

Chapter 2 - International Management and Cultural Diversity

Learning Objectives

1. Describe the importance of multinational corporations in international business.
2. Recognize the importance of sensitivity to cultural differences in international enterprise.
3. Identify major challenges facing the global managerial worker.
4. Explain various methods of entry into world markets.
5. Pinpoint success factors in the global marketplace, and several positive and negative aspects of globalization.
6. Describe the scope of diversity and the competitive advantage of a culturally diverse workforce.
7. Summarize organizational practices to encourage diversity.

Chapter Outline and Notes

I. INTERNATIONAL MANAGEMENT

The internationalization (or global integration) of business and management exerts a major influence on the manager's job. The impact of global integration is dramatized by the fact that many complex manufactured products are built with components from several countries. The internationalization of management is part of the entire world becoming more global (the world is flat). One challenge is to work well with organizations and people from other countries.

A. The Multinational Corporation

The heart of international trade is the **multinational corporation (MNC)**, a firm with units in two or more countries in addition to its own. An MNC has headquarters in one country and subsidiaries in others. The **transnational corporation** is a special type of MNC that operates worldwide without having one national headquarter. Operations in other countries are not regarded as "foreign operations." Globalization has resulted in many large companies merging with each other, leaving a small number of competitors.

B. Trade Agreements Among Countries

Four agreements have facilitated international trade.

1. The *North American Free Trade Agreement (NAFTA)*

NAFTA establishes liberal trading relationships among the United States, Canada, and Mexico. Many companies have benefited from NAFTA, yet some labor unions believe the agreement has resulted in some job losses. By the tenth anniversary of NAFTA, at least one-half million U. S. workers had been displaced.

2. *The Central American Free Trade Agreement (CAFTA)*

The United States-Dominican Republic-Central American Free Trade Agreement (CAFTA) grants six countries, so far, relatively open access to American markets for their goods, while at the same time facilitating U. S. entry into their markets. The ultimate hope of CAFTA is a 34-nation Free Trade Agreement covering all countries in the Western Hemisphere except Cuba.

3. *The European Union (EU)*

The *European Union* is a 27-nation alliance that virtually turns member countries into a single marketplace for ideas, goods, services, and investment strategies. The EU trades with member nations, the United States and Canada, and other countries throughout the world.

The Schengen Agreement ended passport control and customs checks at many borders have been eliminated creating a single space where EU citizens can travel, work, and invest. Eleven countries use the euro as their currency.

4. *The World Trade Organization (WTO)*

The World Trade Organization liberalizes trade among many nations throughout the world and attempts to lower trade barriers. According to the *most favored nation* clause, each member country is supposed to grant all other member countries the most favorable treatment it grants any country with respect to imports and exports. An important function of the WTO is to settle disputes between two countries. The World Trade Organization now has about 153 member countries, accounting for about 95 percent of world trade.

A concern about facilitating global trade is that trade liberalization leads to continuous job cuts and downward pressure on wages in industrialized nations. The counterargument is that free trade, in the long run, creates more job opportunities by facilitating exports.

C. Global Outsourcing as Part of International Trade

Trade agreements facilitate sending work overseas. **Outsourcing** refers to the practice of hiring an individual or another company outside the organization to perform work. Global outsourcing is frequently referred to as *offshoring*. The number of industries immune to outsourcing is shrinking. Many building components are outsourced, as so are aspects of financial and legal work. A major force behind global outsourcing is the pressure discount retailers such as Wal-Mart, Target, and Dollar General exert on manufacturers to keep their prices low.

1. *The Case for Global Outsourcing*

Sending jobs overseas can create new demand for lower-priced goods, ultimately leading to new jobs in the United State, with consumer electronics being an example. As in the

argument for free trade, slashing production costs through global outsourcing can help a company become more competitive. Outsourcing can also lead to reciprocity from the overseas country receiving the work. For example, an overseas company that receives work from the U.S. might hire American workers for its U.S. operations.

2. *The Case against Global Outsourcing*

Many Americans believe that offshoring is responsible for the permanent loss of jobs in the United States as well as slow job creation. Yet, more job loss appears to stem from increased productivity than from offshoring. Another concern is that American employers can offer low wages to domestic employees because their work could be sent overseas. Outsourcing call centers to foreign countries can result in language barriers that make it difficult to resolve customer problems. Another negative factor with outsourcing is that its true cost savings may be elusive.

C. Sensitivity to Cultural Differences

The guiding principle for people involved in international enterprise is sensitivity to cultural differences. **Cultural sensitivity** is the awareness of local and national customs and their importance in effective interpersonal relationships. Being culturally sensitive helps a person become a **multicultural worker** who enjoys learning about other cultures. Candidates for foreign assignments generally receive training in the language and customs of the country they will work in. Cultural differences, such as with respect to negotiating the need for change, can also be important to learn.

A study showed that personality factors as well as cultural understanding contribute to expatriate effectiveness. Expatriates in Hong Kong, Japan, and Korea who function well are emotionally stable, extraverted, and open to new experiences. Cross-cultural competencies such as being able to focus on tasks and people are also important for expatriate success.

II. CHALLENGES FACING THE GLOBAL MANAGERIAL WORKER

Global managerial workers face many challenges, as described next.

A. Developing Global Leadership Skills

Managerial workers occupying leadership positions need to develop **global leadership skills**, the ability to deal effectively with people from other cultures. Having such skills is a combination of cultural sensitivity and leadership skills. Welcoming other cultures is helpful. Global leadership skills also include understanding how well management principles from one's own culture transfer to another. For example, most Western companies are willing to switch suppliers to cut costs, whereas Japanese executives frequently have long-term or personal relationships with key people at their suppliers.

B. Currency Fluctuations

The international manager may have to respond to changes in the value of currencies in the home country and elsewhere. If the currency of a country suddenly gains in value, it may be difficult to export products made in that country. However, when a country's

currency *weakens* versus the currency of other countries, it is easier to export goods because the goods are significantly less expensive and competitive in other countries. A weak U.S. dollar helps close the trade gap.

C. Balance of Trade Problems

A concern at the broadest level to an international manager is a country's **balance of trade**, the difference between exports and imports in both goods and services. Many people believe that it is to a country's advantage to export more than it imports. Yet in 2009, the total international deficit in goods and services for the United States was \$375 billion. For goods, the deficit was \$485 billion; for services, the surplus was \$110 billion. A concern about the U. S. trade deficit is that it contributes to the loss of domestic manufacturing jobs. Yet the free traders point out that the U.S. consumer can purchase low-price imports.

D. Human Rights Violations, Corruption, and Violence

Trading in countries with *human rights violations* can create problems. Many customers protest, yet doing business in a country that violates human rights might help raise the standard of living of its citizens. The subject of human rights violations is complicated and touchy. Amnesty International contends that the U.S. violates many human rights of its own including the use of foreign and domestic sweatshops, and the death penalty.

Another ethical and legal problem the international manager faces is dealing with corruption by foreign officials. A string of officials may demand payments to facilitate allowing foreigners to conduct business or speed an approval of an operating license. A life-threatening risk for U. S. multinational companies is for its employees to be trapped in violent acts in the overseas country, including terrorist attacks.

E. Culture Shock

Another problem for the international manager is **culture shock**, a group of physical and psychological symptoms that can develop when a person is abruptly placed in a foreign culture. Culture shock contributes to the relatively high rate of expatriates who return home early because they are dissatisfied with their assignments. Another potential contributor to culture shock is that the expatriate may work in one time zone while contacts in company headquarters work in a time zone with a time difference of six or more hours.

F. Differences in Negotiating Style

International workers may also have to use a *different negotiation style*. American negotiators, for example, often find that they must be more patient, use a team approach, and avoid being too informal. One study showed that differences in cultural values and norms between U. S. and Japanese negotiators influence negotiating tactics, and the outcome of negotiation. When people negotiate with others from their own culture, they are more likely to achieve mutual gains.

G. Piracy of Intellectual Property Rights and Other Merchandise

A major challenge facing the international business manager is that considerable amounts of revenue may be lost because firms in other countries might illegally copy his or her product. Among those products widely reproduced illegally are fine watches, perfume, DVDs, CDs, high-status, brand-name clothing, and software. The global cost of software piracy is estimated at about \$40 billion annually. In recent years, the Chinese government has invested resources in protecting intellectual property rights which includes forbidding software piracy.

H. Coping with Dangerous and Defective Products

Yet another potential risk for the international worker is coping with dangerous and or defective imported products. The international manager may be involved in such activities as assisting with a product recall, and dealing with angry customers, government agencies and attorneys. A more widespread problem of coping with dangerous and defective products is the unintentional import of infected bugs and plants.

III. METHODS OF ENTRY INTO WORLD MARKETS

Six methods of entering the international market are as follows:

1. *Exporting.*
2. *Licensing and franchising.*
3. *Local assembly and packaging.* Components rather than finished products are shipped to company-owned facilities in other countries.
4. *Strategic alliance and joint ventures.* (In a joint venture, the companies in alliance produce, warehouse, transport, and market products. A joint venture is therefore a special type of strategic alliance.)
5. *Direct foreign investment.*
6. *Global startup.* The **global startup** is a small firm that comes into existence by serving an international market. By so doing the firm circumvents the stages described above. Selling through the Internet facilitates a global start-up.

Exporting offers the least protection for the company doing business in another country. Direct foreign investment is the best way to protect the company's competitive advantage.

IV. SUCCESS FACTORS IN THE GLOBAL MARKETPLACE

Following the right strategies and tactics can improve chances for success in the global marketplace.

A. Think Globally, Act Locally

Local representatives behave as though their primary mission is to serve the local customer. A major aspect of thinking globally, yet acting locally is for the multinational corporation to compete successfully against well-established, well-managed domestic (local) companies. .

B. Recruit and Select Talented Nationals

A major success factor in building a business in another country is to hire talented citizens of that country to fill important positions. After the host-company nationals are hired, they must be taught the culture of the parent company. Staffing in other countries may require a modification of U. S. ideas about good candidates, such as Chinese candidates being more subdued than Americans. Home country employees also have to be of high caliber to compete well in the international arena.

C. Hire or Develop Multicultural Workers

Multiculturalism enhances acceptance of your firm by overseas personnel and customers. Speaking the native language helps. To help workers and their family members become multicultural, many companies offer cultural training. An important insight for workers is that although the United States and Northern Europe are task oriented, most other cultures are relationship oriented.

D. Research and Assess Potential Markets

Acquire valid information about the firm's target markets. Trade statistics usually provide a good starting point. Wal-Mart carefully researches which overseas markets—and consumer reaction—would fit its retailing model. Nevertheless, the company has done poorly in a few foreign markets.

E. The Advantages and Disadvantages of Globalization

Globalization may be inevitable and desirable, yet for many managers, business owners, and individual workers, the internationalization of the workplace has created more problems than opportunities. Exhibit 2-4 outlines the major pros and cons of globalization. For example, productivity grows when a company exercises its comparative advantage. However, millions of Americans have lost jobs due to imports or production shifts abroad.

V. THE SCOPE AND COMPETITIVE ADVANTAGE OF MANAGING DIVERSITY

The globalization of business requires that the managerial worker deal effectively with people from other countries, and different cultural groups within one's own company and country. **Diversity** refers to a mixture of people with different group identities within the same work environment.

Demographic diversity refers to the mix of group characteristics in the organization. *Cultural diversity* refers to the mixture of cultures and subcultures to which the organization's workforce belongs.

A. The Scope of Diversity

The true meaning of valuing diversity is to respect and enjoy a wide range of cultural and individual differences. To be diverse is to be different in some measurable way (whether or not the difference is visible). The diversity umbrella is supposed to include everybody in an organization.

Working well with different generations has become an important part of both cultural and demographic diversity in organizations, with the goal of people of all ages working well together. Another cultural and demographic group being emphasized for full inclusion in the workforce is people who are gay, lesbian, bisexual, and transgender (GLBT).

B. The Competitive Advantage of Diversity

Encouraging diversity is socially responsible, and also brings a competitive advantage to a firm.

- 1. Managing diversity well offers a marketing advantage, including increased sales and profits.*
- 2. Effective management of diversity can reduce costs. (Job satisfaction may increase thereby reducing turnover and absenteeism.)*
- 3. Companies with a favorable record in managing diversity are at a distinct advantage in recruiting talented people.*
- 4. Workforce diversity can provide a company with useful ideas for favorable publicity and advertising.*
- 5. Workforce diversity, including using the services of a culturally diverse advertising agency, can help reduce cultural bloopers and hidden biases.*
- 6. Workforce heterogeneity may also offer a company a creativity advantage.*

The implication for managers is that diversity initiatives should be explained in terms of tangible business purposes to achieve the best results.

C. Potential Problems Associated with Diversity

Cultural diversity initiatives are usually successful in assembling heterogeneous groups, but the group members do not necessarily work harmoniously. When group members are supportive toward each other, the benefits of group diversity such as more creative problem solving will be forthcoming.

VI. ORGANIZATIONAL PRACTICES TO ENCOURAGE DIVERSITY

Organizations can take several initiatives to manage diversity well.

A. Corporate Policies Favoring Diversity.

Many companies formulate policies that encourage and foster diversity. To create a culturally and demographically diverse organization, some companies monitor recruitment and promotions to assure that diverse people are hired and promoted into key jobs.

B. Employee Network Groups

An **employee network group** is composed of employees throughout the company who affiliate on the basis of a group of characteristics such as race, ethnicity, sexual orientation, or physical ability status. Group members have similar interests, and share information about getting ahead. Sometimes the network groups might help in product development, such as the Frito-Lay group development the Doritos Guacamole Flavored Tortilla Chips.

C. Diversity Training

Diversity training attempts to bring about workplace harmony by teaching people how to get along better with diverse work associates. Quite often the program is aimed at minimizing open expressions of racism and sexism. All forms of diversity training center around increasing people's awareness of and empathy for people who are different from themselves. An essential part of relating more effectively to diverse groups is to empathize with their point of view.

A study found that diversity training is likely to have a strong impact on retaining people of color when the program is tied to business strategy and the CEO is committed to the program.

D. The English Language as a Force for Unity

To compete globally, international workers have to communicate effectively with each other. As a consequence, more and more European business firms are making English their official language. In many Asian countries also, English is widely used in business. The Internet is another force encouraging the use of English.