airlines, and ocean shipping companies were using electronic manifests and formed the Transportation Data Coordinating Committee (TDCC) to create cross-industry standards. In 1975, the TDCC published its first EDI.

Due to the wide range of benefits that EDI provides, it is increasingly becoming a preferred way of carrying out business transactions among trading partners. The following are some of the benefits of EDI:

- Higher processing speed, shorter turnaround time, and greater efficiency.
- Less data reentry and transcription, less likelihood of error, and greater accuracy.
- Lower cost and more convenience with less physical transportation of documents.
- Less paper consumption due to electronic transmission and storage transactions.

The automotive industry is a champion of EDI. By reducing the time taken to process orders, EDI has enabled cost savings through the just-in-time management of automotive parts. Similarly, the transportation industry, which continuously exchanges routing and customs documents, has embraced EDI.

Ramifications of Internationalization on the IS Function

The expansion of a company from a domestic corporation to a multinational brings with it special challenges for the IS function. Consider the following ramifications of internationalization on the IS function: [16, 17].

1. Although it is highly desirable to have common computer (e.g., PC) standards, local service issues and the level of support vary so widely that this seemingly

straightforward issue becomes a complex one. The support and service issue notwithstanding it may simply be overwhelmingly advantageous to improve government relationships by choosing a local brand even at the expense of the system integration problems that this may cause.
2. Although it is highly desirable to have system developers located physically close to the end users of the system being developed, the wide disparity between salaries abroad vis-à-vis the United States may make it overwhelmingly attractive to move portions of large development efforts overseas and risk the coordination problems.
3. Expansion overseas also causes problems with scheduling and coordination. A business that crosses four time zones has 5 business hours that are supported in common by all portions of its operation, while one spanning more than eight time zones would have no common business hours at all. This shift in schedules can result in increased reliance on background transfers of information (such as e-mail), which do not require human interaction in real time.
4. Due to technological advances and the use of the Internet, communication costs are continuously decreasing. In general, however, communication costs increase with distance until the use of the Internet becomes universal. This creates an incentive to disperse data to reduce transmission costs, a strategy that can result in the loss of information control and increased security risks.
5. The use of personal data generates a wide range of sensitivities in different countries. What is seen as a consumer micromarketing IS in one country may be regarded as quite intrusive in another. Moreover, existing legislation regarding computer privacy, computer security, software licensing, and copyrights remains substantially fragmented among countries. The Internet, however, is rapidly forcing the international community to develop uniform standards.
6. Expansion into other countries also causes problems with language. Global IS must be designed to support people speaking different languages. Also, data entry as well as reporting programs must be written to accommodate different alphabets, printing directions (e.g., from right to left instead of left to right), and collating sequences. Thus, in some countries, pages are sequenced and numbered from right to left.
7. In some countries, the installation of new telephone lines still requires a lead time of more than a year, making the planning and implementation of an adequately redundant (fault-tolerant) communication infrastructure a time-consuming ordeal.
8. Great disparities in local technical support exist between one country and another. This can lead to considerable reliance on the parent company for troubleshooting, for system development efforts, and for scanning the emerging technologies that might affect their operations.

As can be seen from the items listed above, the IT function, like all other functional areas, is considerably affected by internationalization. And like all other functional areas, its response to internationalization will be affected by both country variables as well as company variables.

The IS Function Within the Multinational Corporation

Not surprisingly, MNCs have adopted different approaches for their IS functions. Some are centralized, some are decentralized, and some are distributed. Some are integrated but most are not.

There are several classifications of international IS. The following provides a useful starting categorization.

1. *Multinational information systems:* This most prevalent model is characterized by essentially autonomous data processing centers in each nation-state in which the MNC operates. This approach suffers from problems of redundancy and duplication in data, applications, and operations. However, it historically represents the easiest solution available to the MNC given the conditions of national markets (i.e., regulations, language problems, facilities problems, etc., as we have discussed in previous chapters) that encouraged the autonomy of business operations in each country.
2. *International information systems:* This model is characterized by a computer network that operates in more than one nation-state and in which data cross international borders in the process of completing a transaction. This model is now increasingly based on the Internet as its medium of data transfer.
3. *Global information systems:* This relatively new model is fundamentally characterized by the integration of data. Support for manufacturing operations that must coordinate inputs and outputs of plants located in different countries on a real-time basis has been one of the several driving forces toward such systems. Another impetus has been the desire to present a consistent face to a customer that may have dealings with the MNC in several countries in which it operates. However, it has been only the recent advances in distributed database management and communication technologies that have made this model a viable alternative.

Distance Is No Barrier

The new computer technology enables large corporate computing centers to serve multiple operations located in different geographic areas around the world. The computing services of the global companies, however, must work within the limits of the local communications capabilities. In Thailand, for example, when there was a lack of adequate data transmission and processing capabilities, Exxon-Mobil used satellites to transmit data from Bangkok to Houston for processing and back to Thailand. The distance that data had to travel from Bangkok to Houston and back added only about 1 s to the response time of the system, but it reduced computing costs at the Thailand facilities by 10%.

Telecommunications technology allows access to information regardless of the location, whether on ships at sea or at drilling rigs or production sites in remote places. With the use of modern telecommunications equipment, for example, Exxon-Mobil has been able to improve the quality and reduce the cost of ship-to-ship and ship-to-shore communications. The ships are connected to a satellite network, so they can receive and initiate instantaneous telecommunications, including voice, data, e-mail, and facsimile—just as if they were in a modern office building instead of being thousands of miles away from civilization in the middle of the ocean (based on Ref. [18]).

It should be noted that the above three categories of IS follow the three strategies of host country focus, international, and global described in Chap. 6. The match between the IS and strategies of MNCs is due to the fact that the information processing needs and, along with it, the IS design of MNCs vary. Decentralized MNCs will pursue independent IT operations in each country. A global or centralized firm, on the other hand, must create its IT configuration in a centralized manner [19].

International IS Issues

IT is an important mechanism to facilitate, sustain, and promote international business. King and Sethi [20] and Keohane and Nye [21] have categorized international IS issues into intracorporate, intergovernmental, host government, and reactive international IS issues.

Intracorporate IS Issues

Intracorporate interactions provide the interface between the corporate unit (and its IS function) and its overseas subsidiary (and its IS function). In this category, there are two IS issues: (1) those pertaining to the IS function only and (2) those pertaining to the role of IS in supporting competitive strategy.

The issues pertaining only to the IS function emanate from the design of the *linkage* between the IS function at the corporate unit and the IS function in the overseas subsidiary. The linkages are of three types:

1. *Organizational linkage* design must address the organizational structure of IS at the subsidiary, its control systems and reporting procedures, and its participation in the IS function of the corporation as a whole. Both company-level variables and subsidiary-specific variables must be taken into account in designing the organizational linkage. The former includes the overall organizational structure and organizational strategy, while the latter involves the information dependency of the subsidiary, its importance (knowledge contribution), and its ownership.
2. *Architectural linkage* design must address the issues of communication integration, data integration, application portfolio, and the hardware and software platforms. What is the desired level of connectivity? What is an acceptable level of standardization of codes (e.g., ethnic classification codes)? What is a tolerable

level of redundancy in the databases? What is the desired degree of freedom in developing an application portfolio? And, what is an acceptable level of incompatibility of equipment? The Internet has influenced all this. For this reason, at the end of this section, a brief discussion on the Internet is provided.
3. *Personnel linkage* design must address the functions of selection, staffing, appraisal, and compensation of IS personnel in subsidiaries. What is the appropriate mix of local employees who speak the language, understand the culture and the political system, and expatriate employees who can emphasize firmwide rather than local objectives?

The issues pertaining to the role of IS in supporting competitive strategy are influenced by industry-level variables as well as country-level variables. When MNCs in the same industry operate in the same countries, they cannot exploit comparative advantage sources (e.g., lower labor costs, raw material, etc., in one country vis-à-vis another). In such cases, the IS function must focus on maintaining firm-specific competitive advantage; for example, by transferring systems (such as order entry terminals placed at customer premises) that have created such an advantage in the home country to the host country. On the other hand, when similar MNCs operate in different countries, the IS function should focus its efforts on exploiting sources of comparative advantage.

Intergovernmental IS Issues

The interactions between the IS function and intergovernment units are concerned with either technical issues or regulatory concerns. There are several benefits from user participation in standard-setting organizations such as international standards organization (ISO). Perhaps the most important of such benefits is remaining closely informed of directions in open systems (i.e., nonproprietary) standards and technologies and assessing their impact on the corporation's IS infrastructure.

While developing coherent international standards is important for any IS function, a consistent pattern of international regulatory practices is a prerequisite to information transfers required by the global firm. As a result, we find that telecommunications and IS issues have been prominent at various international negotiations, including those sponsored by WTO. Liberalization of global communications, in particular, can bring significant advantage to MNCs.

Host Government IS Issues

The issues pertaining to the interactions between the IS function and the host government emanate from the MNC's deployment of information technologies and the host government's reaction to it. These issues can be divided into (1) political, (2) economic, (3) technological, and (4) sociocultural.

1. Chief among the *political issues* is the concern for ownership and the sovereignty of a nation over its resources, including the information resource. IT, in the form of satellite communications, for example, can render national control of information ineffective. Similarly, it is, at times, feared that MNCs

headquartered in developed countries can, through the use of IS and transborder data flow (TDF), remotely control the physical operations of their factories and potentially bring operations in a less developed country to a halt.

2. *Economic issues* have typically surfaced in the form of restrictive policies against the use of IS for fear of displacement or unemployment of workers. In addition, host government policies for the development of indigenous IS industries can force the MNCs' IS function into an unfavorable reliance on outsourcing in the host country and the deployment of less than optimal technologies.
3. *Technological issues* relate to host government's IS-related policies regarding access to communication facilities and international networks. Host governments have a keen interest on IS through which technology transfer takes place.
4. *Sociocultural issues* deal with the host government's stance on protecting the needs of the individual versus the needs of society. While there are no universal standards in maintaining a balance between the two, host governments often would like to see that the MNC practices do not stir up opposition from groups or interests within the society.

Reactive International IS Issues

Often, national IS-related policies are formulated in response to changes in similar policies in other countries. These policies have an enduring impact on the IS function of the MNC. As pointed out by the National Telecommunications and Information Administration (NTIA), "As direct beneficiaries or victims of many policy decisions, private firms have a critical stake in the nature and effectiveness of governmental decision making" (p. 25) [22]. European policies on the development of standards on telecommunication services and equipment, for example, prompt corresponding decisions by the US government, which in turn will have ramifications for the MNCs operating in the United States.

In addition to the above four categories of IS issues, there are also intergovernment interactions as well as interactions between governments and intergovernmental bodies [20]. These interactions primarily translate into bilateral, regional, and multilateral negotiations regarding issues that directly or indirectly affect the IS function of the MNC. As an example, the NAFTA includes computer and telecommunications service agreements to provide nondiscriminatory access, maintain existing rights of access, and limit anticompetitive practices, and it contains provisions for TDFs and access to data banks.

The Internet

The Internet is a revolutionary medium of information creation, manipulation, transmission, storage, and management that functions on a global scale. The origin of the Internet goes back to the 1960s and a daring scheme imagined by the technological warriors of the US Defense Department (pp. 6–7) [23]. Their aim was to prevent a Soviet take-over or destruction of American communications in the event of a nuclear war. Ultimately, the network set up by the Defense Department became the foundation of the Internet, a global, horizontal communication network of thousands of computer networks. The end result was a network architecture made up of thousands of autonomous computer networks that have innumerable ways to link up, going around electronic barriers. It is a highly flexible, self-healing, and powerful medium that cannot be controlled from any center. It has been adopted for various purposes and uses, far removed from the now extinct Cold War concerns, by individuals, groups, and firms around the globe. It has spawned an industry that can be classified into four layers:

1. The first layer consists of the companies that provide the Internet infrastructure. The firms in this layer are telecommunications companies, Internet service providers, Internet backbone carriers, final access providers, and end-user networking manufacturing companies. Well-known firms such as Qwest, Corning, and Mindspring are in this group.
2. The second layer comprises the firms developing the Internet infrastructure applications. These firms develop software products and services for Web transactions. Consulting and service companies designing, building, and maintaining Web sites, including portals, e-commerce sites, and audio and video delivery sites, are in this layer. Examples of companies in this layer are Oracle, Microsoft, and Adobe.
3. The third layer is formed by companies that generate revenues not directly from business transactions on the Web but from advertising, commissions, and membership fees, in exchange for providing free services over the Web. Content providers and market intermediaries such as the media, brokerage firms, resellers, portals, and other intermediaries are in this layer. They include such companies as Yahoo!, E-bay, and E*TRADE**.**
4. The fourth layer consists of the companies that conduct Web-based economic transactions, such as Amazon, eToys, Dell-Direct World, and TheStreet.com. *e-Commerce* is the common term used for the business of these companies.

The Internet economy and the IT industries have become, qualitatively and quantitatively, the core of the US economy. MNCs are among the major beneficiaries of the Internet. The Internet has enabled the MNCs to coordinate geographically dispersed subsidiaries and activities economically.

With the advent of the Internet, more companies are able to expand their businesses through the development of Web sites where customers can easily download software, purchase products, obtain financial information, and get basic information. As a result, the responsibilities of corporate network managers are growing at a rapid pace. The ability to translate data into useful information, interpret them, and execute the necessary actions is important to managers. As a consequence, failure to do so regularly leads to loss of competitiveness.

The expansion and commercialization of the Internet is reshaping the roles of IS managers and IS/IT departments. Increasingly, IS and network executives are playing crucial roles in their employer's strategic business activities, gradually making IS organizations central to their companies' ongoing success [24].

Global IS Management

The model presented in the previous section provides one means by which to organize and discuss issues pertinent to global IS management. Another approach is to undertake an empirical study to identify and rank important global IS management issues for MNCs. Two such studies will be summarized in this section.

In one study, the top IS executives of US-based MNCs identified and ranked important global IS management issues [25]. They identified "educating senior personnel on the role and potential of the contribution of MIS on an international scale" to be the highest-ranked issue and "export restrictions on data processing equipment and software" to be the lowest-ranked issue at the time of the study. Although such rankings of issues are clearly of interest, more insight is offered by classifying the issues along the dichotomy of concerns to IS executives in the domestic and international arenas.

Based exclusively on the rankings of the 32 issues in the study, 14 are international IS issues and 18 are domestic concerns. Of the issues that pertain solely to operating in an international arena, technological issues, such as "international protocol standards," dominate both political issues, such as "transborder data flow restrictions," and cultural concerns, such as "learning to conduct business in other countries." Those, in turn, dominate economic issues, such as "export restrictions."

Similarly, researchers have identified eight important IT management issues [26]: (1) IT transfer, (2) cultural differences, (3) international standards, (4) IT infrastructure, (5) global IT applications, (6) global IT policy, (7) global IT marketing, and (8) TDF.

The IS executives of US-based MNCs considered two of the eight issues to be of most concern to them. The two issues are TDF (restrictions on the flow of data, data security vulnerabilities, and telecommunications management) and the lack of international standards (in telecommunications, software development, and computer architecture). Both TDF and the lack of international standards underline a very important issue of national security that is discussed below.

IS Security

The information explosion, including the use of the Internet, has been a boon to both big and small businesses. The use of the Internet has drastically reduced the cost of global business transactions. Outsourcing through the Internet and the availability of cheap communication services have benefited all businesses. For example, VoIP (voice over the Internet protocol), such as Skype or Vonage, substituting for the regular phone services, has reduced the cost of international telecommunication, especially for heavy users of the regular phone services. The information explosion has also made it easier for various groups to engage in terrorism. This adversely affects international business and poses serious questions regarding activities that involve cross-border transactions. Security of the electronic media drew the attention of scholars and the police many years ago when criminals started using it illegally. Recently, however, the illegal use of electronic information has become a national security issue.

Prior to the tragedy of September 11, 2001, almost all illegal activities on the Internet had either purely criminal profit-making origins or were the acts of vandalism. Very seldom was the abuse of the Internet for other purposes. Even then, while it was difficult to determine the purpose, we were reasonably sure that there were no terrorist motives behind them. For example, computer viruses that are plaguing the Internet have been around even before the recent waves of terrorism.

After the tragedy of September 11, we have learned that securing the Internet and providing for safe international business transactions, through the use of a secure IS, would be a very difficult task. Also, we have learned that we can use IT to thwart terrorist actions. For example, experts have proposed measures for the safety of the logistic supply chain [27].

It is possible that terrorists may secretly use multitudes of containers, going through various ports. Through these containers, a weapon of mass destruction may enter the country undetected. To prevent such an act of terrorism, the application of radio-frequency identification (RFID) has been proposed. RFID devices can be used to electronically detect the closing and opening of a container or a trailer. As such, it can provide for continuous monitoring and tracking of the location of the in-bond shipment while in transit. It can electronically record and report any tampering with the container/trailer. However, the lack of worldwide standards for RFID is an impediment to its use [28]. The lack of global standards for RFID makes it less effective. It is also very costly, and it is impossible to construct a globally useful system. Therefore, the future of container security, according to experts, lies in a satellite solution, which by its nature avoids the limitations and infrastructure costs of a land-based system.

The preceding discussion points out the similarities between IT issues in both the domestic and the international arenas. In the next section, we present a guideline for building a global IS that addresses these issues.

Building a Global IS

The challenge of setting up an IS spanning continents is no longer limited to the very large companies. The number of firms operating internationally—for production, distribution, or some other business function—is growing. The evidence indicates that multinational firms are earning more, and growing faster, than firms without global operations. The IS directors of the firms venturing into foreign markets quickly realize that the challenges faced by IS range from the broadest organizational issues to the most detailed programming dilemmas [29].

Express delivery companies are using the Internet to offer better services. They are trying to integrate an online customer service technology with other SCM operations. DHL, FedEx, and UPS initially permitted customers to book shipments electronically, but now with the Internet, these companies are implementing new tools that provide accessibility to a wide range of software packages such as DHL Connect and DHL EasyShip. DHL EasyShip is targeted to meet the needs of high-volume customers. It can be installed across a shipper's network for multiuser access and shipment data transfer from the shipper's own system. Similarly, FedEx has launched a Web site called FedEx InSight where customers can create a customized view of shipment information and they can also request detailed information about shipping events. UPS is making some changes as well. It expanded the international availability of an option to download its OnLine Tools Application from the Web. It has also teamed up with PayPal, an Internet payment service, to completely integrate the online payment process with digital tools. OnLine Tools enables companies to seamlessly integrate UPS shipping functions, such as tracking and rates, and service selection into their own Web sites, avoiding jumps from one Web site to another [30].

When Federal Express expanded outside the United States, the cultural nuances of billing resulted in revisions of their billing system. In Britain, customers do not

Esprit's Experience

The clothing manufacturer Esprit de Corp. in San Francisco found out the hard way that sharing software on a global basis does not always work according to plan. Faced with problems, Esprit's US subsidiary adopted a production management system developed at the company's Far East affiliate. The software would track where an item was manufactured, sewn, pressed, and so on. But the software was only a moderate success in the United States because the ways of doing business are quite different in the two hemispheres. Similar to the experiences of virtually all major corporations that do business overseas, Esprit ran into a wall. It found that despite good intentions and the apparent benefits, sharing software across borders is not always the best choice. Work habits around the world are different.

Although many companies are going global and IS groups are under increasing pressure to maximize technology investments, seasoned IS experts say that not all software can or should be common everywhere. In the Far East, for example, it is standard for the shop sewing the garment to handle the other steps of finishing and washing. In the United States, however, convention dictates that the individual steps be contracted out to different parties.

The end result was that the system that Hong Kong put together did not have the features for the US operations to manage effectively the transition from factory to factory. Consequently, Esprit's US Group abandoned software sharing with overseas units [31].

pay from an invoice but from a statement sent after the invoice. In Japan, the invoicing protocol calls for invoices to be sent within a specific time period after the sale and to have a specific format.

When the bicycle and race-car helmet maker Bell Sports began exporting to Europe, the IS staff back in its Rantoul, Illinois, factory ran headfirst into European safety regulations requiring statements on packages and labels inside helmets. To efficiently get the right labels on the right helmets, the IS department had to rewrite portions of its material requirement planning II (MRP-II) system (an inventory control method).

When Ikea, a large home-furnishing company from Sweden, opened its first US store, the IS department had to make a variety of modifications to their store systems. For example, the IS staff had to do some "keyboard mapping" to allow the US staff to prepare reports with umlauts. Also, report programs had to be adjusted to deal with American-sized paper stock. More important, however, order entry/billing programs had to be rewritten so that American customers could arrange to have furniture shipped to their homes. In Europe, the shipping company takes ownership of the order, and customers pay the shipper cash on delivery. In the United States, these procedures were unacceptable, and the programs had to be rewritten to accommodate payment in advance of delivery.

As the preceding examples illustrate, building a global IS presents a variety of challenges for the IS manager. Nevertheless, the experience of successful companies indicates that one key to success stands out: global operation demands global information, which in turn calls for a global infrastructure in planning, data integration, communication, and information resource management.

Planning Globally

Because of the wide geographical distances separating the MNCs' global operations from the headquarters and from each other, IS plays a critical role in strategic planning, implementation, and control of MNCs. Therefore, taking a reactive approach to building a global information architecture is nothing less than accepting a position of competitive defensiveness or, possibly, competitive disadvantage [32]. Nevertheless, as several studies have indicated, most senior managers do not have a clear and personal business vision for IT. To help relate business integration and technology integration, Keen [32] suggests a framework that defines the business functionality of the firm's IT facilities in terms of the two dimensions of *reach* and *range* (see Table 10.1).

In this framework, *reach* (vertical axis) determines the six locations the firm can link to: (1) locations within a single site, (2) the entire domestic operation, (3) locations abroad, (4) customers and suppliers domestically, (5) customers and suppliers internationally, and (6) anyone, anywhere.

The *range* (horizontal axis) determines the nature of the information that can be shared directly across systems: (1) standard messages, (2) ad hoc access to data, (3) arbitrary single transactions to be completed by one party (node), and (4) cooperative transactions to be completed by several nodes.

Reach and *range* together determine the extent of business options available to the firm. In Table 10.1, for example, the shaded cells in the bottom row signify an integrated database within a single site allowing various departments to share and update common data, while the absence of shading in the next to last row depicts the inability to process updated transactions from remote locations even within the same country. Therefore, the *reach* and *range* framework serves to translate the IT integration issues for senior management as *what option is implied by our business plans?* A firm may opt to build an enterprise-wide totally integrated IT infrastructure aiming for the maximum in *reach* and *range*. To do

Table 10.1 Relating business functionality to data and communication integration

Reach whom?	*Range (what services can we deliver?)*			
	Standard messages	***Access to stored data***	***Single transactions***	***Cooperative transactions***
Anyone, anywhere				
Customers, suppliers, regardless of IT base				
Customers, suppliers, with the same IT base				
Intracompany locations, abroad				
Intracompany locations, domestic				
Intracompany locations, single site				

so, it needs to consider a variety of issues. One issue is the extent of the firm's centralization. In general, it is easier to put in place the rules and constraints of a global IT infrastructure when a corporate culture for centralization exists. Another issue is the availability of capital.

e-Commerce

e-Commerce has evolved from conducting basic transactions on the Web to a complete retooling of the way partners, suppliers, and customers transact. Today, you can link dealers and suppliers online, thus reducing both lag time and paperwork. Procurement can be managed online by setting up an extranet that links directly to vendors. This cuts inventory-carrying costs and makes the firm more responsive to customers. Financial relationships with customers and suppliers can be streamlined by Web-enabling billing and payment systems.

There are enormous advantages in using Internet technology to improve relationships with customers and suppliers. The advantages are more efficiency, better services, and improved relationships. Most companies enlist the assistance of a resourceful IT partner that enables them to integrate with any of their business partners. The IT partner can provide the firm with IT solutions that have built-in flexibility in features such as content management, order management, dynamic pricing and payment, and international trading capabilities.

Increasingly, success means being first to the market. Therefore, a firm that engages in e-commerce needs options, such as outsourcing and hosting capabilities. More than ever before, customers expect, and employees require access to the information anytime, anyplace. This means customized information that is tailored to a range of devices such as PDAs (personal digital assistants), mobile phones, and so on. Internet technologies enable the firms to effectively respond to these demands [33].

Because most companies are not well centralized or awash in capital, they must rely on multiple IT architectures (each signifying a different combination of *reach* and *range*) rather than the ideal totally integrated (global) infrastructure. These multiple IT architectures are too often determined first by geography and then by function. Unfortunately, such a traditional approach usually proves counterproductive, simply because a decision in one area of the organization quite often affects the other areas. A better alternative is to take a business process perspective. This means viewing a business in terms of major processes such as order fulfillment and customer service rather than functional areas. The business process perspective enables us to overcome geographical boundaries in planning for IS in a global concern.

Communication Integration in the Global Organization

Regardless of the number of business processes that a firm chooses to support with a global IT architecture, there will be a substantial cost associated with establishing and maintaining the requisite communication infrastructure. It would be a serious mistake to assume that the only difference between building a global network and a domestic network is one of size.

Global communication networks, like their domestic counterparts, can provide both internal and external benefits to the firm. Internally, a global network can, at the very least, improve management control by facilitating communication among international business units and, at best, support an online, real-time, integrated database for both transaction processing and managerial decision-making worldwide. The Digital Equipment Corporation, for example, reports that its global computer network helped it save $700 million in inventory-related costs over a 2-year period by increasing control over the movement of inventory between its worldwide manufacturing plants [34].

Externally, a global network can be used to advance a company's competitive strategy. Federal Express' global network connects the US network with more than 60 subsidiaries worldwide to implement the company's differentiation strategy based on real-time tracking of packages. Marriott and Scandinavian Airlines have linked their global networks to create an interorganizational system focused on providing added value (convenience) to a shared customer by checking in customers' luggage for a flight at the hotel reception desk. Despite such benefits, global networks are far from widespread for the following reasons: (1) the high costs involved, (2) the existence of politically imposed constraints, and (3) technical problems [35].

The costs of global networks can be substantial for a combination of reasons, including the following:

1. The telephone service in other countries is considerably more expensive than in the United States.
2. Lower speeds of transmission lines in other countries means more time spent for data transmission.

3. The cost of transmission may vary depending on the direction of data flow. For example, it costs four times as much to send data to the United States from Portugal than to send it in the opposite direction [36].
4. The arrangements between telephone companies for handling international calls are based on cost sharing at each end of the link. The formulae penalize the low-cost US carriers by paying, on average, 75% of the call charge to the high-cost foreign PTT (Poste Telegraphe et Telephonique). In the case of Brazil, 99 cents on each dollar of telephone charge from the United States to Brazil is paid to the Brazilian PTT [32].
5. The PTTs are government or quasi-government monopolies for telecommunications and are very unwilling to break up their cartels, which, in turn, have controlled international telephone pricing and revenue sharing [32].

The high costs associated with global networks are compounded by the political constraints imposed on TDF. Although some of the TDF regulation problems encountered by multinational corporations increase the cost of communication between the parent and the subsidiary, their real impact is to create a control *barrier* [16]. Examples of such barriers include the following:

- Required use of locally manufactured data processing equipment, communication services, and software.
- Restrictions on the availability of flat-rate leased lines.
- Restrictions on satellite transmission, for example, to receiving data only.
- Required processing of certain data locally.
- Restrictions on the flow of data across national borders—for example, restriction of the export of personnel-related data.
- Threat of a tax on the value of data.

To deal with such TDF regulations, multinational companies can resort to one or more of the following strategies: [16].

1. Decentralization of data processing on a geographic basis.
2. Preprocessing of data to filter out restricted information.
3. Alternative information channels to move data to the parent company.
4. Database duplication and reprocessing at the parent company to obtain the desired level of reporting and control.

In addition to the high costs and political constraints associated with building global networks, there are technical problems involving the quality of services and operability that must also be overcome. Simply stated, to build an efficient global network, a company must be prepared to mix a variety of technologies and deal with compatibility issues.

In Europe, the integrated services digital network (ISDN) and cable modem are widely deployed to provide basic access to two full-duplex 64-kbps (kilobits per second) channels from the desktop. Most PTTs also offer a primary rate interface consisting of thirty 64 kbps channels capable of handling digitized voice, video, and/or data. (The definition for the primary rate interface differs in the United States and signifies twenty-three 64 kbps channels.)

As in Europe, most major cities in the United States currently offer ISDN and cable modem. Bell Atlantic (Philadelphia), BellSouth (Atlanta), Pacific Bell (San Francisco), and US West (Denver) are leading contenders in the deployment of ISDN. Although service offerings vary according to the carrier, most services are aggressively priced. Therefore, it may not be unreasonable to expect that despite the current clamor over frame relay and asynchronous transfer mode (ATM) technologies, a great deal of telecommunication traffic between US multinationals and their subsidiaries in Europe will traverse over ISDN. Where ISDN is not an option, traditional analog lines or digital lines (T-1 services operating at 1.5 million bps) or optical fiber connections (OC-1 services operating at 45 million bps) can provide the needed connectivity even across oceans.

Digital subscriber line (DSL) has surged ahead of its rival technologies, cable modem and ISDN. DSL means high-speed Internet access up to 100 times faster than today's dial-up modems. With this new Internet connection, people can share an Internet connection across all the computers in an office or home. Besides the fast rate of data transfer, DSL has other benefits as well. The user, for example, can leave the connection open and still use the phone line for voice calls; DSL uses the same wires as a regular phone line, and the company that provides the services will supply the user with the modem as part of the installation [37, 38].

Then, of course, there are those situations where a company's only reliable means of data communication is through a wireless medium. Very small aperture terminal (VSAT) satellite networks have had the same major impact on data communication as PCs have had on computing. And it is expected that wireless networks, both spread-spectrum radio frequency and infrared, will provide a pathway in those places where a company must have a wireless link or no link at all.

Reebok Tracks Athletes

To track more than 1000 athletes around the world, Reebok uses Lotus Notes. These athletes' endorsements of its products constitute the heart of Reebok's promotional campaign. With Lotus Notes, a groupware application, Reebok maintains a global database of the results of their endorsements. These endorsements constitute a major investment in terms of payments to the athletes, which needs to be tracked and compared with products sales. Also tied into this system is the legal department that is attempting to standardize endorsement contracts. Similarly, the company's transaction processing systems use the Notes database for near-real-time reporting of the results of promotional activities around the world.

At Reebok, both regional and global specifications and standards are used in designing various products. With the help of Notes, Reebok designers can work collaboratively while serving their local markets. Notes enable designers to disseminate digitalized drawings and textual communications among all the company's design centers [39].

Data Integration in the Global Organization

To understand the data integration issue, consider a global company that has determined order fulfillment to be its strategically important pacing process to be globally supported. Among other things, integrating these functions requires that information about stock availability be accessible from any of its business units around the world, and even though the customer's order has to be fulfilled by shipments from several sites, the customer is presented with a single invoice, and information about the customer is entered only once. To accomplish such data integration, a company has several alternatives.

Centralized database, centralized processing In this approach, the database for order fulfillment resides in one location, and all processing takes place in that location, with remote sites acting as online data entry/update terminal nodes. This is similar to the traditional mainframe/dumb terminal computing model.

Centralized database, decentralized processing A significant problem with the above alternative is that the centralized facility must be powerful enough to accommodate hundreds, or even thousands, of online terminals. In the centralized database/decentralized processing approach, although the database remains centralized, all the processing, including the handling of issues related to concurrent update to shared data and backup and recovery, takes place at remote computers. This is similar to the local area network computing model.

Centralized database, distributed processing There are two problems with Alternative 2. First, because each remote computer must run the database management software as well as the order fulfillment application, there is still considerable computing power required of each node. Second, because the database is centralized, each remote query for, say, worldwide stock availability for a particular item requires the *entire* stock file to be transmitted to the remote site for processing the request.

In the centralized database/distributed processing approach, the order fulfillment program is broken into two components: database management system (DBMS) and user interface issues. The DBMS issues of concurrency control, backup, and recovery, as well as searching the database to retrieve and/or update records matching specific criteria, are delegated to the *server* component of the program, while the user interface issues of displaying data and accepting keyboard input or responding to mouse movements are handled by the *client* component. Therefore, in our example, a remote query to obtain the worldwide stock availability for a particular item is obtained by *the client program* from the user, which in turn forwards the query in a standard format such as SQL (structured query language) to *the server program*, which processes the request and transmits only that *portion* of the stock file related to the requested item to *the client program* to display it for the user. This is similar to the centralized client/server computing model.

Distributed database, distributed processing A basic shortcoming of Alternative 3 is the absence of fault tolerance. That is, should anything go wrong with the centralized database, all database access and processing comes to a halt.

In the distributed database/distributed processing approach, the database is logically and physically partitioned. For example, each site will have its own stock file, and the customer file is divided (nonredundantly) among the various sites. As a result, there will be no single point of failure. Queries about enterprise-wide stock availability for a particular item are handled in a *location-transparent* manner by the underlying distributed DBMS. Distributed DBMS software such as Oracle and DB2 supports such a distributed client/server computing model.

Global Operation Demands Global Information

"If you're really going to compete on a global scale, you'll think of your manufacturing or processing plants as one, and you'll move your capacity around the world," explains Tobey Choate, Vice President and Managing Director of IT at the consultancy Arthur D. Little in Cambridge, Massachusetts.

"You'll think of your (entire) customer base as one, and you must have a fairly uniform and detailed level of information to do that. If you're using the same manufacturing (information) system worldwide, you will get the same information, which will allow you to manage that capacity worldwide."

Most companies today do business internationally, but few have stepped up to the challenge of real globalization, according to Alan C. Stanford, National Director of IT Consulting in Ernst & Young's Chicago office. "They don't operate globally in that they do not coordinate between their (international business) units. They certainly don't align their business processes." [40, 41]

Heterogeneous database processing All the preceding alternatives assume either that the organization is initiating data processing operations at remote sites or that it is willing to scrap existing computing arrangements and reengineer them for the sake of supporting its strategically important pacing process. However, in those circumstances when a company acquires subsidiaries with established data processing and a dissimilar DBMS environment, an interim solution would be to create a heterogeneous distributed database processing environment. It is possible to create a conceptual model of the overall database and allow users and programs to formulate their requests for enterprise-wide information against this view while translating each request, behind the scenes, into a collection of cooperating transactions against various DBMS at different sites. The advent of XML (extensible markup language) allows information between disparate systems to be exchanged.

In general, retrofitting existing application systems in various countries to create a single system is more difficult than starting with a clean slate, but it is best to decide on a case-by-case basis.

The IS Application Portfolio in the Global Organization

The cardinal rule in deciding which IS applications should be made global is that not every application needs to be a global application. Accounting and payroll systems are best left to local developers and maintenance programmers. Countries such as France impose a statutory chart of accounts [41], and each country has its own taxation laws and its own version of the United States's Internal Revenue Service with reporting forms such as W-2, 1099, and so forth. Therefore, it is a good rule of thumb not to globalize government reporting applications. Nevertheless, there still remains a requirement for the consolidation of financial results as well as performance comparisons across subsidiaries, which must be met by developing global applications.

As already pointed out, the decision as to which applications must be supported by a global architecture must emanate from global planning for IT. A company must start with its global strategy and identify those applications that are critical to its success. Those applications then comprise the company's initial global IS portfolio.

The traditional portfolio development has followed a chronological sequence of systems development and has moved from transaction processing to management reporting, decision support executive information, and finally to workflow IS. It is interesting to note that IS might find it easier to pursue the development of a global portfolio in the reverse chronological order (Table 10.2).

That is, it appears that a greater chance of success exists if IS were to first bring electronic messaging and workgroup computing to the global organization. Next, it could target the development of a global executive IS that does not have to deal with the more difficult problems of providing ad hoc access to, or update of, databases. At that point, IS can move into global decision support systems that can employ historical data as well as more or less predefined snapshots of present databases. Next, it could support ad hoc access to enterprise-wide data for reporting purposes, which would, at a minimum, require the development of a conceptual model of the organization-wide integrated database. Finally, it can begin addressing the rewriting of applications to support cooperative transaction processing and the real-time update of data at multiple sites.

Table 10.2 Traditional versus global IS portfolio development order

Traditional IS portfolio development order
Transaction processing systems
Management reporting systems
Decision support systems
Executive information systems
Workflow information systems
Global IS portfolio development order
Workflow information systems
Executive information systems
Decision support systems
Management reporting systems
Transaction processing systems

Programming for International Use

When writing a program to be used by an international audience, a variety of adjustments need to be made. Language on screen and on reports needs to be translated often to character strings longer than the English equivalent, and language-sensitive input needs to be modified. For example, if a "Yes" or "No" input is needed, expecting a "Y" or "N" will not work in France as "Oui" does not start with a "Y." The basic program design rule is to place all constant input and output strings outside the program in a language-specific data file.

There are also other problems. Some non-European languages such as Chinese and Japanese require special video support since they use double-byte character sets. Other languages such as Thai use multibyte character sets; sometimes it takes 1 byte to get the character on screen, and at other times, it may take as many as 3 bytes. Then, there are the Middle Eastern languages such as Arabic, Persian, and Hebrew, which are written from right to left. And in the case of Arabic and Persian, the shape of a letter depends on its position in the written word (first, middle, last, or by itself).

Currency formats and date formats need to become country specific too. And an important decision must be made regarding at which stage in transaction currencies are exchanged.

Redefining the CIO as the Global Information Officer

The operational requirements of a truly global organization significantly increase the difficulties faced by its CIO. IT investment and coordination issues for multinational corporations are vastly more complex than for purely domestic ones, involving not only the domestic issues but also the additional difficulties discussed in this chapter. As a global information officer (GIO), the CIO's responsibilities and performance expectations are transformed—both quantitatively and qualitatively.

What are the salient attributes of an effective GIO? Let us begin with those characteristics that one would expect to find in any CIO regardless of the global scope of his or her responsibilities. First, the CIO must provide the necessary guidance for developing an information architecture. On the one hand, this requires an in-depth understanding of information technologies: hardware and software platforms, telecommunications and networking strategies, centralized and distributed database management, open systems standards, and end-user computing tools and practices. On the other hand, it requires experience in managing IS personnel and the ability to administer complex, multifaceted projects. Second, the CIO must be especially responsive to evolving user requirements and changing corporate strategy. This requires staying informed about the business and operational requirements of the firm and positioning IS to respond to evolving needs quickly. Third, the CIO cannot afford to be hands-on all the time, and thus, the actual running of networks and data centers must be delegated to others. This, of course, requires effective delegation skills.

What is needed to transform the CIO to a GIO involves more managerial skills than technical expertise. The effective GIO must master how to manage the distributed resources of the parent company and its acquisitions to align the IS with the company's strategic plan and, in doing so, address, to the extent possible, the cultural differences, language issues, business practice variations, and technology limitations of the various host countries.

Kanter and Kesner [42] identify the following as six critical success factors for the effective GIO: management style and leadership, organization and structure of the IT function, skill base, commitment to TQM (total quality management), openness to outsourcing, and technology transfer along with change implementation. It should not be surprising that the leadership qualities vital to the success of a GIO are identical to those expected from any executive officer. They include the following: (1) strategic focus, (2) flexibility in addressing tactical issues, (3) people- as well as task-oriented project management style, (4) the ability to delegate and manage through others, (5) ruling through consensus, and (6) a team approach to problem-solving.

To be effective, the GIO and the IT function must be appropriately positioned within the larger organization. This means that the GIO must report to the chief executive officer and be an equal member in the top management team that deals with the components of corporate strategy.

The effective GIO must have a comprehensive knowledge of the corporation, its products and services, its functional requirements, and its business processes. The GIO must understand the ramifications of emerging information technologies on the corporation and be on the lookout for disruptive technologies that can redefine the competitive marketplace. The GIO must have an understanding of the different countries and cultures in which the corporation operates to factor the impact of the work ethics and motivation of different nationalities in optimizing global IS projects.

In a world of time-based competition, where a late system project directly affects the bottom line, the effective GIO must implement and enforce a TQM program within the IT function to ensure that projects are done right the first time. Viewing software as an engineered product subject to quality assurance and market acceptance/viability is the fundamental cultural change that such a commitment brings to the IT function.

Instead of relying entirely on in-house solutions, the effective GIO practices the wisdom of outsourcing for specific expertise or relying on the cooperation of hardware and software vendors.

Finally, the effective GIO must facilitate the discovery of appropriate new technologies, fund pilot projects, and, for those that look promising, serve as the change agent for successfully implementing them in the organization.

Chapter Summary

Technological changes and innovations affect all aspects of our lives and the conduct of business, locally and globally. No technological change has had as profound an impact in a short time on the modern enterprise as the advent of computers and telecommunications. The ability to send, receive, process, and otherwise manage an immense amount of information enables MNCs to exercise closer control over their foreign subsidiaries. IS management can be used not only to enhance internal operations but also to create a competitive advantage. Instantaneous information exchange among the MNCs' worldwide operations drastically reduces geographical distances and brings dispersed subsidiaries closer to one another. While IS decreases the barriers to centralization, it also creates opportunities for decentralization. The constant flow of information between the MNC headquarters and the subsidiaries empowers them to operate more locally and at the same time allows the headquarters to formulate strategies globally.

Discussion Questions

1. Why is IS management critical to MNCs?
2. How do the information needs of MNCs differ from those of domestic firms?
3. What are the ramifications of internationalization of the firm on the function of its IS?
4. MNCs have adopted different IS functions. Elaborate on the reason(s) for the differences.
5. Describe intracompany IT issues.
6. Describe intergovernment IT issues.
7. Describe host country IT issues.
8. Elaborate on the internal and external benefits of communication integration to the MNCs.
9. What is supply chain management, and how can MNCs benefit from it?
10. What is enterprise resource planning, and how can MNCs benefit from it?
11. Explain how the Internet has influenced MNC operations.
12. The Internet has spawned an industry that can be classified into four layers. What are the four layers?
13. MNCs have different options for data integration. Briefly describe these options and explain the reason for their use.
14. What are the differences between the roles of chief information officer and global information officer?

References

1. Harrington, L. H. (1997). The information challenge. *Industry Week, 246*(7), 97.
2. Mullin, R. (2002). Rohm and Haas connects the dots. *Chemical Week, 164*(24), 24 (Rohm and Haas Web site www.rohmandhaas.com).
3. Schmitt, B. (2002). Rohm and Haas expands capacity in Brazil. *Chemical Week, 164*(28), 30.
4. Mullin, R. (2001). Top management keeps on top of IT. *Chemical Week, 163*(31), 22.
5. Senn, J. A. (1990). *Information systems in management*. Belmont, CA: Wadsworth.
6. Zwass, V. (1992). *Management information systems*. Dubuque: Wm. C. Brown.
7. Sprague, R. H., Jr., & McNurlin, B. C. (1993). *Information systems management in practice*. Englewood Cliffs: Prentice Hall.
8. King, W. R., & Sethi, V. (1999). An empirical assessment of the organization of transnational information systems. *Journal of Management Information System, 145*(4), 7–28.
9. Roach, S. (1985). *The new technology cycle*. New York: Morgan Stanley.
10. Kanter, J. (1986). *Computer essays for management*. Englewood Cliffs: Prentice Hall.
11. Mckay, D. T., & Brockway, D. W. (1989). Building IT infrastructure for the 1990s. *Stage by Stage, 9*(31), 1–11.
12. Damsgaard, J., & Lyytinen, K. (2001). The role of intermediating institutions in the diffusion of electronic data interchange (EDI): How industry associations intervened in Denmark, Finland, and Hong Kong. *The Information Society, 17*, 196.
13. DeJesus, E. X. (2001). EDI? XML? Or both. *Computerworld, 35*(2), 54.
14. Hayes, F. (2002). The story so far. *Computerworld, 36*(25), 24.
15. Marchal, B. (2003). Electronic data interchange on the internet. Retrieved January 16, 2003, from http://developer.netscape.com/viewsource/marchal_edata.htm.
16. Deans, P. C., & Kane, M. J. (1992). *International dimensions of information system*. Boston: PWS-Kent.
17. McFarlan, F. W. (1992). Multinational CIO challenge for the 1990s. In S. Palvia, P. Palvia, & R. M. Zigli (Eds.), *The global issues of information technology management* (pp. 484–493). Harrisburg: Idea Group.
18. Zwicker, D. A. (1993). The information age. *The Lamp (Exxon Corporation), 75*(4), 9–12.
19. Jarvenpaa, S. L., & Ives, B. (1993). Organizing for global competition: The fit of information technology. *Decision Sciences, 24*(3), 547–580.
20. King, W. R., & Sethi, V. (1992). A framework for transnational systems. In S. Palvia, P. Palvia, & R. M. Zigli (Eds.), *The global issues of information technology management* (pp. 214–248). Harrisburg: Idea Group.
21. Keohane, R. O., & Nye, J. S., Jr. (1972). *Transnational relations and world politics*. Cambridge, MA: Harvard Business School Press.
22. National Telecommunications and Information Administration. (1988). *Long range goals in international telecommunications and information: An outline for U.S. policy* (Committee Print, S. Prt. 98-22). Washington, DC: Author.
23. Castells, M. (2000). *The rise of the network society*. Oxford, UK: Blackwell.
24. Girishankar, S. (1996, April). MIS: Getting to know the Net. *Communications Week*, No. 606, p. 1.
25. Deans, P. C., Karwan, K. R., Goslar, M. D., Ricks, D. A., & Toyne, B. (1991, Spring). Identification of key international information systems issues in U.S.-based multinational corporations. *Journal of Management Information System, 7*(4), 27–50.
26. Palvia, S., & Saraswat, S. (1992). Information technology and transnational corporations: The emerging multinational issues. In S. Palvia, P. Palvia, & R. M. Zigli (Eds.), *Global issues of information technology management* (pp. 554–574). Harrisburg: Idea Group.
27. Giermanski, J. (2006). Boxing clever. *Cargo Security International,* February–March, 40–44.
28. Giermanski, J. (2006). RFID is not the one. *Cargo Security International,* August–September, 52–55.

29. Alter, A. E. (1992). International affairs. *CIO, 6*(5), 34–42.
30. Hastings, P. (2002, October 2). Global operators develop tools to help bring it all together. *Financial Times,* p. VIII.
31. Ambrosio, J. (1993, August 2). Global software?. *Computerworld,* 74–75**.**
32. Keen, P. G. W. (1992). Planning globally: Practical strategies for information technology in the transnational firm. In S. Palvia, P. Palvia, & R. M. Zigli (Eds.), *The global issues of information technology management* (pp. 575–607). Harrisburg: Idea Group.
33. E-Commerce. (2002). Retrieved December 14, 2002, from www-3.ibm.com/e-business/overview/28210.html.
34. Hall, W. A., & McCauley, R. E. (1987). Planning and managing a corporate network utility. *MIS Quarterly, 11*(4), 437–447.
35. Steinbart, P. J., & Nath, R. (1992). Problems and issues in the management of international communications networks: The experiences of American companies. *MIS Quarterly, 16*(1), 55–76.
36. Case, D. O., & Ferreira, J. H. (1990). Portuguese telecommunications and information technologies: Development and prospects. *Telecommunication Policy, 14*(4), 290–302.
37. Clark, R., & Lewis, V. (2002). DSL: The next generation. *Telecom Corporate,* April*,* 34–36.
38. Fausch, J. (2002). A bright future for DSL. *Business Communication Review, 32*(6), 15.
39. Williamson, M. (1994). Uniting nations. *CIO, 7*(16), 55–63.
40. Williamson, M. (1994). World travelers. *CIO, 7*(16), 67–69.
41. Williamson, M. (1994). Becoming a world power. *CIO, 7*(16), 40–52.
42. Kanter, J., & Kesner, R. (1992). The CIO/GIO as catalyst and facilitator: Building the information utility to meet global challenges. In S. Palvia, P. Palvia, & R. M. Zigli (Eds.), *The global issues of information technology management* (pp. 465–483). Harrisburg: Idea Group.

Part IV

Human Resources

11 International Human Resource Management

In this chapter, we see that when a firm expands into international markets, intelligent changes must be made in its human resource management (HRM) practices. This begins with changes in managerial attitudes and corporate culture to accommodate the cultural diversity of multinational company personnel.

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_11

Certain managerial characteristics are known to increase the chances of success in a foreign assignment. These characteristics should be kept in mind when drawing up recruitment and selection criteria to help in staffing overseas subsidiaries with the right personnel. Pre-departure training and preparation are crucial. Besides expatriate managers, MNCs employ host country and third-country nationals, and therefore, we discuss HRM practices for dealing with foreign personnel. We conclude this chapter with a discussion on remuneration and compensation.

Overview

Chapter Vignette

Motorola and the Secrets of the Orient More than 100 years ago, Kipling said, "East is East and West is West, and never the twain shall meet." Today, however, Motorola Corporation is proving otherwise, and the meeting is providing Motorola with considerable sales growth in Asia's booming telecommunication and semiconductor markets. To ensure continuous growth, Motorola has established more than a dozen factories in several East Asian countries, including new factories in China, Malaysia, and Singapore. These countries not only produce a variety of Motorola products, but they are also the source of new products. Handie-Talkie, a miniature two-way radio, for example, was designed and manufactured in Malaysia. Except for one US research manager, Malaysians run the whole operation. Motorola also allowed the Malaysians to design new software for cellular conference calls.

Motorola's success in Asia could be attributed to its ability to tap the human resources and brain power of the East. It has integrated Asian managers into its corporate power structure and has granted them considerable decision-making authority. These managers often combine Asian cultural beliefs with modern management practices. Knowing well that cultural factors are the critical elements of the East-West confluence, Motorola is going to great lengths to safeguard its investment and ensure continued success: It is practicing the old adage, "When in Rome, do as the Romans do." In so doing, it is accepting cultural practices that would raise eyebrows in the United States. For instance, as a $400 million Silicon Harbor complex in Hong Kong was nearing completion, Tam Ching Ding, the president of the Asia-Pacific semiconductor division, asked his 87-year-old geomancer (diviner) to double check the new facility's feng shui—literally, its wind and water—for good luck. The soothsayer proclaimed that the omens were favorable; the complex had water—a symbol of wealth—on three sides and was ringed by mountains, a source of power. The executive suite's layout, however, was wrong. Tam ordered a major renovation to achieve the proper alignment. Now, he can gaze over his desk, across the cobalt bay, to the towering face of Horse Shadow Mountain and boast that his office has about the best feng shui in Hong Kong.

Tam's influence extends beyond the Asian markets and into Motorola's corporate home office. When the new semiconductor headquarters was built in Phoenix, Arizona, a few changes were made at Tam's insistence. Two waterfalls were installed in the entrance to counter the forces of the city's landmark Camelback Mountain to the north. Competitors may snicker at these practices, but Motorola may have learned how to profit from the secrets of the Orient [1, 2].

Introduction

The Motorola story portrays an organization that has adopted a global perspective and uses the capabilities of its human resources all over the world. This change in perspective is an evolutionary process that begins when an organization takes its first step in expanding beyond the home market boundaries.

The Transition From a Domestic to an International Position

Most firms begin as domestic corporations. Their operations are geographically limited to the boundaries of their own home market, and they serve the customers of their home country. A saturated domestic market and intense local competition cause many firms to resort to export to compensate for leveling off or decreased earnings. Inquiries from interested foreign parties, the anticipation of home market saturation, as well as the search for cheap labor and other resources can lead to interest in foreign markets and exporting.

The firm often becomes more willing to expand abroad as it becomes more familiar with foreign markets and the procedures of exportation. It starts by establishing branches, offices, and production facilities in foreign countries in an attempt to better serve those markets and take advantage of foreign market opportunities. To bolster the market share and earnings, such a firm would recognize the need for a long-term commitment to host countries and their economic aspirations. As the markets in host countries expand, the firm prospers, grows, and gets more involved with the host countries' institutions and people. This is how the firm integrates with its host countries, which leads to the discovery that cultural and political diversity do not imply limitations and restrictions for business opportunities. National boundaries may be seen as mere geographic demarcations [3]. The advent of the Internet has shortened the time it takes for domestic firms to become MNCs, and it has enabled some firms to engage in international business from the beginning. Today, even new ventures must have some familiarity with foreign markets and cultures.

The evolution from a domestic corporation to a multinational enterprise is a continuum. As Fig. 11.1 shows, at one end of the continuum is the local/national orientation, where the firm is exclusively devoted to serving the home country market. At this position, the firm's business philosophy and mission reflect its home country environment. Because its managers and employees share the predominant culture of the country, few problems arise from cultural misunderstandings.

The other end of the continuum comprises the multinational phase of the firm, when it operates in many national markets and is influenced by the cultures of those

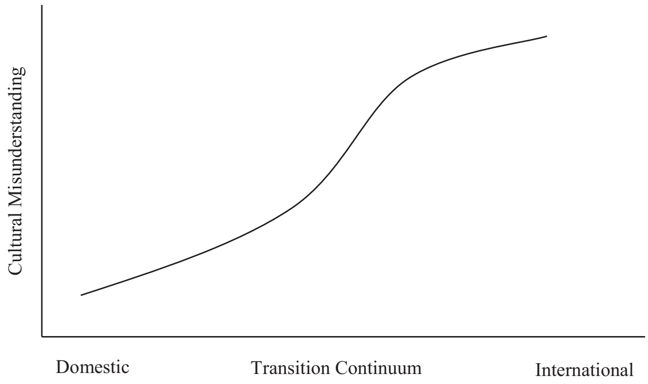


Fig. 11.1 Organization type and cultural problems

countries. Consequently, managing the corporation becomes much more difficult and demanding. The firm may face periods of deteriorating performance due to the cultural diversity among its host countries and the lack of effective organizational policies to deal with such problems.

During its evolution, the corporation develops its corporate culture and establishes its basic HRM policies. These policies encompass employee selection, training, evaluation, rewards and compensation, and termination. The company's culture blends with the cultural environment of its markets to create new and efficient HRM practices. The management-employee relationship and how they view each other are strongly influenced by the firm's culture. The firm's culture, in turn, is determined by the national culture. As it evolves, the MNC must adopt a multicultural or cross-cultural perspective in its operations and in dealing with its employees. Managers from different cultures have different assumptions about the "ideal" way of managing and "ideal" management policies [4]. Similarly, employees from different cultures have different views about the proper job-related behavior and expected management behavior. These culturally based differences in management and employee expectations can lead to conflicts and misunderstandings. Managerial practices that acknowledge the cultural diversity of the firm can reduce this conflict.

Because MNCs operate in a culturally diverse environment, their management practices, such as employee selection, career planning, performance appraisal, and compensation policies, should be adapted to fit specific countries and their cultures. For example, in some cultures, such as in the United States, career management systems represent formal, long-term human resource plans. Central to such a position is the assumption that human beings control the environment and nature. In cultures that believe human control over the environment is minimal, like in some Asian countries, such an approach is less effective. Common appraisal methods in the United States are based on employee performance and accomplishments. Such systems are ineffective in South American or the Middle Eastern countries, where lineal and personal relationships are more important than individual achievements.

In the same vein, in collectivist societies, where the emphasis is on the group and not on the individual, the individual's concern with affiliation may outweigh the desire for recognition. Under such circumstances, a promotion that singles out an individual and separates him or her from the group may be viewed as a punishment rather than a reward [5]. There are similar variations among cultures regarding selection, hiring, training, compensation, and recognition practices.

Recruitment and Selection

Increasingly, international competitiveness is becoming a requirement for domestic success. The ability of a firm to compete in the world market may be determined by the quality of its human resources. In turn, the quality of a firm's human resources primarily depends on its HRM practices, which are shaped by the organization's staffing philosophy. Such a philosophy serves as a screening mechanism, allowing only certain types of people to join the firm.

Recruitment Philosophy

An international corporation has the option of hiring from a global pool of applicants. An objective selection process would result in choosing the best-qualified applicant. Most international staffing decisions are supposed to be based on objective criteria. Research has shown, however, that these decisions are strongly influenced by the attitudes of the top executives toward the people of the host cultures. Managers' opinions and attitudes determine whether expatriates are selected for management positions in foreign subsidiaries (expatriate managers are home country managers on assignment to host countries). According to Heenan [6], the underlying motivation behind these key decisions is the MNC's level of trust in the host country nationals and managerial perceptions of their competence (pp. 5–9). MNCs may follow any of four recruitment approaches: home country, host country, regional, or global (Table 11.1).

Home Country Approach. Managers using the home country approach tend to staff all key positions, at the home office and abroad, with home country executives. They feel that this group is the most intelligent, capable, and reliable. This decision, however, may not be based on prejudice; the decision-maker may lack knowledge of and experience with foreign persons and cultures. This type of attitude is most evident in firms that are highly centralized [7] and rely on the low-cost production of commodity-type products for international markets [8].

Table 11.1 Recruitment philosophy

Home country approach
Host country approach
Regional approach
Global approach

MNCs are also more inclined to use expatriate managers where the political power of the host country is seen as a threat. The aim is to ensure that the objectives of the firm are not subordinate to those of the host country [8].

Host Country Approach. Managers using a host country approach believe that the management and staffing of subsidiary firms should be left to host country nationals because they think that natives will be better able to understand the requirements of the assignment. To the MNC executives, the foreign operation is a mysterious undertaking best left to foreign executives. As long as the firm remains profitable and the objectives are achieved, host country executives are allowed to operate the organization in any way they feel appropriate. This low-profile approach by headquarters results in absolute authority for the host country manager over the foreign organization [8].

Regional Approach. Managers who use the regional approach believe that the global market should be handled regionally. For example, all European markets would be coordinated through a headquarters in France, all markets in North and South America through a headquarters in the United States, and so on. Consequently, personnel selection is carried out regionally. Although information flow and personnel transfer are high within each region, there is little or no regional crossover [6, p. 8]. This staffing style is used when products are similar all over the world but the marketing has to be tailored to meet the needs of different cultures [8, pp. 3–10]; this is often a result of strong competition from smaller, more localized organizations [7, p. 523]. Given these, the regional approach is more likely a "Think global (regional) and Act local," just like Coca-Cola having five regional headquarters integrating operations within a region but also localizing products depending upon customer preferences and culturally different markets [9].

Global Approach. This approach is characterized by a global systems approach to management. Managers with this perspective believe that top qualified people can come from any background and culture. They also believe that the whole world is their market. Therefore, resource allocation, staffing, manufacturing, and marketing should be done within the framework of the global economy [6, p. 9]. Locations are staffed based on overall competence, ability, and a willingness to work in different cultural settings and a global rather than an ethnic mindset [10]. The result is an HRM system that is most appropriate for the complex and dynamic global market. In such a market, competition is not regional but consists of other MNCs that operate on a worldwide level and have similar characteristics [8, pp. 9–10].

Selection Criteria

The success or failure of an operation hinges on the quality of home country managers assigned to foreign business operations. This is true both for firms that are new in the international market and for established MNCs with extensive experience in foreign countries. To host country personnel, these managers represent the MNC and the home country. The image they create lasts long after the initial assignment is over and they have gone home. Therefore, only the best-qualified managers should be sent abroad.

In the past, it was quite common for firms to use only managerial and technical expertise as criteria for the selection of expatriate managers. These criteria, however, are not enough for today's international assignments, and the selection of managers based only on technical and managerial expertise could result in disappointing outcomes. MNCs must work to make the expatriate assignment a positive experience for both the company and the manager. To do this, it is imperative that the selection criteria for foreign managers encompass all aspects of work and respond to the social, political, and cultural situation.

What characteristics should a manager possess to succeed abroad? What criteria should be used in selecting managers for foreign assignments? In general, all the characteristics that make a good domestic manager, such as the skills and ability to plan, organize, and direct, are necessary for an international executive, too. However, there are certain additional attributes that are essential for success in global operations. The following are characteristics crucial for any manager sent on a foreign assignment (see Table 11.2):

Technical and Managerial Skills [11]. Basic technical and managerial skills are very crucial for a manager assigned to a foreign operation. In foreign assignments, managers will need all the technical, administrative, and managerial skills that make them succeed at home. While past performance is usually a good indication of a person's abilities and skills, not all managers who are successful at home do equally well on foreign assignments. The novelty of the physical environment and the political, social, and cultural differences make experiences gained at homeless

Table 11.2 Characteristics crucial to managers on a foreign assignment

Technical and managerial skills
Maturity and emotional stability
Initiative and creativity
Communication skills
Family support
Motives and desire
Social skills, flexibility, and adaptability
Language skills
Diplomatic skills
Locally contingent factors, e.g., age and gender

applicable in a foreign country. Quite often, an international assignment involves novel problems that only a very astute manager can successfully solve. An international manager is usually expected to train local employees. Many of these employees are being introduced to a new method, a new process, or the use of new machinery. Support from other colleagues may not be readily available. Therefore, expatriate managers must be able to function with minimum or no support. Innovative ability and insight are crucial in assignments where the expatriate is the only expert in the organization.

As in domestic operations, the characteristics and attributes needed abroad also depend on the hierarchical position of the manager. There are four categories of assignment for an expatriate: (1) the chief executive officer responsible for the operation abroad, (2) the head of a functional department in a foreign subsidiary, (3) the troubleshooter whose responsibility is to solve specific operational problems, and (4) the operator [12]. A different set of attributes is needed for each of these positions.

Maturity, emotional stability, and respect for the laws and people of the host country are attributes required for an executive in regular contact with host country nationals. A troubleshooter needs initiative, creativity, and technical knowledge of the business. The head of a functional department must be mature, emotionally stable, and also have technical knowledge of the business. The chief executive officer of a foreign subsidiary must be an effective communicator, have managerial talent, and be mature and emotionally stable [12].

Although different characteristics are needed for various managerial assignments, all successful expatriates share certain common characteristics. In addition to managerial and technical expertise, the "ideal" expatriate must possess the right combination of interpersonal skills, intelligence, and emotional stability. To succeed, the expatriate should have a family supportive of the assignment and able to adapt to the new environment [13].

Motives and Desire. Individuals who possess a genuine interest in foreign countries, their people, and their cultures are ideal candidates for a position abroad. Those who seek the assignment solely for extra money, added prestige, or the "boost" such an assignment might give to their careers are not as likely to be successful in expatriate situations [14]. A good indication of a manager's interest is past experience. If a manager knows foreign languages, has taken international business courses, and has traveled extensively or lived abroad, he or she is obviously interested in foreign countries and cultures [15, p. 115].

Social Skills. Probably the most important success factor for the international manager is social skills. These are not necessarily the same social skills that are successful at home. A person socially skilled in a domestic operation is a person who has learned the rules and norms for developing and maintaining relationships with people and knows the proper behavior for various circumstances. Because we acquire these skills by practicing them under specified rules of our own cultures, going beyond the familiar boundaries of home culture may render our skills less effective. Naturally, understanding the host country's culture and politics and having a knowledge of the host country's history and geography are very helpful, but they may not be sufficient.

In international situations, where rules and conditions are different, managers should be flexible, adaptable, and able to accept the unfamiliar. In some cultures, relationships between individuals typically develop slowly and cautiously over time unlike in the United States. Once established, these relationships are permanent, and the obligations would not be dissolved even with the dissolution of the relationship [16, p. 126].

International managers must be able to understand why foreigners behave the way they do. To understand people, we have to understand their culture. We perceive and interpret others' behaviors using our own cultural cues and models. A knowledge of other cultures would enable us to make correct attributions to, and predict more accurately, the behavior of people from other cultures and anticipate their reactions. This reduces the element of uncertainty in interpersonal and intercultural relations.

A very important element of any culture is language. Although we can study and learn about a culture without speaking the language, knowing the language immensely facilitates learning. The ability to speak the host country language not only allows better communication, it also minimizes differences and creates a more informal and friendly communication environment. Even when a manager is not proficient in speaking the language, the willingness to use the language shows his or her interest in interacting with the host nationals. It also indicates the manager's confidence and trust in them in taking risks and being vulnerable.

Getting out and enjoying activities such as playing or attending sporting events, listening to or playing music, and eating out give the expatriate the chance to socialize with locals, make friends, and learn more about their culture. It takes some of the pressure off the move to the new environment and allows the new friends to act as teachers of the culture. Developing friendships with locals, who could act as mentors in providing guidance through the maze of cultural complexities, makes life much easier. Host national friends can help the manager understand people's attitudes and expectations, at work and away from work [17].

Diplomatic Skills. On foreign assignments, international managers interact with business associates, governmental agencies, and political leaders. In most developing countries, the government assumes a larger role in business and trade than is customary in the United States. Diplomatic skills are needed to relate to government officials properly and to conduct business transactions under unfamiliar conditions. The manager serves as an ambassador, representing the company to other businesses and to host government bureaucrats [15, p. 114]. Successful managers in global companies should have the qualities of diplomats, such as patience and sharp negotiating skills, to achieve desired, favorable terms. "Global companies can no longer maintain an arm's length relationship with foreign host governments since their drive toward greater local presence has significantly expanded their exposure to local conditions" [18, p. 85].

Maturity and Stability. Venturing into a strange environment, facing unfamiliar conditions, and dealing with unexpected situations are all part of going abroad and conducting business transactions in a foreign country. Emotionally and intellectually mature persons more readily handle the burden of foreign assignments. They recognize their own assumptions, values, motives, needs, and shortcomings. Consequently, they are in a better position to understand the attitudes and behaviors of other people, appreciate cultural differences for what they are, and be able to suspend judgment when there is insufficient understanding of circumstances. They understand the inherent logic present in different ways of life and do not overreact when they encounter unfamiliar and potentially threatening situations. These characteristics enable managers to maintain emotional equilibrium under the most demanding and difficult conditions. Therefore, they can constructively cope with adversity and handle the stress of daily life in an unfamiliar environment [17, p. 41].

Family Factors. When evaluating candidates for foreign assignments, it is very important to review both the candidate and the family. The inability of spouses or children to adapt to their new surroundings is a major reason for failure in overseas transfers, including premature returns and job performance slumps [19]. While the expatriate manager has the relative security of a familiar work and office routine, the family must cope with an unfamiliar environment every day. To prevent failures due to family difficulties, MNCs have to address family-related issues. Ford Motor, Minnesota Mining and Manufacturing, and Exxon include spouses in their screening process for foreign assignments and/or offer educational and pre-departure preparation assistance [19].

Locally Contingent Attributes. For assignments to certain countries, attributes such as the candidate's age and gender must also be considered. Older people are respected, and seniority is emphasized in many countries, such as Asia and Africa. In these cultures, young representatives may have a great deal of difficulty in gaining access to important personnel and key decision-makers [20]. In some countries, women encounter a great deal of resistance from superiors, subordinates, colleagues, and clients. Many high-level officials refuse to work with women and do not promote them to key decision-making positions. These people question a woman's professional competency and doubt the very legitimacy of her authority in the executive role [21]. The following incident is an example of the type of situations that women may face when they go abroad [22]:

> An American female executive was sent to negotiate a business deal with a Japanese firm because she was the most qualified person. Properly dressed in an elegant suit, she arrived on time in the boardroom of the Japanese corporation … and was prepared for a very serious negotiation. The Japanese senior executives kept asking politely where was her husband. She answered that her husband was at home in New York, taking care of their daughter. At this point the Japanese thought they finally had discovered that she was a secretary. Therefore, they asked to see her boss. To their amazement, she made it clear that she was the boss! The meeting proceeded, but not with an ideal opening. Halfway through the meeting, taking a break, she asked for directions to the ladies' room. There was no ladies' room on that floor. (p. R22)

Personnel Selection Options

As it prepares to staff its foreign-based offices, the multinational firm must decide if it will fill managerial positions with expatriate, host country, or third-country managers. We discussed earlier that the attitudes of top executives toward the people of other cultures influence personnel selection. Often, at the early stages of internationalization, the firm follows a home country approach in making staffing decisions. As the firm gains international experience and learns about other cultures, it may move through the host country and regional approaches to personnel selection and finally arrive at the global approach in staffing.

The selection and hiring process of MNCs is a very complex and difficult task. Each foreign office has different staffing requirements and needs. There are a multitude of other factors, such as local laws and contractual obligations, that have to be considered. In addition, the MNC's management philosophy regarding staffing plays a pivotal role in personnel selection. The prevailing managerial philosophy influences the choice among the three alternatives: expatriate, host country national, or third-country national managers.

The Expatriate Manager. The MNC may choose expatriates to fill managerial positions in its foreign offices. The selection of expatriates for foreign assignments is influenced by the ethnocentric attitudes and philosophy of the MNC's top executives. It may also be determined by operational needs. For example, home country managers may have a long history of service with the parent company. They possess an in-depth knowledge and understanding of the policies and procedures of the firm and are familiar with the business and industry. They may also have technical training or possess functional expertise that local managers lack. Sometimes, due to a shortage of well-trained local managers, expatriates are the only logical choice [23, p. 156]. MNCs may also select expatriates to fill foreign positions as part of their corporate managerial training program. Many MNCs view foreign-duty assignments as an indispensable part of an executive's "global" development training [5, p. 240]. General Electric, for example, is now sending its brightest stars abroad rather than the run-of-the-mill managers it once picked for foreign posts [24]. The advantages and disadvantages of selection for assignments abroad are summarized in Table 11.3.

Table 11.3 Advantages and disadvantages of having expatriate managers

Advantages	Disadvantages
Long service with MNC	Salary costs
Familiarity with policies of MNC	Relocation costs
Familiarity with the industry	Family adapting to the new environment
Possession of technical expertise	Possibility of failure
Managerial training and development	Medical, pension, benefits, educational costs
Speaking the language of headquarters	Locals may resent the high salary and benefits

Before accepting the assignment, the prospective manager should have an intensive and in-depth meeting with the manager's superior(s). The purpose of this meeting would be to agree on issues such as the expatriate's level of remuneration, the parameters, and responsibilities of the assignment, and the projected home office position after the foreign assignment is over [25]. Instead of prolonged assignments for the expatriates and their families, the MNC may decide to consider short-term alternatives. In this way, expatriate managers could share their problem-solving talents and technical expertise with foreign subsidiaries while avoiding the expense and disruption that accompany expatriate relocation.

An MNC may also select individual managers or teams of managers to undertake temporary project assignments in foreign countries, typically associated with the start-up of a special project, such as the introduction of a new product line or getting an information system up and running. These assignments, usually, last from 3 weeks to 6 months and are an excellent way of providing the management personnel necessary to present new products, build new facilities, or introduce new management information systems [23, p. 166].

The Host Country National Manager. In the past, many multinational firms displayed an ethnocentric view, staffing foreign offices almost exclusively with expatriate personnel. As MNCs have evolved and assumed a more global perspective, their policies for staffing foreign managerial positions have also undergone an evolutionary progression. Today, many MNCs are selecting more host country and third-country nationals to fill managerial positions in their foreign subsidiaries. This is due to the increasing costs and the high failure rate of expatriate assignments.

The cost of relocation can be very high for the company and the expatriate. International assignments often fail because the expatriate manager and the family are unfamiliar with the host culture or because they fail to adapt. The failure rate for expatriate assignments can range anywhere between 30% and 50%, and it can climb to as high as 70% in less developed countries (LDCs) [23, p. 171]. By hiring local managers, the MNC saves the cost of relocating the expatriate manager and the costs associated with their failure. By using local personnel, the MNC is also spared the higher salary paid to an expatriate working in a foreign country. Besides their base salaries, expatriate managers also receive medical insurance, pension benefits, foreign currency adjustments, and foreign service incentives. Moreover, housing costs, relocation and transportation expenses, cost-of-living compensation, and educational allowances increase the burden on MNCs [26]. Host country personnel may resent and envy the expatriate's higher pay scale. This may eventually affect the productivity and morale of local employees.

Host country nationals may be selected because of their knowledge and understanding of local markets, consumers, and governments. Local managers may provide the company with valuable governmental contacts. These contacts can be especially helpful when dealing with governmental red tape and bureaucracy and are also useful when host governments do not trust, or are uncertain about, the presence of a foreign corporation within their borders. Some foreign governments may have regulations requiring the use of local managerial personnel [23, p. 171]. In these situations, host country managers are a better choice.

For some markets with stringent business requirements, such as Japan, hiring host country nationals is one way of breaking into those strict markets or being competitive. To recruit in such a market, MNCs may be forced to pay higher salaries than local companies and offer other benefits. For example, in Japan, foreign employers on average pay 10% more than Japanese firms and have shorter working hours, more flexibility, and merit-based promotions. MNCs are paying premium salaries in Japan because most Japanese view foreign employers as unstable, unfamiliar, and nonprestigious. An alternative, however, is available to MNCs. Since Japanese firms are reluctant to hire women, MNCs have started hiring women in larger numbers. Consequently, foreign firms, especially American firms, have been successful in attracting some top graduates of Japanese universities [27].

Host country managers can help MNCs have a more harmonious relationship with local employees, customers, and the community. Integrating these managers into MNCs, however, is difficult because of conflicts that may arise as a result of differences between the national and corporate cultures. Certain steps can be taken to smooth their integration into MNCs and reduce the potential for conflict. MNCs should identify talented host country managers early in their careers and prepare them for future positions. The prospective candidates should be rotated to home country positions for a few years, enabling them to absorb the home country and corporate culture. This rotation also helps them develop a network of friends and colleagues who can be very helpful to them in the future. An alternative is to appoint a home country manager as a "shadow manager" for a host country candidate. The role of the shadow manager is to acclimate the host country manager to the MNC's corporate culture and to ease the communication link to the home country. NCR, Fuji-Xerox, and many other firms have used this approach [28]. Table 11.4 summarizes the benefits and drawbacks of host country staffing.

As can be seen from the table, host country staffing has many benefits. There are, however, certain caveats with this practice, particularly for smaller firms. The legal consequences of hiring a host country citizen are often complicated and costly. For instance, labor laws in many European countries require employment contracts with generous termination benefits [29].

Table 11.4 The benefits and drawbacks of host country staffing

Advantages	Disadvantages
No relocation and other costs	Lack of familiarity with headquarters
Lower salary	Lack of familiarity with the industry
No problem with family adjustment	Legal issues of hiring and firing
Knowledge of local language	Possible language problems with headquarters
Knowledge of local laws, customs, and culture	Possible cultural problems with headquarters
Relations with host government	Loss of training opportunity for expatriates
Relations with local customers and community	

The selection criteria for host country national managers are similar to those used for third-country nationals.

The Third-Country National Manager. Sometimes, local managers do not have enough managerial expertise or do not wish to work for the MNC. In those situations, third-country managers may provide a viable staffing alternative. For example, because of the political tensions in Iran during the early 1980s, American firms doing business in Iran often used British or Canadian personnel to represent their interests in Iran [30].

Sometimes, the third-country national may simply be the best person and the right manager for the job. Third-country executives often speak several languages and know the region and its industry well. Many international hotel firms commonly employ third-country nationals. Recognizing the qualifications of these managers and their usefulness to the firm, American MNCs are hiring more third-country nationals in their foreign affiliates. For example, the ranks of third-country managers at Scott Paper swelled from a few to more than a dozen in 4 years. Another example is Pioneer Hi-Bred International, which in 5 years, tripled the number of third-country managers in key positions in foreign operations [31].

Host Country or Third-Country Staffing Criteria

The criteria for selecting a host country and third-country national managers are much the same as those used for selecting expatriate managers. Technical expertise, adaptability, flexibility, and communication and decision-making skills are key desirable characteristics. If the local or third-country manager is to operate successfully in the global environment of the MNC, he or she should also possess an international attitude and perspective [14, p. 197].

In addition to the desired personal and professional expertise, host country and third-country managers should be able to speak the language spoken in the MNC's home country. Managers in the host country typically have extensive contacts with the home office staff. However, the home office staff cannot speak the language of the host country. If an effective communication link between the home office and the foreign subsidiary is to be established, it is essential that local and third-country managers be able to speak the corporation's home country language.

Making the decision to hire a host country manager may be much easier than finding a local citizen who has the qualifications for the job and/or who is willing to take up a job with the MNC. Qualified national managers may be difficult to find for a variety of reasons. In the past, MNCs selected primarily expatriate managers to fill foreign positions. Consequently, host country personnel may not have received the professional training that would allow them to assume managerial roles. As a result, there may be a shortage of managers with the proper training in many countries. The problem of finding a qualified manager may be even more pronounced in LDCs. A combination of poor educational opportunities and depressed economic conditions may limit the number of talented and qualified people available for employment. Individuals who do have the proper educational credentials often have less desire to enter the MNC workforce [23, pp. 169–170].

In areas with an abundance of qualified managers, MNCs may still experience difficulties in attracting and then hiring these individuals. In Japan, for instance, employees pledge complete allegiance to their employers, promising that they will not seek employment elsewhere. Moreover, Japanese workers often do not want to work with "foreigners," preferring instead to work with people from their own culture [32].

Before hiring a particular local manager, the MNC must consider the host country's cultural norms regarding superior-subordinate relationships. For example, managers in many LDCs are expected to be highly responsive to requests from subordinates. Since managers with this background may have difficulty saying "no," performance appraisal and reward and control situations may be particularly difficult for them [23, p. 144].

The MNC must also consider the expectations these managers may have regarding their position with the corporation. The managers' career expectations and job performance will be a function of their cultural background. The MNC should be aware of these expectations and take them into account when hiring local or third-country managers. They should also adopt personnel management policies that offer incentives and rewards that are appropriate to specific cultural settings.

Product Life Cycle and International Human Resource Management

So far, we have used managerial philosophy and orientation to explain the HRM practices at MNCs. Earlier in the chapter, we proposed that traditionally, the MNC evolves from a domestic to a multinational enterprise. The advent of the Internet has enabled some new ventures to directly start off as an international enterprise, but this is not very common. During its evolution, the MNC establishes its basic HRM policies and practices. These policies and practices are usually the outgrowths of the cultural environment of its diverse markets. As the MNC expands to different markets, it gains experience in dealing with different cultures. The necessities of accommodating to market requirements shape the MNC's managerial philosophy and HRM practices. Thus, in effect, we have implicitly presented a historical view of an MNC's HRM practices. There is, however, an alternative viewpoint, which is based on the concept of product lifecycle. According to this, each stage of an MNC's life requires the application of certain HRM strategies.

Vernon [33] proposed that international trade and investment go through three phases. Adler and Ghadar [34] have expanded Vernon's concept by adding a fourth stage. The four stages that MNCs go through are (1) high tech or *product orientation*, (2) growth and internationalization or *market orientation*, (3) multinationalization or *price orientation*, and (4) *globalization*.

Adler and Ghadar argue that the impact of culture on the organization and the management of human resources is a function of the environmental imperatives of each stage [34]. In what follows, we discuss the four stages of the international product life cycle, followed by a presentation of the corresponding HRM practices. It should be noted, however, that recent technological developments, including the Internet, have created a new environment. As a result, some firms are able to bypass the first three phases and directly move to the global stage.

International Product Life Cycle

In Phase 1, the product-orientation stage, firms produce new and unique products that command a high price relative to direct costs. They depend on R&D and apply advances in science and engineering to product development. At this stage, there are only a few firms capable of producing these products.

Phase 2 is the market-orientation stage. It begins with the entrance of competition, which forces firms to focus on expanding to new markets. International expansion is an option they may choose. Initially, foreign markets are supplied by exports from the home country. Later on, assembly operations are established in countries with large domestic markets. As the emphasis shifts from product development to market development, marketing replaces R&D as the most important function.

Phase 3 is the price orientation stage. It marks the realization that competitive advantage can be achieved only by managing and controlling costs. Increased competition and standardization of products at the end of Phase 2 drives prices down and creates a need for further cost reduction. Since the market is saturated with competitors, the price falls to barely above the costs. To reduce and control costs, production is shifted to countries with the lowest production costs. By Phase 3, home country production is drastically reduced, and the home market is supplied with imports from low-cost facilities abroad.

The first three phases have their own special features and characteristics. Phase 4, however, is the culmination of the previous three phases. It is the result of dramatic changes in market forces that are best described as a progression from one stage to another, as follows.

For a couple of decades following World War II, American firms enjoyed a monopoly of power and an undisputed leadership position in the world markets. For them, Phase 1 was characterized by the absence of foreign competition and a long product life cycle of 15–20 years. A salient characteristic of this phase was the dominance of the product development function. In the meantime, Europe and Japan rebuilt their economies and began to challenge the dominance of the United States. The consequences were increased worldwide competition and a shortened international product life cycle, leading to a much higher need for effective marketing. This was followed by technology transfer and price competition, which are the characteristics of Phase 3. By the 1980s, the international product life cycle was reduced to 3–5 years.

Today, we are at the beginning of Phase 4, globalization. This phase is characterized by mass customization of products designed to meet individual needs. These products are produced by assembling components that are procured worldwide. Product life cycles have been shortened further, and for some products, the life cycle is now only a few months. The emphasis is on both top-quality products and services at the least cost. Accurate identification of consumer needs and quick response to them are the hallmarks of Phase 4. Firms succeed in Phase 4 by becoming both highly differentiated and highly integrated and by combining the local responsiveness of Phase 2 with the global integration of Phase 3. In other words, firms are forced to compete simultaneously under Phase 1, Phase 2, and Phase 3 market conditions.

At each phase, the influence of cultural diversity on the firms varies. Figure 11.2 depicts the four stages of the product lifecycle and the influence of culture on the organization at each stage.

In Phase 1, technological superiority, product uniqueness, and monopoly power allow the firm to operate with an ethnocentric perspective and ignore the cultural differences between the home and host markets. Phase 1 firms export their products and push the cost of absorbing cultural differences to foreign buyers. In a way, these firms send a message to foreigners that says, "We will allow you to buy our products" [34, p. 187].

A Phase 2 firm cannot operate with an ethnocentric perspective. The competitive pressure of Phase 2 does not allow firms to ignore the cultural differences and expect

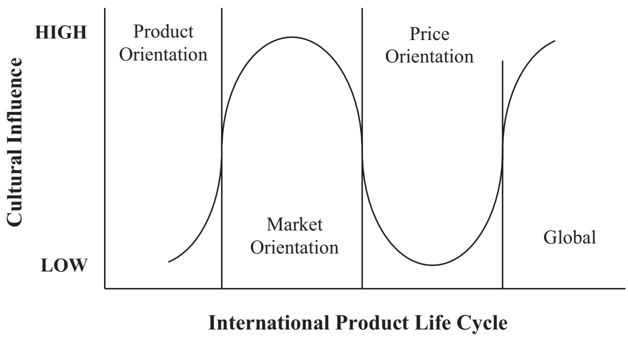


Fig. 11.2 International product life cycle and cultural influence

the cost of cross-cultural mismatch between sellers and buyers to be absorbed by foreign customers. To succeed, Phase 2 firms need to take into account cultural differences and modify their operating styles to match those of their foreign customers and clients.

In Phase 3, characterized by undifferentiated products and price competition, the importance of sensitivity to most cultural differences is reduced. While in Phase 2, there may be many different ways of designing, producing, and marketing products for diverse markets, in Phase 3, only the least-cost method can succeed. In the market of undifferentiated products, the importance of market segmentation based on culture or national considerations diminishes. In other words, price competition makes the impact of cultural differences negligible.

In Phase 4, the minimum criteria for success are top-quality, least-cost products and services. Firms gain a competitive advantage by producing sophisticated mass-customized products based on global strategies. Successful market segmentation based on culture becomes a winning strategy. Phase 4 firms compete in a global market, with R&D, production, and marketing networks that are spread all over the globe and that serve very discrete market niches. Consequently, managing cultural diversity within the organization and with suppliers and customers becomes a requisite for success.

HRM Practices

Product lifecycle indicates the impact of culture on the firm. It can be used to suggest corresponding HRM practices for each phase.

Firms operating in Phase 1, which produce unique products and sell them primarily to the home market, do not require much international sophistication from their employees. The firms' monopoly power insulates them from the impact of cultural differences and forces the buyers of the product to absorb the cost of the cross-cultural mismatch. Foreign customers must speak the language of the MNC, accept the MNC's cultural and managerial practices, and after the purchase, modify products and services themselves to match their needs and requirements. Firms in Phase 1 get away with using the ethnocentric approach because their buyers and clients do not have an alternative. Personnel selection for foreign assignments, therefore, is based solely on the ability to get the job done. There is no international career or international and cultural training. For firms operating in Phase 1, international experience is not only unimportant, but it may even hinder the executive's progress in the hierarchy. These firms do not send their most qualified employees to a foreign subsidiary. An executive accepting a foreign assignment falls outside the mainstream of the executive network and quite often is overlooked for promotions.

For Phase 2 firms, however, cultural adaptability and sensitivity are important, but personnel selection is still based mostly on technical competence and the willingness to accept foreign assignments. In Phase 2, firms could gain a competitive advantage by producing culturally appropriate products and services and tailoring their marketing programs to host countries' cultural requirements. These firms, besides employing expatriate managers, quite often employ host nationals in some host country positions, such as marketing and personnel. Expatriate managers of Phase 2 MNCs perform well only if they know the host country's language and understand the culture. To perform well, expatriate managers need to acquire appropriate skills and knowledge about the host culture. While on foreign assignment, they gain unique and valuable experience. On returning home, however, these expatriate managers find that their skills, knowledge, and experience are not valued much, if at all. Going abroad is not a very good career strategy for ambitious managers of Phase 2 firms. For the same reason, and because of a lack of understanding of international operations, foreign nationals very seldom rise in the hierarchy of the home country organization. Membership on the board of directors of Phase 2 firms and top executive positions are exclusively reserved for home country nationals.

Survival for a Phase 3 firm in the global market depends on price competitiveness. For geographically dispersed MNCs with a worldwide network of suppliers, manufacturers, and distributors, integration becomes an important undertaking. They become integrated primarily by standardizing their products and services and centralizing their operations and structure. International assignments are given to the best employees, and the search for managerial talent is expanded to include other nationals from the worldwide operation. While international experience is valued for career advancement, cultural sensitivity and language skills diminish in importance. Phase 3 firms attempt to integrate by assuming similarity or creating it. They assume similarity by producing generic products and services to take advantage of economies of scale and scope. The MNCs create similarity within the firm by using the home country language and by imposing home country values and cultures on their managers. They attempt to mold foreign managers in the image of home country executives. Home country or third-country national managers who get assimilated into the headquarters' corporate culture can ascend to higher-level positions. They assume that cultural differences can either be ignored through the corporate culture or minimized to reduce their impact.

Phase 4 MNCs produce and sell top-quality, least-cost, differentiated products for local tastes globally. The need for global integration and national responsiveness impels Phase 4 firms to select their best people for assignments scattered all over the globe. The home country market is no longer dominant and the boundaries between home country, host country, and third-country managers vanish. Internally and externally, firms are faced with cultural diversity, which they cannot ignore and have to manage. Successful Phase 4 MNCs are those that can identify situations where cultural differences could be used as an asset to serve culturally differentiated market segments worldwide. To identify and respond quickly to local needs, managers need to be culturally sensitive and speak more than one language. Successful firms recognize that cultural diversity cannot be ignored. They are able to identify situations where cultural diversity can be managed as an asset and those where such diversity is a liability.

International Management and Intercultural Training and Preparation

In spite of the fact that corporations devote a great deal of time and attention to selecting the proper candidates to undertake foreign management positions, 30–50% of all expatriate placements do not work out. Besides the direct financial costs involved with a failed expatriate assignment, the firm may incur other costs [35], including voided business deals, loss of valuable employees, the breakup of joint ventures, and poor relations with the host government.

The primary reason for failure is the inability of the employee or the family to adjust properly to the new environment and culture [36]. The failure, however, begins with selecting the wrong person. Adequate screening and proper selection procedures allow MNCs to select managers with a higher probability of success. The screening process includes interviews, tests, and the use of assessment centers. While some psychological and technical skills tests are available, these tests are not widely used by MNCs. This is because, first, there are no specific criteria for overseas success and, second, psychological tests have the potential for cultural bias and have relatively low validity [37, p. 536]. Interviews are very common for selecting prospective candidates for foreign assignments. Assessment centers offer the most promising method of selecting international personnel. The assessment centers include individual and group exercises, individual interviews with managers or psychologists, and perhaps some mental ability tests. After selection of the manager, pre-departure preparation and training further enable the expatriate to adjust to the host country culture. Figure 11.3 illustrates the many factors that could influence an expatriate's adjustment and, consequently, contribute to the success of assignments abroad.

Japanese in London

The international expansion of Japanese firms has brought a large number of Japanese expatriates to England. A major problem for the Japanese expatriates is the education of their children. Stepping off the exams escalator at home risks sacrificing a job-for-life in a prestigious company. Those who have no option but to bring their children to England scramble for places in schools that teach the Japanese national curriculum. There are eight private Japanese schools and six Saturday schools attached to Japanese-owned factories.

These expatriates can choose among eight Japanese estate agents to find them a house. They look for a location that reflects their position in the social pecking order. Around London, it is St. John's Wood and Hampstead for the bosses; Finchley, Golders Green, and Ealing for the middle managers; and Croydon for the lower ranks.

The unadventurous can live as though they have never left Tokyo: reading Japanese newspapers, buying their spectacles from Japanese opticians and suits from Japanese tailors, playing mahjong in Japanese clubs, and singing in karaoke bars. London has more than 60 Japanese restaurants and 8 Japanese food shops to stave off the torments of English food.

As they become more established, the Japanese are also growing more adventurous. There is plenty that they like about Britain: relatively huge houses, easy commuting, and, best of all, cheap and readily accessible golf courses. And the women enjoy their freedom and status. Japanese firms have recently started to worry that company wives may not want to go home [38].

As Fig. 11.3 suggests, many factors contribute to the success of expatriate managers. A proper selection process alone is not sufficient. Pre-departure cultural and international management training is necessary to improve the chances of the expatriate's success. Pre-departure preparation and training assist managers to get ready for most of what they may encounter in a foreign country. The preparation and training could be particularly helpful for a manager going to a culturally tough environment. The cultural toughness of the host country depends on the degree of difference between the home and host country cultures. The larger the cultural distance, the more difficult the adaptation process. Individuals may find that some cultures are far more difficult to adapt to than others [17, p. 43]. Because of the large distance between American and Chinese cultures, American executives, for example, may experience more difficulty in China than in England [39]. For the Americans, Chinese culture is tougher than British culture.

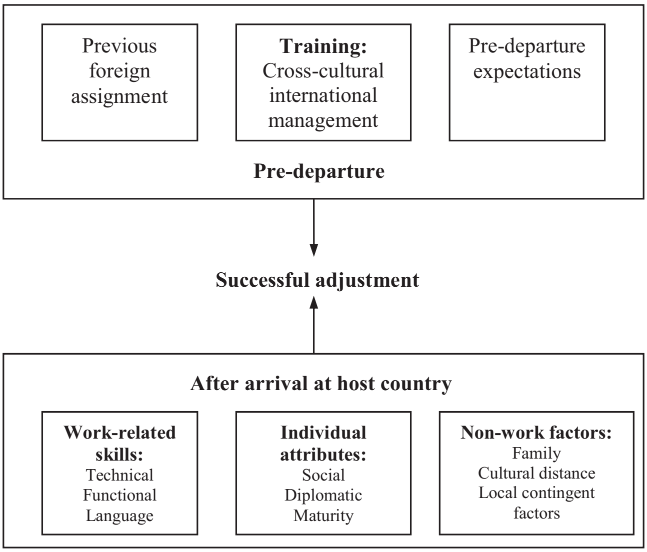


Fig. 11.3 Factors determining expatriates' cultural influence

Pre-departure Preparations

Pre-departure preparations serve to reduce the cultural shock that foreigners experience when entering a new culture. In particular, spouses and families benefit from participating in workshops that introduce them to the host culture. The families need more attention because they experience more cultural shock. The impact of cultural shock on managers is typically less severe than on their families because the work environment, even in a foreign country, is familiar to managers and they spend most of their time working at first. It is usually up to the spouse to find the grocery store, the doctor, the dentists, and the church, do the shopping, and so on.

Pre-departure workshops may include language training and typically provide information on practical considerations such as health, safety, and medical needs, as well as information on how to handle and manage the daily routine of a household, including grocery shopping, transportation, international mail, and communication. Such information reduces pre-departure apprehension and eases the entry into a new environment.

Providing employment information and helping career-oriented spouses to secure a meaningful job has an enormously positive impact on the family. Instead of viewing them as the employee's aggravating chattel, spouses should be considered as an unexpected bonus for the company. As a resource, they should be utilized to the benefit of both the employee and the MNC. For example, some MNCs emulate governments and universities and establish preferential employment policies for spouses [40].

Mentors at home and host country offices can be very helpful to expatriates. Matching the expatriate manager and the family with a host country mentor helps their entry into the foreign culture. A mentor at the home country corporate office assists in the repatriation program and reentry into their home culture when the manager and family are ready to return. This arrangement could make the entire expatriate experience easier for the manager and the family and increase the chances of success [17, p. 163].

International and Intercultural Training

The attitudes and behaviors of managers are influenced by their culture. This influence quite often creates cultural biases. To overcome these cultural biases and achieve a truly global perspective, international managers should receive international and intercultural management training. Such training helps managers develop the skills they need to function in a variety of cultural settings and geographic locations.

International management education *and intercultural training* may also help managers develop global perspectives and be more receptive to and have empathy toward the cultures and customs of other nations. They also learn not to blindly accept their own cultural norms as universal standards. Such training can provide these managers with the understanding that no one culture, or method of managing, can consistently produce superior solutions to international managerial problems. They could also learn how to adapt their management styles to fit the many cultural situations they may encounter.

The purpose of international management education and training is to provide MNC managers with an awareness of the diversity of management practices around the world and to improve their understanding of the business and management philosophies and practices that exist in different countries and cultures. Through documentary programs, participation in business games, and role-playing scenarios, managers can develop a better understanding of culturally based differences in managing.

International management education and training programs can be either arranged as an in-house service or conducted at educational and training institutions. These programs could be designed to develop the understanding and skills pertinent to a specific country and culture or even a region. For example, managers could learn about the basic tenets of Japanese management and how they differ from American practices. Alternatively, training programs could focus on the East Asian cultural factors influencing the management of firms. Ideally, the faculty of international management programs comprises professional and business personnel who represent a wide variety of nationalities and cultures. A culturally diverse staff helps ensure that MNC managers are exposed to many different cultural philosophies and value systems.

Managers who are expected to have extensive contact with people of other cultures should also receive some form of in-depth intercultural training. This is useful for all MNC managers operating abroad, whether they are expatriate, host country, or third-country nationals. Intercultural training aims to develop a set of skills that will be useful to international managers [41]. These skills are listed below:

- *Self-awareness:* The recognition of personal assumptions, values, needs, strengths, and limitations and the understanding of personal response in different cultural settings
- *Culture reading:* The ability to discover and understand the inherent logic of cultural norms and expectations
- *Multiple perspectives:* The ability to suspend judgment about other cultures and appreciate others' perspectives
- *Intercultural communication:* The skill to send and receive verbal and nonverbal messages accurately in different cultures
- *Cultural flexibility:* The ability to adjust and change expectations and plans in accordance with the host country's cultural requirements
- *Cultural resilience:* The ability to handle culture shock and recover and rebound from setbacks arising from cultural differences
- *Skills in building interpersonal relationships:* The ability to develop and maintain interpersonal relations with host country people
- *Intercultural facilitation skills:* The ability to manage cultural differences and use these differences constructively

During the course of an intercultural training program, managers are provided with a wide range of information about foreign countries, their cultures, and customs, and the anticipated roles the managers may be expected to assume in these cultural settings [36, p. 686]. Such intercultural exposure enhances a manager's ability to deal with the routine as well as the unexpected and unusual situations that interactions with other cultures may present [17, p. 79].

The nature and length of each individual's intercultural training are determined by several factors. These factors include:

1. The type of involvement and interaction the manager will have with host cultures
2. The manager's position in the company's hierarchy
3. The cultural toughness of other cultures [17, pp. 78–79]

A typical intercultural training program most commonly provided by many MNCs follows a documentary approach. The program provides managers with printed materials on a country's history, geography, sociopolitical and economic systems, and cultural practices. This documentary information may be supplemented by lectures or films that provide practical information on day-to-day concerns such as local transportation, housing, shopping, schools, and finance [36, pp. 686–696].

For managers who will have extensive contact with foreign cultures, a documentary program alone may not provide the higher level of intercultural sensitivity and awareness that may be needed. To develop an in-depth sensitivity to a culture's mores and behavioral patterns, managers need specialized training that goes beyond a review of reports and instructions on a foreign language and culture. The scope and depth of the training should match the extent and frequency of interaction and involvement with people of different cultures. As the need for interaction with different cultures increases, training programs should assume a more interactive or affective immersion-oriented perspective.

During affective intercultural training, managers spend a good deal of time interacting with citizens of the host country. Alternatively, they may associate with individuals who have extensive, firsthand knowledge of the host country. As a result of these interactions, managers move beyond an objective, generalized knowledge of foreign countries and gain an understanding of the subtle nuances of their cultures. For example, they will learn the proper way to listen, scold, or praise in a given cultural setting; "*…Praising seems like something very easy to do, but where someone came from Germany, it was very unusual to offer such praise to employees. German bosses certainly appreciated their employees, but they were not accustomed to praise them for their work in the way that Americans are typically praised…*" [42].

This type of information can be invaluable to managers as they deal with people from other countries and cultures [36, p. 686].

The Intercultural Sensitizer

A promising approach to intercultural training is the intercultural assimilator or intercultural sensitizer (ICS). The origin of the term *ICS* goes back to the efforts of Fielder, Osgood, Stolurow, and Triandis during the early 1960s to develop a computer program that could be used to give cultural training to people from different cultures. The purpose of ICS is to teach individuals to see situations from the perspective of members of another culture [43].

As Albert has suggested, the term *ICS* is a more appropriate name for the instrument. There is no one definitive format for constructing an ICS. Some have emphasized the major customs of the target culture, others have attempted to present the value contrasts between the two cultures, and still others have dealt with differences in interpersonal attributes between the cultures. Despite the variations, ICSs attempt to provide the learners with extensive information about a target culture in a 2–6-h time span. The information chosen for the ICS portrays the very important and significant differences between the two cultures. In other words, the ICS focuses on critical problems and key differences. The basic requirement for constructing an ICS is to identify two situations or critical problems and provide the learners with an active experience from which they can learn the behavior, norms, perspectives, attributes, values, and customs of the other culture [43, p. 189].

Many American firms have realized the need for global understanding and experience among their managers. A few have already installed elaborate training and career-tracking mechanisms. Colgate-Palmolive Company, Procter & Gamble Company, General Electric, Raychem Corporation, and PepsiCo Inc., to name just a few, are among the firms that have instituted screening, selection, and training programs geared to identify young managers, early in their careers, for global operations. For example, a typical participant in Colgate's global marketing management training program holds an MBA degree from an American university, speaks at least one foreign language, has lived outside the United States, and comes with both strong computer skills and prior business experience [44].

Training Host Country or Third-Country Nationals

In addition to generalized international management education and specific intercultural training, host country or third-country national managers who are new to the MNC should also undergo a period of introduction and orientation to the firm and its corporate culture.

In the orientation phase, the new employees are introduced to, and educated about, the general aspects of the corporation's operations. They are instructed about the firm's overall purpose and mission, its management policies and philosophies, its marketing/sales strategies and tactics, and its financial management practices.

The second phase of the training process consists of a combination of socialization and indoctrination programs. The purpose is to make the new employees a part of the MNC by introducing them to the norms and values of the firm's corporate culture [23, p. 113]. How successful the MNC will be at implanting its "view of the world" in its new employees depends on several factors. Formal and informal organizational practices, such as salary increases, promotions, job assignments, and superior-subordinate relationships, are the most conspicuous organizational factors. The less obvious ones are personal factors, such as the importance of the managers' culture to them, how closely they adhere to the dictates of their culture, and the degree of differences between the host country national culture and the MNC's corporate culture. These factors could affect the acceptance of the corporate culture by the host country or third-country nationals. The more important the managers consider their own culture, the more they adhere to their own cultural norms. The more different the MNC's corporate culture is from the host country national culture and the more the managers adhere to their own cultural norms, the more the difficulties these managers will experience in their socialization efforts. It should be noted, however, that while the MNC's culture may affect, and even change, the way in which managers behave in work/business settings, this change in behavior may be only superficial. On a deeper level, the managers may cling to the mores and norms of their own culture [5, p. 233].

Training Host Country Nonmanagerial Employees

The pressure from host countries is forcing MNCs to hire and train an increasing number of local people. While the MNCs may be able to manage their foreign operations with few or even no local managers, it is impossible for them to run their foreign subsidiaries without local labor. Often, in developing countries, training shop-floor employees is equivalent to managing technology transfer. Successful technology transfer requires a major commitment to train the local labor force in the use of equipment and machinery.

In training local labor, a few issues require careful consideration.

First, most developing countries are short in skilled labor. An adequately trained employee may be lured away by other MNCs or by host country employers. Training employees without adequate measures to maintain them is a waste of time and resources.

Second, MNCs should take into account cultural factors and differences in religion. Training a supervisor from one ethnic group to oversee the work of another ethnic group may not be a wise choice. In India, for example, Muslims may not be willing to work for a Hindu supervisor.

Third, training methods that are useful in technologically advanced countries may require extensive modifications to make them fit the needs of developing countries. Where most local labor is illiterate, training should take the form of coaching. In such situations, instead of printed material and written instructions, videos, films, and personal demonstrations should be used.

Fourth, the trainer should be aware of the cultural idiosyncrasies of training. Whereas a frank confession of personal limitations or an admission of gaps in knowledge may be appreciated by Americans, such admissions in some cultures result in loss of respect and diminish the authority of the trainer.

Finally, the teacher-student and trainer-trainee roles are not universal. While Americans are comfortable with active learning by participating in the learning process and by expressing personal opinions, the people of some other cultures are more comfortable with passive learning.

Repatriation Problems

When expatriates return home, they face problems and cultural shock similar to what they had encountered on the assignment abroad. This is particularly true after a prolonged stay abroad. Not many expatriates are prepared to deal with reentry difficulties. Repatriation issues are quite often ignored by MNCs [45]. It is assumed that coming back to the home country environment should be a very easy task that does not require much preparation. Contrary to this assumption, expatriates not only may find themselves feeling like foreigners in their own country, but they may also face many unpleasant surprises at work. They have to adjust and adapt to changes that have taken place during their absence.

There are many factors that cause anxiety and stress for expatriate managers returning home. The most important concern of the returning expatriate is career and job assignments. Many find that they have been left out of promotion opportunities and are treated as outsiders. To their surprise, the experience and expertise gained on international assignments may not be valued at the home office. On their return, even if they are promoted, they may experience a loss of autonomy and feel a sense of status loss. The worst case is if they have been unsuccessful in their foreign assignments. Although foreign assignments are much more difficult and challenging, to most firms, a failure is a failure, and it is unacceptable. Expatriates returning home may face financial difficulties because of the cost-of-living differences and also because the extra benefits granted to them on their foreign assignment had made living abroad much more comfortable.

These problems, of course, could be minimized by a well-planned pre-departure strategy. For example, the financial burden could be eased by special agreements on real estate. Job, position, and status issues should be addressed and agreed to in advance. Symbolic events such as holding board of directors meetings abroad or arranging frequent meetings among expatriates and home office executives could reduce job-related problems.

Compensation

Executive compensation is a very important and complicated aspect of HRM. The complexity and importance of executive compensation increase as an organization expands beyond its home market. In formulating a compensation package, a domestic business has to deal with only one set of cultural, legal, financial, and structural considerations. In the construction of an international compensation package, these considerations are multiplied. Besides the issue of compensation for executives who serve the global operations, the compensation of local host country employees poses additional difficulties for MNCs.

Intercultural Merger [46]

The merger of Daimler-Benz AG and Chrysler Corporation gave rise to some human resource management issues. The new corporation remained essentially two separate companies, one German and one American. German managers were quite comfortable with foreign assignments. Americans, however, did not like going abroad much, because, as one German manager put it, "they didn't want to leave their spacious houses for apartments or smaller houses in Stuttgart, Germany."

Chrysler paid its expatriates a lump sum worth 3 months' salary to cover miscellaneous expenses for setting up house overseas, such as moving expenses, including hotel stay and meals. Also, it paid a salary bonus if the cost of living in the new country was higher than in the United States. On the other hand, Daimler offered a cost-of-living adjustment, but it gave only a small lump-sum relocation payment, and it paid only for a hotel room, not meals.

The Americans and the Germans also had different ideas of each other. The Americans saw Germans as "running around in steel helmets and always saying, 'Yes, General!'" The Germans thought of Americans as "cowboys who shoot from the hip."

Chrysler was much less a global company than Daimler. After the merger, Chrysler employees were encouraged to volunteer for jobs abroad. This program offered payments for housing costs abroad and for the upkeep of the existing home. It also offered paid vacation, one plane trip back home with the families each year, assistance to the expatriate's spouse to find a new job, and reimbursement for children's school expenses.

An equitable and adequate compensation package is critical in motivating and maintaining the highly qualified international executives. Expatriate managers are in no position to assess the adequacy of the compensation package before arriving at the foreign location. An inadequate package can be expected to produce less than satisfactory performance from a disgruntled expatriate. Even worse, it may result in expatriates returning home, leaving the organization with

Table 11.5 Features of an equitable compensation package

No significant gain or loss when considering all factors
Comparable with compensation packages offered by other MNCs
Equitable in comparison with domestic compensation packages
Creates no problems for transfer between subsidiaries

serious staffing problems [47, p. 35]. A deficient compensation system may create similar problems with host country or third-country managers. Most of these problems could be avoided with a compensation package (see Table 11.5) that has the following features [47, p. 36]:

1. When considering the differences in the cost of living, additional taxes, currency fluctuations, and incentive for going abroad, it should not result in a significant gain or loss for the manager.
2. The package should be comparable with the compensation packages offered by other MNCs in the industry.
3. The package should be equitable in comparison with the domestic compensation system and policies.
4. It should not create problems for the firm to transfer expatriates between various foreign operations.

The first three criteria deal with the cost of the package, external equity, and internal equity. The fourth criterion addresses the relationship between the compensation and other HRM policies. For example, in a large MNC, where international assignments are requisites for promotion to higher positions, an expatriate may not be overly concerned with the exact amount of remuneration. As long as the incentives are built into the assignments, and each is perceived as a sign of progress on the way to the top corporate job, managers feel secure and accept minor inadequacies [23, p. 209]. Of course, compensation creates fewer problems for the MNC with few expatriates and operating in an industry with limited competition. In such a case, each expatriate assignment and the associated compensation package could be negotiated individually.

Compensation Methods

There are different methods of expatriate compensation. Over the years, three standard approaches have emerged [48]:

1. The headquarters scale plus an MNC's affiliate differential
2. The citizenship scale
3. The global scale

Table 11.6 The headquarters and affiliate differential scale

Cost-of-living allowance
Tax equalization
Education expenses for children
Inflation differentials
Expenses for customary professional and social obligations
Hardship bonus

The Headquarters and Affiliate Differential Scale. Under this system, the salary scale of the home office for a particular job is used as the base. A foreign service allowance is then added to this base to cover the differences between the home and host countries. The affiliate differential (see Table 11.6) may include the following:

1. Cost-of-living allowance for housing and consumer good differentials
2. Tax equalization adjustment for host country taxes
3. Education of children, periodic family home leaves, language training, medical care, and so on
4. Differentials for inflation, currency devaluation, and work-related legal fees
5. Expenses to comply with customary professional and social obligations
6. Hardship bonus for working abroad

The concept of differentiating salaries based on host country conditions and requirements could be taken one step further. An equitable compensation system may be devised that considers not only the hardship and extra costs but also the gains and extra benefits of an assignment. This method is called a balance sheet method. It is based on the belief that apart from the premium that the package gives for going abroad, the employee should financially neither gain nor lose from accepting the assignment [47, p. 34].

Citizenship Compensation Scale. This compensation system was developed to deal with third-country expatriate managers. An expatriate's remuneration is based on the standard of the country of origin of the manager. An affiliate differential is added to this salary base. A German manager, for example, working for an American MNC in France is paid based on the German scale plus an additional affiliate differential. This system creates difficulties when managers of more than one nationality are assigned to similar jobs and the same subsidiary. Some have suggested using one system for all third-country personnel by employing the balance sheet concept [47, p. 88]. Such a system may create equity between third-country nationals, but it may create another problem. Offering different pay scales for the same job to the home country and third-country employees creates resentment toward home country personnel. In the eyes of third-country nationals, it may also be seen as discriminatory and may become a source of dissatisfaction.

Global Compensation Scale. This method is preferred by MNCs that have committed themselves to a global strategy and that have an executive rank comprising many nationalities. They offer the same salary for the same job irrespective of the executive's country of origin. An affiliate differential is added to the base salary to account for differences between countries. The global pay scale requires a global job classification and ranking. Preparing global job classifications for a large company is a formidable task. To identify and measure internationally comparable job elements and apply them to various cultural settings seems an impossible task. The technical aspect of a job may be universal and measurable, but role expectations and behavioral requirements are not. The problem is compounded when we attempt to calculate the affiliate differential. There are no reliable data sources for determining some of the items included in the affiliate differential. The difficulties of using a global compensation system are many; however, the logic and appeal of equal pay for equal jobs seem to make this system the way of the future [48, p. 180]. Nevertheless, due to the challenging nature of global business operations (e.g., lack of ways to motive employees in foreign subsidiaries), sometimes MNCs pay executives of foreign subsidiaries more to attract the best of international talent [49].

Host Country Employees

Compensation of local employees in various host countries is another HRM practice that requires careful consideration. Traditionally, host country employees have been paid prevailing local wages and salaries. However, some positive differential was typically used to attract the best of the host country labor force. This differential, however, was kept at a minimum in an attempt to cause no serious upward pressure on the salary standards prevailing in the host country. The non-disruptive concept of compensation for host country personnel was defended on two grounds [48, p. 180]. First, it was claimed to be the morally correct approach. Second, any upward pressure on host country standards would inevitably lead to increased costs. Overall, this philosophy seemed equitable, because often the quality of host country personnel was not comparable to that of the MNC's staff from the home country or from other countries. In a buyer's labor market, the use of local compensation standards worked well. With the expansion of MNCs and the proliferation of technology transfer, however, there is a growing pool of qualified personnel in many host countries. In a seller's market, which characterizes most of the industrializing countries, and where there is government pressure for hiring more host country managers, the application of local compensation standards is problematic.

MNCs have grudgingly recognized the indefensibility of a salary system that pays different remunerations based on nationality for the same job. In response, they have experimented using alternative methods. Some examples are as follows [48, p. 181]:

One method allows host country personnel who meet certain performance standards to be shifted from a local to an international status. Their pay and benefits are adjusted to match the international scale. This means a qualified host country manager receives the same salary as other international managers, including the home country staff. In return, the host country manager agrees to a career as a third-country expatriate manager. Another alternative shifts all local managers above a certain level to the home country salary scale. Other managers at lower levels remain on host country compensation standards. The objective here is to motivate host country employees toward self-improvement and better performance.

Despite the methods used, the process of industrialization and economic growth is causing a strong upward pressure on the wages and salaries paid by MNCs to host country personnel, and these pressures are expected to continue.

Chapter Summary

To successfully evolve from a domestically oriented firm to a multinational or globally oriented enterprise, a firm must abandon its original one-culture viewpoint and adopt a multinational or global perspective. It should accept that there is no "ideal" way to select and evaluate personnel and no perfect way to staff foreign offices. Managerial policies have to be formed, and decisions have to be made considering the cultural and environmental influences that affect the MNC's foreign operations. Managers who have a global perspective are sensitive to, and comfortable with, cultural differences. They can function effectively in different cultural settings. To maintain their sensitivity, they must receive international management education and intercultural training throughout their careers.

As a firm progresses from having a provincial, parochial outlook to a global perspective, its managers need a corresponding change in attitudes and orientation. An ethnocentric approach that assumes the universality of HRM practices for all cultures is inappropriate for a global enterprise. To succeed in the global market, managers of MNCs should act as corporate citizens of the world. They should adopt management styles that are transnational and cosmopolitan, lacking a national identity or an ethnocentric prejudice [50].

Global competition requires human resources that are broad-based and multilingual and that understand the complexity of the multicultural global market. The development of human resources to meet the challenge of global competition requires careful planning and preparation. Prospective candidates, from whatever cultural background, should be identified early in their careers. Recruits should be trained and groomed for global operation. For example, in the Coca-Cola company, to create such a pool of global talent, every one of their 21 operating divisions is expected to seek out, recruit, and develop a small group of people beyond their current needs. The excess talent can be tapped whenever a global opportunity that requires such talent arises. Coca-Cola takes the position that the company not only needs capital to invest in the global market, but it needs people to invest too [51].

The first choice of many firms for foreign assignments is still an expatriate. But for emerging firms that view themselves as global companies, the whole world is their talent market. These firms weave an international personnel thread into their organization at the entry level. They identify prospective managers for a global career from many countries and train them for these tasks. Most of the training takes place in the host country. Some of these candidates are selected from the host country for the specific goal of host country assignments. It is cheaper to identify, recruit, and train global talent at the entry level than to recruit and hire senior-level foreign executives [51].

Many factors influence the staffing of foreign operations. The most important factors seem to be the need to understand the uniqueness of each local market and the ability to respond to the cultural requirements of the host country. The need for local responsiveness and global competitiveness is forcing MNCs to select more cosmopolitan managers. Today, an increasing number of major US firms are appointing foreign-born managers to top executive positions. Consequently, a new breed of executives is emerging in the global arena. These managers have a global perspective, are multilingual, and have extensive experience in more than one culture.

Discussion Questions

1. The transition from a domestic to an international position creates additional problems, particularly in HRM, for the firms. Discuss the sources of these problems.
2. Some argue that MNC recruitment philosophy is based on the level of trust and perceived competence of host country nationals. On that basis, MNCs may follow four recruitment practices. Explain these recruitment practices.
3. What skills should a manager possess to succeed abroad?
4. What is the role of family members in the success of an expatriate manager?
5. Describe the locally contingent factors that determine the success of a foreign assignment.
6. Should different sets of criteria be used in the selection of host country and third-country nationals? Give reasons for your answer.
7. Elaborate on the application of the international product life cycle to HRM practices.
8. Elaborate on the attributes of a good compensation system for an international firm.
9. Identify the different international compensation systems presented in this chapter.

References

1. Engardio, P., Therrien, L., Gross, N., & Armstrong, L. (1991, Nov. 11). How Motorola took Asia by the tail. *Business Week*, p. 68.
2. Zachary, G. P. (1994, Sept. 30). High-Tech firms shift some skilled work to Asian countries. *Wall Street Journal*, A1, A2.
3. Rhinesmith, S. H., Williamson, J. N., Ehlen, D. M., & Maxwell, D. S. (1989, Apr.). Developing leaders for the global enterprise. *Training and Development Journal*, 26–34.
4. Laurent, A. (1986). The cross-cultural puzzle of international resource management. *Human Resource Management, 25*(1), 91–102.
5. Schneider, S. C. (1988). National vs. corporate culture: Implications for human resource management. *Human Resource Management, 27*(2), 231–246.
6. Heenan, D. A. (1985). *Multinational management of human resources: A systems approach*. Austin: University of Texas at Austin, Bureau of Business Research.
7. Lemak, D. J., & Bracker, J. S. (1988). A strategic contingency model of multinational corporate structure. *Strategic Management Journal, 9*(5), 521–526.
8. Chakravarthy, B. S., & Perlmutter, H. V. (1985). Strategic planning for a global business. *Columbia Journal of World Business, 20*(2), 3–10.
9. Holstein, W. J. (2011, Nov. 7). How Coca-Cola manages 90 emerging markets. *Booz & Company*, from https://www.strategy-business.com/article/00093?gko=f3ca6
10. Green, S., Hassan, F., Immelt, J., Marks, M., & Meiland, D. (2003, Aug.). In search of global leaders. *Harvard Business Review, 38–44*, 143.
11. Yamazaki, Y., & Kayes, D. C. (2004). An experiential approach to cross-cultural learning: A review and integration of competencies for successful expatriate adaptation. *Academy of Management Learning and Education, 3*(4), 362–379.
12. Tung, R. (1979, Aug.). U.S. multinationals: A study of their selection and training procedures for overseas assignments. *Academy of Management Proceedings*, 298–299.
13. Overman, S. (1989, Oct.). Shaping the global workplace. *Personnel Administrator*, 41–44.
14. Phatak, A. V. (1974). *Managing multinational corporations*. New York, NY: Praeger.
15. Phatak, A. V. (1989). *International dimensions of management*. Boston, MA: Kent.
16. Fontaine, G. (1989). *Managing international assignments: The strategy for success*. Englewood Cliffs, NJ: Prentice Hall.
17. Mendenhall, M., & Oddou, G. (1985). The dimensions of expatriate acculturation: A review. *Academy of Management Review, 10*(1), 39–47.
18. Saner, R., Yiu, L., & Sondergaard, M. (2000). Business diplomacy management: A core competency for global companies. *Academy of Management Executive, 14*(1), 85.
19. Shel, S. (1991, Sept. 6). Spouses must pass test before global transfers. *Wall Street Journal*, B2.
20. Koepfler, E. R. (1989, Jul.). Locating and staffing offices abroad. *Systems 3X and AS World*, 124–126.
21. Kirk, W. Q., & Maddox, R. C. (1988, Mar.). International management: The new frontier for women. *Personnel*, 46–49.
22. Schwartz, G. (1990, Sept. 21). Timely tips. *Wall Street Journal*, R22.
23. Desatnik, R. L., & Bennett, M. L. (1978). *Human resource management in the multinational company*. New York, NY: Nichols.
24. Bennett, A. (1993, Mar. 15). GE redesigns rungs of career ladder. *Wall Street Journal*, B1.
25. Adler, N. J. (1984). Expecting international success: Female managers overseas. *Columbia Journal of World Business, Fall*, 79–84.
26. Lublin, J. S. (1989, Dec. 11). Companies try to cut subsidies for employees. *Wall Street Journal*, B1.
27. Neff, R. (1991, Jun. 24). When in Japan, recruit as the Japanese do: Aggressively. *Business Week*, p. 58.
28. Best, W. J. (1992, May 11). Training Japanese leaders for western firms. *Wall Street Journal*, A12.

29. Selz, M. (1992, Feb. 27). For many small firms, going abroad is no vacation. *Wall Street Journal*, B2.
30. Oakes, C. (1988, Sept.). Multinational requirement: Stick with the basics. *Management Review*, 55–56.
31. Lublin, J. S. (1991, Sept. 16). Firms woo executives from "third countries." *Wall Street Journal*, B1.
32. Lansing, P., & Ready, K. (1988). Hiring women managers in Japan: An alternative for foreign employers. *California Management Review, Spring*, 112–127.
33. Vernon, R. (1966, May). International investment and international trade in the product cycle. *Quarterly Journal of Economics, 80*(2), 190–207.
34. Adler, N. J., & Ghadar, F. (1990). International strategy from the perspective of people and culture: The North American context. In A. M. Rugman (Ed.), *International business research for the twenty-first century* (pp. 179–205). Greenwich, CT: JAI Press.
35. O'Conner, R. (2002). Plug the expatriate knowledge drain. *HR Magazine, 47*(10), 101–107.
36. Earley, P. C. (1987, Dec.). Intercultural training for managers: A comparison of documentary and interpersonal methods. *Academy of Management Journal*, 685–696.
37. Ronen, S. (1986). *Comparative and multinational management*. New York, NY: Wiley.
38. Island-hoppers. (1991, Sept. 14). *The Economist*, p. 68.
39. Ghemawat, P. (2001, Sept.). Distance still matters in the hard reality of global expansion. *Harvard Business Review*, 137–147.
40. Pascoe, R. (1992, Mar. 2). Employers ignore expatriate wives at their own peril. *Wall Street Journal*, A13.
41. Shames, G. (1986, Feb.). Training for the multinational workplace. *Cornell H.R.A. Quarterly*, 25–31.
42. Molinsky, A., & Höferle, C. (2014, Mar. 4). When crossing cultures, don't forget praise. *Harvard Business Review*.
43. Albert, R. D. (1983). The intercultural sensitizer or cultural assimilator: A cognitive approach. In D. Landis & R. W. Brislin (Eds.), *Handbook of intercultural training* (Vol. 2, pp. 186–217). New York, NY: Pergamon Press.
44. Lublin, J. (1992, Mar. 3). Your managers learn global skills. *Wall Street Journal*, B2.
45. Jassawalla, A., Connoly, T., & Slojkowski, L. (2002). Issues of effective repatriation: A model of managerial implications. *S.A.M. Advanced Management Journal, 69*(2), 38–46.
46. Ball, J. (1999, Aug. 24). DaimlerChrysler's transfer woes. *The Wall Street Journal*, B1.
47. Frith, S. W. (1981). *The expatriate dilemma*. Chicago, IL: Nelson-Hall.
48. Kolde, E. J. (1974). *The multinational company*. Lexington, MA: Lexington Books.
49. Inagaki, K. (2017, Jun. 6). Japanese boards move to open up to overseas executives. *The Financial Times.*
50. Moran, R. T. (1988, Dec.). A formula for success in multinational organizations. *International Management*, 74.
51. Laabs, J. (1991, Aug.). The global talent search. *Personnel Journal*, 38–44.

International Labor Relations

12

In this chapter we address major problems the expansion of international business creates for both the multinational companies (MNCs) and national labor unions. The chapter opens with a discussion on how MNCs divide international industrial decisions between the headquarters and subsidiaries. One of the major issues of international industrial relations is the power and flexibility of the MNCs. Because of the power and flexibility of MNCs, workers are handicapped when dealing with them. Often, national labor unions face a dilemma in negotiating with MNCs because the unions cannot cross national borders, but the MNCs are not restricted to a particular location. This puts labor unions at a disadvantage against the MNCs.

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9_12

Labor unions complain that while they are forced to negotiate with the local subsidiary, the real decision-maker is the headquarters. There is some truth in this contention. While the subsidiary is assigned most operational decision-making for local industrial relations, strategic decisions such as locating a plant and increasing employment levels at various sites are made from headquarters.

National laws do not permit labor unions to establish formal alliances beyond national borders. Labor unions deal with this limitation by increasing their informal alliances to counter the negotiating power of the MNCs. These informal bounds involve activities such as coordination of contract negotiations, cooperation, sharing of information, and exerting pressure on the MNCs on behalf of each other. Informal arrangements among national labor unions are organized through international labor institutions. These institutions are regularly employed to advance the cause of labor unions worldwide.

To learn about the diversity of industrial relations globally, the chapter describes a sample of practices in different countries. The discussion of diversity of industrial relations begins with a presentation about US labor unions and examines the industrial relations of England, France, and Germany. Japanese enterprise unions stand in contrast with labor relation practices of other industrialized countries. The chapter ends with an explanation of the cultural and historical roots of Japanese labor relations.

Overview

Chapter Vignette: A Dilemma

On Valentine's Day, the 500 employees of Hyster Company's forklift truck factory in Irvine, Scotland, were introduced to the labors' predicament. Hyster employees faced a dilemma: Accept a cut in their wages or lose their jobs. Hyster Corporation, headquartered in Portland, Oregon, had a message for them. With a grant from the British government, it was ready to invest $60 million into the plant, which would create another 1000 jobs. This would create an overcapacity in Hyster's European facilities, however. To reduce overcapacity, Hyster was willing to close two production lines at its Dutch factory and move them to Scotland. In return, Hyster workers and managers would have to take a 14% and 18% pay cut, respectively. They had only 48 h to decide.

Next day, each employee received a letter from the company. It indicated that Hyster was not yet convinced that Irvine was the best of the many available alternatives for a leading plant in Europe. At the bottom of the page, there was a ballot asking them to vote on the proposed pay cut. Only 11 people voted "no." In the words of some employees, "it was an industrial rape. It was do-or-else." Hyster's workers in Irvine were not unionized. A union would not have made a difference.

The following day, Hyster broke the news to the manager of its plant in Nijmegen, Holland. It was the first official word of Hyster's decision to reduce the workforce in the Nijmegen plant [1].

Introduction

The dilemma that Scottish workers at the Hyster plant were facing is one of the many complexities of international labor relations. International trade makes it possible to move capital and equipment across national borders. Therefore, capital is considered mobile. For three reasons, however, labor does not enjoy such mobility. First, the movement of labor across national borders is restricted by immigration laws. Trade agreements such as NAFTA and EEC, however, will influence cross-border labor movement. Second, even without those restrictions, labor is not as mobile as capital. Searching for new jobs in a foreign land is difficult for most workers. Also, relocation is very difficult for people. Uprooting and leaving behind family and friends is not easy and often impractical. Third, the global demand for unskilled and semiskilled workers is very low. Starting up in a new place is much more economically feasible for well-educated workers who have special skills.

There are exceptions, however. Recent trends in some developing countries point to an increasing movement of labor across national borders. In particular, prosperous countries of East Asia mirror demographic characteristics that first were observed in Europe and North America. The economic gains of these nations are followed by lower birth rates and urbanization that, combined with better living conditions, create an aging population. To cope with a shrinking labor force, these countries draw immigrants from less-developed countries by offering good wages. Rapid industrialization of these countries is resulting in demographic changes that will challenge their labor relation practices and immigration laws. Already, examples of these changes can be seen in Singapore, Taiwan, and Malaysia. Singapore, which limits immigration of foreigners, is forced to relocate many industries to its neighbors. Taiwan is recruiting thousands of foreign workers from other Asian countries. In Malaysia, foreigners already hold more than 50% of construction and plantation jobs [2].

Compared to unskilled labor, immobility is not a serious problem for skilled labor. As the skill level improves, labor mobility increases. Indeed, there is a global demand for workers with higher levels of skills, and most nations welcome highly educated and skilled workers. Some labor relations experts argue that with the increasing level of education among people of the world, and the rising need on the part of the industry for more skilled workers, the globalization of labor is inevitable [3]. An early sign of globalization of skilled workers is the case of immigration of nurses from the Philippines to other countries, including the United States. By one account, nearly one-quarter of all nurses in the Philippines left the country for the better wages and more attractive working environment of the United States and other developed countries [4]. With the globalization of labor comes the standardization of labor relations practices.

Two forces will drive workplace standardization: companies responding to global labor markets and governments negotiating trade agreements. For a global corporation, the notion of a single set of workplace standards will eventually become as irresistible as the idea of a single language for conducting business. Vacation policies that are established in Germany to attract scientists will be hard to rescind when the employees are relocated to New Jersey; flexible work hours that make sense in California will sooner or later become the norm in Madrid; and health-care deductibles and pension contributions designed for one nation will be modified so that workers in all nations enjoy the same treatment. Typical of most innovations in corporate personnel practices, the first benefits to be standardized will be those of high wage of highly valued employees who will be the most often recruited internationally [4].

Workplace standardization may be inevitable in some distant future. Today, however, diversity in workplace practices is a norm of international business. While there are some industrial relation practices common to most Western nations, no two countries are alike. Cultural, political, legal, and economic diversity among nations has resulted in dissimilarities in workplace practices. It is crucial to understand these practices if the foreign operations are to succeed. MNCs, particularly at the early days of entry into a market, are vulnerable to mistakes. Several Japanese firms entering the United States, for example, quickly learned that ignorance of discrimination laws and labor practices could lead to disputes and be costly. During the 1970s and early 1980s, several Japanese companies operating in the United States, including Sumitomo Shoji and C. Itoh, were sued by their American employees for race and sex discrimination. The Itoh and Sumitomo cases reached the US Supreme Court that rendered judgments against both of them [5]. In these cases, the Japanese subsidiaries had engaged in employment practices in the United States without serious considerations of their legal implications. In other words, they were the victims of the "innocent abroad syndrome." Their problems were caused by their unfamiliarity with the host country (United States) laws and practices.

Locus of Control in International Workplace Practices

A critical issue for any firm, domestic or multinational, is its relationship with labor. No organization can survive without a healthy relationship with its employees. Labor relation practices are particularly vital to MNCs because of the cultural, political, and legal differences among host countries. Historical precedents, traditions, and cultural norms establish employment practices and superior-subordinate relationships unique to each country. This diversity makes international labor relations more difficult and complex than domestic practices. On one hand, due to the uniqueness of each country's environment, host country managers need to have the authority to handle their own labor relations. On the other hand, to function as a corporation, some form of centralized control is necessary. There are many arguments in support of each position.

Headquarters-Subsidiary Relationships

Because of the diversity of the workforce and labor-management relationships, MNCs treat each subsidiary as a separate entity. Each domestic operation sets its own labor relations policies and negotiates its own labor contracts. The home office, however, maintains overall control and keeps various labor relations programs in line with corporate policies. Since MNC subsidiaries are interdependent, work disruption in one subsidiary affects others. This interdependency means that labor practices among the subsidiaries must be uniform and the home office must integrate and control those practices. Also, the implementation of MNC corporate strategies requires various labor relations programs be integrated throughout the firm. The need for uniformity, integration, and control, therefore, compels MNCs to coordinate various labor relations programs and labor union contracts. This creates a circle of power. To counter the power and flexibility of MNCs, labor unions have begun cooperation across national borders. In turn, the movement by labor unions to cooperate internationally enforces the need for MNC control from the home office.

The Quandary of National Unions

The nature of MNCs and their vast resources offer them flexibility and power in negotiation with national unions. They can shift production across national borders and play one national union against the other. Production and manufacturing facilities are opened or closed at the headquarters discretion with little or no involvement by the labor force. In pursuit of corporate goals, MNCs allocate resources to each subsidiary according to corporate strategies. These strategies are established and directed from the home country corporate headquarters. These actions are carried out while very little or no information is shared with national labor unions. Therefore, the labor unions argue the welfare and interests of national labor unions are of secondary importance to MNCs. National labor unions feel handicapped in dealing with MNCs. They cannot match the resources of MNCs and do not have their flexibility. Realizing their handicap, US labor unions have long been in search of ways to counter the MNCs' apparent advantages. At first, US labor unions, through legislative initiatives, attempted to curb any MNC operations that were considered detrimental to the unions. In 1970, Charles Levinson, secretary general of the International Chemical Foundation, asserted that "trade unions have no choice but to provide the countervailing force which is badly lacking to keep MNCs within permissible bounds." [6] Years of effort, however, have not brought about many gains.

Besides leading the legislative offensive aimed at limiting the operations of the MNCs, labor unions have indicated an interest in worldwide collective bargaining with the MNCs. Many years ago, Victor G. Reuther, the United Automobile Workers (UAW) international affairs director, made the following prediction:

"[In the future] we will see a very significant change in the whole character of collective bargaining. To deal with MNCs, the trade unions are going to have to look beyond their narrow national views and embrace an international approach. This doesn't mean we will sit down in one room with General Motors and sign one agreement for the world but it means we need the machinery to coordinate negotiations internationally." [7]

Although Reuther's prediction has not fully materialized, it has not been totally false either. Global labor negotiation covering the operations of one company located in different countries is a dream of the labor unions and a prospective nightmare of the MNCs [8]. Knowing that negotiating global contracts with the MNCs has not been feasible, labor unions instead, realistically, aimed at increasing cross-border cooperation among national unions. The aim was the coordination of national labor negotiations with MNCs. Over the years, labor unions have had some success promoting international labor causes [9].

Cross-Border Labor Tactics

In supporting the labor agenda, international labor unions employ several tactics including:

1. Sharing information with and providing financial assistance to each other
2. Coordinating and synchronizing activities
3. Persuading and pressuring MNCs into cooperation (Table 12.1)

In employing these tactics, national unions utilize the services of international labor organizations such as the Organization for Economic Cooperation and Development (OECD) and the International Labour Office (ILO).

Coordinating and Synchronizing Labor unions have tried to use the timing of contract negotiations for various national subsidiaries of integrated MNCs, such as Ford Motor Company, to their advantage. To the extent they can succeed in standardizing contract expiration dates regionally, such as Western Europe or North America, they could chip away at the MNCs flexibility. Such coordination brings the prospect of a regional strike into a labor negotiation contract. Standardization of contract expiration dates weakens the MNCs' temptation to play one national union against the other. But there are many obstacles in the way of common expiration dates for international labor contracts. Among them are differences in the national union structures, collective bargaining approaches, and national labor laws.

Sharing Information and Financial Assistance While the goal of contract negotiation timing has not been realized, labor unions have succeeded in other areas.

Table 12.1 Cross-Border Cooperation Among National Unions

Coordinating and synchronizing contract negotiations
Sharing information
Providing financial assistance
Persuading and pressuring MNCs into cooperation

As early as 1970, labor unions began collecting and sharing data on employment practices of the MNCs. US labor unions and their counterparts have many opportunities to cooperate with each other. For example, United Steelworkers could inform union members in Jamaica of the financial structure of aluminum companies, assist Liberian workers in their negotiation with the local affiliate of an American steel company, or lend a jeep and a boat to a little union in South Africa.

Such informal cooperation may increase in the future, and MNCs may find the global labor market to be a much smaller arena. In Mexico, General Motors and Volkswagen already have tasted a sample of the future to come. Mexican government officials have claimed that the UAW was partly responsible for the labor strikes of the early 1990s in GM and Volkswagen subsidiaries because of the help that UAW gave Mexican workers. While denying any involvement in those strikes, the UAW has acknowledged providing financial assistance to the Mexican labor unions [10]. Of course, the UAW had a self-interest in those strikes. The successful negotiation of higher wages by Mexican labor could benefit the UAW members, too. Higher wages could make Mexican workers less competitive with the US counterparts.

Pressuring MNCs to Cooperate Besides the sharing of information or financial assistance, American labor unions have explored other avenues to help their foreign counterparts. In the 1990s, the US labor unions attempted to put the financial squeeze on the Costa Rican government by targeting its $300 million in annual exports to the United States. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) filed a complaint with the US trade representative, requesting the suspension of Costa Rica's benefits under the Generalized System of Preferences and the Caribbean Basin Initiative [11]. It claimed that Costa Rica does not provide sufficient legal protection for labor unions. Labor unions realize their inherent limitations as national organizations facing powerful MNCs. They understand that, at the present time, they cannot expand beyond their national borders. In some distant future, regional trade agreements, such as NAFTA, may provide labor unions with such opportunities. They have, however, been successful in pressuring intergovernmental organizations, such as the Organization for Economic Cooperation and Development (OECD) and the International Labor Organization (ILO), to adopt a voluntary code of conduct for MNCs. Labor unions sometimes succeed in promoting their cause through informal cooperation across national borders. For example, when in 1990, Ravenswood Aluminum Corporation permanently replaced its 1700 workers; United Steelworkers enlisted the help of foreign labor unions. The union discovered that billionaire Marc Rich controlled Ravenswood Aluminum. With help from labor unions in Europe, Rich's business deals came under scrutiny, and some ran into trouble. For instance, Czech unions pressured their government to reject his offer for Slovak State Aluminum. UAW also persuaded Anheuser-Busch, Miller Brewing, and Stroh Brewery not to buy Ravenswood's aluminum sheet for use in their cans [12].

European labor unions have also employed cross-border cooperation and assistance to their advantage too. In the early 1990s, workers at British Aerospace (BA) went on strike demanding working hours in parity with their French counterparts at Aerospatiale, BA's French partner. The British strikers of the Amalgamated Engineering Union received financial and other tangible supports from IG Metal, the German engineering union. Their strike was coordinated by the Federation of European Metalworkers (FEM). After the strike had gone on for 4 months, BA granted its employees a reduction in work hours per week with productivity agreements. This proved that national unions can cooperate and pursue a common goal. Now, FEM's aim is to standardize the workweek for its 6 million members in 16 European countries [13].

Immigrant Workers

Globalization of business creates opportunities as well as problems for both MNCs and labor unions. Recent economic expansion in Southeast Asia, for example, has resulted in the opposition to immigrant workers by labor unions. From Malaysia to Hong Kong to Japan, labor unions have expressed strong opposition to the importation of workers. They fear that with the availability of cheap migrant workers, employers who are interested in short-term quick solutions will not upgrade the salaries and working conditions of local employees. Expressing the labor unions' disapproval of imported labor, G. Rajasekaran, a leader of the Malayan Trade Union Congress, asks, "How can you develop a country by flooding it with foreign labor?" [2].

National unions need to cooperate with one another but are unable to do so formally. In almost all countries, labor strikes in support of other national unions are illegal. While national unions are restricted in their actions, multiple sourcing of labor could effectively be used by MNCs to undermine the power of national labor. In 1993, for example, several MNCs decided to relocate their operations primarily from France to England. This caused an uproar by European labor and governments alike and demonstrated that the ability of MNCs to pit one national union against another is a powerful tool. During this period, Hoover, a subsidiary of the American Maytag Corporation, announced a plan to close a vacuum cleaner plant in Dijon, France, and move the work to a plant near Glasgow, Scotland. Scottish workers had accepted changes in working conditions in exchange for job guarantees and the prospect of gaining 400 new jobs. As a consequence of this move, the French would lose 600 jobs. There was other bad news too. A unit of Rockwell International Corporation, in the United States, indicated that it was going to move 110 jobs from Nantes, France, to Britain. These announcements caused outrage in France. French labor unions and government officials contended that Britain was offering unfair incentives and taking advantage of looser labor laws and lower wages to lure away French jobs [14].

Host Government Involvement

International industrial relation practices are made more complex by host government involvement. Regulations and legislation covering workplace practices are the basis for government involvement. The failure of J. C. Penney's expansion into Europe has been partly attributed to labor problems. J. C. Penney had acquired outdated and inefficient retail chains in Italy and Belgium in the hope of turning them around. Slashing bloated payrolls proved to be almost impossible. In both countries, government regulations and labor laws made layoffs prohibitively expensive and time-consuming. J. C. Penney was forced to get out of both countries by selling these stores at a loss. The divestiture of the Belgian chain of 52 stores alone cost J. C. Penney $16 million [15].

The Badger Company, Inc., owned by Raytheon Company, had a similar experience. When the Belgian subsidiary of Badger, due to financial difficulties, closed its operation and dismissed its workers, the Belgian government demanded compensation for those dismissed workers but was told that funds for compensation were unavailable. The lack of compensation money in the Belgian subsidiary, the government claimed, was because the parent company had deliberately bled the finances of the Belgian operation. Therefore, it was the responsibility of the parent company to make up the shortfall in compensation funds. When several OECD governments threatened to not grant any future business to Badger, the company was forced to comply with the Belgian government's demand [16].

Host government involvement in MNC workplace relations can be direct and formal or indirect and informal. In direct and formal cases, MNCs are obligated to comply with specific laws and follow certain procedures, as was the case with J. C. Penney. Indirect and informal cases involve demands and pressures by the host government where there is no legal basis or precedence for them. Often, for example, MNCs are forced to include more host country nationals in managerial positions. In some cases, MNCs are obligated to hire personnel from a pool designated by the host government. When China opened up to foreign investment, the first international hospitality groups that entered its market experienced the difficulty of running their hotel operations under those circumstances. They were not allowed directly to tap the local labor market for their personnel needs. The government would supply them a list of applicants from which they had to make their selections. Often, the only qualification of these workers was their membership in the Communist Party.

International Labor Organizations

International labor organizations, in their varied structures, have faced problems in their attempts to create a semblance of uniformity in their practices in dealing with MNCs. Because of cultural, political, and economic differences among nations, they have failed to create uniformity in wages and working conditions in various subsidiaries of MNCs in different countries. International union delegates, in their many meetings, have not been able to agree on the priority of many work-related issues. Agreements on these issues have been made more difficult due to the different attitudes toward work methods between the Japanese and other international labor unions. Except for wages, which are considered universally important, there is disagreement on all other issues. Besides legal obstacles, the differences in priorities among national trade unions form a major impediment to the global standardization of employee relation practices. Surveys of labor union members in different countries have revealed varying priorities. For example, among Latin American delegates, trade union rights have ranked just as high as wages. A share in determining or controlling the speed of the assembly or production line has been their number 2 demand. The 40-h week was the third. In contrast, in Western Europe, the main demands of English and French production workers after wages have been job security and shorter working hours. This is also the case in the United States today, where until very recently health care and pensions were of very high priority and may again become important. Germans place the most emphasis on the job environment, stressing a desire for more relief periods: The work hours/week for Germany is the lowest among OECD member countries during 2013–2016 [56]. In the 1990s, German metalworkers gloated over their significant breakthrough in winning 5 min of relief time in each working hour and another 3 min for personal needs, thus beating the American autoworkers' 46 min per 8-h shift at that time. But the problem is that the German labor law has not evolved; Germany's labor laws are a century old (even today, late 2010, their laws are unchanged) [8]. The existing rules are ill-suited to meet the needs of the modern era; the needs may vary depending upon industries/sectors (e.g., service, manufacturing and R&D).

Migration of Jobs

The new wave of globalization started with the migration of jobs such as the production of shoes, cheap electronics, and toys to developing countries. This was followed by the movement of simple office work such as processing credit card receipts and mind-numbing digital toil to low-cost locations. Nowadays, all kinds of jobs are being done anywhere around the world. They include computer chip design, engineering, basic research, and even financial analysis. A good example of this trend is Bank of America, which has cut thousands of jobs in back-office information technology applications by sending them to India because of lower costs.

Because of technological improvements overseas, most companies from industrial countries are moving their R&D to low-cost locations around the world and outsourcing their office work. For example, Hewlett-Packard Co. has a large number of software engineers in India. American Express, Dell Computer, Eastman Kodak, and other companies are providing round-the-clock customer care services performed by staff in developing countries. Cities in the Philippines, China, Hungary, Bulgaria, Romania, and South Africa, among other places, are tapping the global market for services and are becoming "back offices" for companies in America, Japan, and Europe.

> Immigrant Asian engineers in the US labs of IBM and Intel have played a big, hidden role in American tech breakthroughs for decades. Now, the difference is that Indian and Chinese engineers are managing R&D teams in their home countries. The question is whether the United States can lose these jobs and still prosper (based on Ref. [17]).

At the present time, standardization of workplace practices seems an unattainable goal. Progress in other areas, however, keeps labor's hopes alive. By disseminating information and publicizing the gains made by the unions in one country, others are encouraged to emulate them. One clear benefit arising from informal agreements among national unions of different countries has been the successful negotiation of some labor contracts with MNCs. The BA strike, mentioned earlier, is an example of successful cooperation that international labor unions would like to repeat.

While host governments do not allow foreign labor unions to form legal entities within their borders, some new developments herald the birth of new practices. At the present time, the final form of these practices cannot be determined. For example, in January 2000, a new labor organization, Union Network International (UNI), which is the closest entity to a true global union, was born. According to UNI literature, it was established as a global union for skills and services, with 15 million members from 900 affiliated unions in 140 countries. UNI's head office is in Nyon, near Geneva, Switzerland. UNI is the "trade union response to increasing economic regionalization and globalization and to the convergence of what were, in the past, separate industries" (www.union-network.org/home475.html p. 2) [18]. One of the early goals of UNI is to unionize Walmart operations globally [18]. With the growing impact of globalization and new technologies, many industries are fast converging. Therefore, more labor union members are working for the same global employers. UNI claims that these employers are organized too much around market values and too little around human values. UNI wants to change this and aims to ensure better behavior from MNCs, halt a race to the bottom, and increase socially responsible investment and greater accountability [19].

International organizations concerned with labor issues can be divided into two groups: the international affiliates of labor unions and intergovernmental organizations. International affiliates of labor unions consist of organizations that are formed and run by the labor unions. They are managed and directed by personnel drawn from the members of national labor unions. Among this group are the International Confederation of Free Trade Unions (ICFTU), the World Federation of Trade Unions (WFTU), the World Confederation of Labor (WCL), the European Trade Union Confederation (ETUC), and the International Trade Secretariat organizations.

Intergovernmental organizations are established by national governments for political and economic purposes. This group includes the ILO, the OECD, and the Centre on Transnational Corporations (CTC). (Readers interested in a comprehensive discussion of international labor organizations should consult Refs. [8, 20]). We should note that these organizations do not have any legal authority over national labor unions. As national labor unions cannot cross national borders, they attempt to cooperate informally with one another through these organizations.

International Affiliates of Labor Unions

These labor organizations are concerned with improving the wages and working conditions of their members, who are members of national labor unions worldwide. They are independent of national governments and other non-labor institutions. They join forces in pursuit of labor objectives through regular communication and cooperation with one another. They employ the various tactics explained in the preceding discussion, including appealing to national governments.

International Confederation of Free Trade Unions In 1949, the issue of communist domination through the representatives of Eastern bloc countries caused a split among WFTU members. National trade unions that withdrew from the WFTU formed the ICFTU. While the recent history of the ICFTU begins with the split in the WFTU, its roots go back to the 1913 Secretariat of Trade Union Federation. Surviving the two world wars, it emerged in 1945 as the WFTU and included the labor unions of communist countries too. After the split, it called itself the ICFTU. The inclusion of the word free in the name is an intentional reference to the members' autonomy and the lack of control by governments. The ICFTU is headquartered in Brussels, Belgium, and has 140 affiliated national centers in 99 countries with approximately 82 million members [21, 22].

The World Federation of Trade Unions A counterpart to the ICFTU and covering the national unions of communist countries, the WFTU is headquartered in Moscow. It, however, has affiliated members in some Western bloc countries, such as France and Italy, and maintains offices in Asia, Africa, and Latin America. With the fall of communism, the future status and direction of the WFTU is doubtful.

The World Confederation of Labor Membership in the WCL consists of Christian trade unions. Similar in political philosophy to the ICFTU, the WCL is the smallest of the international confederations of trade unions. It was established in 1920 and was called the International Federation of Christian Trade Unions. It recently changed its name to broaden its membership and avoid confusion with the ICFTU. With support from the Catholic Church, the WCL was formed to counter the liberal and socialist unions' gains among urban workers. The headquarters of the WCL is in Brussels, and it has regional centers in Asia, Africa, and Latin America.

The European Trade Union Confederation As a regional international labor organization, the ETUC primarily deals with the European Economic Community (EEC). It is the outgrowth of the European Regional Organization (ERO), which was formed to deal with labor problems arising from the implementation of the Marshall Plan. The Marshall Plan was an economic assistance program offered by the United States to rebuild the European economies devastated by World War II.

International Trade Secretariat The International Trade Secretariat organizations are set up along major industry lines to assist the affiliated national unions. They provide help within the same industry and within specific MNCs across national borders. They supply members with data, coordinate communication, and provide financial assistance for collective bargaining purposes. There are 16 major secretariats independent of, but associated with, the ICFTU. Three of them have been in the forefront of confrontations between labor and MNCs. These secretariats are the International Metalworkers' Federation; the International Federation of Chemical, Energy, Mine and General Workers' Unions; and the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco, and Allied Workers' Associations.

Intergovernmental Organizations

These institutions are established by national governments to deal with international labor problems. The most active and well-known of these organizations are the ILO, the OECD, and the CTC.

International Labor Organization The ILO was established by the League of Nations in 1919 and was charged with the responsibility of developing international minimum standards for industrial relations and drafting international labor conventions on human rights, freedom of association, wages, work hours, minimum age for employment, working conditions, health and safety, vacation with pay, and other work-related concerns (pp. 33–36) [23]. At the present time, it is one of the agencies of the UN whose primary objective is to protect the fundamental rights of workers. It also strives to promote cooperation between workers and their employers. It encourages and supports members' programs that benefit workers. The highest priority is given to achieving full employment, improving standards of living, enhancing health care and safety in the workplace, and improving working conditions.

Each member nation appoints four delegates to the ILO, two from the government, one from labor, and one from the business. The 56 members of the Executive Council, which governs the ILO, are elected every 3 years. Membership in the council consists of 14 members each from labor and management and 28 government representatives. Of the 28 government representatives, 10 are from the United States, Canada, Russia, China, Japan, England, Germany, France, Italy, and India (p. 57) [8].

The ILO periodically compiles and reviews the International Labor Code, which it sends to members for their ratification. Ratification of these standards by governments is voluntary, but they have been very useful, especially in developing countries. Another noteworthy accomplishment of the ILO is the Tripartite Declaration on Multinational Enterprise and Social Policy. It covers recommendations on working conditions, training, health and safety, and other labor relation concerns. Although adherence to these recommendations is voluntary, labor unions have relied on them for curbing labor abuses (pp. 93–96) [24].

The Organization for Economic Cooperation and Development (OECD) An agency of the UN, the OECD has its headquarters in Paris, France. It was established in 1961 to promote economic growth and employment and achieve a rising standard of living in member countries [25]. In 1976, the OECD issued its Guidelines for Multinational Enterprises. Many issues pertinent to MNCs, such as investment, technology, taxes, and industrial relations, are covered in the guidelines. Among the stipulations of the guidelines are four relating to major issues of interest to labor.

First, labor has the right to unionize, and workers should be free to form or join a union without fear of reprisals. Second, MNCs should negotiate labor contracts with the unions representing the workers. Third, in contract negotiations, MNCs should not intimidate workers with the threat of transferring their operations to other countries. Fourth, in addition to matters that are covered in the collective bargaining document, MNCs should regularly consult with labor unions and provide them with information on issues of mutual concern (pp. 68–69) [8].

National labor unions have used the guidelines in their contract negotiations with MNCs. Often, labor unions try to include a clause in their collective bargaining contracts that stipulates compliance with the OECD guidelines.

The Centre on Transnational Corporations The CTC is an autonomous agency of the UN. Based in New York, the CTC was established to assist host countries, and particularly developing nations, in dealing with MNCs. It also examines the impact of MNCs on host countries' social, political, and legal environments. Of major interest to the CTC is the role of MNCs in the economic development of developing countries. The CTC assists developing countries in negotiating with MNCs for the purpose of improving their economies. It has been involved in the development of a code of conduct for MNCs that establishes standards for working conditions, provides procedures for settling disputes, and protects MNC workers. This code of conduct comprises guidelines set by different organizations, such as the OECD and the ILO, among others, defining the rights and responsibilities of MNCs. The code also contains guidelines for the treatment of corporations by host countries. It covers all aspects of international business activities, including political, economic, financial, and social affairs. It stipulates that MNCs should do the following (Table 12.2) (http://isforum.org/tobi/accountability/role-intro.aspx) [26]:

- They should fully take into account the established policies of the countries in which they operate and consider the views of all stakeholders.
- They should contribute to economic, social, and environmental progress, respect human rights, and encourage human capital formation.
- They must ensure that timely, regular, reliable, and relevant information is disclosed regarding their activities, structure, financial situation, and performance.
- They should contribute to the effective abolition of child labor, employ local personnel, and provide training with a view to improving skill levels.

Table 12.2 A Summary of Conduct for MNCs Suggested by the Center for Transnational Corporations

Fully take into account policies of host country
Contribute to economic, social, and environmental progress of host country
Respect human rights and encourage human capital formation
Disclose timely, regular, reliable, and relevant information regarding all aspects of the operations in host country
Contribute to effective abolition of child labor
Employ local personnel
Provide training with a view to improving skills of local labor force
Respect and protect local environment
Respect copyright and intellectual property rights laws
Do not give or receive bribes
Practice fair consumer protection measures regarding safety and quality
Do not practice anticompetitive business behavior
Pay fair share of taxes

- They must establish and maintain a system of environmental management appropriate to the enterprise, taking into account concerns about cost, business confidentiality, and the protection of intellectual property rights.
- They should maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage from their operations.
- They should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage nor should enterprises be solicited or expected to render a bribe or other undue advantage.
- When dealing with consumers, they should act in accordance with fair business, marketing, and advertising practices and take all reasonable steps to ensure the safety and quality of the goods or services they provide.
- They must refrain from entering into or carrying out anticompetitive agreements among competitors and act consistently with all applicable competition laws.
- They should contribute to the public finances of host countries by making timely payment of their tax liabilities, comply with the tax laws and regulations in all the countries in which they operate, and exert every effort to act in accordance with both the letter and the spirit of those laws and regulations.

Diversity in International Labor Relations

International labor relations practices are diverse. Labor unions, organizations, and collective bargaining practices are as varied as nations. Not only are there differences in worldwide industrial relation practices, but the degree of unionization varies as well. The size of national unions, however, is not a reflection of their impact on the labor market. In Germany, for example, while union members constitute a minority of the labor force, collective bargaining agreements cover almost the entire economy. While union membership has been declining in the United States, in other countries, unionization is either stabilizing or rising. We don't know a lot about developing countries because there is limited information on their union membership, and statistics for unionization in these countries are either unavailable or unreliable. Given the historical patterns of unionization in industrialized countries, it is generally expected that union membership will rise in these countries.

In what follows, we present a sample of the diversity in international labor relations by discussing labor unions in Europe, Japan, and the United States (referred to as the triad nations). Our selection is based on the fact that the bulk of foreign direct investment (FDI) around the globe is made by the triad nations. Also, the labor relations practices of the triad are often used as models for other countries. Therefore, international managers must understand these practices. We will begin with the United States and move next to Europe, specifically Germany, Britain, and France. The German model of organized labor, more than that of any other nation, has influenced European labor unions and collective bargaining practices. The labor unions of both the United States and Japan are unique. Whereas an adversarial position characterizes the American labor-management relationship, the Japanese very closely cooperate with management in their firms.

Industrial Relations in the United States

Two pieces of legislation form the legal foundation for the organization of labor unions in the United States: the National Labor Relations Act (1935), commonly referred to as the Wagner Act, and the Labor-Management Relations Act (1947), usually called the Taft-Hartley Act. These and other labor statutes gave workers the right to form, join, or assist labor organizations and to bargain collectively through their representatives with the employers. While organized labor is an integral part of American business, it does not enjoy the legal status offered to German and some other European unions. The legal status of representing workers is bestowed on a union only if it gains the majority support of the workers. Therefore, employers are not legally obligated to negotiate with a minority union. Without a majority union, there is no collective bargaining. This is a reflection of American culture, which emphasizes individualism and advocates free enterprise. In contrast, in Germany, collective bargaining covers almost the entire industry, even though the majority of German workers are not unionized.

The objectives of US labor unions are very similar to those of other national unions: to improve the welfare of workers and serve as their economic agents. To accomplish these objectives, US unions have mainly relied on business- and industry-level activities. At this level, organizing labor unions and using collective bargaining have been the major means of accomplishing their goals. The political route, a favorite of European labor, has not been abandoned, however. Although US unions have been politically active and have sought the protection of law, they have never aspired to political prominence. There is, for example, no American equivalent of the British Labor Party. While, traditionally, the European unions have been a mainstay of politics, their American counterparts have played only a supporting role.

One of the major differences between the American labor movement and those of other nations is the US approach to industrial relations. Industrial relation practices are more adversarial in the United States than in any other nation. While the United States has been a fertile ground for some of the most enlightened and progressive management theories, such as participative management, job enrichment, and management by objectives, there is no legal-formal instrument in the United States for joint decision-making by management and labor. The work councils of Europe (discussed later), for example, are totally absent from the American scene. American businesses go to extremes to prevent unionization of their operations. Even when a business is unionized, the union can be removed through the decertification process. Also, unlike the European unions, the American unions insist on their independence in collective bargaining and lack a centralized decision-making authority.

Typically, in a collective bargaining situation, unions negotiate with a company at the local or national level. Some industry-wide bargaining occurs at the national level, as is the case in the steel industry, and at the regional level, as in the trucking industry. Usually, these labor contracts cover union recognition, management rights, job classifications, and wages. Other items included in these negotiations are seniority rights, standard work periods, the length and number of work breaks in an 8-h work period, holidays, vacations, medical insurance and retirement benefits, grievance procedures, and the commitment to no-strike and no-lockout provisions during the contract period.

European Industrial Democracy

In the United States, since the Hawthorne studies, most of the management literature has focused on participative management. In Europe, the emphasis is on industrial democracy. Although both participative management and industrial democracy deal with the sharing of decision-making and power between management and labor, their approaches are quite different. Within each approach, there are different variations in power equalization and the sharing of decision-making between management and labor. The European approach, however, is a more formal-legal approach to workers' representation on the boards of directors of firms as compared with the United States' informal style.

Differences Between Participative Management and Industrial Democracy

The following is a summary of the basic differences between American participative management and European industrial democracy [27]:

1. The two methods have been adopted with different degrees of fervor and have yielded varying results in different countries. Thus, industrial democracy has appeared most often in Europe, and participative management is practiced in the United States.

2. Industrial democracy is a formal, usually legally sanctioned, arrangement of workers' representation at various levels of management decision-making. Participative management, on the other hand, is an informal style of face-to-face leadership.
3. Industrial democracy is a structural approach aimed at equalizing power by joint decision-making through workers' representation on ad hoc committees, permanent committees, councils, and boards at various levels of management decision-making. Participative management is a voluntary behavioral approach advocated by management for informal sharing of decision-making with subordinates at the workplace. Organizations try to achieve this goal through indoctrination, training, organizational policies, social pressure, and other means.

Industrial democracy has taken several forms in different European countries. The German model of worker participation, however, has exerted a powerful influence on labor movements elsewhere in Europe [28]. In particular, the German model has influenced industrial relations in the northern European countries of Denmark, Sweden, and Norway. The former Soviet Eastern European countries are likely to be increasingly influenced by this model as well. The content of today's European industrial democracy movement, if not its context, is slowly but steadily becoming similar to the German one [28]. Actually, a unique feature of European Union (EU) labor relations has been adopted from the German model. The European Company Statute allows European firms, especially those operating in several countries, to unify their organizational structure and adopt a governing board that represents workers [29]. In what follows, we examine the German model in detail.

Industrial Democracy in Germany

Decision-making in any organization can be considered as a hierarchy consisting of four major levels. At the top of this hierarchy is the institutional level dealing with policy-making, which is concerned mainly with the direction and the future of the organization. The middle management level deals with the implementation of decisions made at the institutional level. At the technical level, decisions are related to the actual production of the organization's output and day-to-day operations. The workers' level, which is at the bottom of the hierarchy, implements all the decisions made at the technical level (Fig. 12.1).

In actual practice, the four levels of organizational hierarchy overlap. Usually, participation in decision-making takes place between two adjacent levels. The extent and nature of participation, however, are always determined by the higher level. In the United States, examples of this kind of participation are committees, job enrichment programs, management by objectives, and so on, all of which involve adjacent levels (i.e., job enrichment usually involves the technical level and the workers, while management by objectives involves middle management and the technical level). However, there is a spillover effect, and the decisions made at the institutional level will have a long-lasting effect on other levels, particularly the workers' level.

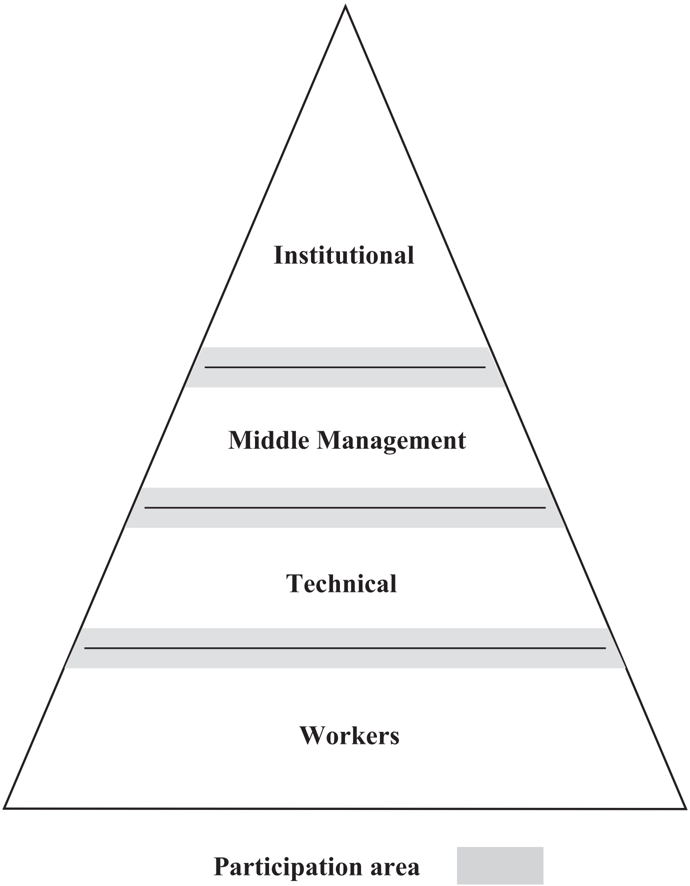


Fig. 12.1 Decision-making participation and organizational hierarchy

Institutional decisions require more information than do decisions made at other levels of the hierarchy. Furthermore, the information received from the lower levels of the organization is very crucial for the quality, accuracy, and, if needed, modifications of these decisions. These ideas argue for a change in the more typical adjacent-level influence-sharing processes and suggest, at least for the German model, that top management needs to find ways to share decision-making with those at the worker level. Therefore, the inclusion of lower-level employees in the decision-making process of the institutional level not only is a democratic action but can also be considered an appropriate act for the sake of organizational efficiency and effectiveness.

This type of involvement in decision-making has been called participation at the board level or codetermination in Europe. More specifically, the term codetermination refers to the German model of industrial democracy (Mitbestimmung). This model basically involves the participation of representatives of all employees, blue collar as well as white collar, including managers, in the two-board system of German industries. The two-board system is discussed later in this chapter.

Layoffs: The Dutch Style

In the 1980s, Dutch management and labor entered into an agreement that required companies to stay in constant communication with labor unions. Other issues included the requirement that the labor unions refrain from undue wage demands and government assurance that taxes would remain low. In return, companies agreed to hire more labor union employees and consult with the unions in major staffing decisions, including, but not limited to, layoffs. The agreement ruling, however, was to be waived in the event of a layoff of fewer than 20 employees.

The corporate culture created by this agreement was very successful in most areas. But when it came to downsizing, this culture was a major handicap because it required months, perhaps years, of negotiation between companies and unions. Thus, when a major Dutch information technology services corporation, Pinkroccade, found itself in the midst of an economic decline and needed to lay off 700 employees, it decided to take advantage of the agreement waiver, laying off 19 workers at a time. To avoid the "over 19" rule, it started laying off workers based on the location of their residence rather than their corporate location and even reclassified some. It also reassigned some young, very talented workers to secure jobs and locations to avoid laying them off. The corporate director of human resources for Pinkroccade stated that this massive layoff, while avoiding consultations with the union, was like putting together puzzle pieces that just didn't want to fit (based on Ref. [30]).

Labor Unions in Germany

Industrial relations in Germany are governed by two closely related, yet separate, institutions of codetermination and collective bargaining. While codetermination allows labor to participate at the highest level of the organizational decision-making process, the German constitution provides a very general and broad framework for collective bargaining. It guarantees collective bargaining rights for labor to negotiate with the employers over wages and working conditions. German labor laws impose restrictions and limitations on labor strikes and plant lockouts. Wildcat strikes are mostly related to economic issues and not labor rights. The law has established minimum requirements for many workplace practices, such as working hours, vacations, and safety regulations. These minimums can be augmented through collective bargaining.

Industry-wide labor contract negotiations take place regionally. Some of the problems that in other countries are subject to collective bargaining are handled by works councils in Germany. Works councils, however, are not allowed to bargain for remuneration and other work-related issues that are the domain of collective bargaining. While the majority of German workers are not union members, almost all employers are members of employers' associations [31].

Although union members are in a minority, collective bargaining contracts encompass more than 90% of workers. This is due to the widespread membership in employers' associations and the industry-wide contract negotiations. Collective agreements are negotiated on a national or area-wide industry basis and establish wage patterns for the entire specific industry. These contracts cover both unionized and nonunionized workers if the company is a member of the relevant employers' association [31]. Moreover, both unions and employers are strongly centralized, and because collective bargaining covers almost the entire German labor market, labor is included in national economic planning through collective bargaining [32].

Background and Structure of Codetermination

Germany's experience with codetermination can be thought of as the product of two separate and independent forces. The first force was the Germans' desire for the democratization of the workplace. The second force was the policy of the Allied forces, particularly the British, after World War II of strengthening the German labor movement. Allied forces wanted to prevent the resurgence of fascism, which they believed was aided by the powerful coal and iron industrialists of Germany.

German sentiment for codetermination can be traced to the social unrest and workers' demands for a greater voice in the design of work situations that arose in the first part of the nineteenth century. By 1905, for example, "workers' committees" had gained recognition in all mining enterprises employing more than 100 workers. The mines were legally obligated to establish workers' committees and consult with them before the introduction of any work rules or guidelines (p. 56) [33]. Democratization of the workplace gained additional momentum when the Workers' Council Act of 1920 gave managerial and bargaining power to workers' councils. The workers were given the right to have two representatives on the supervisory board. The handling of grievances and the establishment of work rules, as well as wage agreements within contracts negotiated by the unions, became the domain of workers' councils (pp. 53–54) [34].

Workers' councils were suppressed during World War II. They came to life again after the war and were given legal recognition and expanded authority by Western occupation authorities. At the Potsdam Conference, the Allied powers agreed to break up the steel and coal industries, which had exemplified Germany's military and industrial might and aided Hitler in his quest for domination. To curb the power of the managers in these industries, the Allied forces agreed to give more voice to labor.

It is ironic that the total collapse of the German political and economic systems aided the fulfillment of an old demand of the German workers. The attempts to prevent the emergence of a military-industrial system, on the one hand, and the desire for a new start and consensus by all parties in Germany, on the other, provided the setting for the development of codetermination. It was the convergence of these two fundamentally different forces that resulted in the Codetermination Act of 1951, which was amended in 1956. The Workers Constitution Act of 1952 extended workers' participation to all business organizations but gave workers only one-third of all the seats on the supervisory boards [35].

Many changes have taken place since the policies of the occupation authorities reinstated workers' representation on the supervisory boards. Germany is no longer an occupied country, and its economic and political system has emerged as one of the strongest in Europe. The unions and workers have been a potent political force, constantly renewing their demands for parity with management. Finally, the Codetermination Law of 1976 granted workers full parity representation on supervisory boards and, through these boards, in the operational systems of enterprises.

Today, the 1976 legislation is in force, side by side with earlier laws, for companies with more than 500 employees. Workers and shareholders have parity representation on the supervisory boards of these companies, but the numbers vary with the size of the firm. The big companies, for instance, are divided into three categories of 2000–10,000, 10,000–20,000, and more than 20,000 employees. The supervisory boards of these companies consist of 11, 17, and 21 members, respectively (p. 50) [35].

Although the law has given workers more power than ever before over the management of larger companies, it has fallen short of giving them full parity in decision-making. If a disagreement arises between the representatives of the workers and the shareholders, the law stipulates that the shareholders' position should prevail (pp. 50–52) [35]. The structural arrangements of codetermination as it stands now in Germany are depicted in Fig. 12.2. The main features of codetermination are as follows (pp. 58–60): [33].

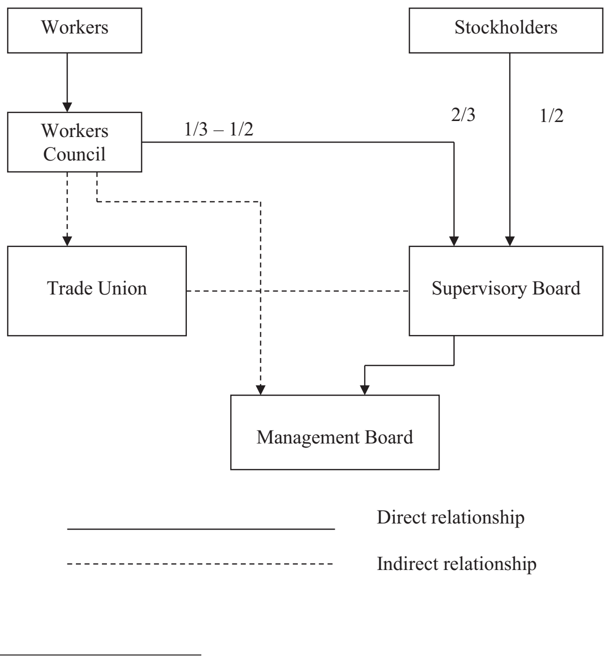


Fig. 12.2 Structural arrangement of codetermination

1. All private companies and profit or nonprofit organizations with five employees or more are subject to the Work Constitution Law of 1972. This law makes provision for the formation of workers' councils in each firm or in each independent unit within a company. The size of the council depends on the number of employees and can vary from 1 to 35. Where the size of the council is at least 3, blue-collar and white-collar workers vote separately and are represented on the council proportionately to their numbers. Employers and councils are encouraged to cooperate and are bound by the framework of collective bargaining.

   The functions of work councils include areas that are not regulated by collective bargainings, such as handling grievances, agreements on piece rates and wages, and working conditions that are not covered by a union contract. Furthermore, a work council is entitled to negotiate with an employer on matters such as hiring, firing of large numbers of employees, establishing plant rules, and making changes in the plant location. Also, it supervises the application of work laws and administers the welfare agencies in the plant. The members of the work councils need not be trade union members. However, in practice, more than 80% of the members of all work councils belong to trade unions.
2. Companies with more than 500 employees are governed by two boards: the supervisory board and the management board. The supervisory board is the equivalent of the board of directors of an American corporation and is a policy-making body. The supervisory board appoints the management board. The management board is responsible for the day-to-day operations of the firm. The appointment of the labor director on the management board—who represents labor viewpoints and promotes their cause—needs the approval of the majority of workers' representatives. The workers elect one-third to one-half of the supervisory board, depending on the size of the firm, and the employers elect two-thirds to one-half.
3. The election of representatives to the supervisory board is governed by an intricate and elaborate set of procedures. For example, in the case of a ten-member board, of the five workers' representatives, two are elected by the workers' council, two are elected by the union federation approved by the firm's union and the workers' council, and the fifth member is an outsider designated by the union federation. The chairman and vice chairman of the board must be elected by a two-thirds' majority of the board members. If a two-thirds' majority cannot be reached, the stockholders' representatives elect the chairman, and the vice chairman is elected by the workers' representatives. The chairman has the tie-breaking vote (Refs [36]., pp. 53–55; [37], pp. 117–118). The supervisory board meets at least quarterly, and besides having policy-making power and the power to select the management board, its consent is required on matters such as the purchase of land and property, mergers and acquisitions, a new plant location, important investment decisions, long-term loans, and the purchase or sales of stocks of other companies.

Opposition to Codetermination

Opposition to codetermination comes from three sources (pp. 50–52) [35]. The first source of opposition is employers or their representatives. They fear that codetermination may result in the loss of management control and dilution of power and authority. They also fear that inefficiency may follow and profits may suffer if high-level decision-making becomes subject to labor approval. The second group opposing workers' participation at the board level, interestingly enough, is the labor unions. They would prefer to achieve industrial democracy through the institutionalization and strengthening of collective bargaining rather than participation and representation on the board of directors. Communists and socialists are the third source of opposition. They see participation in high-level decision-making as a delay in the final victory of the proletariat. From this perspective, collaboration with capitalists will not advance the labor cause. Developments in the post-Soviet era have had an impact on the strength of this source of opposition.

Whatever the arguments are against codetermination, the opposition cannot ignore some of its benefits and impacts on the German economy. The workers' representatives have shown an understanding of "economic necessities" and consideration for the firm's long-term objectives. There is also no evidence that these representatives have exploited their position to obtain unreasonable pay raises for the employees (Refs [36]., p. 57; [37], pp. 117–118). However, these claims were made prior to the globalization of markets. Recent economic woes and the rise in unemployment in Europe and especially in Germany, however, have been attributed to the nature of management labor relationships [38]. Some have asserted that the recent corruption scandals in large German companies, such as Volkswagen and Daimler-Chrysler, were due to the cozy relationship between the labor members of codetermination boards and the management of these firms [39]. Faced with economic difficulties, the German government has shown interest in curbing labor benefits [40], which may signal changes in labor-management relations.

Moreover, in response to the criticisms leveled against codetermination, Mazzolini argues that there is no basis for management's fear that codetermination may result in the dilution of management authority and control. Based on an extensive series of interviews with leading executives throughout Europe, Mazzolini provides the following explanation: [41].

Contrary to common belief, especially in countries where there is no tradition of participation, systems such as German co-determination do not imply the downfall of the free enterprise system. . .Experience shows that labor generally worries only about those issues which have a clear bearing on [the] working class, leaving administrative and overall policy decisions to management. While labor's influence causes firms to be more socially responsible, fears of more fundamental changes are unwarranted. (p. 80).

Most American labor unions are opposed to board-level workers' representation because they see it as a potential threat to the union's power and existence. They fear that the workers' representative on the board of directors might be independent of the union. Codetermination might also undermine the "adversary relationship" image between US unions and management. American labor leaders consider codetermination rather superfluous compared with what US labor has achieved through collective bargaining (p. 108) [42]. They believe that unions influence more issues through collective bargaining than they could hope to affect by worker representation on the board of directors of corporations. In the words of one union officer, if unions were to share decision-making with management as partners, the unions would be "most likely the junior partner in success and the senior partner in failure" (p. 110) [42]. Other objections of unions to codetermination stem from the fear of losing power, the possibility of creating conflicts of interest, and the fear of disturbing the existing economic order. Traditionally, Americans favor minimum or no government involvement in business. They are reluctant to invite the government into an already complicated setting [43]. Additional opposition to codetermination comes from critics who assert that cultural differences would impede the application of codetermination in the United States.

Evidently, this skepticism is not shared by European unions. Advocates of codetermination and industrial democracy claim that union strength can be supplemented through workers' representation on the boards of directors of firms. For example, "in a system of collective bargaining alone, contract enforcement is difficult since management must be relied on for implementation. A system of workers' councils and board representation, in contrast, provides alternative institutions for contract enforcement" (p. 65) [28]. According to many European labor relations analysts, collective bargaining and workers' participation at the board level are each essential to the other's continued expansion [28].

French Labor Unions

According to Pieper, certain cultural characteristics of French society are reflected in its industrial relations (pp. 94–95): [31] The French value rationality and order, and they view authority as absolute and omnipotent. Because of its absolute nature, authority cannot be shared or compromised. Both in practical terms and symbolically, it must remain sovereign. Checks and balances of due process and countervailing institutionalized power common to American society are foreign to the French. These values have greatly influenced the fate of organized labor in France. Viewed from the upper levels of the hierarchy, the imposition of substantive rules from the top is necessary to be rational and bring about order and harmony. Viewed from the lower levels, authority is threatening and should be avoided. Achieving independence, autonomy, and security necessitates keeping a distance from superiors and not dealing with them directly. Directly dealing with one's superior leads to the acknowledgment of one's total dependence. The solution is to avoid face-to-face relationships between superiors and subordinates and to create rules. The only other alternatives are total conflict and absolute submission, neither of which is culturally acceptable. To protect one's independence and not submit to the absolute authority, one obeys the rules. In the words of Pieper: [31].

From the top, edicting the rules affirms the capacity of sovereign power. Those rules are impersonal, which from below reinforces the sense of following an abstract order and not bowing to absolutism; and from above follows the rational model of "one best way" of ruling absolutely over one's domain without having to be bothered to make unnecessary allowances for individual peculiarities. . . . Thus the power is centralized at the top; and below, the impersonal rules define strata of subordinates with precisely defined borders . . . [in which] . . . individuals enjoy total protection and independence. . . . Therefore the power recedes higher and higher, farther and farther from the knowledge of the element necessary to take decisions. It must decide without knowing . . . and it is in the interest of the subordinates to hide or manipulate information. (p. 95).

A preference for formal, ritualistic activities and the absence of cooperation between various levels within the hierarchy produces a general climate of apathy. The training of elite French administrators and executives confounds the problem. Most elite French managers are from grandes écoles, the selective and prestigious universities that act as a clubby network that doles out top positions only to its own members.

The combination of the French cultural characteristics just discussed and a variety of historical reasons has resulted in very low unionization in France. The large number of small firms, which are usually not unionized, also contributes to low unionization. Moreover, French unions have held on to a society-changing agenda much longer than most unions in the United States and northern Europe, instead of concentrating on economic issues [44].

Among the major European countries, union membership is the lowest in France. By various estimates, only 7–10% of the labor force is unionized (p. 191) [45].

French labor unions are highly political, ideologically oriented, and weak in the private sector. They are, however, strong in the public sector. Their low level of membership does not reflect the real power of French unions. Union strength comes indirectly through the election of union candidates to positions in firm-specific representative institutions, particularly the works councils (pp. 181–197) [45]. Their strength becomes evident when labor strikes in the public sector disturb electricity supplies, transportation services, and civil organizations. Unions, however, enjoy public support. Even those workers who are not union members fully support the unions in a crisis or when they are called on to strike.

Labor Unions in Britain

Labor relations and collective bargaining in the United Kingdom have been described as "formal" and "informal" systems coexisting in a context of legal abstentionism [46]. In contrast to the situation in the United States and Germany, industrial relations in Britain are characterized by a relative lack of legal restrictions and structure. Voluntarism, a social philosophy of the undisputed pursuit of self-interest, is a hallmark of industrial relations in the United Kingdom [47]. Voluntarism and the lack of restriction mean that there are no limitations on wildcat strikes or lockouts. There are also fewer restrictions on layoffs, the hiring of part-time workers, and subcontracting. Collective bargaining agreements are considered “gentlemen’s agreements,” which are binding in honor only and not subject to legal enforcement. The tradition of collective bargaining reflects the “grassroots” character of British labor organizations. The shop steward has a very significant role in workplace bargaining and is as important as the unions in making and administering the rules. This is in contrast with the European system, where the pattern and overall regulation of collective bargaining are influenced from the top [46]. The shop steward is a unique feature of English labor relations: [8].

Shop stewards are elected by fellow union members in the plant. Today they play a central part in helping to determine the likely reaction there to the eventual terms for a settlement. Their influence in this respect is very great and it is equally powerful at the bargaining table. The national union officials may lead the contract negotiations with employers but the stewards, by virtue of their everyday ties to the rank and file, wield almost as much, if not more, influence in the bargaining. (pp. 123–124).

Since British labor has traditionally relied on “self-help” and has preferred minimum or no legislative interference, it is not surprising that, unlike other European labor movements, British labor has opposed institutional forms of labor representation, such as codetermination. In recent years, however, the state has been getting more involved in industrial relations. The Employment Protection Act of 1975, for example, grants certain rights to unions, including access to information and consultation with management in the case of workforce reduction. It grants certain rights to unions and workers and established government agencies to provide arbitration, mediation, and conciliation for resolving industrial disputes [48].

A unique characteristic of labor unions in Britain is their participation in politics. The historical roots of labor involvement in politics go back to the 1906 election, when a newly formed Labour party won 29 seats in the House of Commons. Over the years, the Labour party has become the political counterpart of the union movement. While in other European countries, left-wing political parties sponsored the trade unions, in Britain, the unions created the socialist political party. While the relationship between the unions and the Labour party is very strong, labor unions have not attempted to dominate the party and the government. They have always worked pragmatically with the government of the day. Even within the Labour party, major initiatives come from what might be called the intellectual rather than the union side [48].

Japanese Enterprise Unions

Japanese labor relation practices are quite different from those of other industrialized countries. Historical precedents and cultural attributes have created a unique set of relationships between labor and management in Japan. Unlike the labor unions of other nations, Japanese labor unions are not separate entities independent of business firms. As “enterprise unions,” they could be regarded as extensions of the organizations. Although Japanese labor unions are not totally independent, nonetheless, they represent the workers and play an important role in the economy.

Management practices and attitudes toward workers are important factors that shape the nature and type of industrial relations in an enterprise. The distinguishing features of Japanese management practices are lifetime commitment (employment), a seniority-based wage system, and collective decision-making (ringi). These practices and historical developments have created the enterprise unions and industrial relations that are uniquely Japanese.

Historical Factors

After World War II, with encouragement from the Americans, the Japanese government enacted a trade union law that ensured that labor had the right to organize, bargain collectively, and strike. The economic hardships following the war made it urgent for labor unions to safeguard the living standards of workers. To achieve this objective, unions launched a joint effort, bringing together white- and blue-collar workers at the enterprise or plant level. Similarly, employers wanting to restore the balance of power in their own favor exerted considerable effort to create just such enterprise unions. To prevent the establishment of an all-powerful labor organization, however, they undertook three measures:

1. They established vertical labor organizations.
2. To bring about order in the workplace, radical workers were terminated from service.
3. They set up a new industrial relations system in every company.

These measures, particularly the vertical character of the unions, weakened their horizontal solidarity. Various levels of union organizations were established parallel to the corporate structure, such as at the head office, plant, department, and section. At each level, the unions were in constant interface with their corresponding management counterparts. Article 2 of the labor law facilitated the establishment of this unique labor-management relationship. It stipulated that all employees below the section heads, regardless of their jobs, may organize into unions. Therefore, in some large plants, supervisors are often elected as union representatives. This adds to the fragmentation of unions and increases management's influence [49].

Management Practices

Lifetime employment and the no-layoff policy practiced by large Japanese firms increase the loyalty of workers to the firm and reduce the cost of training and turnover. Long-term relationships among employees foster an attitude of cooperation and trust and minimize conflict. Slow and orderly promotion based on seniority emphasizes the individuals and not the job titles. Knowing that they will work together for a lifetime and that there is ample time for the firm to recognize their contributions, employees learn to work for mutual benefits. Permanent employment makes the rotation of workers to different jobs in the firm a practical choice. Although it is time-consuming, the ringi system of collective decision-making and consensus building produces quality decisions that those affected by them understand and accept. The slow process of collective decision-making allows enough time for everyone to adjust to the emerging decisions and commits them to the implementation of those decisions.

The Japanese Enigma

As far as outsiders can tell, most Japanese accept with equanimity all the daily demands that subordinate individual desires to those of the community. This striking communalism is, however, the result of political arrangements consciously inserted into society more than three centuries ago by a ruling elite. For centuries, statecraft in Japan has resulted from a balance between semi-autonomous groups that share power.

At the most basic level of political life, Japan is no different from any other country. The Japanese have laws, legislators, a parliament, political parties, labor unions, and a prime minister. But don't be misled by these familiar labels. The Japanese prime minister is not expected to show much leadership; labor unions organize strikes to be held during lunch breaks; the legislature does not in fact legislate (bureaucrats in ministries write the laws); and laws are enforced only if they are not too much in conflict with the interests of the powerful [50].

More than in any other industrial country, labor relations in Japan are based on the realities of the labor market condition rather than on an open contest of power. Permanent employment and seniority-based promotion procedures enable Japanese workers to anticipate, with a high degree of certainty, how they will advance in jobs, wages, and other amenities. With assurances of job security and near certainty on career prospects, wages are the remaining major bargaining issue that could cause occasional conflict. Also, until recently, in an environment of continuous and rapid economic growth, conflict over wages could be resolved with a win-win outcome [51].

The unique Japanese labor relations have evolved in a cultural framework of collectivism and paternalism. While modernization and global competition are eroding the foundation of lifetime employment, most large Japanese firms still follow this tradition. These firms continue to offer the welfare benefits that were established at the beginning of modernization and those that were established after World War I to eliminate the turnover of skilled employees. Now, the typical benefits offered by these firms are housing, medical and health care, recreational and sports facilities, day care for children, commuter subsidies, and meals at work. Since employees are expected to stay with their firms for a long time, they are also expected to be team players. Instead of seeking individual gains, each member is expected to strive for collective benefits. The Japanese attribute of collectivism stands in sharp contrast to the Western ideal of individualism. While modernization and global competition are changing labor-management relationships, Japan has maintained its unique paternalistic character. Again, these relationships have cultural and historical roots: [52].

Because industrialization was originally sparked by a dynastic elite, the idea of paternalistic concern for the welfare of subordinates is strongly rooted in Japanese management. Although the government has intervened to regulate the manager in the field of labor relations, it has nevertheless given strong encouragement to the paternalistic approach. (p. 131).

Almost all unions in Japan are enterprise unions. Because they are company specific, there are more than 74,000 of them, in 94 federations (p. 231) [53]. With the tradition of enterprise unions and the collectivist orientation of the Japanese, the labor unions take a less adversarial posture against the firms. Japan has a lower incidence of labor strikes than most other industrial countries, except Germany. Many strikes do not last long, some lasting only a few hours. Most contract negotiations, and about half the strikes, take place during shunto or the annual Spring Labor Offensive. Regardless of a union's affiliation or lack thereof, negotiations take place at the company level, and in their negotiations and demands for wage increases, unions consider the good of the company. A sharp public expression of conflict came from Shinichi Tsuji, the leader of the smallest and most radical of the three unions at the Japanese affiliate of Shell Oil Company. He told a newspaper reporter that his union was getting tough. The day before, they had gone on strike for 45 min, and they were planning a lunchtime multi-union demonstration so that workers would not have to miss any work [54].

Chapter Summary

International industrial relations pose problems for both labor and management. Managerial problems are due to differences in legal practices, labor laws, and customs, host government interference with market forces, and cultural characteristics of various national markets. The problems facing national labor unions center on the erosion of bargaining power. In collective bargaining, the balance of power has shifted in favor of MNCs. Worldwide variations in wages, benefits, and industrial practices provide MNCs with the opportunity to relocate jobs to places that offer more favorable business conditions. Obviously, such moves will result in loss of jobs in areas where wages are higher and business conditions are less conducive to profit-making.

While the increasing internationalization of business and the consequent interdependencies create problems for MNCs, they pose a much bigger challenge to labor unions [9]. National borders limiting workers to separate national labor markets restrict labor's options in contract negotiations with MNCs. These borders, however, are much less restrictive where MNCs are concerned. Competition among nations to attract foreign direct investment offers MNCs multiple opportunities for investment and additional munitions for fighting the demands of national labor unions. These problems will intensify with the gradual removal of trade barriers. Low trade barriers provide more opportunities to capital than labor. Because capital is much more mobile than labor, with the lowering of trade barriers, capital can relocate to countries where labor costs are low, while labor mobility is hampered due to political, social, economic, and cultural factors. Even if trade and business barriers are totally removed, labor cannot readily take advantage of the opportunities in other labor markets. Empirical evidence suggests that the removal of trade barriers undermines the power of unions in setting higher wages. While reducing barriers may eventually lead to an improved economy, initially, at least, it reduces the power of national labor unions and increases the need for international cooperation among these unions [55].

Faced with the reality of decreasing trade barriers, national labor unions are searching for ways to counter the increasing bargaining power of MNCs. While national laws do not permit formal labor cooperation across national borders, informal methods are still available. Through international labor organizations such as the ILO, national labor unions are expanding the extent of their informal cooperation and coordination for negotiation with MNCs. A few successful examples of these types of activities have encouraged national labor unions to search for additional measures. The ultimate goal of collective bargaining with MNCs at the international level, however, might be achieved only in the distant future. Given the present circumstances and developments, we can safely predict that the future of international collective bargaining will be much more contentious and volatile.

Discussion Questions

1. What is the major problem faced by national unions negotiating with MNCs?
2. Why do the MNCs treat each subsidiary as a separate entity for collective bargaining and labor contract negotiations?
3. Why do host countries get involved in international labor relations?
4. Elaborate on the cross-border tactics used by national unions for promoting the labor agenda.
5. What is the ultimate goal of international labor unions? Do you think that this is an attainable goal?
6. What is the objective of the ILO?
7. Explain the major features of German industrial democracy (codetermination).
8. In the United States, the relationship between management and labor is called adversarial. Why?
9. French labor unions have the lowest membership rate among all European countries. What cultural characteristics explain this low membership rate?
10. What are the major characteristics of British labor relations?
11. Distinguish between European industrial democracy and Japanese enterprise unions.
12. Northern Europeans claim that their model of industrial democracy provides for smoother industrial conflict resolution than the adversarial labor-management relations of the United States. Elaborate on your acceptance or rejection of this claim.

References

1. Newman, B. (1983, November 30). Single-country unions of Europe try to cope with multinational. *Wall Street Journal*, 1.
2. Pura, R. (1992, March 5). Many of Asia's workers are on the move. *Wall Street Journal*, A13.
3. Johnson, W. B. (1991). Global work force 2000: The new world labor market. *Harvard Business Review*, March–April, pp. 115–127.
4. Prystay, C. (2002, July 18). U.S. solution is Philippines dilemma. *Wall Street Journal*, A8–A10.
5. Sethi, S. P., Namkiki, N., & Swanson, C. L. (1984). *The false promise of the Japanese miracle*. Boston: Pitman.
6. Randal, R. (1970, November 8). Multinational unions: Internationally organized labor tackles the corporate octopus. *Washington Post*, p. M1.
7. Gannon, J. P. (1970, December 7). Worldly hard-hats: More U.S. unions help foreign workers pressure American companies overseas. *Wall Street Journal*, 30.
8. Nunes, A (2017, Nov. 27). Germany wants to scrap the 8-hour workday. *The Washington Post.*
9. Fatehi, K., Derakhshan, F., & Giermanski, J. (2000). National unions' quandary: The need for internationalization. *International Journal of Human Resources Development and Management, 1*(1), 68–80.
10. Baker, S. (1992, August 31). Free trade isn't painless. *BusinessWeek*, pp. 38–39.
11. Costa Rican unions brought back to life by AFL-CIO (1993, September 10). *Wall Street Journal*, A17.
12. Mallory, M., & Schroeder, M. (1992, May 11). How the USW hit Marc Rich where it hurts. *BusinessWeek*, p. 42.
13. Parry, J., & O'Meara, G. (1990). The struggle for European unions. *International Management*, 70–73.
14. Forman, C. (1993, February 3). France is preparing to battle Britain over flight of jobs across the channel. *Wall Street Journal*, A18.
15. Ortega, B. (1994, February 1). Penney pushes abroad in unusually big way as it pursues growth. *Wall Street Journal*, A1.
16. Blainpain, R. G. (1977). *The badger case and the OECD guidelines for multinational enterprises*. Deventer: Kluwer.
17. Engardio, P., Bernstein, A., & Kripalani, M. (2003, February 3). Is your job next?. *BusinessWeek*, pp. 50–60.
18. Maher, K. (2005, August 18). Wal-Mart tops global agenda for labor leaders. *Wall Street Journal*, A2.
19. Decent work for all is the global union goal (2005, August). UNI info, p. 4.
20. Coldrick, A. P., & Jones, P. (1979). *The international directory of the trade union movement*. New York: Facts on File.
21. Windmuller, J. P. (1953). *American labor and the international labor movement*. Ithaca: The Institute of International Industrial and Labor Relations, Cornell University.
22. Windmuller, J. P. (1984). *Labor confronts the transnational*. New York: Labor Research Association.
23. Baehr, P. R., & Gordenker, L. (1984). *The United Nations: Reality and ideal*. New York: Praeger.
24. Feld, W. J. (1980). *Multinational corporations and U.N. Policies*. New York: Pergamon Press.
25. OECD. (1971). *History, aims, structure*. Paris: OECD Publication Office.
26. Kline, M. J. (2000). Business codes and conduct in a global political economy. In F. O. Williams (Ed.), *Global codes of conduct: An idea whose time has come* (pp. 39–56). Notre Dame: University of Notre Dame Press.
27. Bess, B. M., & Shackleton, V. J. (1979). Industrial democracy and participative management: A case for a synthesis. *Academy of Management Review, 4*(3), 393–397.
28. Garson, D. G. (1977). The co-determination model of workers' participation: Where is it leading? *Sloan Management Review, 18*(3), 65.

29. Keller, B. (2002). The European company statute: Employee involvement and beyond. *Industrial Relations, 33*(5), 424–445.
30. Bilefsky, D. (2003, July 8). The Dutch way of firing. *Wall Street Journal*, A13.
31. Conrad, P., & Pieper, R. (1990). Human resource management in the Federal Republic of Germany. In R. Pieper (Ed.), *Human resource management: An international comparison* (pp. 94–139). Berlin: Walter de Gruyter.
32. Summers, C. (1989). An American perspective of the German model of worker participation. In A. Gladstone, R. Lansbury, J. Stieber, T. Treu, & M. Wiess (Eds.), *Current issues in labor relations* (pp. 113–128). Berlin: Walter de Gruyter.
33. Lux, H. J., & Wilpert, B. (1978). Co-determination: Worker participation in Federal Republic of Germany. In B. Wilpert, A. Kudat, & Y. Oxhan (Eds.), *Workers' participation in an internationalized economy* (pp. 56–60). Kent: Kent State University Press.
34. Sturmthal, A. (1964). *Works councils*. Cambridge: Harvard University Press.
35. The Mitbestimmung mess-up (1978, August). *Management Today*, pp. 49–52.
36. Hebden, J. E., & Shaw, G. H. (1977). *Pathways to participation*. New York: Wiley.
37. Jenkins, D. (1973). *Job power*. Garden City: Doubleday.
38. Rhods, C. (2002, August 8). Checking out: Short work hours undercut European economic drive. *Wall Street Journal*, A1–A6.
39. Power, S., Taylor, E., & Walker, M. (2005, July 29). After bumpy tenure at Daimler, Schremp hands over the key. *Wall Street Journal*, A1–A8.
40. J. Ewing (2003, February 17). The decline of Germany. *Business Week*, pp. 44–53.
41. Mazzolini, R. (1978). The influence of European workers over corporate strategy. *Sloan Management Review, 19*(3), 80.
42. Furlong, J. C. (1977). *Labor in the boardroom: The peaceful revolution*. Princeton: Dow Jones Books.
43. Fatehi-Sedeh, K., & Safizadeh, H. (1986). Labor union leaders and codetermination: An evaluation of attitudes. *Employee Relations Law Journal, 12*(2), 188–204.
44. Unions in France: Yesterday's men (1989, February 18). *The Economist*, pp. 71–72.
45. Howell, C. (1992). The contradictions of French industrial relations reform. *Comparative Politics*, January, 181–197.
46. Neal, A. C. (1989). Co-determination in the Federal Republic of Germany: An external perspective from the United Kingdom. In A. Gladstone, R. Lansbury, J. Stieber, T. Treu, & M. Wiess (Eds.), *Current issues in labor relations* (pp. 128–145). Berlin: Walter de Gruyter.
47. Kujawa, D. (1988). International labor relations. In I. Walter & T. Murray (Eds.), *Handbook of international management* (pp. 11/3–11/25). New York: Wiley.
48. Thompson, A. W. J., & Hunter, L. C. (1978). Great Britain. In J. T. Dunlop & W. Galenson (Eds.), *Labor in the twentieth century* (pp. 85–148). New York: Academic Press.
49. Takahashi, Y. (1990). Human resource management in Japan. In R. Pieper (Ed.), *Human resource management: An international comparison* (pp. 212–232). New York: Walter de Gruyter.
50. The enigma of Japanese power (1989, May 8). Fortune, p. 150.
51. Levine, S. B., & Taira, K. (1980). Interpreting industrial conflict: The case of Japan. In B. Martin & E. M. Kassalow (Eds.), *Labor relations in advanced industrial societies* (pp. 61–88). New York: Carnegie Endowment.
52. Kerr, C., Dunlop, J. T., Harbison, F. H., & Myers, C. A. (1960). *Industrialism and industrial man*. Cambridge, MA: Harvard University Press.
53. Bean, R. (Ed.). (1989). *International labour statistics*. London: Routledge.
54. Browning, E. S. (1986, April 28). Japan's firms have a friend: The unions. *Wall Street Journal*, B24.
55. Driffil, J., & van der Ploeg, F. (1993). Monopoly unions and the liberalization of international trade. *Economic Journal, 103*, 379–385.
56. OECD data. (2016). .Hours worked. OECD data, from https://data.oecd.org/emp/hours-worked.htm.

Appendix A: Major Leadership Theories

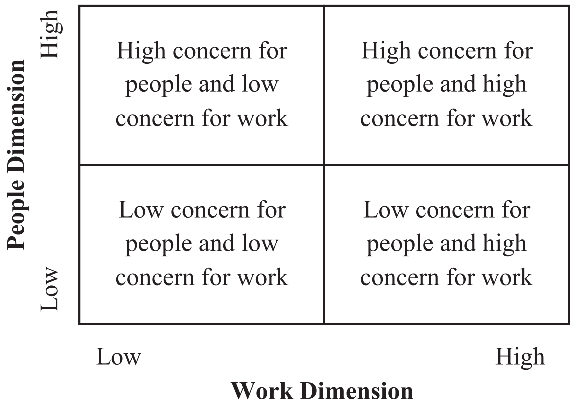
Two streams of research at Ohio State University (OSU) and the University of Michigan fueled a modern debate on leadership that has persisted until today. Modern theories of leadership departed from the traditional trait theories that proposed that some people are "born leaders." According to trait theories, the leaders are endowed with certain characteristics, physiological, psychological, and intellectual, that set them apart from others. All we have to do is identify people with these traits and assign them to leadership positions. Years of research, however, has shown that while certain traits increase the likelihood of a leader's success, they do not guarantee it. Researchers have found that the leader's behavior, rather than his/her traits, is more important in determining leader effectiveness. Consequently, attention was shifted toward situational demands and followers' characteristics and their influence in determining leadership effectiveness. The initial ideas were highlighted in the studies that took place at OSU and the University of Michigan during the late 1940s and early 1950s. The following is a brief review of these theories. Before we review these theories, we should note that the "contemporary leadership field is an American product—an American seed planted in American soil and harvested by American scholars, educators, and consultants" [1].

The OSU and the University of Michigan Studies

Two separate research efforts at OSU and the University of Michigan produced similar results. The OSU researchers identified two dimensions of leadership behavior that influence the followers' work performance. These two dimensions are *consideration* for workers and *initiating structure* or task orientation. Comparable dimensions were reported by researchers at the University of Michigan and were labeled *employee oriented* and *production oriented*. Supportive leaders, who create a friendly environment for workers and establish their relationship on the basis of mutual trust and respect, are demonstrating concern for workers. Examples of consideration (employee-oriented behavior) are closer relationships between employees and their managers, treating subordinates as equals, doing favors and promoting the welfare of employees, giving advance notices of changes in the organization, and explaining managerial decisions. Leadership behavior that

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

Fig. A.1 A synthesis of the two dimensions of leadership



is related to task accomplishment and the efficient use of resources includes initiating structure and production-oriented behavior. Close supervision of work activities, allocating tasks, scheduling work, supplying work instruction, and generally providing the workers with direction and assistance in doing their jobs represent different aspects of this dimension.

A Synthesis of Concerns for Production and Concerns for People

The studies at the University of Michigan and OSU served as a springboard for further leadership research. In a departure from the trait theories, these studies brought to our attention the fact that the leader's behavior makes a difference in the subordinates' work performance and attitudes.

While early research findings regarding the effects of these two dimensions on workers' performance have not been consistent under all conditions, certain patterns have been identified. The researchers at these universities found that, often, high consideration and employee-oriented behavior were associated with employee satisfaction, low turnover, and low absenteeism. The impact of consideration on performance, however, was low. Higher productivity and lower employee satisfaction were frequently related to high initiating structure and production-oriented behavior [2, 3].

Since concern for people and concern for production are two separate dimensions, it appears that leaders can employ a combination of both. Such a combination has actually been proposed by some scholars of leadership: In their book *Managerial Grid*, Robert R. Blake and Jane S. Mouton have suggested that by combining a concern for people with a concern for production, managers can achieve the best results [4].

Figure A.1 depicts the results of combining the two dimensions of leadership behavior. The four quadrants in Fig. A.1 illustrate four extreme variations of leadership behavior. At the lower left-hand side of the figure, Quadrant 1 represents a low concern for production and low concern for people. This is the stereotypical ineffective manager who does not show much concern for either the workers or the work. The upper left-hand side, Quadrant 2, a combination of low concern for production and high concern for people, represents people-oriented behavior without much concern for the work. Quadrant 3, the lower right-hand side, is a combination of high concern for production and low concern for people, which typifies a taskmaster style. The upper right-hand side, Quadrant 4, is a mixture of high concern for workers and high concern for work. Some management scholars have suggested that this is a very effective leadership style.

Likert's Managerial Systems

Managerial leadership takes place in the organization, and it is influenced by the prevailing managerial practices. Therefore, it is not sufficient to study individual leadership behavior alone without taking into consideration the organizational norms and practices. Leadership behavior that is contrary to the prevailing managerial practices of an organization will not produce the desired results. Rensis Likert developed a questionnaire that measures the organization's management system. He proposed that there are four types of management systems: (1) exploitative authoritative, (2) benevolent authoritative, (3) consultative, and (4) participative. These systems are based on the varying degrees of trust and confidence that the manager exhibits toward the subordinates. The following is a brief description of the four systems [5]. Research results have been varied, but there has been some evidence of support in US settings.

System 1: Exploitative Authoritative. This system has no confidence and trust in subordinates. It relies on centralized decision-making from the top of the organization. Subordinates are not involved in any important decision-making. In System 1 management, fear, threats, punishments, and occasional rewards are major instruments of motivation. The superior-subordinate relationship is limited to, and is based on, mistrust and fear. An informal organization develops that is parallel to the formal organization. It usually resists and opposes the goals of the formal organization.

System 2: Benevolent Authoritative. The relationship between superior and subordinate in System 2 resembles a master-servant relationship. Managers express a condescending confidence and trust toward subordinates. The superior-subordinate relationship is characterized by patronizing behavior by superiors and cautious approach by subordinates. Although most decisions are centralized at the top of the organization, within a prescribed framework, some decisions are made by the people at the lower levels. Rewards and punishment are used for motivating subordinates. An informal organization may develop within a System 2 organization that does not always oppose formal organizational goals.

System 3: Consultative. While managers have a substantial amount of confidence in subordinates, they still prefer to maintain control over most decisions.

Strategic decisions are made by the top-level managers. Subordinates, however, are allowed to make many of the decisions affecting the lower levels. Communication flows in both directions, upward and downward. Rewards, some occasional punishment, and involvement in decision-making are the major motivating tools of System 3. The informal organization that usually develops within the formal organization may have an ambivalent attitude toward the formal organizational goals.

System 4: Participative. The participative management system is characterized by complete confidence and trust in subordinates. Decentralized decision-making differentiates this system from the other three systems. Communication flows freely between all levels of organization. Subordinates participate in setting economic rewards, establishing goals, determining the methods of improving performance, and appraising progress toward goals. Substantial and friendly interaction between subordinates and superiors creates a high degree of confidence and trust. Control is decentralized throughout the organizational hierarchy. There is a great overlap between formal and informal organizations. Often, they are one and the same.

Likert proposed that System 4 is an effective managerial leadership approach. Research studies, primarily based in the United States, tend to support his contention that participative management is associated with favorable attitudes toward the leader, open channels of communication, and group cohesiveness. Productivity and employee job satisfaction tend to be higher among System 4 organizations.

Situational Leadership

As attention turned away from the search for leadership traits and moved to efforts to find the best leadership behaviors or style, another set of factors emerged. Specifically, researchers discovered that no one particular style was effective under all situations. They concluded that the effectiveness of leader behavior is a function of the situation at hand. Situational factors such as the followers, the work, organizational culture, and other environmental factors influence the leader's effectiveness. This realization was expressed in several situational theories of leadership. The most popular situational theories are the leadership continuum and the contingency models proposed by House and Fiedler.

The Leadership Continuum

According to Robert Tannenbaum and Warren Schmidt [6], leadership is viewed as a continuum. At one end of this continuum is the total control by the boss (leader-manager) through the exercise of authority, and at the other end is the subordinate's autonomy to make decisions within prescribed limits. As Fig. A.2 illustrates, as we move from right to left along this continuum, leader-managers play less of an authoritarian role, and the autonomy, power, and influence of subordinates increase.

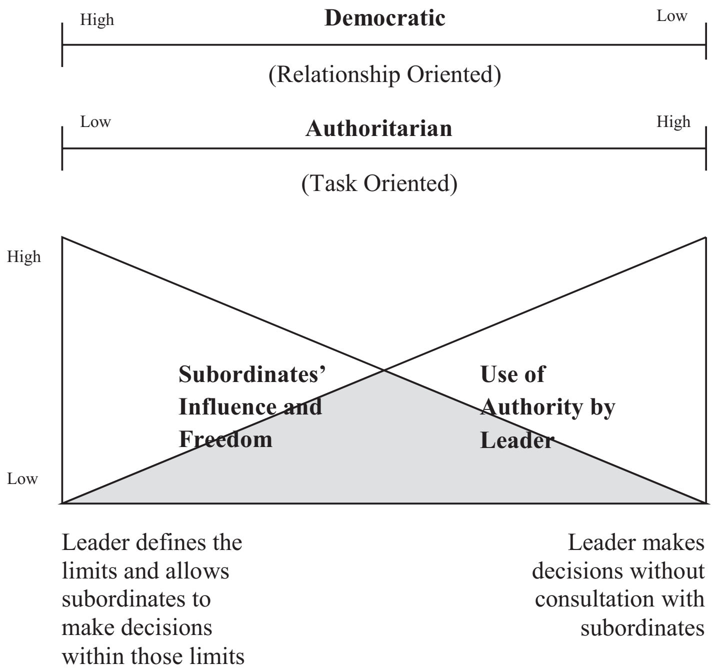


Fig. A.2 Leadership continuum

At the extreme right of the continuum, authoritarian leaders tend to use their power to influence their subordinates. They make decisions alone without consulting their subordinates. At the other extreme left of the continuum, democratic leaders define the limits within which subordinates can make all the decisions and allow them full participation in decision-making. A middle-ground approach is followed by the leaders who combine inputs from subordinates with the authority of the position for making decisions. Authoritarian leaders tend to be task oriented, and democratic leaders tend to be relationship oriented.

Tannenbaum and Schmidt suggested that there is no one best way to lead. Leaders should use their power according to situational demands. Four situational factors could determine the appropriate use of power by a leader-manager. These situational factors are (1) subordinates' personalities, (2) subordinates' expectations about leader behavior, (3) subordinates' willingness to accept responsibility, and (4) group's ability to accomplish the tasks. A combination of the situational requirements may dictate the full use of power by the leaders. If individual subordinates are not self-directed and require close supervision, if the workgroup is unable to solve the problems, if they are not willing to take responsibility, and if they expect the leader to take charge, then the task-oriented leadership style may be more productive. In the opposite situations, the relationship-oriented leadership style would be more appropriate. Situational factors such as time pressure, the nature and scope of the problem, and organizational circumstances also affect the manager's behavior.

House's Contingency Model of Leadership

The leadership continuum as proposed by Tannenbaum and Schmidt is an acknowledgment that leadership behavior is similar to other types of behavior. It does not take place in a vacuum. Forces outside the leader have a bearing on his/her behavior. It brings to our attention the fact that leaders are not fully autonomous and are not totally oblivious to their surroundings. There are potential forces that influence leadership behavior. Robert House has pulled together elements of a number of theories to propose a contingency model of leadership called path-goal theory [3, 7]. House proposes that there are three major categories of factors that affect the style the leader adopts. These factors are the nature of the subordinates, the organizational setting, and the group. The leader's style, then, changes in response to these factors. An effective leader assists the followers in reaching their goals and ensures that the followers' goals are compatible with the overall organizational objectives. In other words, effective leaders clarify the path for individuals to reach their goals and at the same time contribute to the attainment of overall organizational objectives. Let us take a brief look at the forces that influence leadership behavior.

Subordinates' Characteristics and Response

The subordinates' characteristics influence the leader. A leader may be inclined to closely supervise subordinates who are ill-trained, lack experience, or are unwilling to assume the full responsibility of their jobs. Conversely, a leader may prefer to delegate responsibility and grant autonomy to those subordinates who have demonstrated the ability and the willingness to do the job without much external control. Like other people, leaders tend to like and trust those whose background and characteristics are similar to themselves. Therefore, the amiable relationship that may exist when the leader and the subordinates have something in common may result in more democratic leadership behavior.

Organizational Settings

The Task. An important factor affecting employee performance is the nature of the task. Certain task characteristics reduce or eliminate the need for guidance and directions by the leader. Those who work on interesting and intrinsically satisfying tasks may not require much external motivation and persuasion. They may perform their jobs even in the absence of a leader. Under time pressure, most people, including the leaders, become directive and task oriented. Faced with ambiguity, crisis, and looming work deadlines, subordinates look up to the leader for direction and expect instruction and guidance. In such situations, a leader may exhibit behavior that is more autocratic without experiencing too much resentment and resistance from the subordinates.

Organizational Climate. Organizational climate and the leadership philosophy of top management have a great bearing on the rest of the employees. Some organizations are known for a bureaucratic climate in which adherence to strict rules is expected. Such a climate may encourage tendencies toward a more centralized, directive, and autocratic leadership behavior. Conversely, where top management demonstrates a preference for informal relations, managers are more apt to rely on such behavior in their dealings with the subordinates.

We are all subject to influence by our peers, and manager-leaders are not immune to this. Individual managers are affected by the managerial style and behavioral pattern of other managers. Years of association with peers tend to create some degree of similarity in attitudes and a dominant style of leadership among the managers. Deviations from the norm are frowned upon and adherence to standards is promoted. A manager who treats his/her subordinates relatively leniently, for example, may hear objections by other managers who fear that their subordinates may demand a similar treatment.

Workgroup

Groups are the primary work units within most organizations. Very seldom can individual job assignments be performed independently and outside a group setting. These assignments are usually carried out within a workgroup structure. The members' characteristics and the resources they bring to the workgroup determine the group's characteristics. The nature of the workgroup influences the quantity and quality of the work performed by the individuals and the effectiveness of leadership behavior. For example, when there is a high level of conflict within the group, a directive leadership behavior (i.e., providing work guidelines and work schedule) would be effective. By recognizing the nature of the workgroup and providing the type of assistance, guidance, and coaching that is needed, the leader can influence the group and individual performance.

Leadership Characteristics

Leadership behavior and the person of the leader are inseparable. Personality differences result in people behaving differently under different conditions. Motivating forces could be external or internal to the individuals (see Appendix B on motivation). Those high on achievement need or power, for example, may feel more comfortable giving orders and emphasizing task accomplishment. Others who are high on affiliation need may be more interested in forming friendly relationships with people. These managers may not directly push for a higher performance. Instead, they may rely on personal relationships in fulfilling their responsibilities. The leader's philosophy regarding human nature greatly influences his or her relations with followers. As Douglas McGregor [8] proposed, some managers, called *Theory X* *managers*, assume that people, by their very nature, are lazy, dislike working, and avoid responsibility whenever possible. They, therefore, believe that people need to be controlled directly and coaxed to work hard using whatever measures may be necessary, including coercion and threats of punishment. Some other managers, called *Theory Y managers*, believe that engagement in mental and physical work is as natural to people as playing and resting. They assume that people generally like to work, do not shy away from assuming responsibility, and, under the right conditions, will perform to the best of their abilities. Therefore, the use of external control, and the threat of punishment, is not the best way to improve work performance. These two different philosophies, naturally, result in two different approaches to leadership behavior. Theory X managers tend to be more task oriented, while Theory Y managers tend to be more relationship oriented.

The above discussion on the influence of situational factors on leadership behavior highlights the interactive nature of the leadership process. It also implies that effective leaders are flexible in directing their followers and select leadership styles to fit the situation. Appropriate leader behavior is something that matches the primary demands of the situation. For example, a participative style can be used when subordinates are well trained, the job is clear-cut, and the group supports the organizational goals. In contrast, where the opposite conditions exist, a more directive or authoritarian style is appropriate. House's path-goal theory of leadership proposes that there are many forces impinging on the leader's relationship with the subordinates. The understanding of these forces can assist the leader-manager in selecting a proper course of action that meets the challenge of managing.

Fiedler's Contingency Model

Fred Fiedler [9] proposed a different contingency model stating that both styles of leadership, namely, concern for work (task oriented, similar to OSU "initiating structure") and concern for people (relationship oriented, similar to "consideration" for OSU), could be effective under certain conditions. The conditions that influence the effectiveness of these leadership tendencies depend on a combination of three elements: task structure, leader's position power, and leader-member relations. Various combinations of these elements produce situations that are favorable or unfavorable to the leader. Leadership effectiveness depends on a match between the leader's behavioral inclinations and the favorableness of the situation.

Leader-Member Relations. The situational favorability is strongly influenced by the leader-follower relationship. A situation is favorable to the leader if the group's acceptance of him/her is high, if the group and the leader are getting along, and if there is a high degree of regard for the leader. In such a favorable situation, the group and the leader can work together, and the leader has no difficulty in leading them. A leader who is liked and respected can influence the group far beyond the limits of his/her authority.

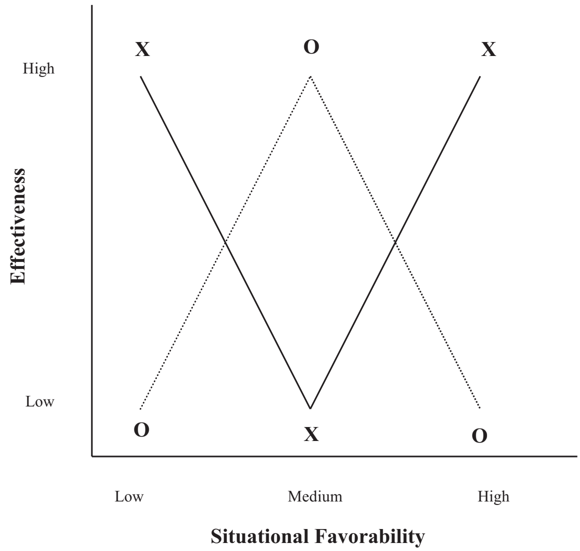


Fig. A.3 Effective leadership behavior in various situations. Note: X = task oriented; O = relationship oriented. (Source: Based on Ref. [10].)

Task Structure. A task is structured if all the requirements for performing it are known to the members. The leader has no problem determining what should be done, who should do it, how it should be performed, and the reason for doing it. Such a task leaves less room for misunderstanding and disputes. The more a task is structured, the higher the situational favorableness.

Position Power. Position power refers to the amount of power and influence that the leader has. A strong power position enables the leader to easily lead the group. No one would question his/her authority. Four types of power, legitimate (authority), expert, reward, and coercive are the basis for the leader's position power.

Various combinations of these elements could create conditions that are either favorable or unfavorable to a leader. A favorable condition is when the task is structured, the power position is strong, and the leader-member relationship is good. An unfavorable condition is a combination of unstructured tasks, weak position power, and poor leader-member relations. Leaders who are task oriented are more effective under both extremes of conditions: favorable and unfavorable (see Fig. A.3). Relationship-oriented leaders are more effective under moderately favorable conditions. An example of a favorable situation is being a well-respected and highly qualified head of an engineering firm. The tasks are structured, the power position is strong, and the leader-member relationship is good. A task-oriented leader would be able to get his/her group to work hard because they like him/her; they know the requirements of the tasks, and the leader has sufficient power to influence them. In an unfavorable situation, the only way to get the group to work hard is to demand it by setting goals, providing instructions for doing it, and guiding and controlling the work.

Compared with task-oriented leaders, relationship-oriented leaders are not very effective in the very favorable or very unfavorable situations. Their relative ineffectiveness is probably due to their lack of emphasis on production and the minimum pressure they apply for higher performance. Relationship-oriented leaders are more effective in situations that are moderately favorable. In such situations, the more directive attitude of task-oriented leaders may lead to anxiety and conflict within the group. The nondirective and permissive attitude of a relationship-oriented leader is more effective.

References

1. Kellerman, B. (2004, Jan.). Leadership: Warts and all. *Harvard Business Review*, 44.
2. Kahn, R. L., & Katz, D. (1960). Leadership practices in relation to productivity and morale. In D. Cartwright & A. F. Lander (Eds.), *Group dynamics* (2nd ed., pp. 554–570). Evanston, IL: Row, Peterson.
3. House, R. J. (1971). A path-goal theory of leader effectiveness. *Administrative Science Quarterly, 16,* 321–338.
4. Blake, R. R., & Mouton, J. R. (1978). *The managerial grid.* Houston, TX: Gulf.
5. Likert, R. (1967). *The human organization.* New York, NY: McGraw-Hill.
6. Tannenbaum, R., & Schmidt, W. H. (1973, May–Jun.). How to choose a leadership pattern. *Harvard Business Review*, 162–175.
7. House, R. J. (1974). Path goal theory of leadership. *Journal of Contemporary Business, Autumn*, 81–98.
8. McGregor, D. (1960). *The human side of enterprise* (pp. 33–34). New York, NY: McGraw-Hill.
9. Fiedler, F. (1967). *A theory of leadership effectiveness*. New York, NY: McGraw-Hill.
10. Fiedler, F., & Chemers, M. M. (1974). *Leadership and effective management.* Glenview, IL: Scott, Foresman.

Appendix B: Major Motivation Theories

Kamal Fatehi and Foad Derakhshan

Motivation theories are classified into two groups: content theories and process theories. Content theories explore *what* motivates people. They attempt to identify items and issues that arouse and energize behavior. The most famous content theories are Maslow's need hierarchy, Hertzberg's two-factor theory, and McClelland's three-factor theory. Process theories deal with *how* people are motivated. They examine the specific steps involved in the motivation process. Vroom's expectancy theory and Adam's equity theory are well-known process theories.

Content Theories of Motivation

All the well-known content theories of motivation have been developed by American theorists and involved only US subjects. In the following, we briefly discuss major content theories.

Hierarchy of Needs

The cornerstone of most content theories is Abraham Maslow's concept of the hierarchy of needs [1, 2]. Maslow identified five categories of human needs, which follow a hierarchical order of importance and satisfaction. In this hierarchy, the lowest needs have to be reasonably satisfied before the next level of needs is activated. Ranging from lowest to highest, these need categories are physiological, security, social (affection), esteem (self-esteem and esteem of others), and self-actualization. Two principles form the foundation of this theory. The *deficit principle* states that a deprived need is a motivating force. This implies that a satisfied need is not motivating. People attempt to satisfy unfulfilled needs in the hierarchy. According to the *progression principle*, people seek the satisfaction of their needs in a progression

K. Fatehi
Coles College of Business, Kennesaw State University, Kennesaw, GA, USA

F. Derakhshan
California State University, San Bernardino, CA, USA

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

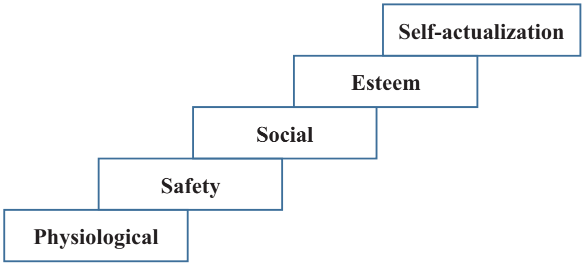


Fig. B.1 Maslow's hierarchy of needs

from the lower levels to the higher levels. Each level of need is activated only after the preceding lower-level need has been sufficiently satisfied. Figure B.1 depicts this hierarchical relationship.

The early suggestion that these needs might have an instinctive origin led to a universality assumption in later interpretations of Maslow's theory. Maslow himself cautioned against overgeneralization due to a number of exceptions he had noted to the theory of hierarchical satisfaction. Many management scholars believe that in the American culture, the true motivator is the need for achievement, and its satisfaction is relatively independent of the lower-level needs.

Motivators and Hygiene Factors

Herzberg identified two groups of factors, hygiene and motivators, that influence individual performance in work organizations [3, 4]. Hygiene factors could only create discomfort if they were not met, but they have no effect on motivation. These factors are external to the job (extrinsic) and include technical supervision, working conditions, pay, relations with peers, etc. Hygiene factors correspond to the lower-level needs in Maslow's hierarchy. Motivators include job-related (intrinsic) factors such as the work itself, achievement, responsibility, and recognition. Motivators corresponded mainly to the highest needs in Maslow's hierarchy. We can portray this theory as a simplified, two-level version of Maslow's need hierarchy as depicted in Fig. B.2.

McClelland's Three Motives

This theory identifies three important individual drives (needs): achievement, power, and affiliation. People are motivated to satisfy these needs. McClelland [5] suggested that the need for achievement was the most important factor leading to economic success. He proposed that, at the national level, the aggregate level of this need was related to the rate of economic development. Achievement-oriented individuals seek responsibility and concrete feedback, take moderate risks, and are loners. In contrast to Maslow and Herzberg, McClelland believed that the need for achievement, and related attributes, could be taught and, in fact, that the culture played an important role in socializing individuals toward the motives [6].

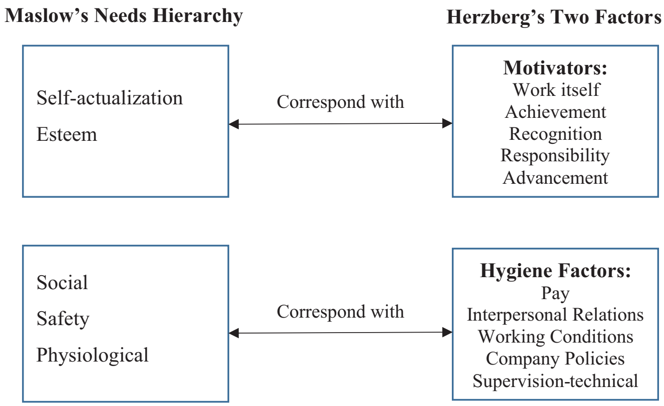


Fig. B.2 The correspondence between Herzberg's two factors and Maslow's needs hierarchy

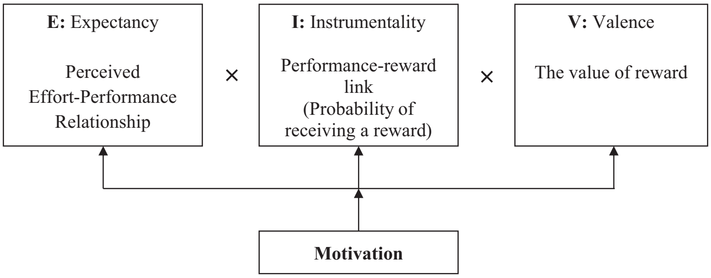


Fig. B.3 Expectancy theory

Process Theories of Motivation

The following section briefly examines two context theories.

Expectancy Theory

Mostly associated with the works of Victor H. Vroom, this theory proposes that motivation is a deliberate and conscious choice to engage in a certain activity for achieving a certain outcome or reward (see Fig. B.3). The logic of expectancy theory has prompted some to call it the thinking person's motivation theory [7, p. 6]. Mathematically expressed, motivation (*M*) is the product of three variables:

1. *Valence* (*V*): The *value* (attractiveness) of the *potential reward* or outcome to the individual. The potential outcome includes pay, job security, fringe benefits, job satisfaction, companionship, and the opportunity to demonstrate and apply talents and skills. In short, anything that a person can get from the job is a potential reward.

2. *Instrumentality* (I)*:* The *performance-reward* link, which is the expectation that performance will lead to receiving the reward. Past experience forms a foundation for this linkage.
3. *Expectancy* (E)*:* The linkage between the *effort* and *performance*, which deals with the individual's belief that exerting a certain amount of effort will lead to accomplishing the task: $M = V \times I \times E$.

The multiplicative nature of the relationship indicates that if any of the three variables is zero, then motivation will be zero.

Expectancy theory has an appeal for researchers because it expresses the motivation process as a simple mathematical relationship among three possibly measurable variables. Furthermore, its logical nature makes it appealing for those who look for a universal theory to explain motivation, independent of cultural differences.

Equity Theory

According to Adams, the individual's perception of inequity is a motivating force [8]. More specifically, a person compares the ratio of his or her compensation, that is, what they get from the job (outcomes), to his or her contributions to the job (input) with that of others in a similar situation. Compensation comes in many different forms, including pay, job security, an interesting job, opportunity for advancement and promotion, good working relationships, and safe and pleasant work environment. Inequity in either direction generates tension. People, however, are usually more sensitive to a lower ratio (under reward). They respond to the perception of inequity in many different ways. These responses include filing complaints, working less, or even changing their perceptions to reestablish the equity. Figure B.4 illustrates this process.

Motivation and Learning

Motivation calls for the use of positive and negative incentives (positive reinforcement and punishment) and scheduling them in a way to achieve desired results. In this sense, motivation and learning become closely related. B. F. Skinner and other learning theorists assert that behavior is a function of its

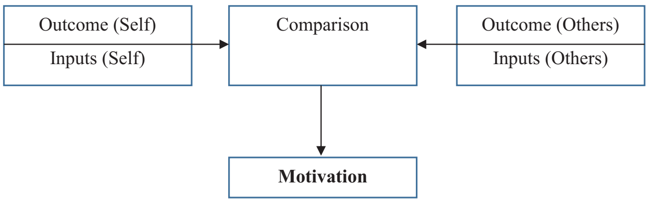


Fig. B.4 Equity theory

consequences. Behavior that is followed by desirable consequences tends to be repeated. In contrast, undesirable consequences have the opposite effect. In this way, we learn to change our behavior to experience desirable consequences and avoid the undesirable (punishment) ones [9–12].

References

1. Maslow, A. H. (1943). A theory of human motivation. *Psychological Bulletin, 50*, 370–382.
2. Maslow, A. H. (1954). *Motivation and personality.* New York, NY: Harper & Row.
3. Herzberg, F., Mausner, B., & Snyderman, B. S. (1959). *The motivation to work*. New York, NY: Wiley.
4. Herzberg, F. (1968, Jan.–Feb.). One more time, how do you motivate employees? *Harvard Business Review*, 54–62.
5. McClelland, D. C. (1961). *The achieving society*. Princeton, NJ: Van Nostrand Reinhold.
6. McClelland, D. C. (1962, Jul.–Aug.). Business drive and national achievement. *Harvard Business Review*, 99–112.
7. Hampton, D. R., Summer, C. E., & Webber, R. A. (1982). *Organizational behavior and the practice of management*. Glenview, IL: Scott, Foresman.
8. Adams, J. S. (1965). Inequities in social exchange. In L. Berkowitz (Ed.), *Advances in experimental social psychology* (Vol. 2, pp. 267–299). New York, NY: Academic Press.
9. Skinner, B. F. (1971). *Beyond freedom and dignity.* New York, NY: Alfred Knopf.
10. Skinner, B. F. (1963). Operant behavior. *American Psychologist, 18*, 503–515.
11. Skinner, B. F. (1961). *Contingencies of reinforcement: A theoretical analysis*. Englewood Cliffs, NJ: Prentice Hall.
12. Bass, B. M., & Vaughn, B. M. (1966). *Training in industry: The management of learning*. Monterey, CA: Brooks/Cole.

Appendix C: Charter of the United Nations

Chapter 1 Purpose and Principles

Article 1

The purposes of the United Nations are:

1. To maintain international peace and security and to that end to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression or other breaches of the peace and to bring about by peaceful means, and in conformity with the principle of justice and international law, adjustment or settlement of international disputes or situations which might lead to a breach of peace
2. To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples and to take other appropriate measures to strengthen universal peace
3. To achieve international cooperation in solving international problems of an economic, social, cultural, or humanitarian character and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion
4. To be a center for harmonizing the actions of nations in the attainment of these common ends

Article 2

The Organization and its members, in pursuit of the purposes stated in Article 1 shall act in accordance with the following principles:

1. The organization is based on the principle of the sovereign equality of all its members.
2. Members, in order to ensure to all of them the rights and benefits resulting from membership, shall fulfill in good faith the obligations assumed by them in accordance with the present charter.

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

3. All members shall settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered.
4. All members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state or in any other manner inconsistent with the purposes of the United Nations.
5. All members shall give the United Nations every assistance in any action it takes in accordance with the present charter and shall refrain from giving assistance to any state against which the United Nations is taking preventive or enforcement action.
6. The Organization shall ensure that states which are not members of the United Nations act in accordance with these principles so far as may be necessary for the maintenance of international peace and security.
7. Nothing contained in the present charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the members to submit such matters to settlement under the present charter; but this principle shall not prejudice the application of enforcement measures under Chapter VII.

Source: United Nations. (1945). Charter of the United Nations: Chapter 1: Purposes and principles. Resource document. United Nations. http://www.un.org/en/sections/un-charter/chapter-i/index.html

The List of Cases

Harvard Business Case

CH 01: "Uber and the sharing economy: Global market expansion and reception" by Andrew Hoffman, 02/19/2016.
Product #: W04C79-PDF-ENG
CH 02: "IKEA's Global Sourcing Challenge: Indian Rugs and Child Labor (A)" by Bartlett, Christopher A., Vincent Marie Dessain, and Anders Sjoman, 11/14/2006.
Product #: 906414-PDF-ENG
CH 03: "Hailing a New Era: Haier in Japan (A)" by Carlos Sanchez-Runde Sanchez; Yih-teen Lee; Sebastian Reiche; Yen-Tung Chen; Yuki Kotake, 11/22/2012.
Product #: IES340-PDF-ENG
CH 04: "Negotiation in China: How Universal?" by Tao Zhigang; Shangjin Wei; Penelope Chan, 06/20/2011.
Product #: HKU956-PDF-ENG
CH 05: "GE's Imagination Breakthroughs: The Evo Project" by Christopher A. Bartlett; Brian J. Hall; Nicole Bennett, 06/19/2007.
Product #: 907048-PDF-ENG
CH 06: "Xiaomi's Globalization Strategy and Challenges" by Gang Zheng; Yanting Guo; Robert A. Burgelman, 11/22/2016.
Product #: SM262-PDF-ENG
CH 07: "Amazon and Future Group: Rethinking the Alliance Strategy" by Meeta Dasgupta, 06/27/2016.
Product #: W16382-PDF-ENG
CH 08: "Bosch Group in India: Transition to a Transnational Organization" by Abhoy Ojha, 08/01/2010.
Product #: IMB301-PDF-ENG
CH 09: "HR as Transformation Partner in Maruti Suzuki India Ltd." by Anita Ollapally; Asha Bhandarker, 07/26/2011.
Product #: W11241-PDF-ENG
CH 10: "GEARBOX (China) Ltd.: Will the Company's ERP System Support Its Ambitious Growth Strategy?" by Kai Reimers, 04/13/2004.
Product #: JIT003-PDF-ENG

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

CH 11: “Microsoft in Korea” by Jordan Siegel; Lynn Pyun, 04/18/2013.
Product #: 713522-PDF-ENG

CH 12: “Apple and Its Suppliers: Corporate Social Responsibility” by Sun Hye Lee; Michael Mol; Kamel Mellahi, 03/22/2016.
Product #: W16147-PDF-ENG

Author Index

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

Subject Index

K. Fatehi, J. Choi, *International Business Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-319-96622-9

D

J

L

T