

Essentials of Management

# Chapter 2

# International Management and Cultural Diversity

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# Introductory Ideas

- Internationalization of business exerts major influence on manager's job.
- Many complex products are built with components from several countries.
- Entire world has become more global.
- One management challenge is to work well with organizations and people from other countries.

# The Multinational Corporation

- Multinational corporation (MNC) has units in two or more countries plus its own.
- A transnational corporation operates worldwide without one national headquarters (no “foreign operations”).
- As result of globalization, many large companies have merged with each other. As a result, fewer competitors exist.

# Trade Agreements Among Countries

1. North American Free Trade Agreement (NAFTA) establishes liberal trade among United States, Canada, and Mexico.
  - a. Many companies have benefited from NAFTA yet labor unions point to job losses.
  - b. By 10<sup>th</sup> anniversary of NAFTA, one-half million U.S. workers were displaced.

## *Trade Agreements Among Countries, continued*

2. The Central American Free Trade Agreement (CAFTA) facilitates trade among six countries and the U.S.
  - a. CAFTA countries have relatively open access to American markets.
  - b. U.S. entry to their markets is easier.
  - c. CAFTA goal is 34-nation free trade agreement among all countries in Western Hemisphere except Cuba.

## *Trade Agreements Among Countries, continued*

3. The European Union (EU) is 27-nation alliance.
  - a. Creates single marketplace for ideas, goods, services, investment strategies.
  - b. EU trades with member nations, U.S., Canada, and other countries in world.
  - c. Creates single space where EU citizens can travel, work, invest, use euro.

## *Trade Agreements Among Countries, concluded*

4. The World Trade Organization liberalizes trade among nations across the world.
  - a. Attempts to lower trade barriers among 153 countries.
  - b. Most favored nation clause requires each country to give all other countries its best agreement with respect to trade.
  - c. WTO settles disputes between countries.
  - d. WTO accused of creating job cuts and downward pressure on wages.

# Global Outsourcing as Part of International Trade

- Trade agreements facilitate sending work overseas, or *outsourcing*.
- Number of industries immune to outsourcing is shrinking.
- Major force behind outsourcing is the pressure discounters like Wal-Mart, Target, and dollar stores exert on manufacturers to keep their prices low.



# Case for Global Outsourcing

- Can create new demand for lower-priced goods, leading to U. S. jobs.
- Lowered production costs can help company become more competitive.
- Can lead to reciprocity from other countries.
- Country receiving work from U.S. might hire more American workers for its U.S. operations.

# Case Against Global Outsourcing

- Could be responsible for permanent job loss and slow job creation.
- American employers can offer low wages to domestic employees because work can be sent overseas.
- Outsourcing call centers can result in language barriers for customers.
- True cost savings from outsourcing are elusive.

# Sensitivity to Cultural Differences

- Sensitivity to cultural differences is guiding principle for international workers.
- Cultural sensitivity is awareness of local and national customs, and how they affect interpersonal relationships.
- Multicultural worker enjoys learning about other cultures.
- Personality factors, such as emotional stability, help expatriate be successful.

# Challenges Facing the Global Managerial Worker

- Developing global leadership skills (See slide 14.)
- Currency fluctuations (strong currency makes exporting more difficult)
- Balance of trade problems (in general, better to export than import)
- Human rights violations, corruption, and violence (also, customers may object)

## *Challenges Facing the Global Managerial Worker, continued*

- Culture shock (problems may develop with person placed in another culture, including coming back home right away)
- Differences in negotiating style (Americans may need to be more patient and formal)
- Piracy of intellectual property rights and other merchandise
- Coping with dangerous and defective products (may involve product recalls)

# Developing Global Leadership Skills

- Global leadership skills focus on ability to deal effectively with people from other cultures.
- Combination of cultural sensitivity and leadership skills.
- Welcoming other cultures is helpful.
- Must understand how well management principles from one's own culture transfer to another culture.

# Methods of Entry Into World Markets

1. Exporting
2. Licensing and franchising
3. Local assembly and packing
4. Strategic alliances and joint ventures
5. Direct foreign investment
6. Global startup (small firm that begins by serving an international market)

# Success Factors in the Global Marketplace

- Think globally, act locally (focus on locals).
- Recruit and select talented nationals (need the right people in other country).
- Hire or develop multicultural workers (multiculturalism helps acceptance of firm by overseas personnel and customers).
- Research and assess potential markets (get valid information about markets)



# The Advantages and Disadvantages of Globalization

- Globalization may be inevitable and desirable, yet for many workers it has created more problems than opportunities.
- Exhibit 2-4 (text) outlines the many pros and cons of globalization. For example:
  - a. Productivity grows with use of comparative advantage.
  - b. Millions of Americans have lost jobs.

# The Scope of Diversity

- Valuing diversity means respecting and enjoying a wide range of cultural and individual differences.
- To be diverse is to be different in some measurable way.
- Working well across generations has become important.
- Inclusion emphasized for gay, lesbian, bisexual, and transgender (GLBT) people.

# Competitive Advantage of Diversity

1. Marketing advantage, including increased sales and profits.
2. Can reduce costs by lowered turnover.
3. Helps in recruiting talented people.
4. Provides useful ideas for favorable publicity and advertising.
5. Helps reduce cultural bloopers, biases.
6. Heterogeneity may result in creativity.

# Potential Problems Associated with Diversity

- Heterogeneous groups are assembled but they may not work harmoniously.
- When group members are supportive toward each other, the benefits of group diversity will be forthcoming.
- Diverse groups may be less cohesive than those with less diverse composition.

# Organizational Practices to Encourage Diversity

- Corporate policies favoring diversity (such as monitoring recruitment and promotion to assure that diverse people get good jobs)
- Employee network groups (employees affiliate based on demographic group such as race, ethnicity, or sexual orientation)
- Diversity training (focus on harmony)

# Diversity Training

- Strive for harmony by teaching how to get along with diverse work associates.
- Aims to minimize open expressions of racisms and sexism.
- Increases awareness of and empathy for people who are different than oneself.
- Diversity training leads to better retention when linked to strategy, endorsed by CEO.

# English Language as a Force for Unity

- To compete, international workers have to communicate effectively with each other.
- Many European and Asian business firms are making English their official language.
- Internet encourages use of English.
- Despite wide use of English, a second language for North Americans can help build relationships.