# Chapter 5

# MANAGING ACROSS CULTURES

## OBJECTIVES OF THE CHAPTER

Traditionally, both scholars and practitioners assumed the universality of management. There was a tendency to take the management concepts and techniques that worked at home into other countries and cultures. It is now clear, from both practice and cross-cultural research, that this universality assumption, at least across cultures, does not hold up. Although there is a tendency in a borderless economy to promote a universalist approach, there is enough evidence from Nancy Adler and other cross-cultural researchers to conclude that the universalist assumption that may have held for U.S. organizations and employees is not generally true in other cultures.[1]

The overriding purpose of this chapter is to examine how MNCs can and should manage across cultures. This chapter puts into practice Chapter 4 on the meaning and dimensions of culture and serves as a foundation and point of departure for Chapters 8 and 9 on strategic management. The first part of this chapter addresses the traditional tendency to attempt to replicate successful home-country operations overseas without addressing cultural differences. Next, attention is given to cross-cultural challenges, focusing on how differences can impact multinational management strategies. Finally, the cultures in specific countries and geographic regions are examined. The specific objectives of this chapter are:

1. **EXAMINE** the strategic dispositions that characterize responses to different cultures.
2. **DISCUSS** cross-cultural differences and similarities.
3. **REVIEW** cultural differences in select countries and regions, and note some of the important strategic guidelines for doing business in each.



## The World of *BusinessWeek*

BusinessWeek

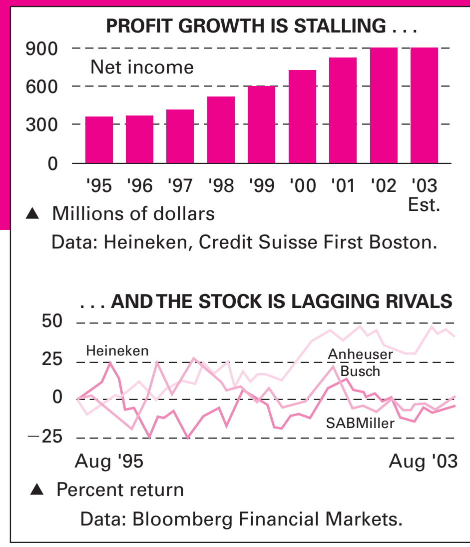
### Waking Up Heineken

#### Earnings are Flat. Its Stock Is in a Slump. Beer Drinking Is Down, Too. Can the Dutch Brewer Keep Growth Flowing?

History stares Heineken boss Anthony Ruys in the face every morning when he shows up for work. The Dutch brewer's chief executive sits in a dark-paneled office surrounded by stern portraits of three generations of Heineken ancestors. The corporate offices in Amsterdam extend from the building that once served as the family manse. And if Ruys were ever to forget that he was the guardian of a company that traces its roots back more than 400 years, he would have to reckon with his main shareholder: Charlene de Carvalho-Heineken, a descendant of the company's founder. "There's a long tradition," says Ruys with typical Dutch understatement.

Starched white collars are no longer the order of the day at 21 Tweede Weteringplantsoen, but Heineken headquarters is still a pretty buttoned-down place. True, the vending machines in the corridors are stocked with—what else?—Heineken. But they're programmed not to dispense the brew until after 4 p.m. "Not much has changed" since Charlene's father, Alfred H. "Freddy" Heineken, ran the company, says Ruys, a 56-year-old former Unilever executive who was elevated to the top job 10 years after joining the company, a relatively short tenure by Heineken standards. Freddy, a legendary bon vivant with a hard nose for business, passed away last year. And while no one from Ruys on down would dare dishonor his memory by claiming that anything as radical as a revolution is in the making at Heineken, there's an unmistakable whiff of change in the air.

**Is Heineken Going Flat?**




It's about time, too. The world's No. 3 brewer, with $11 billion a year in sales, can no longer take for granted the strengths that have made its squat green bottle the envy of the business. Budweiser may have crowned itself the "King of Beers," but it only reigns in the U.S. Heineken, recognized everywhere from Houston to Hong Kong, is the closest thing there is to a global beer brand. That's an achievement none of the world's top brewers, from No. 1 Anheuser-Busch to No. 2 SABMiller and No. 4 Interbrew, have been able to match.

Trouble is, the $367 billion world beer market is changing. Beer consumption is declining in the U.S. and Europe, the source of two-thirds of Heineken's profits, thanks to tougher drunk-driving laws and a growing appreciation for wine. At the same time, the beer marketplace is becoming ever more crowded, thanks to a flood of new brands, from low-carbohydrate brews to imports from Italy and the Czech Republic. But the numbers of players are shrinking. Heineken, one of the first European brewers to realize the value of cross-border deals, now risks falling behind more aggressive rivals. To overcome these challenges, Ruys is pushing Heineken to break out of its play-it-safe corporate culture. Freddy had a knack for marketing, but he was financially conservative and in later years held Heineken back, even as SABMiller and Interbrew grew through big-ticket acquisitions. Heineken's future success will depend on preserving Freddy's spirit—while meeting challenges that Freddy never anticipated.

Ruys is already making his mark. He shelled out more than $3 billion last year for a dozen acquisitions. The biggest target, BBAG, a family-owned company based in Linz, Austria, was one of the first brewers to go east after the collapse of the Soviet bloc. Once the $2.1 billion deal closes later this year, Heineken will be the biggest beermaker in seven countries in Eastern Europe. Advertising and packaging are becoming more daring, in a bid to capture the sought-after twentysomething segment. Witness the recent debut of Heineken's silver-and-green aluminum "bottle," which sells at trendy clubs in Europe and the U.S. for three times the price of Heineken on tap. "Our strategy is right, but we can be sharper after so many years of success," says Ruys.

That success is no longer guaranteed. The convergence of a weak global economy, an unusually rainy summer in the U.S., and SARS, which emptied watering holes across Asia, will break a six-year streak of double-digit profit growth. Then there's the strong euro, which is crimping earnings from the U.S., a market that accounts for more than a quarter of all profits. Analysts now estimate the company will just barely match its net profit last year of $900 million on sales of $11.6 billion. But even in the face of all these obstacles, the Dutch brewer has managed to defend its global market share of 7%. "The brand Heineken is as healthy as it has ever been," concedes Joseph J. Fisch Jr., who imports rival Dutch lager Grolsch into the U.S.

Others are not so sure. Some worry the company could face years of flat sales. "We are nervous that what some commentators see as a one-off blip could be rather fundamental," says Ian Shackleton, a London-based analyst for Credit Suisse First Boston, which rates Heineken "underperform." Over the past 12 months, Heineken's share price has declined 10%, to just under $37.

Top management in Amsterdam is not quite panicked, but there's definitely a sense of urgency seeping into the ranks. Heineken's boss is resorting to tough tactics to stir the troops out of their complacency. A video produced for staff viewing only features a young Italian man saying: "I hate beer." The message: Heineken needs to win over consumers who haven't yet developed a strong loyalty to a particular beverage. That's why Ruys and his top lieutenants have been travelling to places like Madrid and Shanghai to down a cold one with groups of randomly selected young people.

It's a tough balancing act—reaching out to younger customers without alienating the middle-aged beer drinkers who are Heineken's core customers. "Heineken seems to be an obsolete brand to me," says Véronique dos Santos, a 29-year-old human-resources assistant in Paris who favors Mexican import Corona or Desperados, a tequila-flavored concoction. "It's in danger of becoming a tired, reliable, but unexciting brand," warns John A. Quelch, a professor at Harvard Business School who has studied the beer industry.

Lucky for Heineken, it owns Desperados. The brand is produced by French brewer Fischer, which Heineken acquired in 1996. Such niche labels are a small, but profitable avenue for growth. Paulaner, a wheat beer Heineken picked up in Bavaria, is finding a market in the U.S. And in one of globalization's ironies, Amstel Bright, a light-tasting lager brewed in the Dutch colony of Curaçao, is being exported to the Netherlands, Amstel's birthplace.

Ruys & Co. aren't stopping there. To spice up the image of its namesake brand, Heineken is giving marketing a makeover. It has arranged tie-ins with big-budget youth films, such as *The Matrix: Reloaded,* and sponsored events such as a sweepstakes where winners got to attend a Heineken house party in Jamaica. Yet management has been careful not to stray into the testosterone-soaked territory that is the domain of rivals like Adolph Coors Co. One new commercial features blond triplets and an exploding keg—a spoof aimed at the Coors twins. The strategy has started to pay off in the U.S., where the average age of the Heineken drinker has descended from about 40 in the mid-1990s to the early 30s today. Ruys's goal is to push that down into the high-20s in coming years.

Heineken's not exactly the only company trying to score with twentysomethings. Today's beer drinkers are awash in a sea of choices. Consider the $67 billion U.S. market, probably the most keenly contested of them all. There, Heineken beer and its sister brand, Amstel Light, which together have about 22% of the import market, are under attack from an ever-growing constellation of imports and malt-based drinks such as Smirnoff Ice and Sky Blue. Americans developed a taste for thirst-quenching Corona while vacationing on Mexican beaches, helping the brand overtake Heineken in the late 1990s to become the top import in the U.S.

Meanwhile, SABMiller, the product of last year's merger of South African Breweries and Milwaukee-based Miller, is pushing its Czech-brewed Pilsner Urquell, while Brussels-based Interbrew is making inroads with Stella Artois. Even Anheuser-Busch, which commands an eye-popping 52% of the domestic market, is playing the import game: Anheuser World Select, which debuted earlier this year, is fashioned from imported hops and comes in a green bottle suspiciously similar to Heineken's. There's a reason the premium market is getting so crowded: Beer consumption in the U.S. has declined 1% since 2000, amid tighter drunk-driving laws. But at the same time, imports have grown 16% as consumers choose quality over quantity.

The U.S. is just one battleground. The beer industry is in the midst of a furious wave of consolidation. The business is more fragmented than most: The top four brewing companies control less than a third of the global market.

**Heineken's World**

The Dutch brewer operates in 170 countries, and its portfolio includes dozens of lesser known local brands. Below is a sampling:

| | |
|---|---|
| Netherlands | Heineken, Amstel, Kylian, Lingen's Blond, Murphy's Irish Red |
| U.S. | Heineken, Amstel Light, Paulaner (wheat beer), Moretti |
| China | Tiger, Reeb* |
| Singapore | Heineken, Tiger |
| France | Heineken, Amstel, Buckler (nonalcoholic), Desperados (tequila-flavored beer) |
| Germany | Paulaner, Kulmbacher, Thurn und Taxis |
| Italy | Heineken, Amstel, Birra Moretti |
| Poland | Heineken, Zywiec |
| Kazakhstan | Tian Shan, Amstel |
| Panama | Soberana, Panama |
| Egypt | Fayrouz (nonalcoholic) |
| Israel | Maccabee, Gold Star* |
| Nigeria | Amstel Malta, Maltina |

*Minority Interest. Data: Heineken.

By comparison, the top four spirits makers control half the world market. But that's changing as big brewers scramble to acquire strong local brands and the distribution networks that go with them. "The era of global brands is coming," says Alan Clark, Budapest-based managing director of SABMiller Europe, which snapped up Italy's Peroni in May.

Heineken has a head start there. It ranked second only to Budweiser in a global brand survey jointly undertaken by *BusinessWeek* and Interbrand earlier this year. Heineken "is recognized everywhere," says Kevin Baker, director of alcoholic beverages at British market researcher Canadean Ltd. How recognized? One U.S. wholesaler recently asked a group of marketing students to identify an assortment of beer bottles that had been stripped of their labels. Only one incited instant recognition: the stubby green Heineken container.

No company can afford to pin its entire fortune on a single product, however. That's why Ruys has spent the last year adding new labels to Heineken's shelf, pouncing on brewers in places like Panama, Egypt, and Kazakhstan. In Egypt, Ruys bought a majority stake in Al Ahram Beverages Co. and hopes to use the Cairo-based brewer's fruit-flavored, nonalcoholic malts as an avenue into other Muslim countries.

Now Heineken plans to take a breather, according to company execs. "We are interested in growing, but not at any price," says Ruys. Heineken has dropped out of the bidding for German brewer Brau und Brunnen, whose stable of national brands is likely to fetch a hefty premium over the company's $430 million stock market value.

Tightfisted Freddy would probably have balked at paying so rich a price. But these days it's his only child and heir, Charlene, 49, and her husband, former Olympic skier Michel de Carvalho, who call the shots. As Heineken's controlling shareholder, the London resident and mother of five retains a say over a broad range of business decisions, from new packaging to acquisitions, though she is nowhere as involved in the day-to-day running of the company as her father was. "Must-have strategic acquisitions will always be looked at," says Michel de Carvalho, 59, a member of Heineken's supervisory board and Vice-Chairman of Investment Banking at Citigroup in London. (De Carvalho traditionally speaks for the family.) Proof of that is Heineken's decision to cough up $2.1 billion for BBAG. Deutsche Bank figures that Heineken won't recover the cost of capital—the deal is being financed with a mix of cash and loans—until 2007 at the earliest.

Publicly, the Heineken heiress has vowed to keep the company independent. Last year, addressing shareholders of Heineken Holding, the separately traded company that controls just over 50% of the operating entity Heineken NV, she said: "We are a part of [Heineken's] past, its present, and its future." However, industry insiders speculate that Freddy's daughter might be willing to sell the family jewels if the price was right. A hostile takeover would be all but impossible under Heineken's current ownership structure. "Our mission is to hand a healthy company to the next generation," says de Carvalho, who rules out any sale of the company.

Despite last year's changing of the guard, the past remains very much present at Heineken. It's all about evolution—not revolution. The company's advertising remains refreshingly offbeat, a nod to Freddy's wry sense of humor. One commercial in the U.S. showed a young man plunging his arm deep into a barrel filled with ice and bottled beer. He gropes around fruitlessly until his whole body begins to shiver. Finally, he hauls out a Heineken. Popping it open, he joins a group of friends—who are gripping Heinekens and shivering. "They've done a very good job of not being snooty—using accessible jokes and imagery," says Bob Garfield, ad critic of trade weekly *Advertising Age.*

The Dutch brewer is stepping up marketing to Hispanics, who account for one-quarter of U.S. sales. A new Spanish-language spot shows a group of men playing dominoes. They pause for a moment as one of them demonstrates how to pour a glass of beer without stirring up too much foam. "Heineken is for professionals—in beer," says a voice-over. "We want to bring over the values of the brand in a different way," says Frans van der Minne, president and CEO of Heineken USA Inc. Heineken may move a little slower than its competitors, but no one questions its staying power. "It takes a long time to build a brand. People today are not prepared to put that time in," says Sir Frank Lowe, founder of London-based Lowe & Partners Worldwide, which handled Heineken advertising in Britain and the U.S. until a conflict emerged with another client, Interbrew. Heineken, he says, "has the will and patience to stick it out." Looks like the slow pour could still win in the end.

*By Jack Ewing in Amsterdam, with Gerry Khermouch in New York and Jennifer Picard in Paris.*

***Source:*** **Reprinted from "Heineken," September 8, 2003, online edition of *BusinessWeek* by special permission.**


The news story that opens this chapter highlights the importance of management across cultures. Heineken's earnings have been flat as per capita consumption of beer in the United States and Europe has declined. In addition, new brands have been popping up everywhere and rivals have been spending substantial sums on promotion. To compete globally, Heineken must draw on its strength as a global company with global brands, yet adjust and adapt its management and message to different cultures. In particular, it must consider how best to execute programs at the local level, a challenge for all MNCs. To remain viable in the coming years, MNCs must continue to have a plan for managing across cultures.

## The Strategy for Managing Across Cultures

As MNCs become more transnational, their strategies must address the cultural similarities and differences in their varied markets.[2] A good example is provided by Renault, the French auto giant. For years Renault manufactured a narrow product line that it sold primarily in France. Because of this limited geographic market and the fact that its cars continued to have quality-related problems, the company's performance was at best mediocre. Several years ago, however, Renault made a number of strategic decisions that dramatically changed the way it did business. Among other things, it bought controlling stakes in Nissan Motor of Japan, Samsung of South Korea, and Dacia, the Romanian automaker. The company also built a $1 billion factory in Brazil to produce its successful Megane sedan and acquired an idle factory near Moscow to manufacture Renaults for the eastern European market.

Today, Renault is a multinational automaker with operations on four continents. The challenge the company now faces is to make all of these operations profitable. This will not be easy. Nissan's annual losses have been running in triple-digit millions in recent years, and Samsung has to be brought back from bankruptcy. Meanwhile Dacia is operating in one of Europe's most dismal economies. Fortunately, Renault is grossing over $40 billion annually from its own businesses, so it has the necessary funds to implement turnaround strategies for these acquisitions. Now it needs to straighten out its international operations and get everything working in harmony.[3] One of the recent steps it has taken to do this is the decision to meld its own sales organizations with those of Nissan in Europe, thus creating one well-integrated, efficient sales force on the continent. Another step has been to start producing Nissan models in the Brazilian plant so that it can expand its South American offerings by more efficiently using current facilities. One of the company's long-run goals is by 2010 to have 10 common platforms, or underbodies, that will allow it to build Renaults and Nissans everywhere, while maintaining the look, feel, and identity of their separate brands.[4] At the same time the firm is working to improve its effectiveness in dealing with governments, unions, and employees, as well as to understand the cultural differences in customer preferences in Europe, Asia, and the Americas.

### Strategic Predispositions

Most MNCs have a cultural strategic predisposition toward doing things in a particular way. This orientation or predisposition helps to determine the specific steps the MNC will follow. Four distinct predispositions have been identified: ethnocentric, polycentric, regiocentric, and geocentric.

A company with an **ethnocentric predisposition** allows the values and interests of the parent company to guide strategic decisions. Firms with a **polycentric predisposition** make strategic decisions tailored to suit the cultures of the countries where the MNC operates. A **regiocentric predisposition** leads a firm to try to blend its own interests with those of its subsidiaries on a regional basis. A company with a **geocentric predisposition** tries to integrate a global systems approach to decision making. Table 5–1 provides details of each of these orientations.

If an MNC relies on one of these profiles over an extended time, the approach may become institutionalized and greatly influence strategic planning. By the same token, a

**ethnocentric predisposition**
A nationalistic philosophy of management whereby the values and interests of the parent company guide strategic decisions.

**polycentric predisposition**
A philosophy of management whereby strategic decisions are tailored to suit the cultures of the countries where the MNC operates.

**regiocentric predisposition**
A philosophy of management whereby the firm tries to blend its own interests with those of its subsidiaries on a regional basis.

**geocentric predisposition**
A philosophy of management whereby the company tries to integrate a global systems approach to decision making.

**Table 5–1**
**Orientation of an MNC Under Different Profiles**

| | Orientation of the Firm | | | |
|---|---|---|---|---|
| | **Ethnocentric** | **Polycentric** | **Regiocentric** | **Geocentric** |
| Mission | Profitability (viability) | Public acceptance (legitimacy) | Both profitability and public acceptance (viability and legitimacy) | Same as regiocentric |
| Governance | Top-down | Bottom-up (each subsidiary decides on local objectives) | Mutually negotiated between region and its subsidiaries | Mutually negotiated at all levels of the corporation |
| Strategy | Global integration | National responsiveness | Regional integration and national responsiveness | Global integration and national responsiveness |
| Structure | Hierarchical product divisions | Hierarchical area divisions, with autonomous national units | Product and regional organization tied through a matrix | A network of organizations (including some stakeholders and competitor organizations) |
| Culture | Home country | Host country | Regional | Global |
| Technology | Mass production | Batch production | Flexible manufacturing | Flexible manufacturing |
| Marketing | Product development determined primarily by the needs of home country customers | Local product development based on local needs | Standardize within region, but not across regions | Global product, with local variations |
| Finance | Repatriation of profits to home country | Retention of profits in host country | Redistribution within region | Redistribution globally |
| Personnel practices | People of home country developed for key positions everywhere in the world | People of local nationality developed for key positions in their own country | Regional people developed for key positions anywhere in the region | Best people everywhere in the world developed for key positions everywhere in the world |

*Source:* Adapted from Balaji S. Chakravarthy and Howard V. Perlmutter, "Strategic Planning for a Global Business," *Columbia Journal of World Business,* Summer 1985, pp. 5–6. Copyright 1985, Columbia Journal of World Business. Used with permission from Elsevier.

predisposition toward any of these profiles can provide problems for a firm if it is out of step with the economic or political environment. For example, a firm with an ethnocentric predisposition may find it difficult to implement a geocentric strategy, because it is unaccustomed to using global integration. Commonly, successful MNCs use a mix of these predispositions based on the demands of the current environment described in the chapters in Part 1.

## Meeting the Challenge

Despite the need for and tendency of MNCs to address regional differentiation issues, many MNCs are committed to a **globalization imperative,** which is a belief that one worldwide approach to doing business is the key to both efficiency and effectiveness. One study, involving extensive examination of 115 medium and large MNCs and 103 affiliated subsidiaries in the United States, Canada, France, Germany, Japan, and the United Kingdom, found an overwhelming preponderance to use the same strategies abroad as at home.[5]

**globalization imperative**
A belief that one worldwide approach to doing business is the key to both efficiency and effectiveness.

Despite these tendencies to use home strategies, effective MNCs are continuing their efforts to address local needs. A number of factors are helping to facilitate this need to develop unique strategies for different cultures, including:

1. The diversity of worldwide industry standards such as those in broadcasting, where television sets must be manufactured on a country-by-country basis.

2. A continual demand by local customers for differentiated products, as in the case of consumer goods that must meet local tastes.
3. The importance of being an insider, as in the case of customers who prefer to "buy local."
4. The difficulty of managing global organizations, as in the case of some local subsidiaries that want more decentralization and others that want less.
5. The need to allow subsidiaries to use their own abilities and talents and not be restrained by headquarters, as in the case of local units that know how to customize products for their market and generate high returns on investment with limited production output.

By responding to the cultural needs of local operations and customers, MNCs find that regional strategies can be used effectively in capturing and maintaining worldwide market niches. One of the best examples is Warner-Lambert, which has manufacturing facilities in Belgium, France, Germany, Italy, Ireland, Spain, and the United Kingdom. Each plant is specialized and produces a small number of products for the entire European market; in this way, each can focus on tailoring products for the unique demands of the various markets.

The globalization vs. national responsiveness challenge is even more acute when marketing cosmetics and other products that vary greatly in consumer use. For example, marketers sell toothpaste as a cosmetic product in Spain and Greece but as a cavity-fighter in the Netherlands and United States. Soap manufacturers market their product as a cosmetic item in Spain but as a functional commodity in Germany. Moreover, the way in which the marketing message is delivered also is important. For example:

- Germans want advertising that is factual and rational; they fear being manipulated by "the hidden persuader." The typical German spot features the standard family of two parents, two children, and grandmother.
- The French avoid reasoning or logic. Their advertising is predominantly emotional, dramatic, and symbolic. Spots are viewed as cultural events—art for the sake of money—and are reviewed as if they were literature or films.
- The British value laughter above all else. The typical broad, self-deprecating British commercial amuses by mocking both the advertiser and consumer.[6]

Meanwhile, in China, McDonald's has worked hard to befriend young children and make them feel special. One way is by recording their names and birth dates in a special list called "The Book of Little Honorary Guests" and then sending them cards and urging them to drop by their local McDonald's.

> The burger joints are all run by locals. And far from accepting the same McDonald's that Americans do, Asian consumers gradually twist McDonald's to their own purposes. Rather than being fast, efficient take-out joints, many McDonald's restaurants are more akin to Seattle coffee houses—places to hang out for the young. In several places, McDonald's has gone so native that many of its customers do not realize it is American. In China, one of its appeals is the fact that its menu is so limited; there is no danger of losing face because the table next door orders a more expensive dish. As [one observer] concludes, people come for the experience, not the product; and they make sure that it is their experience—not one foisted upon them by an American juggernaut.[7]

In some cases, however, both the product and the marketing message are similar worldwide. This is particularly true for high-end products, where the lifestyles and expectations of the market niche are similar regardless of the country. Heineken beer, Hennessey brandy, Porsche cars, and the *Financial Times* all appeal to consumer niches that are fairly homogeneous regardless of geographic locale. The same is true at the lower end of the market for goods that are impulse purchases, novel products, or fast foods, such as Coca-Cola's

International Management in Action

## Ten Key Factors for MNC Success

Why are some international firms successful while others are not? Some of the main reasons are that successful multinational firms take a worldwide view of operations, support their overseas activities, pay close attention to political winds, and use local nationals whenever possible. These are the overall findings of a report that looked into the development of customized executive education programs. Specifically, there are 10 factors or guidelines that successful global firms seem to employ. Successful global competitors:

1. See themselves as multinational enterprises and are led by a management team that is comfortable in the world arena.
2. Develop integrated and innovative strategies that make it difficult and costly for other firms to compete.
3. Aggressively and effectively implement their worldwide strategy and back it with large investments.
4. Understand that technologic innovation no longer is confined to the United States and develop systems for tapping technologic innovation abroad.
5. Operate as if the world is one large market rather than a series of individual, small markets.
6. Have organization structures that are designed to handle their unique problems and challenges and thus provide them the greatest efficiency.
7. Develop a system that keeps them informed about political changes around the world and the implications of these changes on the firm.
8. Have management teams that are international in composition and thus better able to respond to the various demands of their respective markets.
9. Allow their outside directors to play an active role in the operation of the enterprise.
10. Are well managed and tend to follow such important guidelines as sticking close to the customer, having lean organization structures, and encouraging autonomy and entrepreneurial activity among the personnel.

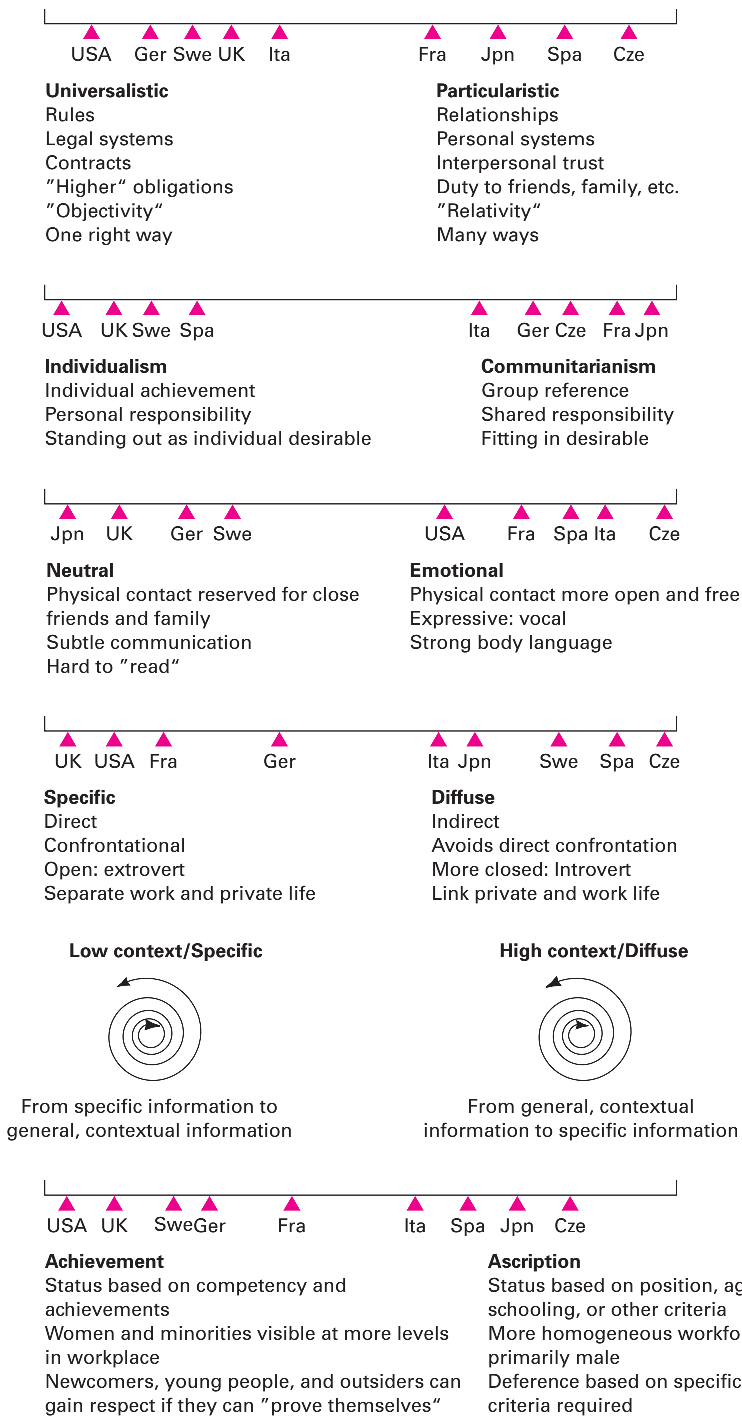
soft drinks, Levi's jeans, pop music, and ice-cream bars. In most cases, however, it is necessary to modify products as well as the market approach for the regional or local market. One analysis noted that the more marketers understand about the way in which a particular culture tends to view emotion, enjoyment, friendship, humor, rules, status, and other culturally based behaviors, the more control they have over creating marketing messages that will be interpreted in the desired way.

Figure 5–1 provides an example of the role that culture should play in advertising by recapping the five relationship orientations identified through Trompenaars's research (see Chapter 4). Figure 5–1 shows how value can be added to the marketing approach by carefully tailoring the advertising message to the particular culture. For example, advertising in the United States should target individual achievement, be expressive and direct, and appeal to U.S. values of success through personal hard work. On the other hand, the focus in China and other Asian countries should be much more indirect and subtle, emphasizing group references, shared responsibility, and interpersonal trust.

The need to adjust global strategies for regional markets presents three major challenges for most MNCs. First, the MNC must stay abreast of local market conditions and sidestep the temptation to assume that all markets are basically the same. Second, the MNC must know the strengths and weaknesses of its subsidiaries so that it can provide these units with the assistance needed in addressing local demands. Third, the multinational must give the subsidiary more autonomy so that it can respond to changes in local demands. "International Management in Action: Ten Key Factors for MNC Success" provides additional insights into the ways that successful MNCs address these challenges.

**Figure 5–1**

**Trompenaars's Cultural Dimensions and Advertising: Adjusting the Message for Local Meaning**




*Source:* Lisa Hoecklin, *Managing Cultural Differences: Strategies for Competitive Advantage* (Workingham, England: Addison-Wesley, 1995), p. 107, which is drawn from information found in Fons Trompenaars, *Riding the Waves of Culture: Understanding Diversity in Global Business* (New York: Irwin, 1994).

## Cross-Cultural Differences and Similarities

As shown in Chapter 4, cultures can be similar or quite different across countries. The challenge for MNCs is to recognize and effectively manage the similarities and differences. For instance, the way in which MNCs manage their home businesses often should be different from the way they manage their overseas operations.[8] After recognizing the danger for MNCs of drifting toward parochialism and simplification because of cultural differences, the discussion in this section shifts to some examples of cultural similarities and differences and how to effectively manage across cultures by a contingency approach.

### Parochialism and Simplification

**Parochialism** is the tendency to view the world through one's own eyes and perspectives. This can be a difficult problem for many international managers, who often come from advanced economies and believe that their state-of-the-art knowledge is more than adequate to handle the challenges of doing business in less developed countries. In addition, many of these managers have a parochial point of view fostered by their background.[9] A good example is provided by Randall and Coakley, who studied the impact of culture on successful partnerships in the former Soviet Union. Initially after the breakup of the Soviet Union, the republics called themselves the Commonwealth of Independent States (CIS). Randall and Coakley found that while outside MNC managers typically entered into partnerships with CIS enterprises with a view toward making them efficient and profitable, the CIS managers often brought a different set of priorities to the table.

**parochialism**
The tendency to view the world through one's own eyes and perspectives.

Commenting on their research, Randall and Coakley noted that the way CIS managers do business is sharply different from that of their American counterparts. In particular, there is an inconsistency between CIS cultural norms, their past training, and their work experiences, and the emerging economic structure and way in which they must do business if they hope to succeed in the international arena. This led the researchers to conclude:

> As behavioral change continues to lag behind structural change, it becomes imperative to understand that this inconsistency between what economic demands and cultural norms require manifests problems and complexities far beyond mere structural change. In short, the implications of the different perspectives on technology, labor, and production . . . for potential partnerships between U.S. and CIS companies need to be fully grasped by all parties entering into any form of relationship.[10]

**Simplification** is the process of exhibiting the same orientation toward different cultural groups. For example, the way in which a U.S. manager interacts with a British manager is the same way in which he or she behaves when doing business with an Asian executive. Moreover, this orientation reflects one's basic culture. Table 5–2 provides an example, showing several widely agreed-on, basic cultural orientations and the range of variations for each. Asterisks indicate the dominant U.S. orientation. Quite obviously, U.S. cultural values are not the same as those of managers from other cultures; as a result, a U.S. manager's attempt to simplify things can result in erroneous behavior. Here is an example of a member of the purchasing department of a large European oil company who was negotiating an order with a Korean supplier:

**simplification**
The process of exhibiting the same orientation toward different culture groups.

> At the first meeting, the Korean partner offered a silver pen to the European manager. The latter, however, politely refused the present for fear of being bribed (even though he knew about the Korean custom of giving presents). Much to our manager's surprise, the second meeting began with the offer of a stereo system. Again the manager refused, his fear of being bribed probably heightened. When he gazed at a piece of Korean china on the third meeting, he finally realized what was going on. His refusal had not been taken to mean: "let's get on with business right away," but rather: "If you want to get into business with me, you had better come up with something bigger."[11]

Understanding the culture in which they do business can make international managers more effective.[12] Unfortunately, when placed in a culture with which they are unfamiliar, most international managers are not culturally knowledgeable, so they often

**Table 5–2**
**Six Basic Cultural Variations**

| Orientations | Range of Variations |
|---|---|
| What is the nature of people? | Good (changeable/unchangeable) |
| | A mixture of good and evil* |
| | Evil (changeable/unchangeable) |
| What is the person's relationship to nature? | Dominant* |
| | In harmony with nature |
| | Subjugation |
| What is the person's relationship to other people? | Lineal (hierarchic) |
| | Collateral (collectivist) |
| | Individualist* |
| What is the modality of human activity? | Doing* |
| | Being and becoming |
| | Being |
| What is the temporal focus of human activity? | Future* |
| | Present |
| | Past |
| What is the conception of space? | Private* |
| | Mixed |
| | Public |

*Note:* *Indicates the dominant U.S. orientation.
*Source:* Adapted from the work of Florence Rockwood Kluckhohn and Fred L. Stodtbeck.

misinterpret what is happening. This is particularly true when the environment is markedly different from the one in which they live. Consider, for example, the difference between the cultures in Japan and the United States. Japan has what could be called a high-context culture, which possesses characteristics such as:

1. Relationships between people are relatively long lasting, and individuals feel deep personal involvement with each other.
2. Communication often is implicit, and individuals are taught from an early age to interpret these messages accurately.
3. People in authority are personally responsible for the actions of their subordinates, and this places a premium on loyalty to both superiors and subordinates.
4. Agreements tend to be spoken rather than written.
5. Insiders and outsiders are easily distinguishable, and outsiders typically do not gain entrance to the inner group.

These Japanese cultural characteristics are markedly different from those of low-context cultures such as the United States, which possess the following characteristics:

1. Relationships between individuals are relatively short in duration, and in general, deep personal involvement with others is not valued greatly.
2. Messages are explicit, and individuals are taught from a very early age to say exactly what they mean.
3. Authority is diffused throughout the bureaucratic system, and personal responsibility is hard to pin down.
4. Agreements tend to be in writing rather than spoken.
5. Insiders and outsiders are not readily distinguished, and the latter are encouraged to join the inner circle.[13]

These differences help to explain why Japanese managers in the United States often have trouble managing local operations, and vice versa.[14] At the same time, it is important to realize that while there are cultural differences, there also are similarities. Therefore, in managing across cultures, not everything is totally different. Some approaches that work at home also work well in other cultural settings.

## Similarities Across Cultures

When internationalization began to take off in the 1970s, many companies quickly admitted that it would not be possible to do business in the same way in every corner of the globe. There was a secret hope, however, that many of the procedures and strategies that worked so well at home could be adopted overseas without modification. This has proved to be a false hope. At the same time, some similarities across cultures have been uncovered by researchers. For example, a co-author of this text (Luthans) and his associates studied through direct observation a sample of managers ($n = 66$) in the largest textile factory in Russia to determine their activities.[15] Like U.S. managers studied earlier, Russian managers carried out traditional management, communication, human resources, and networking activities. The study also found that, as in the United States, the relative attention given to the networking activity increased the Russian managers' opportunities for promotion, and that communication activity was a significant predictor of effective performance in both Russia and the United States.[16]

Besides the similarities of managerial activities, another study at the same Russian factory tested whether organizational behavior modification (O.B. Mod.) interventions that led to performance improvements in U.S. organizations would do so in Russia.[17] As with the applications of O.B. Mod. in the United States, Russian supervisors were trained to administer social rewards (attention and recognition) and positive feedback when they observed workers engaging in behaviors that contributed to the production of quality fabric. In addition, Russian supervisors were taught to give corrective feedback for behaviors that reduced product quality. The researchers found that this O.B. Mod. approach, which had worked so well in the United States, produced positive results in the Russian factory. They concluded that "the class of interventions associated with organizational behavior modification are likely to be useful in meeting the challenges faced by Russian workers and managers are given initial support by the results of this study."[18]

In another cross-cultural study, this time using a large Korean sample (1,192 employees in 27 large Korean firms), Luthans and colleagues analyzed whether demographic and situational factors identified in the U.S.-based literature had the same antecedent influence on the commitment of Korean employees.[19] As in the U.S. studies, Korean employees' position in the hierarchy, tenure in their current position, and age all related to organizational commitment. Other similarities with U.S. firms included: (1) as organizational size increased, commitment declined; (2) as structure became more employee focused, commitment increased; and (3) the more positive the perceptions of organizational climate, the greater the employee commitment. The following conclusion was drawn:

> This study provides beginning evidence that popular constructs in the U.S. management and organizational behavior literature should not be automatically dismissed as culture bound. Whereas some organizational behavior concepts and techniques do indeed seem to be culture specific . . . a growing body of literature is demonstrating the ability to cross-culturally validate other concepts and techniques, such as behavior management. . . . This study contributed to this cross-cultural evidence for the antecedents to organizational commitment. The antecedents for Korean employees' organizational commitment were found to be similar to their American counterparts.[20]

## Many Differences Across Cultures

Despite similarities between cultures in some studies, far more differences than similarities have been found. In particular, MNCs are discovering that they must carefully investigate and understand the culture where they intend to do business and modify their approaches appropriately.

Sometimes these cultures are quite different from the United States—as well as from each other! One human resource management (HRM) example has been offered by Trompenaars, who examined the ways in which personnel in international subsidiaries were appraised by their managers. The head office had established the criteria to be used in these evaluations but left the prioritization of the criteria to the national operating company. As a result, the outcome of the evaluations could be quite different from country to country because what was regarded as the most important criterion in one subsidiary might be ranked much lower on the evaluation list of another subsidiary. In the case of Shell Oil, for example, Trompenaars found that the firm was using a HAIRL system of appraisal. The five criteria in this acronym stood for (a) Helicopter—the capacity to take a broad view from above; (b) Analysis—the ability to evaluate situations logically and completely; (c) Imagination—the ability to be creative and think outside the box; (d) Reality—the ability to use information realistically; and (e) Leadership—the ability to effectively galvanize and inspire personnel. When Shell's operating companies in four countries were asked to prioritize from top to bottom these five criteria, the results were as follows:

| Netherlands | France | Germany | Britain |
|---|---|---|---|
| Reality | Imagination | Leadership | Helicopter |
| Analysis | Analysis | Analysis | Imagination |
| Helicopter | Leadership | Reality | Reality |
| Leadership | Helicopter | Imagination | Analysis |
| Imagination | Reality | Helicopter | Leadership |

Quite obviously, personnel in different operating companies were being evaluated differently. In fact, no two of the operating companies in the four countries had the same criterion at the top of their lists. Moreover, the criterion at the top of the list for operating companies in the Netherlands—reality—was at the bottom of the list for those in France; and the one at the top of the list in French operating companies—imagination—was at the bottom of the list of the Dutch firms. Similarly, the German operating companies put leadership at the top of the list and helicopter at the bottom, while the British companies did the opposite! In fact, the whole list for the Germans is in the exact reverse order of the British list.[21]

Other HRM differences can be found in areas such as wages, compensation, pay equity, and maternity leave. Here are some representative examples.

1. The concept of an hourly wage plays a minor role in Mexico. Labor law requires that employees receive full pay 365 days a year.
2. In Austria and Brazil, employees with one year of service are automatically given 30 days of paid vacation.
3. Some jurisdictions in Canada have legislated pay equity—known in the United States as comparable worth—between male- and female-intensive jobs.
4. In Japan, compensation levels are determined by using the objective factors of age, length of service, and educational background rather than skill, ability, and performance. Performance does not count until after an employee reaches age 45.
5. In the United Kingdom, employees are allowed up to 40 weeks of maternity leave, and employers must provide a government-mandated amount of pay for 18 of those weeks.
6. In 87 percent of large Swedish companies, the head of human resources is on the board of directors.[22]

These HRM practices certainly are quite different from those in the United States, and U.S. MNCs need to modify their approaches when they go into these countries if they hope to be successful. Compensation plans in particular provide an interesting area of contrast across different cultures.

**Table 5–3**
**Cultural Clusters in the Pacific Rim, EU, and United States**

| | Power Distance | Individualism | Masculinity | Uncertainty Avoidance |
|---|---|---|---|---|
| **Pacific Rim** | | | | |
| Hong Kong, Malaysia, Philippines, Singapore | + | – | + | – |
| Japan | + | – | + | + |
| South Korea, Taiwan | + | – | – | + |
| **EU and United States** | | | | |
| France, Spain | + | + | – | + |
| Italy, Belgium | + | + | + | + |
| Portugal | + | – | – | + |
| Greece | + | – | + | + |
| Denmark, Netherlands | – | + | + | – |
| Germany | – | + | + | + |
| Great Britain, Ireland, United States | – | + | + | – |

*Note:* + indicates high or strong; – indicates low or weak.

*Source:* Based on research by Hofstede and presented in Richard M. Hodgetts and Fred Luthans, "U.S. Multinationals' Compensation Strategies for Local Management: Cross-Cultural Implications," *Compensation and Benefits Review,* March–April 1993, p. 47. Copyright © 1993 by Sage Publications, Inc. Reprinted by permission of Sage Publications, Inc.

Drawing on the work of Hofstede (see Chapter 4), it is possible to link cultural clusters and compensation strategies. Table 5–3 shows a host of different cultural groupings, including some in Asia, the EU, and Anglo countries. Each cluster requires a different approach to formulating an effective compensation strategy, and after analyzing each such cluster, we suggest that:

1. In Pacific Rim countries, incentive plans should be group based. In high-masculinity cultures (Japan, Hong Kong, Malaysia, the Philippines, Singapore), high salaries should be paid to senior-level managers.
2. In EU nations such as France, Spain, Italy, and Belgium, compensation strategies should be similar. In the latter two nations, however, significantly higher salaries should be paid to local senior-level managers because of the high masculinity index. In Portugal and Greece, both of which have a low individualism index, profit-sharing plans would be more effective than individual incentive plans, while in Denmark, the Netherlands, and Germany, personal-incentive plans would be highly useful because of the high individualism in these cultures.
3. In Great Britain, Ireland, and the United States, managers value their individualism and are motivated by the opportunity for earnings, recognition, advancement, and challenge. Compensation plans should reflect these needs.[23]

Additionally, some MNCs have found that compensation plans that are very attractive to their local workforce have no value for members of their international workforce.[24] For example, when the Gillette Company decided to offer stock to its 33,000 employees worldwide, the firm discovered that its plan was not global in terms of worker interest.[25] Other companies have had similar experiences. Some of the reasons are provided in Table 5–4; others include low employee disposable income and a feeling that stocks are risky investments. Simply put, workers in other cultures often do not have the same view of compensation plans as U.S. workers do. This is why many MNCs now are developing their own contingency-based compensation strategies that are geared toward meeting the needs of the local workers.

**Table 5–4**
**Problems with U.S. Employee Stock Plans in Select Countries**

| Country | Reasons for Lack of Success |
|---|---|
| Belgium | Problematic. Some stock plans conflict with a government-imposed wage freeze. |
| Brazil | Impossible. Foreign-exchange controls prohibit out-of-country stock investment; phantom stock plans are a headache. |
| Britain | Easy. But sometimes labor unions can get in the way. |
| Eastern Europe | Forget it. Even if you get government permission, chances are you talked to the wrong bureaucrat. |
| Germany | Can I get that in deutsche marks? U.S. plans suffer when the dollar is weak. |
| Israel | Difficult. Exchange controls forced National Semiconductor to a third-party system, but the plan has only scant participation. |
| Luxembourg | Tax haven. Great place to set up a trust to administer stock plans. |
| Mexico | May regret it. Labor laws can force a one-time stock grant into an annual event. |
| Netherlands | No thanks. Employees may like the stock options, but they will not appreciate a hefty tax bill up front. |
| Philippines | Time-consuming. Requires government approval and lots of worker education. |

*Source:* Adapted from information found in Tara Parker-Pope, "Culture Clash," *Wall Street Journal,* April 12, 1995, p. R7.

Figure 5–2 shows how specific HRM areas can be analyzed contingently on a country-by-country basis. Take, for example, the information on Japan. When it is contrasted with U.S. approaches, a significant number of differences are found. Recruitment and selection in Japanese firms often are designed to help identify those individuals who will do the best job over the long run. In the United States, people often are hired based on what they can do for the firm in the short run, because many of them eventually will quit or be downsized. Similarly, the Japanese use a great deal of cross-training, while the Americans tend to favor specialized training. The Japanese use group performance appraisal and reward people as a group; at least traditionally, Americans use manager–subordinate performance appraisal and reward people as individuals. In Japan, unions are regarded as partners; in the United States, management and unions view each other in a much more adversarial way. Only in the area of job design, where the Japanese use a great deal of participative management and autonomous work teams, are the Americans beginning to employ a similar approach. The same types of differences can be seen in the matrix of Figure 5–2 among Japan, Germany, Mexico, and China.

These differences should not be interpreted to mean that one set of HRM practices is superior to another. In fact, recent research from Japan and Europe shows these firms often have a higher incidence of personnel-related problems than U.S. companies. For example, one study found that Japanese MNCs ($n = 34$) and European MNCs ($n = 23$) had more problems than U.S. MNCs ($n = 24$) in areas such as (1) home-country personnel who possessed sufficient international management skills; (2) home-country personnel who wanted to work abroad; (3) difficulty in attracting high-caliber local nationals; and (4) high turnover of local employees. Additionally, when compared with Japanese MNCs, U.S. multinationals had less friction and better communication between their home-country expatriates and local employees, and there were fewer complaints by local employees regarding their ability to advance in the company.[26]

Figure 5–2 clearly indicates the importance of MNCs using a contingency approach to HRM across cultures. Not only are there different HRM practices in different cultures, but there also are different practices within the same cultures. For instance, one study involving 249 U.S. affiliates of foreign-based MNCs found that in general, affiliate HRM

**Figure 5–2** **A Partially Completed Contingency Matrix for International Human Resource Management**

| | Japan | Germany | Mexico | China |
|---|---|---|---|---|
| **Recruitment and selection** | • Prepare for long process<br>• Ensure that your firm is "here to stay"<br>• Develop trusting relationship with recruit | • Obtain skilled labor from government subsidized apprenticeship program | • Use expatriates sparingly<br>• Recruit Mexican nationals at U.S. colleges | • Recent public policy shifts encourage use of sophisticated selection procedures |
| **Training** | • Make substantial investment in training<br>• Use general training and cross-training<br>• Training is everyone's responsibility | • Reorganize and utilize apprenticeship programs<br>• Be aware of government regulations on training | • Use bilingual trainers | • Careful observations of existing training programs<br>• Utilize team training |
| **Compensation** | • Use recognition and praise as motivator<br>• Avoid pay for performance | • Note high labor costs for manufacturing | • Consider all aspects of labor cost | • Use technical training as reward<br>• Recognize egalitarian values<br>• Use "more work more pay" with caution |
| **Labor relations** | • Treat unions as partners<br>• Allow time for negotiations | • Be prepared for high wages and short work week<br>• Expect high productivity from unionized workers | • Understand changing Mexican labor law<br>• Prepare for increasing unionization of labor | • Tap large pool of labor cities<br>• Lax labor laws may become more stringent |
| **Job design** | • Include participation<br>• Incorporate group goal setting<br>• Use autonomous work teams<br>• Use uniform, formal approaches<br>• Encourage co-worker input<br>• Empower teams to make decision | • Utilize works councils to enhance worker participation | • Approach participation cautiously | • Determine employee's motives before implementing participation |

*Source:* Fred Luthans, Paul A. Marsnik, and Kyle W. Luthans, "A Contingency Matrix Approach to IHRM," *Human Resource Management Journal* 36, no. 2 (1997). Copyright © 1997 John Wiley & Sons, Inc. This material is used by permission of John Wiley & Sons, Inc.

practices closely follow local practices when dealing with the rank and file but even more closely approximate parent-company practices when dealing with upper-level management.[27] In other words, this study found that a hybrid approach to HRM was being used by these MNCs.

Aside from the different approaches used in different countries, it is becoming clear that common assumptions and conventional wisdom about HRM practices in certain countries no longer are valid. For example, for many years, it has been assumed that Japanese employees do not leave their jobs for work with other firms, that they are loyal to their first employer, and that it would be virtually impossible for MNCs operating in Japan to recruit talent from Japanese firms. Recent evidence, however, reveals that job-hopping among Japanese employees is increasingly common. One report concluded:

> While American workers, both the laid-off and the survivors, grapple with cutbacks, one in three Japanese workers willingly walks away from his job within the first 10 years of his career, according to the Japanese Institute of Labor, a private research organization. And many more are thinking about it. More than half of salaried Japanese workers say they would switch jobs or start their own business if a favorable opportunity arose, according to a survey by the Recruit Research Corporation.[28]

These findings clearly illustrate one important point: Managing across cultures requires careful understanding of the local environment, because common assumptions and stereotypes may not be valid. Cultural differences must be addressed, and this is why cross-cultural research will continue to be critical in helping firms learn how to manage across cultures.[29]

## Cultural Differences in Selected Countries and Regions

Chapter 4 introduced the concept of country clusters, which is the idea that certain regions of the world have similar cultures. For example, the way that Americans do business in the United States is very similar to the way that British do business in England. Even in this Anglo culture, however, there are pronounced differences, and in other clusters, such as in Asia, these differences become even more pronounced. "International Management in Action: Managing in Hong Kong" depicts such differences. Chapter 1 examined some important worldwide developments, and the next sections focus on cultural highlights and differences in selected countries and regions that provide the necessary understanding and perspective for effective management across cultures.

### Doing Business in China

The People's Republic of China (PRC or China, for short) has had a long tradition of isolation. In 1979, Deng Xiaoping opened his country to the world. Although his bloody 1989 put-down of protesters in Tiananmen Square was a definite setback for progress, China is rapidly trying to close the gap between itself and economically advanced nations and to establish itself as a power in the world economy. As noted in Chapter 1, China is actively trading in world markets, is a member of the WTO, and is a major trading partner of the United States. Despite this global presence, many U.S. and European multinationals still find that doing business in the PRC can be a long, grueling process.[30] Very few outside firms have yet to make a profit in China. One primary reason is that Western-based MNCs do not appreciate the important role and impact of Chinese culture.

Experienced travelers report that the primary criterion for doing business in China is technical competence. For example, in the case of MNCs selling machinery, the Chinese want to know exactly how the machine works, what its capabilities are, and how repairs and maintenance must be handled. Sellers must be prepared to answer these questions in precise detail. This is why successful multinationals send only seasoned engineers and technical people to the PRC. They know that the questions to be answered will require both knowledge and experience, and young, fresh-out-of-school engineers will not be able to answer them.

A major cultural difference between the PRC and many Western countries is the issue of time. The Chinese tend to be punctual, so it is important that those who do business with them arrive on time. During meetings, such as those held when negotiating a contract, the Chinese may ask many questions and nod their assent at the answers. This nodding usually means that they understand or are being polite; it seldom means that they like what they are hearing and want to enter into a contract. For this reason, when dealing with the Chinese, one must keep in mind that patience is critically important. The Chinese will make a decision in their own good

International Management in Action

## Managing in Hong Kong

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Managing across cultures has long been recognized as a potential problem for multinationals. To help expatriates who are posted overseas deal with a new culture, many MNCs offer special training and coaching. Often, however, little is done to change expatriates' basic cultural values or specific managerial behaviors. Simply put, this traditional approach could be called the *practical school of management thought,* which holds that effective managerial behavior is universal and a good manager in the United States also will be effective in Hong Kong or any other location around the world. In recent years, it generally has been recognized that such an approach no longer is sufficient, and there is growing support for what is called the *cross-cultural school of management thought,* which holds that effective managerial behavior is a function of the specific culture. As Black and Porter pointed out, successful managerial action in Los Angeles may not be effective in Hong Kong.

Black and Porter investigated the validity of these two schools of thought by surveying U.S. managers working in Hong Kong, U.S. managers working in the United States, and Hong Kong managers working in Hong Kong. Their findings revealed some interesting differences. The U.S. managers in Hong Kong exhibited managerial behaviors similar to those of their counterparts back in the United States; however, Hong Kong managers had managerial behaviors different from either group of U.S. managers. Commenting on these results, the researchers noted:

> This study . . . points to some important practical implications. It suggests that American firms and the practical school of thought may be mistaken in the assumption that a good manager in Los Angeles will necessarily do fine in Hong Kong or some other foreign country. It may be that because firms do not include in their selection criteria individual characteristics such as cognitive flexibility, cultural flexibility, degree of ethnocentricity, etc., they end up sending a number of individuals on international assignments who have a tendency to keep the same set of managerial behaviors they used in the U.S. and not adjust or adapt to the local norms and practices. Including the measurement of these characteristics in the selection process, as well as providing cross-cultural training before departure, may be a means of obtaining more effective adaptation of managerial behaviors and more effective performance in overseas assignments.

Certainly the study shows that simplistic assumptions about culture are erroneous and that what works in one country will not necessarily produce the desired results in another. If MNCs are going to manage effectively throughout the world, they are going to have to give more attention to training their people about intercultural differences.

time, and it is common for outside businesspeople to make several trips to China before a deal is finally concluded. Moreover, not only are there numerous meetings, sometimes these are unilaterally canceled at the last minute and rescheduled. This often tries the patience of outsiders and is inconvenient in terms of rearranging travel plans and other problems.

Another important dimension of Chinese culture is **guanxi,** which means "good connections."[31] In turn, these connections can result in such things as lower costs for doing business.[32] Yet guanxi goes beyond just lower costs. Yi and Ellis surveyed Hong Kong ($n = 68$) and PRC Chinese ($n = 30$) managers and found that both groups agreed that guanxi networking offered a number of potential benefits, including increased business, higher sales revenue, more sources of information, greater prospecting opportunities, and the facilitation of future transactions.[33] In practice, guanxi resembles nepotism, where individuals in authority make decisions on the basis of family ties or social connections rather than objective indices. Tung has reported that:

**guanxi**
In China, it means "good connections."

> In a survey of 2,000 Chinese from Shanghai and its surrounding rural community, 92% of the respondents confirmed that *guanxi* played a significant role in their daily lives. Furthermore, the younger generation tended to place greater emphasis on *guanxi.* In fact, *guanxi* has become more widespread in the recent past. . . . Most business practitioners who have experience in doing business with East Asians will readily agree that in order to succeed in these countries "who you know is more important than what you know." In other words, having connections with the appropriate individuals and authorities is often more crucial than having the right product and/or price.[34]

Additionally, outsiders doing business in China must be aware that Chinese people will typically argue that they have the guanxi to get a job done, when in reality they may or may not have the necessary connections.

In China, it is important to be a good listener. This may mean having to listen to the same stories about the great progress that has been made by the PRC over the past decade. The Chinese are very proud of their economic accomplishments and want to share these feelings with outsiders.

When dealing with the Chinese, one must realize they are a collective society in which people pride themselves on being members of a group. This is in sharp contrast to the situation in the United States and other Western countries, where individualism is highly prized. For this reason, one must never single out a Chinese and praise him or her for a particular quality, such as intelligence or kindness, because doing so may embarrass the individual in the presence of his or her peers. It is equally important to avoid using self-centered conversation, such as excessive use of the word "I," because it appears that the speaker is trying to single him- or herself out for special consideration.

The Chinese also are much less animated than Westerners. They avoid open displays of affection, do not slap each other on the back, and are more reticent, retiring, and reserved than North or South Americans. They do not appreciate loud, boisterous behavior, and when speaking to each other, they maintain a greater physical distance than is typical in the West.

Cultural highlights that affect doing business in China can be summarized and put into some specific guidelines as follows:

1. The Chinese place values and principles above money and expediency.[35]
2. Business meetings typically start with pleasantries such as tea and general conversation about the guest's trip to the country, local accommodations, and family. In most cases, the host already has been briefed on the background of the visitor.
3. When a meeting is ready to begin, the Chinese host will give the appropriate indication. Similarly, when the meeting is over, the host will indicate that it is time for the guest to leave.
4. Once the Chinese decide who and what is best, they tend to stick with these decisions. Therefore, they may be slow in formulating a plan of action, but once they get started, they make fairly good progress.
5. In negotiations, reciprocity is important. If the Chinese give concessions, they expect some in return. Additionally, it is common to find them slowing down negotiations to take advantage of Westerners desiring to conclude arrangements as quickly as possible. The objective of this tactic is to extract further concessions. Another common ploy used by the Chinese is to pressure the other party during final arrangements by suggesting that this counterpart has broken the spirit of friendship in which the business relationship originally was established. Again, through this ploy, the Chinese are trying to gain additional concessions.
6. Because negotiating can involve a loss of face, it is common to find Chinese carrying out the whole process through intermediaries. This allows them to convey their ideas without fear of embarrassment.[36]
7. During negotiations, it is important not to show excessive emotion of any kind. Anger or frustration, for example, is viewed as antisocial and unseemly.
8. Negotiations should be viewed with a long-term perspective. Those who will do best are the ones who realize they are investing in a long-term relationship.[37]

## Doing Business in Russia

As pointed out in Chapter 1, the Russian economy has experienced severe problems,[38] and the risks of doing business there cannot be overstated.[39] At the same time, however, by following certain guidelines, MNCs can begin to tap the potential opportunities. Here are some suggestions for being successful in Russia:

1. Build personal relationships with partners. Business laws and contracts do not mean as much in Russia as they do in the West. When there are contract disputes, there is little protection for the aggrieved party because of the time and effort needed to legally enforce the agreement. Detailed contracts can be hammered out later on; in the beginning, all that counts is friendship.
2. Use local consultants. Because the rules of business have changed so much in recent years, it pays to have a local Russian consultant working with the company. Russian expatriates often are not up-to-date on what is going on and, quite often, are not trusted by local businesspeople who have stayed in the country. So the consultant should be someone who has been in Russia all the time and understands the local business climate.
3. Consider business ethics. Ethical behavior in the United States is not always the same as in Russia. For example, it is traditional in Russia to give gifts to those with whom one wants to transact business, an approach that is often regarded as bribery in the United States.
4. Be patient. In order to get something done in Russia, it often takes months of waiting. Those who are in a hurry to make a quick deal are often sorely disappointed.
5. Stress exclusivity. Russians like exclusive arrangements and often negotiate with just one firm at a time. This is in contrast to Western businesspeople who often "shop" their deals and may negotiate with a half dozen firms at the same time before settling on one.
6. Remember that personal relations are important. Russians like to do business face-to-face. So when they receive letters or faxes, they often put them on their desk but do not respond to them. They are waiting for the businessperson to contact them and set up a personal meeting.
7. Keep financial information personal. When Westerners enter into business dealings with partners, it is common for them to share financial information with these individuals and to expect the same from the latter. However, Russians wait until they know their partner well enough to feel comfortable before sharing financial data. Once trust is established, then this information is provided.
8. Research the company. In dealing effectively with Russian partners, it is helpful to get information about this company, its management hierarchy, and how it typically does business. This information helps ensure the chances for good relations because it gives the Western partner a basis for establishing a meaningful relationship.
9. Stress mutual gain. The Western idea of "win–win" in negotiations also works well in Russia. Potential partners want to know what they stand to gain from entering into the venture.
10. Clarify terminology. For-profit business deals are new in Russia, so the language of business is just getting transplanted there. As a result, it is important to double-check and make sure that the other party clearly understands the proposal, knows what is expected and when, and is agreeable to the deal.[40]
11. Be careful about compromising or settling things too quickly, because this is often seen as a sign of weakness. During the Soviet Union days, everything was complex and so Russians are suspicious of anything that is conceded easily. If agreements are not reached after a while, a preferred tactic on their part is to display patience and then wait it out. However, they will abandon this approach if the other side shows great patience because they will realize that their negotiating tactic is useless.
12. Written contracts are not as binding to Russians as they are to Westerners. Like Asians, Russians view contracts as binding only if they continue to be mutually beneficial. One of the best ways of dealing with this is to be able to continually show them the benefits associated with sticking to the deal.[41]

Those 12 steps can be critical to the success of a business venture in Russia. They require careful consideration of cultural factors, and it often takes a lot longer than initially anticipated. However, the benefits may be worth the wait. And when everything is completed, there is a final cultural tradition that should be observed: Fix and reinforce the final agreements with a nice dinner together and an invitation to the Russians to visit your country and see your facilities.[42]

## Doing Business in India

In recent years, India has begun to attract the attention of large MNCs. Unsaturated consumer markets, coupled with cheap labor and production locations, have helped make India a desirable market for global firms.[43] The government continues to play an important role in this process, although recently many of the bureaucratic restrictions have been lifted as India works to attract foreign investment and raise its economic growth rate.[44] In addition, although most Indian businesspeople speak English, many of their values and beliefs are markedly different from those in the West. Thus, understanding Indian culture is critical to successfully doing business in India.

Shaking hands with male business associates is almost always an acceptable practice. U.S. businesspeople in India are considered equals, however, and the universal method of greeting an equal is to press one's palms together in front of the chest and say *namaste,* which means "greetings to you." Therefore, if a handshake appears to be improper, it always is safe to use *namaste.*

Western food typically is available in all good hotels. Most Indians do not drink alcoholic beverages, however, and many are vegetarians or eat chicken but not beef. Therefore, when foreign businesspeople entertain in India, the menu often is quite different from that back home. Moreover, when a local businessperson invites an expatriate for dinner at home, it is not necessary to bring a gift, although it is acceptable to do so. The host's wife and children usually will provide help from the kitchen to ensure that the guest is well treated, but they will not be at the table. If they are, it is common to wait until everyone has been seated and the host begins to eat or asks everyone to begin. During the meal, the host will ask the guest to have more food. This is done to ensure that the person does not go away hungry; however, once one has eaten enough, it is acceptable to politely refuse more food.

For Western businesspeople in India, shirt, trousers, tie, and suit are proper attire. In the southern part of India, where the climate is very hot, a light suit is preferable. In the north during the winter, a light sweater and jacket are a good choice. Indian businesspeople, on the other hand, often will wear local dress. In many cases, this includes a *dhoti,* which is a single piece of white cloth (about five yards long and three feet wide) that is passed around the waist up to half its length and then the other half is drawn between the legs and tucked at the waist. Long shirts are worn on the upper part of the body. In some locales, such as Punjab, Sikhs will wear turbans, and well-to-do Hindus sometimes will wear long coats like the Rajahs. This coat, known as a *sherwani,* is the dress recognized by the government for official and ceremonial wear. Foreign businesspeople are not expected to dress like locals, and in fact, many Indian businesspeople will dress like Europeans. Therefore, it is unnecessary to adopt local dress codes.

When doing business in India, one will find a number of other customs useful to know, such as:

1. It is important to be on time for meetings.
2. Personal questions should not be asked unless the other individual is a friend or close associate.
3. Titles are important, so people who are doctors or professors should be addressed accordingly.
4. Public displays of affection are considered to be inappropriate, so one should refrain from backslapping or touching others.

5. Beckoning is done with the palm turned down; pointing often is done with the chin.
6. When eating or accepting things, use the right hand because the left is considered to be unclean.
7. The *namaste* gesture can be used to greet people; it also is used to convey other messages, including a signal that one has had enough food.
8. Bargaining for goods and services is common; this contrasts with Western traditions, where bargaining might be considered rude or abrasive.[45]

Finally, it is important to remember that Indians are very tolerant of outsiders and understand that many are unfamiliar with local customs and procedures. Therefore, there is no need to make a phony attempt to conform to Indian cultural traditions. Making an effort to be polite and courteous is sufficient.[46]

## Doing Business in France

Many in the United States believe that it is more difficult to get along with the French than with other Europeans. This feeling probably reflects the French culture, which is markedly different from that in the United States. In France, one's social class is very important, and these classes include the aristocracy, the upper bourgeoisie, the upper-middle bourgeoisie, the middle, the lower-middle, and the lower. Social interactions are affected by class stereotypes, and during their lifetime, most French people do not encounter much change in social status. Unlike an American, who through hard work and success can move from the lowest economic strata to the highest, a successful French person might, at best, climb one or two rungs of the social ladder. Additionally, the French are very status conscious, and they like to provide signs of their status, such as knowledge of literature and the arts; a well-designed, tastefully decorated house; and a high level of education.

The French also tend to be friendly, humorous, and sardonic (sarcastic), in contrast to Americans, for example, who seldom are sardonic. The French may admire or be fascinated with people who disagree with them; in contrast, Americans are more attracted to those who agree with them. As a result, the French are accustomed to conflict and during negotiations accept that some positions are irreconcilable and must be accepted as such. Americans, on the other hand, believe that conflicts can be resolved and that if both parties make an extra effort and have a spirit of compromise, there will be no irreconcilable differences. Moreover, the French often determine a person's trustworthiness based on their firsthand evaluation of the individual's character. This is in marked contrast to Americans, who tend to evaluate a person's trustworthiness based on past achievements and other people's evaluations of this person.

In the workplace, many French people are not motivated by competition or the desire to emulate fellow workers. They often are accused of not having as intense a work ethic as, for example, Americans or Asians. Many French workers frown on overtime, and statistics show that on average, they have the longest vacations in the world (4 to 5 weeks annually). On the other hand, few would disagree that they work extremely hard in their regularly scheduled time and have a reputation for high productivity. Part of this reputation results from the French tradition of craftsmanship. Part of it also is accounted for by a large percentage of the workforce being employed in small, independent businesses, where there is widespread respect for a job well done.

Most French organizations tend to be highly centralized and have rigid structures. As a result, it usually takes longer to carry out decisions. Because this arrangement is quite different from the more decentralized, flattened organizations in the United States, both middle- and lower-level U.S. expatriate managers who work in French subsidiaries often find bureaucratic red tape a source of considerable frustration. There also are marked differences at the upper levels of management. In French companies, top managers have far more authority than their U.S. counterparts, and they are less accountable for their actions. While top-level U.S. executives must continually defend their decision to the CEO or board of directors, French executives are challenged only if the company has poor performance. As a result, those who have studied French management find that they take a more autocratic approach.[47]

In countries such as the United States, a great deal of motivation is derived from professional accomplishment. Americans realize there is limited job and social security in their country, so it is up to them to work hard and ensure their future. The French do not have the same view. While they admire Americans' industriousness and devotion to work, they believe that quality of life is what really matters. As a result, they attach a great deal of importance to leisure time, and many are unwilling to sacrifice the enjoyment of life for dedication to work.

The values and beliefs discussed here help to explain why French culture is so different from that in other countries. Some of the sharp contrasts with the United States, for example, provide insights regarding the difficulties of doing business in France. Additional cultural characteristics, such as the following, also help to explain the difficulties that outsiders may encounter in France:

1. When shaking hands with a French person, use a quick shake with some pressure in the grip. A firm, pumping handshake, which is so common in the United States, is considered to be uncultured.
2. It is extremely important to be on time for meetings and social occasions. Being "fashionably late" is frowned on.
3. During a meal, it is acceptable to engage in pleasant conversation, but personal questions and the subject of money are never brought up.
4. Great importance is placed on neatness and taste. Therefore, visiting businesspeople should try very hard to be cultured and sophisticated.[48]
5. The French tend to be suspicious of early friendliness in the discussion and dislike first names, taking off jackets, or disclosure of personal or family details.
6. In negotiations the French try to find out what all of the other side's aims and demands are at the beginning, but they reveal their own hand only late in the negotiations.
7. The French do not like being rushed into making a decision, and they rarely make important decisions inside the meeting. In fact, the person who is ultimately responsible for making the decision is often not present.
8. The French tend to be very precise and logical in their approach to things, and will often not make concessions in negotiations unless their logic has been defeated. If a deadlock results, unlike Americans, who will try to break the impasse by suggesting a series of compromises by both sides, the French tend to remain firm and simply restate their position.[49]

## Doing Business in Arab Countries

The intense media attention given to the Iraq War, terrorist actions, and continuing conflicts in the Middle East have pointed out that Arab cultures are distinctly different from Anglo cultures.[50] Americans often find it extremely hard to do business in Arab countries, and a number of Arab cultural characteristics can be cited for this difficulty.

One is the Arab view of time. In the United States, it is common to use the cliché "Time is money." In Arab countries, a favorite expression is *Bukra insha Allah,* which means "Tomorrow if God wills," an expression that explains the Arabs' fatalistic approach to time. Arabs believe that Allah controls time, in contrast to Westerners, who believe that they control their own time. As a result, if Arabs commit themselves to a date in the future and fail to show up, they feel no guilt or concern because they believe they have no control over time in the first place.

A word of caution on overgeneralizing is needed here and in all of the examples used throughout this chapter's discussion of cultural characteristics. There are many Arabs who are very particular about promises and appointments. There are also many Arabs who are very proactive and not fatalistic. The point is that there are always exceptions and stereotyping in cross-cultural dealings is unwarranted.

Another Arab cultural belief that generally holds is that destiny depends more on the will of a supreme being than on the behavior of individuals. A higher power dictates the outcome of important events, so individual action is of little consequence. This thinking affects not only Arabs' aspirations but also their motivation. Also of importance is that the status of Arabs largely is determined by family position and social contact and connections, not necessarily by their own accomplishments. This view helps to explain why some Middle Easterners take great satisfaction in appearing to be helpless. In fact, helplessness can be used as a source of power, for in this area of the world, the strong are resented and the weak compensated. Here is an example:

> In one Arab country, several public administrators of equal rank would take turns meeting in each other's offices for their weekly conferences, and the host would serve as chairman. After several months, one of these men had a mild heart attack. Upon his recovery, it was decided to hold the meetings only in his office, in order not to inconvenience him. From then on, the man who had the heart attack became the permanent chairman of the conference. This individual appeared more helpless than the others, and his helplessness enabled him to increase his power.[51]

This approach is quite different from that in the United States, where the strong tend to be compensated and rewarded. If a person were ill, such as in this example, the individual would be relieved of this responsibility until he or she had regained full health. In the interim, the rest of the group would go on without the sick person, and he or she may lose power.

Another important cultural contrast between Arabs and Americans is that of emotion and logic. Arabs often act based on emotion; in contrast, those in an Anglo culture are taught to act on logic. Many Arabs live in unstable environments where things change constantly, so they do not develop trusting relationships with others. Americans, on the other hand, live in a much more predictable environment and develop trusting relationships with others.

Arabs also make wide use of elaborate and ritualized forms of greetings and leave-takings. A businessperson may wait past the assigned meeting time before being admitted to an Arab's office. Once there, the individual may find a host of others present; this situation is unlike the typical one-on-one meetings that are so common in the United States. Moreover, during the meeting, there may be continuous interruptions, visitors may arrive and begin talking to the host, and messengers may come in and go out on a regular basis. The businessperson is expected to take all this activity as perfectly normal and remain composed and ready to continue discussions as soon as the host is prepared to do so.

Business meetings typically conclude with an offer of coffee or tea. This is a sign that the meeting is over and that future meetings, if there are to be any, should now be arranged.

Unlike the case in many other countries, titles are not in general use on the Arabian Peninsula, except in the case of royal families, ministers, and high-level military officers. Additionally, initial meetings typically are used to get to know the other party. Business-related discussions may not occur until the third or fourth meeting. Also, in contrast to the common perception among many Western businesspeople who have never been to an Arab country, it is not necessary to bring the other party a gift. If this is done, however, it should be a modest gift. A good example is a novelty or souvenir item from the visitor's home country.

Arabs attach a great deal of importance to status and rank. When meeting with them, one should pay deference to the senior person first. It also is important never to criticize or berate anyone publicly. This causes the individual to lose face, and the same is true for the person who makes these comments. Mutual respect is required at all times.

Other useful guidelines for doing business in Arab cultures include:

1. It is important never to display feelings of superiority, because this makes the other party feel inferior. No matter how well someone does something, the individual should let the action speak for itself and not brag or put on a show of self-importance.
2. One should not take credit for joint efforts. A great deal of what is accomplished is a result of group work, and to indicate that one accomplished something alone is a mistake.
3. Much of what gets done is a result of going through administrative channels in the country. It often is difficult to sidestep a lot of this red tape, and efforts to do so can be regarded as disrespect for legal and governmental institutions.
4. Connections are extremely important in conducting business. Well-connected businesspeople can get things done much faster than their counterparts who do not know the ins and outs of the system.
5. Patience is critical to the success of business transactions. This time consideration should be built into all negotiations, thus preventing one from giving away too much in an effort to reach a quick settlement.
6. Important decisions usually are made in person, not by correspondence or telephone. This is why an MNC's personal presence often is a prerequisite for success in the Arab world. Additionally, while there may be many people who provide input on the final decision, the ultimate power rests with the person at the top, and this individual will rely heavily on personal impressions, trust, and rapport.[52]

## The World of *BusinessWeek*—Revisited

As the *BusinessWeek* article at the beginning of the chapter indicates, doing business in different cultures presents MNCs with a variety of challenges. In the case of Heineken, its core customers are in North America and Europe, two regions that possess many disparate cultures. As a result, Heineken faces a host of potential problems if it does not treat each region—and even country—individually. In addition, growth markets in other regions feature cultures even farther removed from Heineken's home markets. Further, the competitive environment is getting more intense and firms that do not tailor products and services to local tastes will face challenges. This makes effective management across cultures all the more imperative.

Now that you have read this chapter, you should have a good understanding of the importance and difficulties of managing across cultures. Using this knowledge as a platform, answer the following questions: (1) How does Heineken's history and tradition help or harm its efforts to become a global brewing powerhouse? (2) How would you characterize Heineken's approach to international management in terms of the four basic predispositions? (3) What are some of the cultural differences Heineken will have to manage as it expands in North America, Europe, and around the world?

## SUMMARY OF KEY POINTS

1. One major problem facing MNCs is that they sometimes attempt to manage across cultures in ways similar to those of their home country. MNC dispositions toward managing across cultures can be characterized as (1) ethnocentric, (2) polycentric, (3) regiocentric, and (4) geocentric. These different approaches shape how companies adapt and adjust to cultural pressures around the world.
2. One major challenge when dealing with cross-cultural problems is that of overcoming parochialism

and simplification. Parochialism is the tendency to view the world through one's own eyes and perspectives. Simplification is the process of exhibiting the same orientation toward different cultural groups. Another problem is that of doing things the same way in foreign markets as they are done in domestic markets. Research shows that in some cases, this approach can be effective; however, effective cross-cultural management more commonly requires approaches different than those used at home. One area where this is particularly evident is human resource management. Recruitment, selection, training, and compensation often are carried out in different ways in different countries, and what works in the United States may have limited value in other countries and geographic regions.

3. Doing business in various parts of the world requires the recognition and understanding of cultural differences. Some of these differences revolve around the importance the society assigns to time, status, control of decision making, personal accomplishment, and work itself. These types of cultural differences help to explain why effective managers in China or Russia often are quite different from those in France, and why a successful style in the United States will not be ideal in Arab countries.

## KEY TERMS

ethnocentric predisposition, *128*
geocentric predisposition, *128*
globalization imperative, *129*
guanxi, *141*
parochialism, *133*
polycentric predisposition, *128*
regiocentric predisposition, *128*
simplification, *133*

## REVIEW AND DISCUSSION QUESTIONS

1. Define the four basic predispositions MNCs have toward their international operations.
2. If a locally based manufacturing firm with sales of $350 million decided to enter the EU market by setting up operations in France, which orientation would be the most effective: ethnocentric, polycentric, regiocentric, or geocentric? Why? Explain your choice.
3. In what way are parochialism and simplification barriers to effective cross-cultural management? In each case, give an example.
4. Many MNCs would like to do business overseas in the same way that they do business domestically. Do research findings show that any approaches that work well in the United States also work well in other cultures? If so, identify and describe two.
5. In most cases, local managerial approaches must be modified for doing business overseas. What are three specific examples that support this statement? Be complete in your answer.
6. What are some categories of cultural differences that help make one country or region of the world different from another? In each case, describe the value or norm and explain how it would result in different behavior in two or more countries. If you like, use the countries discussed in this chapter as your point of reference.

## INTERNET EXERCISE: SONY'S APPROACH

Sony is a multinational corporation that sells a wide variety of goods in the international marketplace. These range from electronics to online games to music—and the Japanese MNC is even in the entertainment business (Sony Pictures Entertainment), producing offerings for both the big screen as well as for television. Visit the MNC's web site at **www.sony.com** and read about some of the latest developments in which the company is engaged. Pay close attention to its new offerings in the areas of electronics, television shows, movies, music, and on-line games. Then answer these three questions: (1) What type of cultural challenges does Sony face when it attempts to market its products worldwide? Is demand universal for all of these offerings or is there a "national responsiveness/globalization" challenge, as discussed in the chapter, that must be addressed? (2) Investigate the Sony credit card that the company is now offering online. Is this a product that will have worldwide appeal, or is it more likely to be restricted to more economically advanced countries? (3) In managing its far-flung enterprise, what are two cultural challenges that the company is likely to face and what will it need to do to respond to these?

In the International Spotlight

# Mexico

Located directly south of the United States, Mexico covers an area of 756,000 square miles. It is the third-largest country in Latin America and the thirteenth-largest in the world. The most recent estimates place the population at around 107 million, and this number is increasing at a rate of about 1.4 percent annually. As a result, today Mexico is one of the "youngest" countries in the world. Approximately 55 percent of the population is under the age of 20, while a mere 4 percent is 65 years of age or older.

Today, even though the economy is uncertain as in the rest of the world and has political risk, Mexico has made itself attractive for foreign investment. Trade agreements with the United States and Canada (NAFTA), the EU, Japan, and dozens of Latin American countries have begun to fully integrate the Mexican economy into the global trading system. Multinationals in a wide variety of industries, from computers to electronics and from pharmaceuticals to manufacturing, have invested billions of dollars in the country. Telefonica, the giant Spanish telecommunications firm, is putting together a wireless network across Latin America, and Mexico is one of the countries that it has targeted for investment. Meanwhile, manufacturers not only from the United States but also from Asia to Europe have helped sustain Mexico's booming maquiladora assembly industry. By the turn of the century over 1.2 million people were employed in this industry including 600,000 in the two border states of Baja California and Chihuahua.

Thomson SA, the French consumer electronics firm, has three plants in the border states that make export TVs and digital decoder boxes. And like a growing number of MNCs located in Mexico, the firm is now moving away from importing parts and materials from outside and producing everything within the country. One reason for this move is that under the terms of the North American Free Trade Agreement only parts and materials originating in one of the three NAFTA trading partners are now allowed to enter the processing zones duty-free. Anything originating outside these three countries is subject to tariffs of as much as 25 percent. So the French MNC Thomson is building a picture-tube factory in Baja California so that it will no longer have to import dutiable tubes from Italy. In many cases, imported items from the European Union, however, are allowed to enter duty-free because in 1999 Mexico signed a free-trade agreement with the EU. As a result, a host of firms, including Philips Electronics and Siemens, poured large amounts of investment into the country. At the same time Mexico also has begun negotiating another free-trade pact with the four Nordic countries, raising the likelihood that firms such as Nokia, Ericsson, and Saab-Scania will also invest heavily in the country.

While many European MNCs are now investing in Mexico, the United States still remains the largest investor. Over 60 percent of all outside investment is by U.S. firms. Asian companies, in particular Japanese MNCs, also have large holdings in the country, although these firms have been scaling back in recent years because of the import duties and the fact that Mexican labor costs are beginning to rise, thus making it more cost-effective to produce some types of goods in Asia and export them to North America. The largest investments in Mexico are in the industrial sector (around 60 percent of the total) and services (around 30 percent).

One of the major benefits of locating in Mexico is the highly skilled labor force that can be hired at fairly low wages when compared with those paid elsewhere, especially in the United States. Additionally, manufacturing firms that have located there report high productivity growth rates and quality performance. A study by the Massachusetts Institute of Technology on auto assembly plants in Canada, the United States, and Mexico reported that Mexican plants performed well. Another by J. D. Power and Associates noted that Ford Motor's Hermisillo plant was the best in all of North America. Computer and electronic firms are also finding Mexico to be an excellent choice for new expansion plants.

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## Questions

1. Why would multinationals be interested in setting up operations in Mexico? Give two reasons.
2. Would cultural differences be a major stumbling block for U.S. MNCs doing business in Mexico? For European firms? For Japanese firms? Explain your answer.
3. Why might MNCs be interested in studying the organizational culture in Mexican firms before deciding whether to locate there? Explain your logic.

You Be the International Management Consultant

# Beijing, Here We Come!

A large toy company located in Canada is considering a business arrangement with the government of China (PRC). Although company representatives have not yet visited the PRC, the president of the firm recently met with their representatives in Ottawa and discussed the business proposition. The Canadian CEO learned that the PRC government would be quite happy to study the proposal, and the company's plan would be given a final decision within 90 days of receipt. The toy company now is putting together a detailed proposal and scheduling an on-site visit.

The Canadian firm would like to have the mainland Chinese manufacture a wide variety of toys for sale in Asia as well as in Europe and North America. Production of these toys requires a large amount of labor time, and because the PRC is reputed to have one of the largest and least expensive workforces in the world, the company believes that it can maximize profit by having the work done there. For the past five years, the company has had its toys produced in Taiwan. Costs there have been escalating recently, however, and because 45 percent of the production expense goes for labor, the company is convinced that it will soon be priced out of the market if it does not find another source.

The company president and three officers plan on going to Beijing next month to talk with government officials. They would like to sign a five-year agreement with a price that will not increase by more than 2 percent annually. Production operations then will be turned over to the mainland Chinese, who will have a free hand in manufacturing the goods.

The contract with the Taiwanese firm runs out in 90 days. The company already has contacted this firm, and the latter understands that its Canadian partner plans to terminate the arrangement. One major problem is that if it cannot find another supplier soon, it will have to go back to the Taiwanese firm for at least two more years. The contract stipulates that the agreement can be extended for another 24 months if the Canadian firm makes such a request; however, this must be done within 30 days of expiration of the contract. This is not an alternative that appeals to the Canadians, but they feel they will have to take it if they cannot reach an agreement with the mainland Chinese.

## Questions

1. What is the likelihood that the Canadians will be able to reach an agreement with the mainland Chinese and not have to go back to their Taiwanese supplier? Explain.
2. Are the Canadians making a strategically wise decision in letting the Chinese from the PRC handle all the manufacturing, or should they insist on getting more actively involved in the production process? Defend your answer.
3. What specific cultural suggestions would you make to the Canadians regarding how to do business with the mainland Chinese?