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Chapter 7

CROSS-CULTURAL COMMUNICATION AND NEGOTIATION

OBJECTIVES OF THE CHAPTER

Communication takes on special importance in international management because of the difficulties in conveying meanings between parties from different cultures. The problems of misinterpretation and error are compounded in the international context. Chapter 7 examines how the communication process in general works, and it looks at the downward and upward communication flows that commonly are used in international communication. Then the chapter examines the major barriers to effective international communication and reviews ways of dealing with these communication problems. Finally, international negotiation is examined, with particular attention to how negotiation approaches and strategies must be adapted to different cultural environments. The specific objectives of this chapter are:

1. **DEFINE** the term *communication,* examine some examples of verbal communication styles, and explain the importance of message interpretation.
2. **ANALYZE** the common downward and upward communication flows used in international communication.
3. **EXAMINE** the language, perception, and culture of communication, and nonverbal barriers to effective international communications.
4. **PRESENT** the steps that can be taken to overcome international communication problems.
5. **DEVELOP** approaches to international negotiations that respond to differences in culture.
6. **REVIEW** different negotiating and bargaining behaviors that may improve negotiations and outcomes.

The World of *BusinessWeek*

BusinessWeek

A New World for Microsoft?

If the EU Ruling Against the Software Giant Is Upheld, It Could Force Changes in the Way Redmond Does Business

For 14 years, one regulator or another has chased after Microsoft—mostly unsuccessfully. In 1990, the Federal Trade Commission launched an investigation into a long list of allegedly predatory practices. The probe was dropped. In 1998, the Justice Dept. tried to prevent Microsoft from using its Windows monopoly to corner the emerging Web browser market. Microsoft fought back and got only a slap on the wrist. Now European regulators are taking their shot at restraining the software giant. Microsoft is fighting back again, but there's a reasonable chance that regulators will at last help rivals compete with Goliath on a more equal footing.

In its March 24 ruling, the European Union labeled Microsoft an abusive monopolist and issued a sweeping set of penalties. The company will have to offer computer makers in Europe two versions of its monopoly Windows operating system: one with Windows Media Player, which lets users watch videos and hear music, and one without. The EU also ruled that Microsoft must share technical information with rivals that will help their server software work better with Windows. And the commission slapped Microsoft with the biggest fine it has ever levied—$613 million. "We are simply ensuring that anyone who develops new software has a fair opportunity to compete in the marketplace," says Mario Monti, competition commissioner for the EU.

The Threat to Microsoft

How the European Union's decision could hamper the software giant:

Bundling

Microsoft continually adds features to Windows. It's possible that competitors will use the ruling to prevent Microsoft from adding things and exercising its monopoly power to grab share in their markets. If Windows lacks jazzy new features, Microsoft's customers might not feel compelled to upgrade as often.

Information Sharing

Microsoft puts technology into its software for PCs, handhelds, and servers that smoothes interactions among them. The EU ruling forces Microsoft to disclose these "secret handshakes" among its products, which should allow server-software makers such as Sun Microsystems and IBM to compete more effectively.

Next-Generation Integration

Microsoft's next wave of desktop and server products, code-named Longhorn, is seen by rivals as a Pandora's Box of bundling. After the ruling, Microsoft may have to rethink the way it designs these products, weakening its ability to push into new markets and delaying Longhorn's arrival.

Target: Bundling

The ruling strikes at the heart of Microsoft's strategy. For more than a decade, it has bundled new features into Windows, giving customers reasons to upgrade—and often trouncing rivals in the process. But in finding that Microsoft has illegally leveraged the power of its Windows monopoly to destroy its competition, the EU is trying to do more than just punish Microsoft for past transgressions. If the ruling is upheld, it could seriously limit Microsoft's ability to add features to its software in the future. It also offers the potential of far faster relief for rivals who feel they've been wronged.

Although the ruling officially applies only to Europe, its impact is expected to be felt worldwide. "As far as the eye can see, Microsoft is going to be challenged by competitors and by governments anytime it wants to add something to Windows," says Michael A. Cusumano, a professor at Massachusetts Institute of Technology's Sloan School of Management.

Microsoft wasted no time dismissing the decision as overreaching on the part of Monti. "We believe that every company should be able to improve its products to meet the needs of consumers," says CEO Steven A. Ballmer. What's more, Ballmer calls the standards set by the 2002 settlement in the U.S. antitrust case "guiding principles." He says Microsoft doesn't plan to reconsider its future product design or bundling plans.

The company will appeal the ruling, and it plans to seek a stay of some, if not all, of the penalties. It argues that EU law only empowers the Commission to address "contractual tying," not the sort of technical bundling of products the company does. And it will argue that illegal tying exists only if it's inconsistent with commercial norms, which isn't the case here since every other operating system includes a media player.

Legal Hurdles

There isn't a lot of legal precedent, but to the extent it exists, it tends to favor Monti in the area of tying. For instance, in a 1994 case involving construction products maker Hilti Corp., the European Court of Justice—the highest court on the Continent—upheld a lower court ruling that the company could not force customers who bought its market-dominant nail guns to also buy nails. But in the area of interoperability, available legal precedent tends to favor Microsoft. In a 2002 case involving Intercontinental Marketing Services Health, the Court of First Instance held that dominant companies can refuse to license their intellectual property to rivals. That may give Microsoft grounds for objecting to rules that force it to share proprietary interface information with others.

For the time being, there are more questions than answers, but that uncertainty itself threatens to put Microsoft's software development strategy in doubt. For starters, Microsoft has to gin up a version of Windows without a media player within 90 days. Computer makers can decide if they want to buy Windows-lite and include digital media technology from a Microsoft rival, such as RealNetworks or Apple Computer. But since Microsoft can charge the same for both products, it's unlikely that the media-playerless version will appeal to PC makers. RealNetworks is considering offering computer makers that ship PCs with its media player exclusively the ability to offer free limited subscriptions for such products as its Rhapsody online music service.

The ruling could start to have more impact as soon as next year. That's when Microsoft is considering releasing an intermediate update of Windows that may include the ability to search the Web directly from the main Windows screen. That could put search rivals such as Google at a disadvantage since PCs don't ship with its service displayed in Windows. Google says it doesn't plan to try to block Microsoft in court, but the ruling may give Microsoft pause anyway.

Parole Officer

Those issues compound with Longhorn, the next major version of Windows, expected in 2006 or 2007. Microsoft has talked about including everything from Internet search to speech-recognition software. If rivals complain to the EU, it might try to prevent some of the planned bundling. That could force Microsoft to rethink its design plans for Longhorn, which could delay the product. Microsoft, however, says it has reviewed Longhorn bundling plans with its developers and lawyers and believes they're legal.

Meanwhile, Microsoft's competitors can't wait to take advantage of Monti's ruling on sharing technical information. Right now, Microsoft's desktop and server software packages communicate with one another in a private language. "We have been excluded so far," says Matthew J. Szulik, CEO of Linux software distributor Red Hat. He hopes the ruling will give rivals what they need to smooth their interactions with Windows.

To make all this work, Monti is creating another precedent: a monitoring trustee. Much as federal Judge Harold H. Greene oversaw the breakup of AT&T a quarter-century ago, Monti will appoint a trustee to handle oversight of Microsoft's compliance. The idea is to keep up the pressure on Microsoft so it can't sidestep the penalties by bogging the Commission down in bureaucratic and technical wrangling.

Monopoly Power

While there's a long way to go in this case, it's fundamentally different from what Microsoft faced in the U.S. because EU regulators have more authority than their U.S. counterparts. They get to make an initial determination of liability and propose a remedy without going to court. To forestall future anticompetitive behavior, they have the authority to quickly investigate and bring new charges against Microsoft if new complaints arise.

In addition, because the ruling contains findings about Microsoft's market dominance and tactics that rivals can use to build future cases, "new cases will be much easier because the law has already been decided," says New York University School of Law antitrust professor Eleanor M. Fox. That could put an end to the cycle that unnerves foes who land in Microsoft's crosshairs: endless legal skirmishes that delay rulings until long after Microsoft has used its monopoly power to pummel them in the marketplace.

It's still too early to say if the ruling will substantially alter Microsoft's conduct. Rivals were jubilant four years ago when U.S. District Judge Thomas Penfield Jackson ruled Microsoft a monopolist and ordered the company split in two. Microsoft managed to escape that fate, and it clearly expects to do the same here. But one thing's for certain: The Old World has imposed a new world order that could make Microsoft mighty uncomfortable.

By Jay Greene in Seattle, Andy Reinhardt in Brussels, and Mike France in New York

Source: **Reprinted from "A New World for Microsoft?" *BusinessWeek,* March 25, 2004, online edition, by special permission. Copyright © 2004 by the McGraw-Hill Companies, Inc. www.businessweek.com.**

The opening news story provides an insightful illustration of the importance and challenges of cross-cultural communication and negotiation. Microsoft is one of the world's largest companies, and its technology has permeated every corner of the globe. Yet it continues to face challenges to its business practices, most notably a series of legal actions in the United States and Europe related to its relationships with suppliers and its "bundling" of services. Microsoft has had difficulty resolving these actions, and recent rulings by the EU demonstrate the challenges of effective communication and negotiations with different constituencies in differing country settings. To be successful, Microsoft must maintain trust and respect in the countries in which it does business. Some stakeholders (customers, suppliers, regulators) object to what they perceive as the company's overly aggressive strategy. This made it more difficult for Microsoft to enlist support in court. To turn things around, Microsoft must make a concerted effort, in each region it serves, to build positive relationships with the range of stakeholders with which it interacts. If the company can do this, its future looks bright.

The Overall Communication Process

communication
The process of transferring meanings from sender to receiver.

Communication is the process of transferring meanings from sender to receiver. On the surface, this appears to be a fairly straightforward process. On analysis, however, there are a great many problems in the international arena that can result in the failure to transfer meanings correctly.

Verbal Communication Styles

One way of examining the ways in which individuals convey information is by looking at their communication styles. In particular, as has been noted by Hall, context plays a key role in explaining many communication differences.[1] **Context** is information that surrounds a communication and helps convey the message. In high-context societies, such as Japan and many Arab countries, messages are often highly coded and implicit. As a result, the receiver's job is to interpret what the message means by correctly filtering through what is being said and the way in which the message is being conveyed. This approach is in sharp contrast to low-context societies such as the United States and Canada, where the message is explicit and the speaker says precisely what he or she means. These contextual factors must be considered when marketing messages are being developed in disparate societies. For example, promotions in Japan should be subtle and convey a sense of community (high context). Similar segments in the United States should be responsive to expectations for more explicit messages, a low-context environment. Figure 7–1 provides an international comparison of high-context/implicit and low-context/explicit societies. In addition, Table 7–1 presents some of the major characteristics of communication styles.

context
Information that surrounds a communication and helps to convey the message.

Indirect and Direct Styles In high-context cultures, messages are implicit and indirect. One reason is that those who are communicating—family, friends, co-workers, clients—tend to have both close personal relationships and large information networks. As a result, each knows a lot about others in the communication network; they do not have to rely on language alone to communicate. Voice intonation, timing, and facial expressions can all play roles in conveying information.

In low-context cultures, people often meet only to accomplish objectives. Since they do not know each other very well, they tend to be direct and focused in their communications.

A good example comparing these two kinds of culture—high context and low context—is the types of questions that are typically asked when someone is contacted and told to attend a meeting. In a high-context culture it is common for the person to ask, "Who will be at this meeting?" The individual wants to be prepared to interact correctly. In contrast, in a low-context culture the individual is likely to ask, "What is the meeting going to be about?" In the high-context society, the person focuses on the environment in which the meeting will take place. In the low-context society, the individual is most interested in the objectives that are to be accomplished at the meeting.

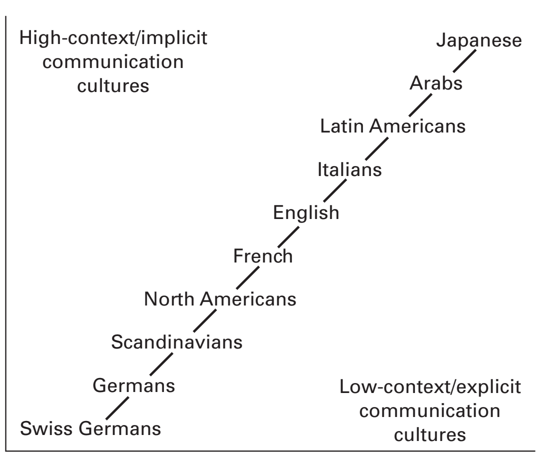


Figure 7–1
Explicit/Implicit Communication: An International Comparison

Source: Adapted from Martin Rosch, "Communications: Focal Point of Culture," *Management International Review* 27, no. 4 (1987), p. 60. Used with permission.

Table 7–1
Major Characteristics of Verbal Styles

Verbal Style	Major Variation	Interaction Focus and Content	Cultures in Which Characteristic Is Found
Indirect vs. direct	Indirect	Implicit messages	Collective, high context
	Direct	Explicit messages	Individualistic, low context
Succinct vs. elaborate	Elaborate	High quantity of talk	Moderate uncertainty avoidance, high context
	Exacting	Moderate amount of talk	Low uncertainty avoidance, low context
	Succinct	Low amount of talk	High uncertainty avoidance, high context
Contextual vs. personal	Contextual	Focus is on the speaker and role relationships	High power distance, collective, high context
	Personal	Focus is on the speaker and personal relationships	Low power distance, individualistic, low context
Affective vs. instrumental	Affective	Language is process oriented and receiver focused	Collective, high context
	Instrumental	Language is goal oriented and sender focused	Individualistic, low context

Elaborate and Succinct Styles There are three degrees of communication quantity—elaborate, exacting, and succinct. In high-context societies, the elaborate style is often very common. There is a great deal of talking, description includes much detail, and people often repeat themselves. This elaborate style is widely used in Arabic countries.

The exacting style is more common in nations such as England, Germany, and Sweden, to name three. This style focuses on precision and the use of the right amount of words to convey the message. If a person uses too many words, this is considered exaggeration; if the individual relies on too few, the result is an ambiguous message.

The succinct style is most common in Asia, where people tend to say few words and allow understatements, pauses, and silence to convey meaning. In particular, in unfamiliar situations, communicators are succinct in order to avoid risking a loss of face.

Researchers have found that the elaborating style is more popular in high-context cultures that have a moderate degree of uncertainty avoidance. The exacting style is more common in low-context, low-uncertainty-avoidance cultures. The succinct style is more common in high-context cultures with considerable uncertainty avoidance.

Contextual and Personal Styles A contextual style is one that focuses on the speaker and relationship of the parties. For example, in Asian cultures people use words that reflect the role and hierarchical relationship of those in the conversation. As a result, in an organizational setting, speakers will choose words that indicate their status relative to the status of the others. Commenting on this idea, Yoshimura and Anderson have noted that white-collar, middle-management employees in Japan, commonly known as salarymen, quickly learn how to communicate with others in the organization by understanding the context and reference group of the other party:

> A salaryman can hardly say a word to another person without implicitly defining the reference groups to which he thinks both of them belong. . . . [This is because] failing to use proper language is socially embarrassing, and the correct form of Japanese to use with someone else depends not only on the relationship between the two people, but also on the relationship

> between their reference groups. Juniors defer to seniors in Japan, but even this relationship is complicated when the junior person works for a much more prestigious organization (for example, a government bureau) than the senior. [As a result, it is] likely that both will use the polite form to avoid social embarrassment.[2]

A personal style focuses on the speaker and the reduction of barriers between the parties. In the United States, for example, it is common to use first names and to address others informally and directly on an equal basis.

Researchers have found that the contextual style is often associated with high-power-distance, collective, high-context cultures. Examples include Japan, India, and Ghana. In contrast, the personal style is more popular in low-power-distance, individualistic, low-context cultures. Examples include the United States, Australia, and Canada.

Affective and Instrumental Styles The affective style is characterized by language that requires the listener to carefully note what is being said and to observe how the sender is presenting the message. Quite often the meaning that is being conveyed is nonverbal and requires the receiver to use his or her intuitive skills in deciphering what is being said. The part of the message that is being left out may be just as important as the part that is being included. In contrast, the instrumental style is goal oriented and focuses on the sender. The individual clearly lets the other party know what he or she wants the other party to know.

The affective style is common in collective, high-context cultures such as the Middle East, Latin America, and Asia. The instrumental style is more commonly found in individualistic, low-context cultures such as Switzerland, Denmark, and the United States.

Table 7–2 provides a brief description of the four verbal styles that are used in select countries. A close look at the table helps explain why managers in Japan can have great difficulty communicating with their counterparts in the United States and vice versa: The verbal styles are completely opposite.

Interpretation of Communications

The effectiveness of communication in the international context often is determined by how closely the sender and receiver have the same meaning for the same message.[3] If this meaning is different, effective communication will not occur. A good example is the U.S. firm that wanted to increase worker output among its Japanese personnel. This firm put an individual incentive plan into effect, whereby workers would be given extra pay based on their

Table 7–2
Verbal Styles Used in 10 Select Countries

Country	Indirect vs. Direct	Elaborate vs. Succinct	Contextual vs. Personal	Affective vs. Instrumental
Australia	Direct	Exacting	Personal	Instrumental
Canada	Direct	Exacting	Personal	Instrumental
Denmark	Direct	Exacting	Personal	Instrumental
Egypt	Indirect	Elaborate	Contextual	Affective
England	Direct	Exacting	Personal	Instrumental
Japan	Indirect	Succinct	Contextual	Affective
Korea	Indirect	Succinct	Contextual	Affective
Saudi Arabia	Indirect	Elaborate	Contextual	Affective
Sweden	Direct	Exacting	Personal	Instrumental
United States	Direct	Exacting	Personal	Instrumental

Source: Reported in Anne Marie Francesco and Barry Allen Gold, *International Organizational Behavior* (Upper Saddle River, NJ: Prentice-Hall, 1998), p. 60.

work output. The plan, which had worked well in the United States, was a total flop. The Japanese were accustomed to working in groups and to being rewarded as a group. In another case, a U.S. firm offered a bonus to anyone who would provide suggestions that resulted in increased productivity. The Japanese workers rejected this idea, because they felt that no one working alone is responsible for increased productivity. It is always a group effort. When the company changed the system and began rewarding group productivity, it was successful in gaining support for the program.

A related case occurs when both parties agree on the content of the message but one party believes it is necessary to persuade the other to accept the message. Here is an example:

> Motorola University recently prepared carefully for a presentation in China. After considerable thought, the presenters entitled it "Relationships do not retire." The gist of the presentation was that Motorola had come to China in order to stay and help the economy to create wealth. Relationships with Chinese suppliers, subcontractors and employees would constitute a permanent commitment to building Chinese economic infrastructure and earning hard currency through exports. The Chinese audience listened politely to this presentation but was quiet when invited to ask questions. Finally one manager put up his hand and said: "Can you tell us about pay for performance?"[4]

Quite obviously, the Motorola presenter believed that it was necessary to convince the audience that the company was in China for the long run. Those in attendance, however, had already accepted this idea and wanted to move on to other issues.

Still another example has been provided by Adler, who has pointed out that people doing business in a foreign culture often misinterpret the meaning of messages. As a result, they arrive at erroneous conclusions as in the following story of a Canadian doing business in the Middle East. The Canadian was surprised when his meeting with a high-ranking official was not held in a closed office and was constantly interrupted:

> Using the Canadian-based cultural assumptions that (a) important people have large private offices with secretaries to monitor the flow of people into the office, and (b) important business takes precedence over less important business and is therefore not interrupted, the Canadian interprets the . . . open office and constant interruptions to mean that the official is neither as high ranking nor as interested in conducting the business at hand as he had previously thought.[5]

Communication Flows

Communication flows in international organizations move both down and up. However, as Figure 7–2 humorously, but in many ways accurately, portrays, there are some unique differences in organizations around the world.

Downward Communication

downward communication
The transmission of information from superior to subordinate.

Downward communication is the transmission of information from manager to subordinate. The primary purpose of the manager-initiated communication flow is to convey orders and information. Managers use this channel to let their people know what is to be done and how well they are doing. The channel facilitates the flow of information to those who need it for operational purposes.

In Asian countries, as noted earlier, downward communication is less direct than in the United States. Orders tend to be implicit in nature. Conversely, in some European countries, downward communication is not only direct but extends beyond business matters. For example, one early study surveyed 299 U.S. and French managers regarding the nature of downward communication and the managerial authority they perceived themselves as having. This study found that U.S. managers basically used downward communication for work-related matters. A follow-up study investigated matters that U.S. and French managers felt were within the purview of their authority.[6] The major differences involved work-related and nonwork-related activities: U.S. managers felt that it was within their authority

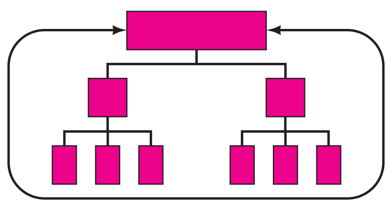
Figure 7–2

Communication Epigrams

There are a number of different "organization charts" that have been constructed to depict international organizations. An epigram is a poem or line of verse that is witty or satirical in nature. The following organization designs are epigrams that show how communication occurs in different countries. In examining them, remember that each contains considerable exaggeration and humor, but also some degree of truth.

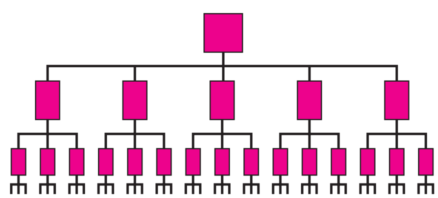
In America, everyone thinks he or she has a communication pipeline directly to the top.

America



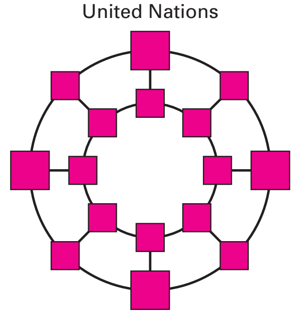
There are so many people in China that organizations are monolithic structures characterized by copious levels of bureaucracy. All information flows through channels.

China



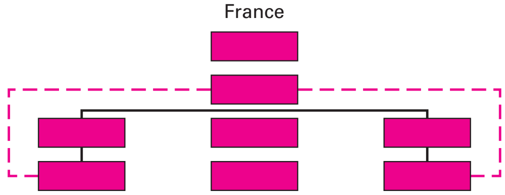
At the United Nations everyone is arranged in a circle so that no one is more powerful than anyone else. Those directly in front or behind are philosophically aligned, and those nearby form part of an international bloc.

United Nations



In France some people in the hierarchy are not linked to anyone, indicating how haphazard the structure can be.

France



Source: Adapted from Simcha Ronen, *Comparative and Multinational Management* (New York: Wiley, 1986), pp. 318–319. The epigrams in turn were derived from a variety of sources, including Robert M. Worchester of the U.K.-based Market and Opinion Research International (MORI), Ole Jacob Raad of Norway's PM Systems, and anonymous managers.

to communicate or attempt to influence their people's social behavior only if it occurred on the job or it directly affected their work. For example, U.S. managers felt that it was proper to look into matters such as how much an individual drinks at lunch, whether the person uses profanity in the workplace, and how active the individual is in recruiting others to join the company. The French managers were not as supportive of these activities. The researcher concluded that "the Americans find it as difficult [as] or more difficult than the French to accept the legitimacy of managerial authority in areas unrelated to work."[7]

Harris and Moran have noted that when communicating downward with non-native speakers, it is extremely important to use language that is easy to understand and allows the other person to ask questions. Here are 10 suggestions that apply not only for downward but for all types of communication:

1. Use the most common words with their most common meanings.
2. Select words that have few alternative meanings.
3. Strictly follow the basic rules of grammar—more so than would be the case with native speakers.
4. Speak with clear breaks between the words so that it is easier for the person to follow.
5. Avoid using words that are esoteric or culturally biased such as "he struck out" or "the whole idea is Mickey Mouse" because these clichés often have no meaning for the listener.
6. Avoid the use of slang.
7. Do not use words or expressions that require the other person to create a mental image such as "we were knee deep in the Big Muddy."
8. Mimic the cultural flavor of the non-native speaker's language, for example, by using more flowery communication with Spanish-speaking listeners than with Germans.
9. Continually paraphrase and repeat the basic ideas.
10. At the end, test how well the other person understands by asking the individual to paraphrase what has been said.[8]

Upward Communication

upward communication The transfer of meaning from subordinate to superior.

Upward communication is the transfer of information from subordinate to superior. The primary purpose of this subordinate-initiated upward communication is to provide feedback, ask questions, or obtain assistance from higher-level management. In recent years, there has been a call for and a concerted effort to promote more upward communication in the United States. In other countries, such as in Japan, Hong Kong, and Singapore, upward communication has long been a fact of life. Managers in these countries have extensively used suggestion systems and quality circles to get employee input and always are available to listen to their people's concerns.

Here are some observations from the approach the Japanese firm Matsushita uses in dealing with employee suggestions:

> Matsushita views employee recommendations as instrumental to making improvements on the shop floor and in the marketplace. [It believes] that a great many little people, paying attention each day to how to improve their jobs, can accomplish more than a whole headquarters full of production engineers and planners.
>
> Praise and positive reinforcement are an important part of the Matsushita philosophy. . . . Approximately 90 percent of . . . suggestions receive rewards; most only a few dollars per month, but the message is reinforced constantly: "Think about your job; develop yourself and help us improve the company." The best suggestions receive company-wide recognition and can earn substantial monetary rewards. Each year, many special awards are also given, including presidential prizes and various divisional honors.[9]

Table 7–3
Matsushita's Philosophy

Basic Business Principles

To recognize our responsibilities as industrialists, to foster progress, to promote the general welfare of society, and to devote ourselves to the further development of world culture.

Employees Creed

Progress and development can be realized only through the combined efforts and cooperation of each member of the Company. Each of us, therefore, shall keep this idea constantly in mind as we devote ourselves to the continuous improvement of our Company.

The Seven Spiritual Values

1. National service through industry
2. Fairness
3. Harmony and cooperation
4. Struggle for betterment
5. Courtesy and humility
6. Adjustment and assimilation
7. Gratitude

Matsushita has used the same approach wherever it has established plants worldwide, and the strategy has proved very successful. The company has all its employees begin the day by reciting its basic principles, beliefs, and values, which are summarized in Table 7–3, to reinforce in all employees the reason for the company's existence and to provide a form of spiritual fabric to energize and sustain them. All employees see themselves as important members of a successful team, and they are willing to do whatever is necessary to ensure the success of the group.

Outside these Asian countries, upward communication is not as popular. For example, in South America, many managers believe that employees should follow orders and not ask a lot of questions. German managers also make much less use of this form of communication. In most cases, however, evidence shows that employees prefer to have downward communication at least supplemented by upward channels. Unfortunately, such upward communication does not always occur because of a number of communication barriers.

Communication Barriers

A number of common communication barriers are relevant to international management. The more important include language, culture, perception, and nonverbal communication.

Language Barriers

Knowledge of the home country's language (the language used at the headquarters of the MNC) is important for personnel placed in a foreign assignment. If managers do not understand the language that is used at headquarters, they likely will make a wide assortment of errors. Additionally, many MNCs now prescribe English as the common language for internal communication, so that managers can more easily convey information to their counterparts in other geographically dispersed locales.[10] Despite such progress, however, language training continues to lag in many areas, although in an increasing number of European countries, more and more young people are becoming multilingual.[11] Table 7–4 shows the percentage of European students who are studying English, French, or German.

Language education is a good beginning, but it is also important to realize that the ability to speak the language used at MNC headquarters is often not enough to ensure that the personnel are capable of doing the work. Stout recently noted that many MNCs worldwide

Table 7–4
Multilingualism in the EU Classroom

	Percentage of Pupils in General Secondary Education Learning English, French, or German as a Foreign Language, 1991–1992		
	English	French	German
Holland	96	65	53
Germany	93	23	—
Denmark	92	8	58
Spain	92	10	0.3
France	84	—	27
Belgium (Flemish)	68	98	22
Belgium (French)	58	1	6
Italy	61	33	3
Portugal	55	25	0.4
Britain	—	59	20
Ireland	—	69	24

Source: Eurostat (1995).

place a great deal of attention on the applicant's ability to speak English without considering if the person has other necessary skills such as the ability to interact well with others and the technical knowledge demanded by the job.[12] Additionally, in interviewing people for jobs, he has noted that many interviewers fail to take into account the applicant's culture. As a result, interviewers misinterpret behaviors such as quietness or shyness and use them to conclude that the applicant is not sufficiently confident or self-assured. Still another problem is that nonnative speakers may know the language but not be fully fluent, so they end up asking questions or making statements that convey the wrong message. After studying Japanese for only one year, Stout began interviewing candidates in their local language and made a number of mistakes. In one case, he reports, "a young woman admitted to having an adulterous affair—even though this was not even close to the topic I was inquiring about—because of my unskilled use of the language."[13]

More recently, written communication has been getting increased attention, because poor writing is proving to be a greater barrier than poor talking. For example, Hildebrandt has found that among U.S. subsidiaries studied in Germany, language was a major problem when subsidiaries were sending written communications to the home office. The process often involved elaborate procedures associated with translating and reworking the report. Typical steps included (1) holding a staff conference to determine what was to be included in the written message; (2) writing the initial draft in German; (3) rewriting the draft in German; (4) translating the material into English; (5) consulting with bilingual staff members regarding the translation; and (6) rewriting the English draft a series of additional times until the paper was judged to be acceptable for transmission. The German managers admitted that they felt uncomfortable with writing, because their command of written English was poor. As Hildebrandt noted:

> All German managers commanding oral English stated that their grammatical competence was not sufficiently honed to produce a written English report of top quality. Even when professional translators from outside the company rewrote the German into English, German middle managers were unable to verify whether the report captured the substantive intent or included editorial alterations.[14]

Problems associated with the translation of information from one language to another have been made even clearer by Schermerhorn, who conducted research among 153 Hong Kong Chinese bilinguals who were enrolled in an undergraduate management course at a major Hong Kong university. The students were given two scenarios written in either English or Chinese. One scenario involved a manager who was providing some form of personal support or praise for a subordinate. The research used the following procedures:

> [A] careful translation and back-translation method was followed to create the Chinese language versions of the research instruments. Two bilingual Hong Kong Chinese, both highly fluent in English and having expertise in the field of management, shared roles in the process. Each first translated one scenario and the evaluation questions into Chinese. Next they translated each other's Chinese versions back into English, and discussed and resolved translation differences in group consultation with the author. Finally, a Hong Kong professor read and interpreted the translations correctly as a final check of equivalency.[15]

The participants were asked to answer eight evaluation questions about these scenarios. A significant difference between the two sets of responses was found. Those who were queried in Chinese gave different answers from those who were queried in English. This led Schermerhorn to conclude that language plays a key role in conveying information between cultures, and that in cross-cultural management research, bilingual individuals should not be queried in their second language.

Cultural Barriers

Closely related to the language barriers are cultural barriers. For example, research by Sims and Guice compared 214 letters of inquiry written by native and nonnative speakers of English to test the assumption that cultural factors affect business communication. Among other things, the researchers found that nonnative speakers used exaggerated politeness, provided unnecessary professional and personal information, and made inappropriate requests of the other party. Commenting on the results and implications of their study, the researchers noted that their investigation

> indicates that the deviations from standard U.S. business communication practices were not specific to one or more nationalities. The deviations did not occur among specific nationalities but were spread throughout the sample of nonnative letters used for the study. Therefore, we can speculate that U.S. native speakers of English might have similar difficulties in international settings. In other words, a significant number of native speakers in the U.S. might deviate from the standard business communication practices of other cultures. Therefore, these native speakers need specific training in the business communication practices of the major cultures of the world so they can communicate successfully and acceptably with readers in those cultures.[16]

Research by Scott and Green has extended these findings, showing that even in English-speaking countries, there are different approaches to writing letters. In the United States, for example, it is common practice when constructing a bad-news letter to start out "with a pleasant, relevant, neutral, and transitional buffer statement; give the reasons for the unfavorable news before presenting the bad news; present the refusal in a positive manner; imply the bad news whenever possible; explain how the refusal is in the reader's best interest; and suggest positive alternatives that build goodwill."[17] In Great Britain, however, it is common to start out by referring to the situation, discussing the reasons for the bad news, conveying the bad news (often quite bluntly), and concluding with an apology or statement of regret (something that is frowned on by business-letter experts in the United States) designed to keep the reader's goodwill. Here is an example:

> Lord Hanson has asked me to reply to your letter and questionnaire of February 12 which we received today.
>
> As you may imagine, we receive numerous requests to complete questionnaires or to participate in a survey, and this poses problems for us. You will appreciate that the time it would take to complete these requests would represent a full-time job, so we decided some while ago to decline such requests unless there was some obvious benefit to Hanson PLC and our stockholders. As I am sure you will understand, our prime responsibility is to look after our stockholders' interests.
>
> I apologize that this will not have been the response that you were hoping for, but I wish you success with your research study.[18]

U.S. MNC managers would seldom, if ever, send that type of letter; it would be viewed as blunt and tactless. However, the indirect approach that Americans use would be viewed by their British counterparts as overly indirect and obviously insincere.

On the other hand, when compared to Asians, many American writers are far more blunt and direct. For example, Park, Dillon, and Mitchell reported that there are pronounced differences between the ways in which Americans and Asians write business letters of complaint. They compared the approach used by American managers for whom English is a first language, who wrote international business letters of complaint, with the approach of Korean managers for whom English is a second language, who wrote the same types of letters. They found that American writers used a direct organizational pattern and tended to state the main idea or problem first before sharing explanatory details that clearly related to the stated problem. In contrast, the standard Korean pattern was indirect and tended to delay the reader's discovery of the main point. This led the researchers to conclude that the U.S.-generated letter might be regarded as rude by Asian readers, while American readers might regard the letter from the Korean writer as vague, emotional, and accusatory.[19]

Perceptual Barriers

perception
A person's view of reality.

Perception is a person's view of reality. How people see reality can vary and will influence their judgment and decision making.[20] One example involves Japanese stockbrokers who perceived that the chances of improving their career would be better with U.S. firms, so they changed jobs. Another involves Hong Kong hoteliers who began buying U.S. properties because they had the perception that if they could offer the same top-quality hotel service as back home, they could dominate their U.S. markets. These are examples of how perceptions can play an important role in international management. Unfortunately, misperceptions also can become a barrier to effective communication. For example, when the Clinton administration decided to allow Taiwan president Lee Tenghui to visit the United States, the Chinese (PRC) government perceived this as a threatening gesture and took actions of its own. Besides conducting dangerous war games very near Taiwan's border as a warning to Taiwan not to become too bold in its quest for recognition as a sovereign nation, the PRC also snubbed U.S. car manufacturers and gave a much-coveted $1 billion contract to Mercedes-Benz of Germany.[21] The following sections provide examples of perception barriers in the international arena.

Advertising Messages One way that perception can prove to be a problem in international management communication is evident when one person uses words that are misinterpreted by the other. Many firms have found to their dismay that a failure to understand home-country perceptions can result in disastrous advertising programs. Here are two examples:

> Ford . . . introduced a low cost truck, the "Fiera," into some Spanish-speaking countries. Unfortunately, the name meant "ugly old woman" in Spanish. Needless to say, this name did not encourage sales. Ford also experienced slow sales when it introduced a top-of-the-line automobile, the "Comet," in Mexico under the name "Caliente." The puzzling low sales were finally understood when Ford discovered that "caliente" is slang for a street walker.[22]

> One laundry detergent company certainly wishes now that it had contacted a few locals before it initiated its promotional campaign in the Middle East. All of the company's advertisements pictured soiled clothes on the left, its box of soap in the middle, and clean clothes on the right. But, because in that area of the world people tend to read from the right to the left, many potential customers interpreted the message to indicate the soap actually soiled the clothes.[23]

View of Others Perception influences communication when it deals with how individuals "see" others. A good example is provided by the perception of foreigners who reside in the United States. Most Americans see themselves as extremely friendly, outgoing, and kind, and they believe that others also see them in this way. At the same time, many are not aware of what negative impressions they give to others. Another example is the way in

International Management in Action

Doing It Right the First Time

Like other countries of the world, Japan has its own business customs and culture. And when someone fails to adhere to these traditions, the individual runs the risk of being perceived as ineffective or uncaring. The following addresses three areas that are important in being correctly perceived by one's Japanese counterparts.

Business Cards

The exchange of business cards is an integral part of Japanese business etiquette, and Japanese businesspeople exchange these cards when meeting someone for the first time. Additionally, those who are most likely to interface with non-Japanese are supplied with business cards printed in Japanese on one side and a foreign language, usually English, on the reverse side. This is aimed at enhancing recognition and pronunciation of Japanese names, which are often unfamiliar to foreign businesspeople. Conversely, it is advisable for foreign businesspeople to carry and exchange with their Japanese counterparts a similar type of card printed in Japanese and in their native language. These cards can often be obtained through business centers in major hotels.

When receiving a card, it is considered common courtesy to offer one in return. In fact, not returning a card might convey the impression that the manager is not committed to a meaningful business relationship in the future.

Business cards should be presented and received with both hands. When presenting one's card, the presenter's name should be facing the person who is receiving the card so the receiver can easily read it. When receiving a business card, it should be handled with care and if the receiver is sitting at a conference or other type of table, the card should be placed in front of the individual for the duration of the meeting. It is considered rude to put a prospective business partner's card in one's pocket before sitting down to discuss business matters.

Bowing

Although the handshake is increasingly common in Japan, bowing remains the most prevalent formal method of greeting, saying goodbye, expressing gratitude, or apologizing to another person. When meeting foreign businesspeople, however, Japanese will often use the handshake or a combination of both a handshake and a bow, even though there are different forms and styles of bowing, depending on the relationship of the parties involved. Foreign businesspeople are not expected to be familiar with these intricacies, and therefore a deep nod of the head or a slight bow will suffice in most cases. Many foreign businesspeople are unsure whether to use a handshake or to bow. In these situations, it is best to wait and see if one's Japanese counterpart offers a hand or prefers to bow and then to follow suit.

Attire

Most Japanese businessmen dress in conservative dark or navy blue suits, although slight variations in style and color have come to be accepted in recent years. As a general rule, what is acceptable business attire in virtually any industrialized country is usually regarded as good business attire in Japan as well. Although there is no need to conform precisely to the style of dress of the Japanese, good judgment should be exercised when selecting attire for a business meeting. If unsure about what constitutes appropriate attire for a particular situation, it is best to err on the conservative side.

which people act, or should act, when initially meeting others. "International Management in Action: Doing It Right the First Time" provides some insights regarding how to conduct oneself when doing business in Japan.

Another example of how the perceptions of others affect communication occurs in the way that some international managers perceive their subordinates. For example, a study examined the perceptions that German and U.S. managers had of the qualifications of their peers (those on the same level and status), managers, and subordinates in Europe and Latin America.[24] The findings showed that both the German and the U.S. respondents perceived their subordinates to be less qualified than their peers. However, although the Germans perceived their managers to have more managerial ability than their peers, the Americans felt that their South American peers in many instances had qualifications equal to or better than the qualifications of their own managers. Quite obviously, this perception will affect how U.S. expatriates communicate with their South American peers as well as how the expatriates communicate with their bosses.

Another study found that Western managers have more favorable attitudes toward women as managers than Asian or Saudi managers do.[25] This perception obviously affects the way these managers interact and communicate with their female counterparts. The same is true in the case of many Japanese managers, who, according to one survey, still regard women as superfluous to the effective running of their organizations and generally continue to not treat women as equals.[26]

The Impact of Culture

Besides language and perception, another major barrier to communication is culture, a topic that was given detailed attention in Chapter 4. Culture can affect communication in a number of ways, and one way is through the impact of cultural values.

Cultural Values One expert on Middle Eastern countries notes that people there do not relate to and communicate with each other in a loose, general way as do those in the United States. Relationships are more intense and binding in the Middle East, and a wide variety of work-related values influence what people in the Middle East will and will not do.

> In North American society, the generally professed prevalent pattern is one of nonclass-consciousness, as far as work is concerned. Students, for example, make extra pocket money by taking all sorts of part-time jobs—manual and otherwise—regardless of the socioeconomic stratum to which the individual belongs. The attitude is uninhibited. In the Middle East, the overruling obsession is how the money is made and via what kind of job.[27]

These types of values indirectly, and in many cases directly, affect communication between people from different cultures. For example, one would communicate differently with a "rich college student" from the United States than with one from Saudi Arabia. Similarly, when negotiating with managers from other cultures, knowing the way to handle the deal requires an understanding of cultural values.[28]

Another cultural value example is the way that people use time. In the United States, people believe that time is an asset and is not to be wasted. This is an idea that has limited meaning in some other cultures. Various values are reinforced and reflected in proverbs that Americans are taught from an early age. These proverbs help to guide people's behavior. Table 7–5 lists some examples.

Misinterpretation Cultural differences can cause misinterpretations both in how others see expatriate managers and in how the latter see themselves. For example, U.S. managers doing business in Austria often misinterpret the fact that local businesspeople always address them in formal terms. They may view this as meaning that they are not friends or are not liked, but in fact, this formalism is the way that Austrians always conduct

Table 7–5
U.S. Proverbs Representing Cultural Values

Proverb	Cultural Value
A penny saved is a penny earned	Thriftiness
Time is money	Time thriftiness
Don't cry over spilt milk	Practicality
Waste not, want not	Frugality
Early to bed, early to rise, makes one healthy, wealthy, and wise	Diligence; work ethic
A stitch in time saves nine	Timeliness of action
If at first you don't succeed, try, try again	Persistence; work ethic
Take care of today, and tomorrow will take care of itself	Preparation for future

Source: Drawn from Nancy J. Adler, *International Dimensions of Organizational Behavior,* 2nd ed. (Boston: PWS-Kent Publishing, 1991), pp. 79–80.

business. The informal, first-name approach used in the United States is not the style of the Austrians.

Culture even affects day-to-day activities of corporate communications.[29] For example, when sending messages to international clients, American managers have to keep in mind that there are many things that are uniquely American and overseas managers may not be aware of them. As an example, daylight savings time is known to all Americans, but many Asian managers have no idea what the term means. Similarly, it is common for American managers to address memos to their "international office" without realizing that the managers who work in this office regard the American location as the "international" one! Other suggestions that can be of value to American managers who are engaged in international communications include:

- Be careful not to use generalized statements about benefits, compensation, pay cycles, holidays, or policies in your worldwide communications. Work hours, vacation accrual, general business practices, and human resource issues vary widely from country to country.
- Since most of the world uses the metric system, be sure to include converted weights and measures in all internal and external communications.
- Keep in mind that even in English-speaking countries, words may have different meanings. Not everyone knows what is meant by "counterclockwise," or "quite good."
- Remember that letterhead and paper sizes differ worldwide. The 8½ by 11-inch page is a U.S. standard, but most countries use an A4 (8¼ × 11½-inch) size for their letterhead, with envelopes to match.
- Dollars are not unique to the United States. There are Australian, Bermudian, Canadian, Hong Kong, Taiwanese, and New Zealand dollars, among others. So when referring to American dollars, it is important to use "US$."

Many Americans also have difficulty interpreting the effect of national values on work behavior. For example, why do French and German workers drink alcoholic beverages at lunchtime? Why are many European workers unwilling to work the night shift? Why do overseas affiliates contribute to the support of the employees' work council or donate money to the support of kindergarten teachers in local schools? These types of actions are viewed by some people as wasteful, but those who know the culture of these countries realize that such actions promote the long-run good of the company. It is the outsider who is misinterpreting why these culturally specific actions are happening, and such misperceptions can become a barrier to effective communication.

Nonverbal Communication

Another major reason for perception problems is accounted for by **nonverbal communication,** which is the transfer of meaning through means such as body language and use of physical space. Table 7–6 summarizes a number of dimensions of nonverbal communication. The general categories that are especially important to communication in international management are kinesics, proxemics, chronemics, and chromatics.

nonverbal communication
The transfer of meaning through means such as body language and the use of physical space.

kinesics
The study of communication through body movement and facial expressions.

oculesics
The area of communication that deals with conveying messages through the use of eye contact and gaze.

Kinesics

Kinesics is the study of communication through body movement and facial expression. Primary areas of concern include eye contact, posture, and gestures. For example, when one communicates verbally with someone in the United States, it is good manners to look the other person in the eye. This area of communicating through the use of eye contact and gaze is known as **oculesics.** In some areas of the world oculesics is an important consideration because of what people should not do, such as stare at others or maintain continuous eye contact, because it is considered impolite to do these things.

Another area of kinesics is posture, which can also cause problems. For example, when Americans are engaged in prolonged negotiations or meetings, it is not uncommon

Table 7–6
Common Forms of Nonverbal Communication

1. Hand gestures, both intended and self-directed (autistic), such as the nervous rubbing of hands
2. Facial expressions, such as smiles, frowns, and yawns
3. Posture and stance
4. Clothing and hair styles (hair being more like clothes than like skin, both subject to the fashion of the day)
5. Interpersonal distance (proxemics)
6. Eye contact and direction of gaze, particularly in "listening behavior"
7. "Artifacts" and nonverbal symbols, such as lapel pins, walking sticks, and jewelry
8. Paralanguage (though often in language, just as often treated as part of nonverbal behavior—speech rate, pitch, inflections, volume)
9. Taste, including symbolism of food and the communication function of chatting over coffee or tea, and oral gratification such as smoking or gum chewing
10. Cosmetics: temporary—powder; permanent—tattoos
11. Time symbolism: what is too late or too early to telephone or visit a friend, or too long or too short to make a speech or stay for dinner
12. Timing and pauses within verbal behavior

Source: This information is found in J. C. Condon and F. S. Yousef, *An Introduction to Intercultural Communication* (Indianapolis, IN: Bobbs-Merrill, 1975), pp. 123–124.

for them to relax and put their feet up on a chair or desk, but this is insulting behavior in the Middle East. Here is an example from a classroom situation:

> In the midst of a discussion of a poem in the sophomore class of the English Department, the professor, who was British, took up the argument, started to explain the subtleties of the poem, and was carried away by the situation. He leaned back in his chair, put his feet up on the desk, and went on with the explanation. The class was furious. Before the end of the day, a demonstration by the University's full student body had taken place. Petitions were submitted to the deans of the various facilities. The next day, the situation even made the newspaper headlines. The consequences of the act, that was innocently done, might seem ridiculous, funny, baffling, incomprehensible, or even incredible to a stranger. Yet, to the native, the students' behavior was logical and in context. The students and their supporters were outraged because of the implications of the breach of the native behavioral pattern. In the Middle East, it is extremely insulting to have to sit facing two soles of the shoes of somebody.[30]

Gestures are also widely used and take many different forms. For example, Canadians shake hands, Japanese bow, Middle Easterners of the same sex kiss on the cheek. Communicating through the use of bodily contact is known as **haptics,** and it is a widely used form of nonverbal communication.

haptics
Communicating through the use of bodily contact.

Sometimes gestures present problems for expatriate managers because these behaviors have different meanings depending on the country. For example, in the United States, putting the thumb and index finger together to form an "O" is the sign for "okay." In Japan, this is the sign for money; in southern France, the gesture means "zero" or "worthless"; and in Brazil, it is regarded as a vulgar or obscene sign. In France and Belgium, snapping the fingers of both hands is considered vulgar; in Brazil, this gesture is used to indicate that something has been done for a long time. In Britain, the "V for victory" sign is given with the palm facing out; if the palm is facing in, this roughly means "shove it"; in non-British countries, the gesture means two of something and often is used when placing an order at a restaurant.[31] Gibson, Hodgetts, and Blackwell found that many foreign students attending school in the United States have trouble communicating because they are unable to interpret some of the most common nonverbal gestures.[32] A survey group of 44 Jamaican, Venezuelan, Colombian, Peruvian, Thai, Indian, and Japanese students at two major universities were given pictures of 20 universal cultural gestures, and each was asked to describe the nonverbal gestures illustrated. In 56 percent of the choices the respondents either gave an interpretation that was markedly different from that of Americans or reported that the nonverbal gesture had no meaning in their culture. These findings help to reinforce the need to teach expatriates about local nonverbal communication.

Proxemics **Proxemics** is the study of the way that people use physical space to convey messages. For example, in the United States, there are four "distances" people use in communicating on a face-to-face basis (see Figure 7–3.) **Intimate distance** is used for very confidential communications. **Personal distance** is used for talking with family and close friends. **Social distance** is used to handle most business transactions. **Public distance** is used when calling across the room or giving a talk to a group.

One major problem for Americans communicating with people from the Middle East or South America is that the intimate or personal distance zones are violated. Americans often tend to be moving away in interpersonal communication with their Middle Eastern or Latin counterparts, while the latter are trying to physically close the gap. The American cannot understand why the other is standing so close; the latter cannot understand why the American is being so reserved and standing so far away. The result is a breakdown in communication.

Office layout is another good example of proxemics. In the United States, the more important the manager, the larger the office, and often a secretary screens visitors and keeps away those whom the manager does not wish to see. In Japan, most managers do not have large offices, and even if they do, they spend a great deal of time out of the office and with the employees. Thus, the Japanese have no trouble communicating directly with their superiors. A Japanese manager's staying in his office would be viewed as a sign of distrust or anger toward the group.

Another way that office proxemics can affect communication is that in many European companies, no wall separates the space allocated to the senior-level manager from that of the subordinates. Everyone works in the same large room. These working conditions often are disconcerting to Americans, who tend to prefer more privacy.

Chronemics **Chronemics** refers to the way in which time is used in a culture. When examined in terms of extremes, there are two types of time schedules: monochronic and polychronic. A **monochronic time schedule** is one in which things are done in a linear fashion. A manager will address Issue A first and then move on to Issue B. In these societies, time schedules are very important and time is viewed as something that can be controlled and should be used wisely. In individualistic cultures such as the United States, Great Britain, Canada, and Australia, as well as many of the cultures in Northern Europe, managers adhere to monochronic time schedules.

This is in sharp contrast to **polychronic time schedules,** which are characterized by people tending to do several things at the same time and placing higher value on personal involvement than on getting things done on time. In these cultures, schedules are subordinated to personal relationships. Regions of the world where polychronic time schedules are common include Latin America and the Middle East.

proxemics
The study of the way people use physical space to convey messages.

intimate distance
Distance between people that is used for very confidential communications.

personal distance
In communicating, the physical distance used for talking with family and close friends.

social distance
In communicating, the distance used to handle most business transactions.

public distance
In communicating, the distance used when calling across the room or giving a talk to a group.

chronemics
The way in which time is used in a culture.

monochronic time schedule
A time schedule in which things are done in a linear fashion.

polychronic time schedule
A time schedule in which people tend to do several things at the same time and place higher value on personal involvement than on getting things done on time.

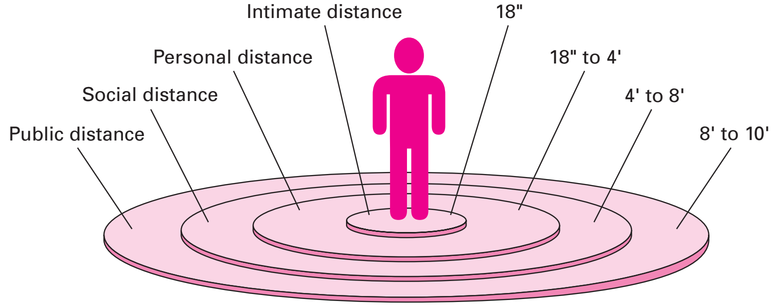


Figure 7–3
Personal Space Categories for Those in the United States

Source: Adapted from Richard M. Hodgetts and Donald F. Kuratko, *Management,* 2nd ed. (San Diego, CA: Harcourt Brace Jovanovich, 1991), p. 384.

When doing business in countries that adhere to monochronic time schedules, it is important to be on time for meetings. Additionally, these meetings typically end at the appointed time so that participants can be on time for their next meeting. When doing business in countries that adhere to polychronic time schedules, it is common to find business meetings starting late and finishing late.

chromatics
The use of color to communicate messages.

Chromatics **Chromatics** is the use of color to communicate messages. Every society uses chromatics, but colors that mean one thing in the United States may mean something entirely different in Asia. For example, in the United States it is common to wear black when one is in mourning, while in some locations in India people wear white when they are in mourning. In Hong Kong red is used to signify happiness or luck and traditional bridal dresses are red; in the United States it is common for the bride to wear white. In many Asian countries shampoos are dark in color because users want the soap to be the same color as their hair and believe that if it were a light color it would remove color from their hair. In the United States shampoos tend to be light in color because people see this as a sign of cleanliness and hygiene. In Chile a gift of yellow roses conveys the message "I don't like you," but in the United States the opposite message would be conveyed.

Knowing the importance of chromatics can be very helpful because, among other things, it can avoid embarrassing situations. A good example is the American manager in Peru who upon finishing a one-week visit to the Lima subsidiary decided to thank the assistant who was assigned to him. He sent her a dozen red roses. The lady understood the faux pas, but the American manager was somewhat embarrassed when his Peruvian counterpart smilingly told him, "It was really nice of you to buy her a present. However, red roses indicate a romantic interest!"

Achieving Communication Effectiveness

A number of steps can be taken to improve communication effectiveness in the international arena. These include improving feedback systems, providing language and cultural training, and increasing flexibility and cooperation.

Improve Feedback Systems

One of the most important ways of improving communication effectiveness in the international context is to open up feedback systems. Feedback is particularly important between parent companies and their affiliates. There are two basic types of feedback systems: personal (e.g., face-to-face meetings, telephone conversations, and personalized e-mail) and impersonal (e.g., reports, budgets, and plans). Both of these systems help affiliates to keep their home office aware of progress and, in turn, help the home office to monitor and control affiliate performance as well as set goals and standards.

At present, there seem to be varying degrees of feedback between the home offices of MNCs and their affiliates. For example, one study evaluated the communication feedback between subsidiaries and home offices of 63 MNCs headquartered in Europe, Japan, and North America.[33] A marked difference was found between the way that U.S. companies communicated with their subsidiaries and the way that European and Japanese firms did. Over one-half of the U.S. subsidiaries responded that they received monthly feedback from their reports, in contrast to less than 10 percent of the European and Japanese subsidiaries. In addition, the Americans were much more inclined to hold regular management meetings on a regional or worldwide basis. Seventy-five percent of the U.S. companies had annual meetings for their affiliate top managers, compared with less than 50 percent for the Europeans and Japanese. These findings may help to explain why many international subsidiaries and affiliates are not operating as efficiently as they should. The units may not have sufficient contact with the home office. They do not seem to be getting continuous assistance and feedback that are critical to effective communication.

Provide Language Training

Besides improving feedback systems, another way to make communication more effective in the international arena is through language training. Many host-country managers cannot communicate well with their counterparts at headquarters. Because English has become the international language of business, those who are not native speakers of English should learn the language well enough so that face-to-face and telephone conversations and e-mail are possible. If the language of the home office is not English, this other language also should be learned. As a U.S. manager working for a Japanese MNC recently told one of the authors, "The official international language of this company is English. However, whenever the home-office people show up, they tend to cluster together with their countrymen and speak Japanese. That's why I'm trying to learn Japanese. Let's face it. They say all you need to know is English, but if you want to really know what's going on, you have to talk *their* language."

Written communication also is extremely important in achieving effectiveness. As noted earlier, when reports, letters, and e-mail messages are translated from one language to another, preventing a loss of meaning is virtually impossible. Moreover, if the communications are not written properly, they may not be given the attention they deserve. The reader will allow poor grammar and syntax to influence his or her interpretation and subsequent actions. Moreover, if readers cannot communicate in the language of those who will be receiving their comments or questions about the report, their messages also must be translated and likely will lose further meaning. Therefore, the process can continue on and on, each party failing to achieve full communication with the other. Hildebrandt has described the problems in this two-way process when an employee in a foreign subsidiary writes a report and then sends it to his or her boss for forwarding to the home office:

> The general manager or vice president cannot be asked to be an editor. Yet they often send statements along, knowingly, which are poorly written, grammatically imperfect, or generally unclear. The time pressures do not permit otherwise. Predictably, questions are issued from the States to the subsidiary and the complicated bilingual process now goes in reverse, ultimately reaching the original . . . staff member, who receives the English questions retranslated.[34]

Language training would help to alleviate such complicated communication problems.

Provide Cultural Training

It is very difficult to communicate effectively with someone from another culture unless at least one party has some understanding of the other's culture.[35] Otherwise, communication likely will break down. This is particularly important for multinational companies that have operations throughout the world.[36] Although there always are important differences between countries, and even between subcultures of the same country, firms that operate in South America find that the cultures of these countries have certain commonalities. These common factors also apply to Spain and Portugal. Therefore, a basic understanding of Latin cultures can prove to be useful throughout a large region of the world. The same is true of Anglo cultures, where norms and values tend to be somewhat similar from one country to another. When a multinational has operations in South America, Europe, and Asia, however, multicultural training becomes necessary. "International Management in Action: Communicating in Europe" provides some specific examples of cultural differences.

As Chapter 4 pointed out, it is erroneous to generalize about an "international" culture, because the various nations and regions of the globe are so different. Training must be conducted on a regional or country-specific basis. Failure to do so can result in continuous communication breakdown.[37] Chapter 14 will give considerable attention to cultural training as part of selection for overseas assignments and human resource development.

Increase Flexibility and Cooperation

Effective international communications require increased flexibility and cooperation by all parties.[38] To improve understanding and cooperation, each party must be prepared to give

International Management in Action

Communicating in Europe

In Europe, many countries are within easy commuting distance of their neighbors, so an expatriate who does business in France on Monday may be in Germany on Tuesday, Great Britain on Wednesday, Italy on Thursday, and Spain on Friday. Each country has its own etiquette regarding how to greet others and conduct oneself during social and business meetings. The following sections examine some of the things that expatriate managers need to know to communicate effectively.

France

When one is meeting with businesspeople in France, promptness is expected, although tardiness of 5 to 10 minutes is not considered a major gaffe. The French prefer to shake hands when introduced, and it is correct to address them by title plus last name. When the meeting is over, a handshake again is proper manners.

French executives try to keep their personal and professional lives separate. As a result, most business entertaining is done at restaurants or clubs. When gifts are given to business associates, they should appeal to intellectual or aesthetic pursuits as opposed to being something that one's company produces for sale on the world market. In conversational discussions, topics such as politics and money should be avoided. Also, humor should be used carefully during business meetings.

Germany

German executives like to be greeted by their title, and one should never refer to someone on a first-name basis unless invited to do so. Business appointments should be made well in advance, and punctuality is important. Like the French, the Germans usually do not entertain clients at home, so an invitation to a German manager's home is a special privilege and always should be followed with a thank-you note. Additionally, as is the case in France, one should avoid using humor during business meetings.

Great Britain

In Britain, it is common to shake hands on the first meeting, and first names are always used in introductions. Unlike the custom in France and Germany, it is common practice in Britain to arrive a little late for business and social occasions, and invitations to British homes are more likely than in some other European cultures. A typical gift for the host is flowers or chocolates.

During business meetings, suits and ties are common dress; however, striped ties should be avoided if they appear to be a copy of those worn by alumni of British universities and schools or by members of military or social clubs. Additionally, during social gatherings it is a good idea not to discuss politics, religion, or gossip about the monarchy unless the British person brings the topic up first.

Italy

In traditional companies, executives are referred to by title plus last name. It is common to shake hands when being introduced, and if the individual is a university graduate, the professional title *dottore* should be used.

Business appointments should be made well in advance, although punctuality is not essential. In most cases, business is done at the office, and when someone is invited to a restaurant, this invitation is usually done to socialize and not to continue business discussions. If an expatriate is invited to an Italian home, it is common to bring a gift for the host, such as a bottle of wine or a box of chocolates. During the dinner conversation, there is a wide variety of acceptable topics, including business, family matters, and soccer.

Spain

It is common to use first names when introducing or talking to people in Spain, and close friends typically greet each other with an embrace. Appointments should be made in advance, but punctuality is not essential.

If one is invited to the home of a Spanish executive, flowers or chocolates for the host are acceptable gifts. If the invitation includes dinner, any business discussions should be delayed until after coffee is served. During the social gathering, some topics that should be avoided include religion, family, and work. Additionally, humor rarely is used during formal occasions.

a little.[39] Take the case of International Computers Ltd., a mainframe computer firm that does a great deal of business in Japan. This firm urges its people to strive for successful collaboration in their international partnerships and ventures. At the heart of this process is effective communication. As put by Kenichi Ohmae:

> We must recognize and accept the inescapable subtleties and difficulties of intercompany relationships. This is the essential starting point. Then we must focus not on contractual or equity-related issues but on the quality of the people at the interface between organizations.

Table 7–7
Negotiation Styles from a Cross-Cultural Perspective

Element	United States	Japanese	Arabians	Mexicans
Group composition	Marketing oriented	Function oriented	Committee of specialists	Friendship oriented
Number involved	2–3	4–7	4–6	2–3
Space orientation	Confrontational; competitive	Display harmonious relationship	Status	Close, friendly
Establishing rapport	Short period; direct to task	Longer period; until harmony	Long period; until trusted	Longer period; discuss family
Exchange of information	Documented; step-by-step; multimedia	Extensive; concentrate on receiving side	Less emphasis on technology, more on relationship	Less emphasis on technology, more on relationship
Persuasion tools	Time pressure; loss of saving/making money	Maintain relationship referecnes; intergroup connections	Go-between; hospitality	Emphasis on family and on social concerns; goodwill measured in generations
Use of language	Open, direct, sense of urgency	Indirect, appreciative, cooperative	Flattery, emotional, religious	Respectful, gracious
First offer	Fair ±5 to 10%	±10 to 20%	±20 to 50%	Fair
Second offer	Add to package; sweeten the deal	−5%	−10%	Add an incentive
Final offer package	Total package	Makes no further concessions	−25%	Total
Decision-making process	Top management team	Collective	Team makes recommendation	Senior manager and secretary
Decision maker	Top management team	Middle line with team consensus	Senior manager	Senior manager
Risk taking	Calculated personal responsibility	Low group responsibility	Religion based	Personally responsible

Source: Lillian H. Chaney and Jeanette S. Martin, *Intercultural Business Communication*, 3rd ed. Copyright © 2004. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

Finally, we must understand that success requires frequent, rapport-building meetings by at least three organizational levels: top management, staff, and line management at the working level.[40]

Managing Cross-Cultural Negotiations

Closely related to communications but deserving special attention is managing negotiations.[41] **Negotiation** is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. Negotiation often follows assessing political risk and can be used as an approach to conflict management. If the risk is worth it, then the MNC must negotiate with the host country to secure the best possible arrangements. The MNC and the host country will discuss the investment the MNC is prepared to make in return for certain guarantees or concessions. The initial range of topics typically includes critical areas such as hiring practices, direct financial investment, taxes, and ownership control. Negotiation also is used in creating joint ventures with local firms and in getting the operation off the ground. After the firm is operating, additional areas of negotiation often include expansion of facilities, use of more local managers, additional imports or exports of materials and finished goods, and recapture of profits.

negotiation
Bargaining with one or more parties for the purpose of arriving at a solution acceptable to all.

On a more macro level of international trade are the negotiations conducted between countries. The current balance-of-trade problem between the United States and

China is one example. The massive debt problems of less developed countries and the opening of trade doors with Eastern European and newly emerging economies are other current examples.

The Negotiation Process

Several basic steps can be used to manage the negotiation process. Regardless of the issues or personalities of the parties involved, this process typically begins with planning.

Planning Planning starts with the negotiators' identifying the objectives they would like to attain. Then they explore the possible options for reaching these objectives. Research shows that the greater the number of options, the greater are the chances for successful negotiations. While this appears to be an obvious statement, research also reveals that many negotiators do not alter their strategy when negotiating across cultures.[42] Next, consideration is given to areas of common ground between the parties. Other major areas include (1) the setting of limits on single-point objectives, such as deciding to pay no more than $10 million for the factory and $3 million for the land; (2) dividing issues into short- and long-term considerations and deciding how to handle each; and (3) determining the sequence in which to discuss the various issues.

Impersonal Relationship Building The second phase of the negotiation process involves getting to know the people on the other side. This "feeling out" period is characterized by the desire to identify those who are reasonable and those who are not. In contrast to negotiators in many other countries, those in the United States often give little attention to this phase; they want to get down to business immediately, which often is an ineffective approach. Adler notes:

> Effective negotiators must view luncheon, dinner, reception, ceremony, and tour invitations as times for interpersonal relationship building, and therefore as key to the negotiating process. When American negotiators, often frustrated by the seemingly endless formalities, ceremonies, and "small talk," ask how long they must wait before beginning to "do business," the answer is simple: wait until your opponents bring up business (and they will). Realize that the work of conducting a successful negotiation has already begun, even if business has yet to be mentioned.[43]

Exchanging Task-Related Information In this part of the negotiation process, each group sets forth its position on the critical issues. These positions often will change later in the negotiations. At this point, the participants are trying to find out what the other party wants to attain and what it is willing to give up.

Persuasion This step of negotiations is considered by many to be the most important. No side wants to give away more than it has to, but each knows that without giving some concessions, it is unlikely to reach a final agreement. The success of the persuasion step often depends on (1) how well the parties understand each other's position; (2) the ability of each to identify areas of similarity and differences; (3) the ability to create new options; and (4) the willingness to work toward a solution that allows all parties to walk away feeling they have achieved their objectives.

Agreement The final phase of negotiations is the granting of concessions and hammering out a final agreement. Sometimes, this phase is carried out piecemeal, and concessions and agreements are made on issues one at a time. This is the way negotiators from the United States like to operate. As each issue is resolved, it is removed from the bargaining table, and interest is focused on the next. Asians and Russians, on the other hand, tend to negotiate a final agreement on everything, and few concessions are given until the end.

Simply put, to negotiate effectively in the international arena, it is necessary to understand how cultural differences between the parties affect the process.

Cultural Differences Affecting Negotiations

In negotiating effectively, it is important to have a sound understanding of the other side's culture. This includes consideration of areas such as communication patterns, time orientation, and social behaviors.[44] A number of useful steps can help in this process. One negotiation expert recommends the following:

1. Do not identify the counterpart's home culture too quickly. Common cues (e.g., name, physical appearance, language, accent, location) may be unreliable. The counterpart probably belongs to more than one culture.
2. Beware of the Western bias toward "doing." In Arab, Asian, and Latin groups, ways of being (e.g., comportment, smell), feeling, thinking, and talking can shape relationships more powerfully than doing.
3. Try to counteract the tendency to formulate simple, consistent, stable images.
4. Do not assume that all aspects of the culture are equally significant. In Japan, consulting all relevant parties to a decision is more important than presenting a gift.
5. Recognize that norms for interactions involving outsiders may differ from those for interactions between compatriots.
6. Do not overestimate your familiarity with your counterpart's culture. An American studying Japanese wrote New Year's wishes to Japanese contacts in basic Japanese characters but omitted one character. As a result, the message became "Dead man, congratulations."[45]

Other useful examples have been offered by Trompenaars and Hampden-Turner, who note that a society's culture often plays a major role in determining the effectiveness of a negotiating approach. This is particularly true when the negotiating groups come from decidedly different cultures such as an ascription society and an achievement society. As noted in Chapter 4, in an ascription society status is attributed based on birth, kinship, gender, age, and personal connections. In an achievement society, status is determined by accomplishments. As a result, each side's cultural perceptions can affect the outcome of the negotiation. Here is an example:

> sending whiz-kids to deal with people 10–20 years their senior often insults the ascriptive culture. The reaction may be: "Do these people think that they have reached our own level of experience in half the time? That a 30-year-old American is good enough to negotiate with a 50-year-old Greek or Italian?" Achievement cultures must understand that some ascriptive cultures, the Japanese especially, spend much on training and in-house education to ensure that older people actually are wiser for the years they have spent in the corporation and for the sheer number of subordinates briefing them. It insults an ascriptive culture to do anything which prevents the self-fulfilling nature of its beliefs. Older people are held to be important **so that** they will be nourished and sustained by others' respect. A stranger is expected to facilitate this scheme, not challenge it.[46]

U.S. negotiators have a style that often differs from that of negotiators in many other countries. Americans believe it is important to be factual and objective. In addition, they often make early concessions to show the other party that they are flexible and reasonable. Moreover, U.S. negotiators typically have authority to bind their party to an agreement, so if the right deal is struck, the matter can be resolved quickly. This is why deadlines are so important to Americans. They have come to do business, and they want to get things resolved immediately.

A comparative example would be the Arabs, who in contrast to Americans, with their logical approach, tend to use an emotional appeal in their negotiation style. They analyze things subjectively and treat deadlines as only general guidelines for wrapping up negotiations. They tend to open negotiations with an extreme initial position. However, the Arabs believe strongly in making concessions, do so throughout the bargaining process, and almost always reciprocate an opponent's concessions. They also seek to build a long-term relationship with their bargaining partners. For these reasons, Americans typically find it easier to negotiate with Arabs than with representatives from many other regions of the world.

Another interesting comparative example is provided by the Chinese. In initial negotiation meetings, it is common for Chinese negotiators to seek agreement on the general focus of the meetings. The hammering out of specific details is postponed for later get-togethers. By achieving agreement on the general framework within which the negotiations will be conducted, the Chinese seek to limit and focus the discussions. Many Westerners misunderstand what is happening during these initial meetings and believe the dialogue consists mostly of rhetoric and general conversation. They are wrong and quite often are surprised later on when the Chinese negotiators use the agreement on the framework and principles as a basis for getting agreement on goals—and then insist that all discussions on concrete arrangements be in accord with these agreed-upon goals. Simply put, what is viewed as general conversation by many Western negotiators is regarded by the Chinese as a formulation of the rules of the game that must be adhered to throughout the negotiations. So in negotiating with the Chinese, it is important to come prepared to ensure that one's own agenda, framework, and principles are accepted by both parties.

Before beginning any negotiations, negotiators should review the negotiating style of the other parties. (Table 7–7 on page 199 provides some insights regarding negotiation styles of the Americans, Japanese, Arabs, and Mexicans.) This review should help to answer certain questions: What can we expect the other side to say and do? How are they likely to respond to certain offers? When should the most important matters be introduced? How quickly should concessions be made, and what type of reciprocity should be expected? These types of questions help effectively prepare the negotiators. In addition, the team will work on formulating negotiation tactics. "International Management in Action: Negotiating with the Japanese," demonstrates such tactics, and the following discussion gets into some of the specifics.

Negotiation Tactics

A number of specific tactics are used in international negotiation. The following discussion examines some of the most common.

Location Where should negotiations take place? If the matter is very important, most businesses will choose a neutral site. For example, U.S. firms negotiating with companies from the Far East will meet in Hawaii, South American companies negotiating with European firms will meet halfway, in New York City. A number of benefits derive from using a neutral site. One is that each party has limited access to its home office for receiving a great deal of negotiating information and advice and thus gaining an advantage on the other. A second is that the cost of staying at the site often is quite high, so both sides have an incentive to conclude their negotiations as quickly as possible. (Of course, if one side enjoys the facilities and would like to stay as long as possible, the negotiations could drag on.) A third is that most negotiators do not like to return home with nothing to show for their efforts, so they are motivated to reach some type of agreement.

Time Limits Time limits are an important negotiation tactic when one party is under a time constraint. This is particularly true when this party has agreed to meet at the home site of the other party. For example, U.S. negotiators who go to London to discuss a joint venture with a British firm often will have a scheduled return flight. Once their hosts find out how long these individuals intend to stay, the British can plan their strategy accordingly. The "real" negotiations are unlikely to begin until close to the time that the Americans must

International Management in Action

Negotiating with the Japanese

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Some people believe that the most effective way of getting the Japanese to open up their markets to the United States is to use a form of strong-arm tactics, such as putting the country on a list of those to be targeted for retaliatory action. Others believe that this approach will not be effective, because the interests of the United States and Japan are intertwined and we would be hurting ourselves as much as them. Regardless of which group is right, one thing is certain: U.S. MNCs must learn how to negotiate more effectively with the Japanese. What can they do? Researchers have found that besides patience and a little table pounding, a number of important steps warrant consideration.

First, business firms need to prepare for their negotiations by learning more about Japanese culture and the "right" ways to conduct discussions. Those companies with experience in these matters report that the two best ways of doing this are to read books on Japanese business practices and social customs and to hire experts to train the negotiators. Other steps that are helpful include putting the team through simulated negotiations and hiring Japanese to assist in the negotiations.

Second, U.S. MNCs must learn patience and sincerity. Negotiations are a two-way street that require the mutual cooperation and efforts of both parties. The U.S. negotiators must understand that many times, Japanese negotiators do not have full authority to make on-the-spot decisions. Authority must be given by someone at the home office, and this failure to act quickly should not be interpreted as a lack of sincerity on the part of the Japanese negotiators.

Third, the MNC must have a unique good or service. So many things are offered for sale in Japan that unless the company has something that is truly different, persuading the other party to buy it is difficult.

Fourth, technical expertise often is viewed as a very important contribution, and this often helps to win concessions with the Japanese. The Japanese know that the Americans, for example, still dominate the world when it comes to certain types of technology and that Japan is unable to compete effectively in these areas. When such technical expertise is evident, it is very influential in persuading the Japanese to do business with the company.

These four criteria are critical to effective negotiations with the Japanese. MNCs that use them report more successful experiences than those who do not.

leave. The British know that their guests will be anxious to strike some type of deal before returning home, so the Americans are at a disadvantage.

Time limits can be used tactically even if the negotiators meet at a neutral site. For example, most Americans like to be home with their families for Thanksgiving, Christmas, and the New Year holiday. Negotiations held right before these dates put Americans at a disadvantage, because the other party knows when the Americans would like to leave.

Buyer–Seller Relations How should buyers and sellers act? As noted earlier, Americans believe in being objective and trading favors. When the negotiations are over, Americans walk away with what they have received from the other party, and they expect the other party to do the same. This is not the way negotiators in many other countries think, however.

The Japanese, for example, believe that the buyers should get most of what they want. On the other hand, they also believe that the seller should be taken care of through reciprocal favors. The buyer must ensure that the seller has not been "picked clean." For example, when many Japanese firms first started doing business with large U.S. firms, they were unaware of U.S. negotiating tactics. As a result, the Japanese thought the Americans were taking advantage of them, whereas the Americans believed they were driving a good, hard bargain.

The Brazilians are quite different from both the Americans and Japanese. Researchers have found that Brazilians do better when they are more deceptive and self-interested and their opponents more open and honest than they are.[47] Brazilians also tend to make fewer promises and commitments than their opponents, and they are much more prone to say no. However, Brazilians are more likely to make initial concessions. Overall, Brazilians are more like Americans than Japanese in that they try to maximize their advantage, but they are unlike Americans in that they do not feel obligated to be open and forthright in their approach. Whether they are buyer or seller, they want to come out on top.

Bargaining Behaviors

Closely related to the discussion of negotiation tactics are the different types of bargaining behaviors, including both verbal and nonverbal behaviors. Verbal behaviors are an important part of the negotiating process, because they can improve the final outcome. Research shows that the profits of the negotiators increase when they make high initial offers, ask a lot of questions, and do not make many verbal commitments until the end of the negotiating process. In short, verbal behaviors are critical to the success of negotiations.

Use of Extreme Behaviors Some negotiators begin by making extreme offers or requests. The Chinese and Arabs are examples. Some negotiators, however, begin with an initial position that is close to the one they are seeking. The Americans and Swedes are examples here.

Is one approach any more effective than the other? Research shows that extreme positions tend to produce better results. Some of the reasons relate to the fact that an extreme bargaining position (1) shows the other party that the bargainer will not be exploited; (2) extends the negotiation and gives the bargainer a better opportunity to gain information on the opponent; (3) allows more room for concessions; (4) modifies the opponent's beliefs about the bargainer's preferences; (5) shows the opponent that the bargainer is willing to play the game according to the usual norms; and (6) lets the bargainer gain more than would probably be possible if a less extreme initial position had been taken.

Although the use of extreme position bargaining is considered to be "un-American," many U.S. firms have used it successfully against foreign competitors. When Peter Ueberroth managed the Olympic Games in the United States in 1984, he turned a profit of well over $100 million—and that was without the participation of Soviet-bloc countries, which would have further increased the market potential of the games. In past Olympiads, sponsoring countries had lost hundreds of millions of dollars. How did Ueberroth do it? One way was by using extreme position bargaining. For example, the Olympic Committee felt that the Japanese should pay $10 million for the right to televise the games in the country, so when the Japanese offered $6 million for the rights, the Olympic Committee countered with $90 million. Eventually, the two sides agreed on $18.5 million. Through the effective use of extreme position bargaining, Ueberroth got the Japanese to pay over three times their original offer, an amount well in excess of the committee's budget.

Promises, Threats, and Other Behaviors Another approach to bargaining is the use of promises, threats, rewards, self-disclosures, and other behaviors that are designed to influence the other party. These behaviors often are greatly influenced by the culture. Graham conducted research using Japanese, U.S., and Brazilian businesspeople and found that they employed a variety of different behaviors during a buyer–seller negotiation simulation.[48] Table 7–8 presents the results.

The table shows that Americans and Japanese make greater use of promises than Brazilians. The Japanese also rely heavily on recommendations and commitment. The Brazilians use a discussion of rewards, commands, and self-disclosure more than Americans and Japanese. The Brazilians also say no a great deal more and make first offers that have higher-level profits than those of the others. Americans tend to operate between these two groups, although they do make less use of commands than either of their opponents and make first offers that have lower profit levels than their opponents'.

Nonverbal Behaviors Nonverbal behaviors also are very common during negotiations. These behaviors refer to what people do rather than what they say. Nonverbal behaviors sometimes are called the "silent language." Typical examples include silent periods, facial gazing, touching, and conversational overlaps. As seen in Table 7–9, the Japanese tend to use silent periods much more often than either Americans or Brazilians during negotiations. In fact, in this study, the Brazilians did not use them at all. The Brazilians did, however, make frequent use of other nonverbal behaviors. They employed facial gazing almost four

Table 7–8
Cross-Cultural Differences in Verbal Behavior of Japanese, U.S., and Brazilian Negotiators

	Number of Times Tactic Was Used in a Half-Hour Bargaining Session		
Behavior and Definition	**Japanese**	**United States**	**Brazilian**
Promise. A statement in which the source indicated an intention to provide the target with a reinforcing consequence which source anticipates target will evaluate as pleasant, positive, or rewarding.	7	8	3
Threat. Same as promise, except that the reinforcing consequences are thought to be noxious, unpleasant, or punishing.	4	4	2
Recommendation. A statement in which the source predicts that a pleasant environmental consequence will occur to the target. Its occurrence is not under the source's control.	7	4	5
Warning. Same as recommendation except that the consequences are thought to be unpleasant	2	1	1
Reward. A statement by the source that is thought to create pleasant consequences for the target.	1	2	2
Punishment. Same as reward, except that the consequences are thought to be unpleasant.	1	3	3
Positive normative appeal. A statement in which the source indicates that the target's past, present, or future behavior was or will be in conformity with social norms.	1	1	0
Negative normative appeal. Same as positive normative appeal, except that the target's behavior is in violation of social norms.	3	1	1
Commitment. A statement by the source to the effect that its future bids will not go below or above a certain level.	15	13	8
Self-disclosure. A statement in which the source reveals information about itself.	34	36	39
Question. A statement in which the source asks the target to reveal information about itself.	20	20	22
Command. A statement in which the source suggests that the target perform a certain behavior.	8	6	14
First offer. The profit level associated with each participant's first offer.	61.5	57.3	75.2
Initial concession. The differences in profit between the first and second offer.	6.5	7.1	9.4
Number of no's. Number of times the word "no" was used by bargainers per half-hour.	5.7	9.0	83.4

Source: Adapted from John L. Graham, "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study," *Journal of International Business Studies,* Spring 1983, p. 88. Reproduced with permission of Palgrave Macmillan.

times more often than the Japanese and almost twice as often as the Americans. In addition, although the Americans and Japanese did not touch their opponents, the Brazilians made wide use of this nonverbal tactic. They also relied heavily on conversational overlaps, employing them more than twice as often as the Japanese and almost three times as often as Americans. Quite obviously, the Brazilians rely very heavily on nonverbal behaviors in their negotiating.

The important thing to remember is that in international negotiations, people use a wide variety of tactics, and the other side must be prepared to counter or find a way of dealing with them. The response will depend on the situation. Managers from different cultures will give different answers. Table 7–10 provides some examples of the types of characteristics needed in effective negotiators. To the extent that international managers have these characteristics, their success as negotiators should increase.

Table 7–9
Cross-Cultural Differences in Nonverbal Behavior of Japanese, U.S., and Brazilian Negotiators

	Number of Times Tactic Was Used in a Half-Hour Bargaining Session		
Behavior and Definition	**Japanese**	**United States**	**Brazilian**
Silent period. The number of conversational gaps of 10 seconds or more per 30 minutes.	5.5	3.5	0
Facial gazing. The number of minutes negotiators spend looking at their opponent's face per randomly selected 10-minute period.	1.3 minutes	3.3 minutes	5.2 minutes
Touching. Incidents of bargainers' touching one another per half-hour (not including handshakes).	0	0	4.7
Conversational overlaps. The number of times (per 10 minutes) that both parties to the negotiation would talk at the same time.	12.6	10.3	28.6

Source: Adapted from John L. Graham, "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study," *Journal of International Business Studies,* Spring 1983, p. 84. Reproduced with permission of Palgrave Macmillan.

Table 7–10
Culture-Specific Characteristics Needed by International Managers for Effective Negotiations

U.S. managers	Preparation and planning skill Ability to think under pressure Judgment and intelligence Verbal expressiveness Product knowledge Ability to perceive and exploit power Integrity
Japanese managers	Dedication to job Ability to perceive and exploit power Ability to win respect and confidence Integrity Listening skill Broad perspective Verbal expressiveness
Chinese managers (Taiwan)	Persistence and determination Ability to win respect and confidence Preparation and planning skill Product knowledge Interesting Judgment and intelligence
Brazilian managers	Preparation and planning skill Ability to think under pressure Judgment and intelligence Verbal expressiveness Product knowledge Ability to perceive and exploit power Competitiveness

Source: Adapted from Nancy J. Adler, *International Dimensions of Organizational Behavior,* 2nd ed. (Boston: PWS-Kent Publishing, 1991), p. 187, and from material provided by Professor John Graham, School of Business Administration, University of Southern California, 1983.

The World of *BusinessWeek*—Revisited

The *BusinessWeek* article that opens this chapter presents a summary of the legal challenges Microsoft faces in Europe. These challenges underscore the importance of effective communication and negotiation across cultures. The latest EU ruling against Microsoft might have been avoided if the company had been able to communicate its position and negotiate an outcome acceptable to the range of stakeholders. Effective two-way communication is an important process. Closer communication and interaction with customers, suppliers, partners, and regulators might have bolstered Microsoft's reputation and helped avoid these disputes.

A key to success in today's global economy is being able to communicate effectively within each country being served and to engage in effective negotiations across cultures. In linking the communication and negotiations concepts in this chapter with the challenges facing Microsoft, answer these questions: (1) In dealing with European consumers and regulators, what are two ways in which communication styles might prove to be a communication barrier? (2) How might Microsoft's aggressive approach to its management, marketing, and legal strategies create perception problems for the company? (3) How might Microsoft and other companies facing legal challenges better prepare and implement negotiation strategies as alternatives to legal proceedings?

SUMMARY OF KEY POINTS

1. Communication is the transfer of meaning from sender to receiver. The key to the effectiveness of communication is how accurately the receiver interprets the intended meaning.
2. Communicating in the international business context involves both downward and upward flows. Downward flows convey information from superior to subordinate; these flows vary considerably from country to country. For example, the downward system of organizational communication is much more prevalent in France than in Japan. Upward communication conveys information from subordinate to superior. In the United States and Japan, the upward system is more common than in South America or some European countries.
3. The international arena contains a number of communication barriers. Some of the most important are language, perception, culture, and nonverbal communication. Language, particularly in written communications, often loses considerable meaning during interpretation. Perception and culture can result in people's seeing and interpreting things differently, and as a result, communication can break down. Nonverbal communication such as body language, facial expressions, and use of physical space, time, and even color often varies from country to country and, if improper, often results in communication problems.
4. A number of steps can be taken to improve communication effectiveness. Some of the most important include improving feedback, providing language and cultural training, and encouraging flexibility and cooperation. These steps can be particularly helpful in overcoming communication barriers in the international context and can lead to more effective international management.
5. Negotiation is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. This process involves five basic steps: planning, interpersonal relationship building, exchanging task-related information, persuasion, and agreement. The way in which the process is carried out often will vary because of cultural differences.
6. There are a wide variety of tactics used in international negotiating. These include location, time limits, buyer–seller relations, verbal behaviors, and nonverbal behaviors.

KEY TERMS

chromatics, *196*
chronemics, *195*
communication, *180*
context, *181*
downward communication, *184*
haptics, *194*

intimate distance, *195*
kinesics, *193*
monochronic time schedule, *195*
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perception, *190*
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REVIEW AND DISCUSSION QUESTIONS

1. How does explicit communication differ from implicit communication? What is one culture that makes wide use of explicit communication? Implicit communication? Describe how one would go about conveying the following message in each of the two cultures you identified: "You are trying very hard, but you are still making too many mistakes."
2. One of the major reasons that foreign expatriates have difficulty doing business in the United States is that they do not understand American slang. A business executive recently gave the authors the following three examples of statements that had no direct meaning for her because she was unfamiliar with slang: "He was laughing like hell." "Don't worry; it's a piece of cake." "Let's throw these ideas up against the wall and see if any of them stick." Why did the foreign expat have trouble understanding these statements, and what could be said instead?
3. Yamamoto Iron & Steel is considering setting up a minimill outside Atlanta, Georgia. At present, the company is planning to send a group of executives to the area to talk with local and state officials regarding this plant. In what way might misperception be a barrier to effective communication between the representatives for both sides? Identify and discuss two examples.
4. Diaz Brothers is a winery in Barcelona. The company would like to expand operations to the United States and begin distributing its products in the Chicago area. If things work out well, the company then will expand to both coasts. In its business dealings in the Midwest, how might culture prove to be a communication barrier for the company's representatives from Barcelona? Identify and discuss two examples.
5. Why is nonverbal communication a barrier to effective communication? Would this barrier be greater for Yamamoto Iron & Steel (question 3) or Diaz Brothers (question 4)? Defend your answer.
6. For U.S companies going abroad for the first time, which form of nonverbal communication barrier would be the greatest, kinesics or proxemics? Why? Defend your answer.
7. If a company new to the international arena was negotiating an agreement with a potential partner in an overseas country, what basic steps should it be prepared to implement? Identify and describe them.
8. Wilsten Inc. has been approached by a Japanese firm that wants exclusive production and selling rights for one of Wilsten's new high-tech products. What does Wilsten need to know about Japanese bargaining behaviors to strike the best possible deal with this company? Identify and describe five.

INTERNET EXERCISE: WORKING EFFECTIVELY AT TOYOTA

In 2001 Toyota's Camry was the best-selling car in the United States and the firm's share of the American automobile market was solid. However, the company is not resting on its laurels. Toyota has expanded worldwide and is now doing business in scores of countries. Visit the firm's Web site and find out what it has been up to lately. The address is **www.toyota.com**. Then take a tour of the company's products and services including cars, air services, and sports vehicles. Next, go to the jobs section site and see what types of career opportunities there are at Toyota. Finally, find out what Toyota is doing in your particular locale. Then, drawing upon this information and the material you read in the chapter, answer these three questions: (1) What type of communication and negotiation challenges do you think you would face if you worked for Toyota and were in constant communication with home-office personnel in Japan? (2) What type of communication training do you think the firm would need to provide to you to ensure that you were effective in dealing with senior-level Japanese managers in the hierarchy? (3) Using Table 7–1 as your guide, what conclusions can you draw regarding communicating with the Japanese managers, and what guidelines would you offer to a non-Japanese employee who just entered the firm and is looking for advice and guidance regarding how to communicate and negotiate more effectively?

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In the International Spotlight

China

China, with more than 1.3 billion people, is the world's most populous country and has a rapidly growing economy. Economic development has proceeded unevenly. Urban coastal areas, particularly in the southeast, are experiencing more rapid economic development than other areas of the country. China has a mixed economy, with a combination of state-owned and private firms. A number of state-owned enterprises (SOEs) have undergone partial or full privatization in recent years. The Chinese government has encouraged foreign investment—in some sectors of the economy and subject to constraints—since the 1980s, defining several "special economic zones" in which foreign investors receive preferable tax, tariff, and investment treatment.

In March 2003, a long-expected transition in China's political leadership took place. Hu Jintao assumed the country's presidency as well as chairmanship of the ruling Communist Party. Wen Jinbao became the new premier. Former president Jiang Zemin retained the chairmanship of the Central Military Commission.

With China's entry into the World Trade Organization in November 2001, the Chinese government made a number of specific commitments to trade and investment liberalization that, if fully implemented, will substantially open the Chinese economy to foreign firms. In telecommunications, this will mean the lifting or sharp reduction of tariffs and foreign ownership limitations, but China will retain the right to limit foreign majority ownership of telecom firms. There are still lingering concerns about China's enforcement of intellectual property protection and its willingness to fully open access to its telecommunications market.

China's real GDP grew by 9.1 percent in 2003, an impressive performance given the SARS epidemic and the generally sluggish conditions in the global economy. This growth brought China's GDP to $1.41 trillion and, for the first time, boosted per capita GDP above $1,000. Indeed, there are concerns that China's economy may be growing too fast: The government is planning to hold economic growth to about 7 percent in 2004. Layoffs have been part of the restructuring of the SOEs, for many were severely overstaffed. The layoffs have created unemployment, which is a burden on the government budget as the government begins to provide social benefits that were previously the responsibility of the SOEs. The geographic concentration of privately owned industry in the urban centers along the coast also has created social strains. Today, China's investment laws seek to channel foreign investment into infrastructure building, industries involving advanced technologies, and high-value-added export-oriented products.

In June 2003, Bruce Claflin, CEO of struggling networking company 3Com Corp., caused quite a stir by announcing a joint alliance with China's Huawei Technologies—just weeks after Huawei had been sued on a range of intellectual property rights (IPR) violations by 3Com's Silicon Valley neighbor Cisco Systems. The suit claims that Huawei's products include some of Cisco's carefully guarded source code and that Huawei infringes on copyrights related to Cisco's computer commands.

According to Claflin, 3Com's negotiations with Huawei began in mid-2002, long before Cisco filed suit. Although he admits that the deal took some by surprise, Clafin insists that it was a "no brainer." "Let's face it, people have the perception of China as a low-tech, low-cost kind of place. But my first impression was that this was truly a great technology company. It blows your mind when everyone thinks China is all about exploiting low-cost labor."

Claflin believes that Cisco's argument of IPR infringement is more complicated than it sounds: "There are two courts they care about: the court of law and the court of public opinion. I bet there's not one company out there that doesn't somehow infringe on Cisco in some way." Cisco says it respects 3Com as a rival and is hopeful that 3Com's promise that products sold by the Huawei–3Com joint venture won't infringe on Cisco's patents will come to pass. Still, it's quite possible that Cisco will file suit against the joint venture, raising questions about IPR protections in China and the United States.

http://english.peopledaily.com.cn

Questions

1. Do you think China will continue to achieve record growth? What factors could hurt its prospects?
2. Today, because of an abundance of cheap labor, China is a hot destination for global corporate outsourcing. Do you think this will still be the case a decade from now? Why or why not?
3. What communication and negotiation challenges may have arisen in the three-way exchanges among Cisco, 3Com, and Huawei?
4. Can 3Com take any proactive measures to help limit the possibility of Cisco moving forward with litigation?

You Be the International Management Consultant

Foreign or Domestic?

Connie Hatley is a very successful businesswoman who has holdings in a wide variety of industries. Hatley recently was approached by one of the Big Three automakers and offered a multidealership arrangement. In return for investing $50 million in facilities, the auto manufacturer would be willing to give her five dealerships spread throughout the United States. These locations, for the most part, are in rural areas, but over the next decade, these locales likely will become much more populated. In addition, the company pointed out that a large percentage of new cars are purchased by individuals who prefer to buy in rural locations, because prices at these dealerships tend to be lower. Hatley has been seriously considering the offer, although she now has a competitive alternative.

A South Korean auto manufacturer has approached Hatley and offered her the same basic deal. Hatley indicated that she was wary of doing business with a foreign firm so far away, but the Korean manufacturer presented her with some interesting auto sales data: (1) Between 1981 and 2001, the South Korean share of the U.S. auto market went from 0 to over 3 percent. (2) South Korean automakers are capturing market share in the United States at a faster rate than any other competitor. (3) New technology is being incorporated into these Korean-built cars at an unprecedented rate, and the quality is among the highest in the industry. (4) Although the Big Three (GM, Ford, and Daimler-Chrysler) hold a large share of the U.S. auto market, their market share among those 45 years of age or younger is declining and being captured by foreign competitors. (5) The South Korean firm intends to increase its share of the U.S. market by 20 percent annually.

Hatley is very impressed with these data and forecasts. Recently, however, the Korean auto company's sales and market share have been declining; she is uneasy about having to deal with someone located halfway around the world. "If I don't receive scheduled deliveries, whom do I call?" she asked one of her vice presidents. "Also, we don't speak their language. If there is a major problem, how are we going to really communicate with each other? I like the proposal, and I'd take it if I were sure that we wouldn't have communication problems. However, $50 million is a lot of money to invest. If a mistake is made, I'm going to lose a fortune. They did experience some problems last year, and their sales were off that year. Of course, if the South Koreans are right in their long-range forecasts and I have no major problems dealing with them, my return on investment is going to be almost 50 percent higher than it will be with the U.S. manufacturer."

Questions

1. What specific types of communication problems might Hatley encounter in dealing with the South Koreans?
2. Can these communication problems be resolved, or are they insurmountable and will simply have to be tolerated?
3. Based on communication problems alone, should Hatley back away from the deal or proceed? Give your recommendation; then defend it.
4. What negotiation approaches might Hatley use if she wants to continue with the deal in order to increase her confidence that it will be successful?

Brief Integrative Case 1

Cross-Cultural Conflicts in the Corning–Vitro Joint Venture

Vitro is a Mexican glass manufacturer located in Monterrey, Mexico. Vitro's product line concentrates on drinkware but includes dozens of products, from automobile windshields to washing machines. Vitro has a long history of successful joint ventures and is globally oriented.

Corning Inc. is most famous for its oven-ready glassware; however, Corning has diversified into fiber optics, environmental products, and laboratory services. Like Vitro, Corning has a long history of successful joint ventures and globalization. Vitro and Corning share similar corporate cultures and customer-oriented philosophies.

After realizing such similarities and looking to capitalize on NAFTA by accessing the Mexican market, Corning Inc. entered into a joint venture with Vitro in the fall of 1992. The similarities in history, philosophy, culture, goals, and objectives of both companies would lead to the logical conclusion that this alliance should be an instant success. However, as Francisco Chevez, an analyst with Smith Barney Shearson in New York, said, "The cultures did not match . . . it was a marriage made in hell." As history reveals, Corning and Vitro dissolved the joint venture 25 months after the agreement. Both companies still have an interest in maintaining the relationship and continue to distribute each other's products.

A further look at the strategic history of Corning and the joint venture between Corning and Vitro will lead to a better understanding of the difficulties that are involved in creating and maintaining foreign alliances. A more in-depth investigation also will reveal the impact of culture on business transactions.

The Strategic History of Corning

Corning Inc. has been an innovative leader in foreign alliances for over 73 years. One of the company's first successes was an alliance with St. Gobain, a French glassmaker, to produce Pyrex cookware in Europe during the 1920s. Corning has formed approximately 50 ventures over the years. Only 9 have failed, which is a phenomenal number considering one recent study found that over one-half of foreign and national alliances do not succeed. Over the last five years, Corning's sales from joint ventures were over $3 billion, which contributed more than $500 million to its net income.

Corning enters into joint ventures for two primary reasons, which are best explained through examples of its past ventures. The first is to gain access to markets that it cannot penetrate quickly enough to obtain a competitive advantage. Corning currently has multiple ventures that exemplify market penetration. Samsung–Corning is an alliance in which Corning provided its distinctive competency of television tube production while Samsung provided expansion into the television market. Corning was able to achieve a strong market share in the Asian market, with sales in excess of $500 million.

The second reason is to bring its technology to market. For example, the strategic alliance of Corning with Mitsubishi led to the creation of Cometec Inc. Corning produces the ceramic substrates in automotive catalytic converters. The venture employs coating technology developed by Mitsubishi that extends Corning's business into stationary pollution control. Corning reports that the venture is quite successful.

Corning's CEO, James R. Houghton, summarizes the major criteria for deciding whether an equity venture is likely to succeed as follows:

1. You need a solid business opportunity.
2. The two partners should make comparable contributions to the new enterprise.
3. The new enterprise should have a well-defined scope and no major conflicts with either parent company.
4. The management of each parent firm should have the vision and confidence to support the venture through its inevitable rough spots.
5. An autonomous operating team should be formed.
6. Responsibility cannot be delegated.

Houghton also emphasizes that the most important dimension of a successful joint venture is trust between the partners.

Corning's track record indicates that it has been able to establish and run a large number of joint ventures successfully. What went wrong with the recent Vitro venture? Vitro and Corning seemed to have similar operating procedures, and Vitro's product line complemented Corning's consumer business. Therefore, how could a seemingly perfect alliance fail so miserably? Probing deeper into the Corning–Vitro joint venture reveals the important role that culture may play in international alliances.

Background on the Corning–Vitro Joint Venture

The Corning–Vitro venture seemed to be ideal. However, a strong Mexican peso, increased overseas competition, and strong cultural differences spelled trouble for the alliance. The economic problems are understandable, but the cultural differences should have been given more attention before the alliance was entered into.

Although both companies appeared so similar on the surface, they really were quite different. Cultural clashes erupted from the very beginning of the venture because of differing approaches to work. One example was in the marketing area. Vitro's sales approach was less aggressive than the Americans at Corning thought necessary; the slower, deliberate approach to sales in Mexico was a result of the previously highly controlled Mexican economy. Corning's more quick-action oriented and aggressive sales approach had developed from decades of competition.

Once in the venture, the Mexicans thought the Americans were too forward, and the Americans believed that their Mexican partners wasted time being too polite. The Americans perceived the Mexican characteristics to include an unwillingness to acknowledge problems and faults. With respect to speed, the Mexicans thought Corning moved too quickly, while the Americans thought Vitro moved too slowly.

Another obvious cultural difference was the conflicting styles and time allotment for decision making. Vitro is bureaucratic and hierarchical, and loyalty is to family members and patrons in the ranks of the company. Decisions often are left either to a member of the controlling family or to top executives, while middle-level managers seldom are asked to contribute their opinions, let alone to make important decisions. Mr. Loose (Corning's chief executive of the joint venture) observed, "If we were looking at a distribution decision, or a customer decision, we would have a group of people in a room, they would do an assessment, figure alternatives and make a decision, and I as chief executive would never know about it. My experience on the Mexican side is that someone in the organization would have a solution in mind, but then the decision had to be kicked up a few levels."

These examples indicate that culture was an especially sensitive issue between Corning and Vitro, and the alliance was not able to overcome these problems. Corning felt that the cross-cultural differences were depriving both companies of the flexibility to take the fast management action that is necessary in the dynamic business climate of both countries. Vitro basically agreed. Corning gave Vitro back its $130 million investment, and the joint venture was called off. The companies still recognize the opportunity to continue business with each other, however. They have changed their relationship into a mutual distribution of each other's products.

The Aftermath of the Breakup

Vitro and Corning each responded publicly to the dissolution of their alliance, and each indicated the strong differences in culture. Corning wanted to discuss the problems and learn from them, while Vitro was hesitant to criticize anyone, especially a visible U.S. partner like Corning. The Mexicans preferred to concentrate on continuation of the marketing arrangement between the companies. Houghton, the Corning CEO, openly spoke of the alliance as one that stopped making sense. He stated that cross-cultural differences inhibited the potential of the alliance. Corning's chief executive of the venture, Mr. Loose, openly acknowledged the different decision-making styles between the two cultures. Vitro executives were defensive and disappointed that Mr. Loose had expressed his views so frankly in public. "It is unfortunate that he made those comments," said an anonymous Vitro executive. The president of Vitro, Eduardo Martens, flatly denied that the cultural differences were any greater than in other alliances. In an interview with the *Harvard Business Review,* however, he admitted, "Business in Mexico is done on a consensus basis, very genteel and sometimes slow by U.S. standards."

Corning feels they learned a lesson in the failed Vitro alliance; both foreign and domestic alliances require additional skills and more management time. CEO Houghton says that alliances carry a lot of risk and misunderstandings, but they can be significantly beneficial to the operations of a company if they are done carefully and selectively. Corning continues to analyze why the cultural differences with Vitro were too strong to overcome.

Questions for Review

1. Identify and discuss Corning's strategic predisposition toward a joint venture with Vitro.
2. Cultural clashes among partners in joint ventures are not a new issue. Discuss why an MNC, and specifically Corning, would be interested in fully understanding the culture of a potential partner before deciding on an alliance.
3. If Corning and Vitro had decided to remain in the alliance, how could they have overcome their differences to make the partnership a success?
4. Discuss why both companies would continue to distribute each other's products after the joint venture failed. What impact might the public statements about the failure have on this relationship?

Source: This case was prepared by Professor Cara Okleshen of the University of Georgia as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

Brief Integrative Case 2

Integrating National and Organizational Cultures:

Chemical Bank's Mergers in Europe

On July 10, 1991, two major U.S. banks announced their intention to merge as equal partners, thus forming the second-largest bank in the country and one of the top ten in the world. Manufacturers Hanover Trust and Chemical Bank were long-standing competitors whose headquarters were directly opposite one another on New York's Park Avenue, and for both institutions the 1980s had been disastrous. Like many other banks at the time, they had major concentrations of problem loans to Latin America, commercial real estate ventures, and troubled energy companies, and both debt and equity investors were shunning their securities. The merger, creating the new Chemical Bank, was seen as a way to deal with these problems by generating expense savings of $1 billion while simultaneously raising new equity capital through a combination of a $1.5 billion stock offering and greater earnings power.

Merger Changes Strategy

Several months before the merger was announced, Herb Aspbury was named Group Executive for Europe for Manufacturers Hanover, and he relocated to London. Prior to this assignment, Aspbury had headed the company's North American Division, where he was responsible for wholesale banking activities in the United States and Canada. With the merger he became Senior Managing Director for the new bank, and the dynamics of his job changed dramatically. Although he was sent to Europe to "rationalize" the bank's presence in the region (i.e., cut costs), the merger became a positive event for shareholders and employees alike. There wasn't a great deal of overlap in Europe between the former competitors; instead, what Aspbury found was a complementary fit among the various businesses. The former Chemical Bank had concentrated its activities on its powerful foreign exchange and interest rate swaps businesses from its London dealing room; Manufacturers Hanover had been more active in raising debt capital through its London headquarters and its branches in Germany, Norway, France, Spain, Portugal, and Turkey.

A few skeptics questioned how the joining of two troubled banks might create a successful new bank, but from the start most media and securities analysts were positive about the combination. Their enthusiasm was based not only on the inherent logic of the deal from a cost standpoint, but also on the way in which management decisions were being made and communicated. For example, within days of the announcement, most senior positions were filled, thus preventing the natural infighting that occurs when uncertainty exists. It goes without saying that most lower-level employees didn't have the same degree of certainty, and the challenges that senior managers faced were abundant. In addition to keeping clients happy and revenue flowing, they had to build their new teams in a way that kept the best people from leaving, and they had to foster the idea that the new organization wasn't merely the sum of the parts. The organization would be a brand-new bank that everyone hoped would bear little resemblance to the troubled past.

National Cultural Challenges and Responses

Herb Aspbury and other international managers faced another level of complexity: the cross-border dimension. It was necessary not only to get former rivals to work together but also to deal with centuries-old cultural differences that could become major impediments to the business going forward. Whether the issue was the disdain that the proud Spanish team had for their colleagues in the U.K., or class distinctions remaining just below the surface in many countries, such issues had to be addressed quickly if the new Chemical Bank was to have a cohesive business throughout the region. Managing a business from New York with offices in Atlanta, Chicago, and Los Angeles was far different from managing a business from a place where the distances were shorter but the differences in language and history were more intense. Despite efforts by the European Union to create a unified market, most country managers at Chemical Bank and other major multinationals tended to focus inwardly and not think beyond their borders.

Fortunately the prospect of working for a successful new company helped managers overcome many of the obstacles in Europe. Focusing on common denominators rather than on differences was also important. Communication was a key element in this regard, and bimonthly meetings in London of the country managers became the norm. The meetings proved to be very effective for building personal relationships of mutual respect, thus overriding generations of cultural barriers. Another important factor was the reward system, which included a very generous bonus pool.

In the past, the tendency had been to build small kingdoms within countries and then use the local profit-and-loss statement as a lever for a good annual bonus. For some local managers and their teams, stature in the local community was even more important than money. Being seen as the president of Chemical Bank in Spain or in Portugal, for example, meant a great deal—but didn't necessarily benefit the European organization as a whole. Because management at the new Chemical Bank emphasized the P&L of the region as a whole, collaborative behavior became the goal and parochial attitudes were seen as an impediment.

To positively influence key staff members in the region, Aspbury invited 150 bankers from Chemical Europe to Marbella, Spain, for a four-day meeting. In addition to product seminars, business reviews, and exposure to top executives from New York, the sessions were designed to build relationships with colleagues throughout Europe so that greater cooperation would be fostered to enhance future business opportunities. It was also a chance to highlight the most successful deals of the previous year, particularly transactions involving two or more geographic teams (for example, a cross-border merger or a multicurrency debt origination on behalf of a United States client operating in several European countries). The message was that opening the borders to cooperative efforts was far more valuable to the bank and its employees than trying to be a local hero. A desirable outcome of the meetings in subsequent years was the fact that many people became close friends and looked forward to working across country borders.

Merger No. 2, Organizational Culture, and a New Strategy

By all measures the Chemical/Manufacturers Hanover merger was an enormous success around the world. Within six months of the completion of the deal, the new company was earning more in one month than its predecessors had earned in one quarter on a combined basis. The stock price rose from the high teens to the mid-fifties in two years, and the rating agencies upgraded the bank's long-term debt, thus reducing the cost of capital. Clients were also very happy, as evidenced by the new business Chemical was receiving at the expense of its competitors. Indeed, by late 1995, the company was in a position to acquire Chase Manhattan Corporation, a once proud bank struggling with problem loans and misguided expansion into overseas retail banking. Accordingly, after a summer of rumors, on August 28, 1995, Chase Manhattan and Chemical Bank announced plans to merge. Unlike the 1991 merger of equals, this was a takeover of Chase by Chemical, but because of the prominence of the Chase name around the world, Chemical Banking Corp. changed its name to Chase Manhattan Corp.

In theory an outright acquisition is easier because the acquirer can make decisions in an autocratic fashion and doesn't have to spend much time on consensus building. In practice it's not quite that simple. To extract maximum value from the purchase, it's important to select the best people and the best businesses from the combined entity. Complicating the integration of Chemical and Chase was a sense of shock and despair among older Chase employees, who felt betrayed by their management for selling the company to an "upstart."

For the second time in five years, Aspbury found himself with merger challenge in Europe, but one that was far more complex than the merger of Chemical Bank and Manufacturers Hanover. Chase had 5,000 employees in the region compared to 1,500 for Chemical, and Aspbury's responsibilities included all of Europe, Africa, and the Middle East, where Chase had offices and long-standing client relationships. Not only were there 150 people in Moscow, but offices in Greece, South Africa, and Uzbekistan were added to the equation. On the one hand, many people at Chase had never accepted the fact that their company was struggling and felt disenfranchised by the takeover. On the other hand, Chase had some outstanding bankers who welcomed the merger and quickly adapted to the new culture. Because Chase had been in the international arena for decades, many of its people had worked in New York and other major cities, had a broad vision of the world, and were accustomed to a global approach.

Once again the two major leadership challenges for Aspbury were team building and communication. Many Chase employees romanticized the past and still looked to the legendary David Rockefeller, who had retired as CEO in the early 1980s, to lead them forward. It soon became apparent that they would have difficulty adapting to the new organizational culture and would have to leave the bank. As the integration process moved forward, some Chase employees were actually convinced that the deal would die and the formal merger would never really happen. They too had to either accept reality or move on. The most talented people embraced the new opportunities the merger would afford and were ready to lead their best people.

As was the case in the 1991 merger, the market responded very positively to the announcement, and that reaction proved to be a powerful motivator. Because of the size of the new organization, Aspbury found that communication had to be both more frequent and more focused. The annual Marbella meetings had to be replaced, and more focus was needed on the "emerging markets" countries and products. Although the Moscow bankers might enjoy learning about investment-grade bonds and sophisticated derivative strategies, there was little opportunity to use these products in their market. Instead, they needed to know the bank's capabilities and risk tolerance in Eastern Europe and other developing economies, and they needed a crash course in capitalism. Many could spout capitalist terms, but very few really understood how free markets worked. Managing their expectations became a major challenge, for they were eager to exploit Chase's capabilities in their own markets. The bank, however, had to take a very cautious approach to the enormous risk in these new markets. Moving some of the best Russians, Poles, Hungarians, and Turks to London to work in specific industry and product groups gave them a much better overview of the organization and helped them understand the need to proceed cautiously in developing markets.

Leadership in Times of Change

It can be argued that nothing tests the management skills of a CEO like a merger. Not only must the business fit be there from the start (the so-called synergy), but the price has to be very realistic and the due diligence exacting. Unfortunately it's estimated that fewer than a third of all deals are successful in the end, as measured by financial results, market capitalization, and key management retention. Indeed, some mergers are "dead on arrival." All of the synergies in the world, however, can be destroyed by poor execution by various levels of management. Failing to take into account corporate cultural differences, to recognize the strengths and weaknesses of the various businesses and people, and to understand local cultures can be fatal. On the international side, the challenge is especially complex.

The interaction of organizational culture and national culture can create impediments to change and constrain managerial options. At the same time, a merger can reenergize organizations, break down barriers to change, and provide new opportunities. Balancing the interests of a range of stakeholders, dealing with people in an honest and straightforward fashion, and working with individuals to address some of the inevitable disruptions all go a long way toward increasing the likelihood of success in mergers involving different national and organizational cultures.

Questions for Review

1. What challenges do mergers create for managing national and organizational cultures?
2. How might the challenges associated with postmerger integration in Europe be affected by the fact that the parents of each company in both mergers were based in the United States?
3. What management skills are most important to making a cross-border merger successful? How might these skills differ from those needed during "routine" periods?
4. What specific steps were taken in the two mergers to try to align the interests of different parts of the organizations so that they were all working toward the overall good of the firm?
5. How might diversity among employees of different cultural backgrounds and with varying specialties and expertise actually strengthen an organization's culture after a merger?

Source: This case was prepared by Herbert F. Aspbury, retired Regional CEO for Europe, Africa, and the Middle East, Chase Manhattan Bank. It is provided as the basis for class discussion and is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

In-Depth Integrative Case 1

Euro Disneyland

On January 18, 1993, Euro Disneyland chairperson Robert Fitzpatrick announced he would leave that post on April 12 to begin his own consulting company. Quitting his position exactly one year after the grand opening of Euro Disneyland, Fitzpatrick's resignation removed U.S. management from the helm of the French theme park and resort.

Fitzpatrick's position was taken by a Frenchman, Philippe Bourguignon, who had been Euro Disneyland's senior vice president for real estate. Bourguignon, 45 years old, faced a net loss of FFr 188 million for Euro Disneyland's fiscal year, which ended September 1992. Also, between April and September 1992, only 29 percent of the park's total visitors were French. Expectations were that closer to half of all visitors would be French.

It was hoped that the promotion of Philippe Bourguignon would have a public relations benefit for Euro Disneyland—a project that has been a publicist's nightmare from the beginning. One of the low points was at a news conference prior to the park's opening when protesters pelted Michael Eisner, CEO of the Walt Disney Company, with rotten eggs. Within the first year of operation, Disney had to compromise its "squeaky clean" image and lift the alcohol ban at the park. Wine is now served at all major restaurants.

Euro Disneyland, 49 percent owned by Walt Disney Company, Burbank, California, originally forecasted 11 million visitors in the first year of operation. In January 1993 it appeared attendance would be closer to 10 million. In response, management temporarily slashed prices at the park for local residents to FFr 150 ($27.27) from FFr 225 ($40.91) for adults, and to FFr 100 from FFr 150 for children in order to lure more French during the slow, wet winter months. The company also reduced prices at its restaurants and hotels, which registered occupancy rates of just 37 percent.

Bourguignon also faced other problems, such as the second phase of development at Euro Disneyland, which was expected to start in September 1993. It was unclear how the company planned to finance its FFr 8–10 billion cost. The company had steadily drained its cash reserves (FFr 1.9 billion in May 1993) while piling up debt (FFr 21 billion in May 1993). Euro Disneyland admitted that it and the Walt Disney Company were "exploring potential sources of financing for Euro Disneyland." The company was also talking to banks about restructuring its debts.

Despite the frustrations, Eisner was tirelessly upbeat about the project. "Instant hits are things that go away quickly, and things that grow slowly and are part of the culture are what we look for," he said. "What we created in France is the biggest private investment in a foreign country by an American company ever. And it's gonna pay off."

In the Beginning

Disney's story is the classic American rags-to-riches story, which started in a small Kansas City advertising office where Mickey was a real mouse prowling the unknown Walt Disney floor. Originally, Mickey was named Mortimer, until a dissenting Mrs. Disney stepped in. How close Mickey was to Walt Disney is evidenced by the fact that when filming, Disney himself dubbed the mouse's voice. Only in later films did Mickey get a different voice. Disney made many sacrifices to promote his hero-mascot, including selling his first car, a beloved Moon Cabriolet, and humiliating himself in front of Louis B. Mayer. "Get that mouse off the screen!" was the movie mogul's reported response to the cartoon character. Then, in 1955, Disney had the brainstorm of sending his movie characters out into the "real" world to mix with their fans and he battled skeptics to build the very first Disneyland in Anaheim, California.

When Disney died in 1966, the company went into virtual suspended animation. Their last big hit of that era was 1969's *The Love Bug,* about a Volkswagen named Herbie. Today, Disney executives trace the problem to a tyrannical CEO named E. Cardon Walker who ruled the company from 1976 to 1983, and to his successor, Ronald W. Miller. Walker was quick to ridicule underlings in public and impervious to any point of view but his own. He made decisions according to what he thought Walt would have done. Executives clinched arguments by quoting Walt like the Scriptures or Marx, and the company eventually supplied a little book of the founder's sayings. Making the wholesome family movies Walt would have wanted formed a key article of Walker's creed. For example, a poster advertising the unremarkable *Condorman* featured actress Barbara Carrera in a slit skirt. Walker had the slit painted over. With this as the context, studio producers ground out a thin stream of tired, formulaic movies that fewer and fewer customers would pay to see. In mid-1983, a similar low-horsepower approach to television production led to CBS's cancellation of the hour-long program *Walt Disney,* leaving the company without a regular network show for the first time in 29 years. Like a reclusive hermit, the company lost touch with the contemporary world.

Ron Miller's brief reign was by contrast a model of decentralization and delegation. Many attributed Miller's ascent to his marrying the boss's daughter rather than to any special gift. To shore Miller up, the board installed Raymond L. Watson, former head of the Irvine Co., as part-time chairperson. He quickly became full-time.

Miller sensed the studio needed rejuvenation and he managed to produce the hit film *Splash,* featuring an apparently (but not actually) bare-breasted mermaid, under the newly devised Touchstone label. However, the reluctance of freelance Hollywood talent to accommodate Disney's narrow range and stingy compensation often kept his sound instincts from bearing fruit. "Card [Cardon Walker] would listen but not hear," said a former executive. "Ron [Ron Miller] would listen but not act."

Too many box office bombs contributed to a steady erosion of profit. Profits of $135 million on revenues of $915 million in 1980 dwindled to $93 million on revenues of $1.3 billion in 1983. More alarmingly, revenues from the company's theme parks, about three-quarters of the company's total revenues, were showing signs of leveling off. Disney's stock slid from $84.375 a share to $48.75 between April 1983 and February 1984.

Through these years, Roy Disney Jr. simmered while he watched the downfall of the national institution that his uncle, Walt, and his father, Roy Disney Sr., had built. He had long argued that the company's constituent parts all work together to enhance each other. If movie and television production weren't revitalized, not only would that source of revenue disappear but the company and its activities would also grow dim in the public eye. At the same time the stream of new ideas and characters that kept people pouring into the parks and buying toys, books, and records would dry up. Now his dire predictions were coming true. His own personal shareholding had already dropped from $96 million to $54 million. Walker's treatment of Ron Miller as the shining heir apparent and Roy Disney as the idiot nephew helped drive Roy to quit as Disney vice president in 1977, and to set up Shamrock Holdings, a broadcasting and investment company.

In 1984, Roy teamed up with Stanley Gold, a tough-talking lawyer and a brilliant strategist. Gold saw that the falling stock price was bound to flush out a raider and afford Roy Disney a chance to restore the company's fortunes. They asked Frank Wells, vice chairperson of Warner Bros., if he would take a top job in the company in the event they offered it. Wells, a lawyer and a Rhodes scholar, said yes. With that, Roy knew that what he would hear in Disney's boardroom would limit his freedom to trade in its stock, so he quit the board on March 9, 1984. "I knew that would hang a 'For Sale' sign over the company," said Gold.

By resigning, Roy pushed over the first of a train of dominoes that ultimately led to the result he most desired. The company was raided, almost dismantled, greenmailed, raided again, and sued left and right. But it miraculously emerged with a skilled new top management with big plans for a bright future. Roy Disney proposed Michael Eisner as the CEO but the board came close to rejecting Eisner in favor of an older, more buttoned-down candidate. Gold stepped in and made an impassioned speech to the directors. "You see guys like Eisner as a little crazy . . . but every studio in this country has been run by crazies. What do you think Walt Disney was? The guy was off the goddamned wall. This is a creative institution. It needs to be run by crazies again."*

Meanwhile Eisner and Wells staged an all-out lobbying campaign, calling on every board member except two, who were abroad, to explain their views about the company's future. "What was most important," said Eisner, "was that they saw I did not come in a tutu, and that I was a serious person, and I understood a P&L, and I knew the investment analysts, and I read *Fortune.*"

In September 1984, Michael Eisner was appointed CEO and Frank Wells became president. Jeffrey Katzenberg, the 33-year-old, maniacal production chief followed Fisher from Paramount Pictures. He took over Disney's movie and television studios. "The key," said Eisner "is to start off with a great idea."

Disneyland in Anaheim, California

For a long time, Walt Disney had been concerned about the lack of family-type entertainment available for his two daughters. The amusement parks he saw around him were mostly filthy traveling carnivals. They were often unsafe and allowed unruly conduct on the premises. Disney envisioned a place where people from all over the world would be able to go for clean and safe fun. His dream came true on July 17, 1955, when the gates first opened at Disneyland in Anaheim, California.

Disneyland strives to generate the perfect fantasy. But magic does not simply happen. The place is a marvel of modern technology. Literally dozens of computers, huge banks of tape machines, film projectors, and electronic controls lie behind the walls, beneath the floors, and above the ceilings of dozens of rides and attractions. The philosophy is that "Disneyland is the world's biggest stage, and the audience is right here on the stage," said Dick Hollinger, chief industrial engineer at Disneyland. "It

Exhibit 1 How the Theme Parks Grew

1955	Disneyland
1966	Walt Disney's death
1971	Walt Disney World in Orlando
1982	Epcot Center
1983	Tokyo Disneyland
1992	Euro Disneyland

*Stephen Koepp, "Do You Believe in Magic?" *Time,* April 25, 1988, pp. 66–73.

takes a tremendous amount of work to keep the stage clean and working properly."

Cleanliness is a primary concern. Before the park opens at 8 a.m., the cleaning crew will have mopped and hosed and dried every sidewalk, every street, and every floor and counter. More than 350 of the park's 7,400 employees come on duty at 1 a.m., to begin the daily cleanup routine. The thousands of feet that walk through the park each day and chewing gum do not mix, and gum has always presented major cleanup problems. The park's janitors found long ago that fire hoses with 90 pounds of water pressure would not do the job. Now they use steam machines, razor scrapers, and mops towed by Cushman scooters to literally scour the streets and sidewalks daily.

It takes one person working a full eight-hour shift to polish the brass on the Fantasyland merry-go-round. The scrupulously manicured plantings throughout the park are treated with growth retarding hormones to keep the trees and bushes from spreading beyond their assigned spaces and destroying the carefully maintained five-eighths scale modeling that is utilized in the park. The maintenance supervisor of the Matterhorn bobsled ride personally walks every foot of track and inspects every link of tow chain every night, thus trusting his or her own eyes more than the $2 million in safety equipment that is built into the ride.

Eisner himself pays obsessive attention to detail. Walking through Disneyland one Sunday afternoon, he peered at the plastic leaves on the Swiss Family Robinson tree house noting that they periodically wear out and need to be replaced leaf by leaf at a cost of $500,000. As his family strolled through the park, he and his eldest son Breck stooped to pick up the rare piece of litter that the cleanup crew had somehow missed. This old-fashioned dedication has paid off. Since opening day in 1955, Disneyland has been a consistent money-maker.

Disney World in Orlando, Florida

By the time Eisner arrived, Disney World in Orlando was already on its way to becoming what it is today—the most popular vacation destination in the United States. But the company had neglected a rich niche in its business: hotels. Disney's three existing hotels, probably the most profitable in the United States, registered unheard-of occupancy rates of 92 percent to 96 percent versus 66 percent for the industry. Eisner promptly embarked on an ambitious $1 billion hotel expansion plan. Two major hotels, Disney's Grand Floridian Beach Resort and Disney's Caribbean Beach Resort, were opened during 1987–89. Disney's Yacht Club and Beach Resort along with the Dolphin and Swan Hotels, owned and operated by Tishman Realty & Construction, Metropolitan Life Insurance, and Aoki Corporation opened during 1989–90. Adding 3,400 hotel rooms and 250,000 square feet of convention space, this made it the largest convention center east of the Mississippi.

In October 1982, Disney made a new addition to the theme park—the Experimental Prototype Community of Tomorrow, or EPCOT Center. E. Cardon Walker, then president of the company, announced that EPCOT would be a "permanent showcase, industrial park, and experimental housing center." This new park consists of two large complexes: Future World, a series of pavilions designed to show the technological advances of the next 25 years, and World Showcase, a collection of foreign "villages."

Tokyo Disneyland

It was Tokyo's nastiest winter day in four years. Arctic winds and eight inches of snow lashed the city. Roads were clogged and trains slowed down. But the bad weather didn't keep 13,200 hardy souls from Tokyo Disneyland. Mikki Mausu, better known outside Japan as Mickey Mouse, had taken the country by storm.

Located on a fringe of reclaimed shoreline in Urayasu City on the outskirts of Tokyo, the park opened to the public on April 15, 1983. In less than one year, over 10 million people had passed through its gates, an attendance figure that has been bettered every single year. On August 13, 1983, 93,000 people helped set a one-day attendance record that easily eclipsed the old records established at the two parent U.S. parks. Four years later, records again toppled as the turnstiles clicked. The total this time: 111,500. By 1988, approximately 50 million people, or nearly half of Japan's population, had visited Tokyo Disneyland since its opening. The steady cash flow pushed revenues for fiscal year 1989 to $768 million, up 17 percent from 1988.

The 204-acre Tokyo Disneyland is owned and operated by Oriental Land under license from the Walt Disney Co. The 45-year contract gives Disney 10 percent of admissions and 5 percent of food and merchandise sales, plus licensing fees. Disney opted to take no equity in the project and put no money down for construction.

Exhibit 2 Investor's Snapshot: The Walt Disney Company (December 1989)

Sales (latest four quarters)	$4.6 billion
Change from year earlier	Up 33.6%
Net profit	$703.3 million
Change	Up 34.7%
Return on common stockholders' equity	23.4%
Five year average	20.3%
Stock price average (last 12 months)	$60.50–$136.25
Recent share price	$122.75
Price/Earnings Multiple	27
Total return to investors (12 months to 11/3/89)	90.6%

Source: Fortune, December 4, 1989.

"I never had the slightest doubt about the success of Disneyland in Japan," said Masatomo Takahashi, president of Oriental Land Company. Oriental Land was so confident of the success of Disney in Japan that it financed the park entirely with debt, borrowing ¥180 billion ($1.5 billion at February 1988 exchange rates). Takahashi added, "The debt means nothing to me," and with good reason. According to Fusahao Awata, who co-authored a book on Tokyo Disneyland: "The Japanese yearn for [American culture]."

Soon after Tokyo Disneyland opened in April 1983, five Shinto priests held a solemn dedication ceremony near Cinderella's castle. It is the only overtly Japanese ritual seen so far in this sprawling theme park. What visitors see is pure Americana. All signs are in English, with only small *katakana* (a phonetic Japanese alphabet) translations. Most of the food is American-style, and the attractions are cloned from Disney's U.S. parks. Disney also held firm on two fundamentals that strike the Japanese as strange—no alcohol is allowed and no food may be brought in from outside the park.

However, in Disney's enthusiasm to make Tokyo a brick-by-brick copy of Anaheim's Magic Kingdom, there were a few glitches. On opening day, the Tokyo park discovered that almost 100 public telephones were placed too high for Japanese guests to reach them comfortably. And many hungry customers found countertops above their reach at the park's snack stands.

"Everything we imported that worked in the United States works here," said Ronald D. Pogue, managing director of Walt Disney Attractions Japan Ltd. "American things like McDonald's hamburgers and Kentucky Fried Chicken are popular here with young people. We also wanted visitors from Japan and Southeast Asia to feel they were getting the real thing," said Toshiharu Akiba, a staff member of the Oriental Land publicity department.

Still, local sensibilities dictated a few changes. A Japanese restaurant was added to please older patrons. The Nautilus submarine is missing. More areas are covered to protect against rain and snow. Lines for attractions had to be redesigned so that people walking through the park did not cross in front of patrons waiting to ride an attraction. "It's very discourteous in Japan to have people cross in front of somebody else," explained James B. Cora, managing director of operations for the Tokyo project. The biggest differences between Japan and America have come in slogans and ad copy. Although English is often used, it's "Japanized" English—the sort that would have native speakers shaking their heads while the Japanese nod happily in recognition. "Let's Spring" was the motto for one of their highly successful ad campaigns.

Pogue, visiting frequently from his base in California, supervised seven resident American Disney managers who work side by side with Japanese counterparts from Oriental Land Co. to keep the park in tune with the Disney doctrine. American it may be, but Tokyo Disneyland appeals to such deep-seated Japanese passions as cleanliness, order, outstanding service, and technological wizardry. Japanese executives are impressed by Disney's detailed training manuals, which teach employees how to make visitors feel like VIPs. Most worth emulating, say the Japanese, is Disney's ability to make even the lowliest job seem glamorous. "They have changed the image of dirty work," said Hakuhodo Institute's Sekizawa.

Disney Company did encounter a few unique cultural problems when developing Tokyo Disneyland:

The problem: how to dispose of some 250 tons of trash that would be generated weekly by Tokyo Disneyland visitors?

The standard Disney solution: trash compactors.

The Japanese proposal: pigs to eat the trash and be slaughtered and sold at a profit.

James B. Cora and his team of some 150 operations experts did a little calculating and pointed out that it would take 100,000 pigs to do the job. And then there would be the smell . . .

The Japanese relented.

The Japanese were also uneasy about a rustic-looking Westernland, Tokyo's version of Frontierland. "The Japanese like everything fresh and new when they put it in," said Cora. "They kept painting the wood and we kept saying, 'No, it's got to look old.'" Finally the Disney crew took the Japanese to Anaheim to give them a firsthand look at the Old West.

Tokyo Disneyland opened just as the yen escalated in value against the dollar and the income level of the Japanese registered a phenomenal improvement. During this era of affluence, Tokyo Disneyland triggered an interest in leisure. Its great success spurred the construction of "leisurelands" throughout the country. This created an increase in the Japanese people's orientation toward leisure. But demographics are the real key to Tokyo Disneyland's success. Thirty million Japanese live within 30 miles of the park. There are three times more than the number of people in the same proximity to Anaheim's Disneyland. With the park proven such an unqualified hit, and nearing capacity, Oriental Land and Disney mapped out plans for a version of the Disney-MGM studio tour next door. This time, Disney talked about taking a 50 percent stake in the project.

Building Euro Disneyland

On March 24, 1987, Michael Eisner and Jacques Chirac, the French prime minister, signed a contract for the building of a Disney theme park at Marne-la-Vallee. Talks between Disney and the French government had dragged on for more than a year. At the signing, Robert Fitzpatrick, fluent in French, married to the former Sylvie Blondet, and the recipient of two awards from the French government, was introduced as the president of Euro Disneyland. He was expected to be a key player in wooing support from the

French establishment for the theme park. As one analyst put it, Disney selected him to set up the park because he is "more French than the French."

Disney had been courted extensively by Spain and France. The prime ministers of both countries ordered their governments to lend Disney a hand in its quest for a site. France set up a five-person team headed by Special Advisor to Foreign Trade and Tourism Minister Edith Cresson, and Spain's negotiators included Ignacio Vasallo, Director-General for the Promotion of Tourism. Disney pummeled both governments with requests for detailed information. "The only thing they haven't asked us for is the color of the tourists' eyes," moaned Vasallo.

The governments tried other enticements, too. Spain offered tax and labor incentives and possibly as much as 20,000 acres of land. The French package, although less generous, included spending of $53 million to improve highway access to the proposed site and perhaps speeding up a $75 million subway project. For a long time, all that smiling Disney officials would say was that Spain had better weather while France had a better population base.

Officials explained that they picked France over Spain because Marne-la-Vallee is advantageously close to one of the world's tourism capitals, while also being situated within a day's drive or train ride of some 30 million people in France, Belgium, England, and Germany. Another advantage mentioned was the availability of good transportation. A train line that serves as part of the Paris Metro subway system ran to Torcy, in the center of Marne-la-Vallee, and the French government promised to extend the line to the actual site of the park. The park would also be served by A-4, a modern highway that runs from Paris to the German border, as well as a freeway that runs to Charles de Gaulle airport.

Once a letter of intent had been signed, sensing that the French government was keen to not let the plan fail, Disney held out for one concession after another. For example, Disney negotiated for VAT (value-added tax) on ticket sales to be cut from a normal 18.6 percent to 7 percent. A quarter of the investment in building the park would come from subsidized loans. Additionally, any disputes arising from the contract would be settled not in French courts but by a special international panel of arbitrators. But Disney did have to agree to a clause in the contract which would require it to respect and utilize French culture in its themes.

The park was built on 4,460 acres of farmland in Marne-la-Vallee, a rural corner of France 20 miles east of Paris known mostly for sugar beets and Brie cheese. Opening was planned for early 1992 and planners hoped to attract some 10 million visitors a year. Approximately $2.5 billion was needed to build the park, making it the largest single foreign investment ever in France. A French "pivot" company was formed to build the park with starting capital of FFr 3 billion, split 60 percent French and 40 percent foreign, with Disney taking 16.67 percent. Euro Disneyland was expected to bring $600 million in foreign investment into France each year.

As soon as the contract had been signed, individuals and businesses began scurrying to somehow plug into the Mickey Mouse money machine—all were hoping to benefit from the American dream without leaving France. In fact, one Paris daily, *Liberation,* actually sprouted mouse ears over its front-page flag.

The $1.5 to $2 billion first phase investment would involve an amusement complex including hotels and restaurants, golf courses, and an aquatic park in addition to a European version of the Magic Kingdom. The second phase, scheduled to start after the gates opened in 1992, called for the construction of a community around the park, including a sports complex, technology park, conference center, theater, shopping mall, university campus, villas, and condominiums. No price tag had been put on the second phase, although it was expected to rival, if not surpass, the first phase investment. In November 1989, Fitzpatrick announced that the Disney–MGM Studios, Europe would also open at Euro Disneyland in 1996, resembling the enormously successful Disney–MGM Studios theme park at Disney World in Orlando. The new studios would greatly enhance the Walt Disney Company's strategy of increasing its production of live action and animated filmed entertainment in Europe for both the European and world markets.

"The phone's been ringing here ever since the announcement," said Marc Berthod of EpaMarne, the government body that oversees the Marne-la-Vallee region. "We've gotten calls from big companies as well as small—everything from hotel chains to language interpreters all asking for details on Euro Disneyland. And the individual mayors of the villages around here have been swamped with calls from people looking for jobs." he added.

Euro Disneyland was expected to generate up to 28,000 jobs, providing a measure of relief for an area that had suffered a 10 percent–plus unemployment rate for the previous year. It was also expected to light a fire under France's construction industry, which had been particularly hard hit by France's economic problems over the previous year. Moreover, Euro Disneyland was expected to attract many other investors to the depressed outskirts of Paris. International Business Machines (IBM) and Banque National de Paris were among those already building in the area. In addition one of the new buildings going up was a factory that would employ 400 outside workers to wash the 50 tons of laundry expected to be generated per day by Euro Disneyland's 14,000 employees.

The impact of Euro Disneyland was also felt in the real estate market. "Everyone who owns land around here is holding on to it for the time being, at least until they know what's going to happen," said Danny Theveno, a spokesman for the town of Villiers on the western edge of Marne-la-Vallee. Disney expected 11 million visitors in the first year. The break-even point was estimated to be between seven and eight million. One worry was that Euro Disneyland would cannibalize the flow of European visitors to Walt Disney

Exhibit 3 Chronology of the Euro Disneyland Deal

1984–85	Disney negotiates with Spain and France to create a European theme park Chooses France as the site
1987	Disney signs letter of intent with the French government
1988	Selects lead commercial bank lenders for the senior portion of the project Forms the Société en Nom Collectif (SNC) Begins planning for the equity offering of 51% of Euro Disneyland as required in the letter of intent
1989	European press and stock analysts visit Walt Disney World in Orlando Begin extensive news and television campaign Stock starts trading at 20–25 percent premium from the issue price

Source: Geraldine E. Willigan, "The Value-Adding CFO: An Interview with Disney's Gary Wilson," *Harvard Business Review,* January–February 1990, pp. 85–93.

World in Florida, but European travel agents said that their customers were still eagerly signing up for Florida, lured by the cheap dollar and the promise of sunshine.

Protests of Cultural Imperialism

Disney faced French communists and intellectuals who protested the building of Euro Disneyland. Ariane Mnouchkine, a theater director, described it as a "cultural Chernobyl." "I wish with all my heart that the rebels would set fire to Disneyland," thundered a French intellectual in the newspaper *La Figaro.* "Mickey Mouse," sniffed another, "is stifling individualism and transforming children into consumers." The theme park was damned as an example of American "neoprovincialism."

Farmers in the Marne-la-Vallee region posted protest signs along the roadside featuring a mean looking Mickey Mouse and touting sentiments such as "Disney go home," "Stop the massacre," and "Don't gnaw away our national wealth." Farmers were upset partly because under the terms of the contract, the French government would expropriate the necessary land and sell it without profit to the Euro Disneyland development company.

While local officials were sympathetic to the farmers' position, they were unwilling to let their predicament interfere with what some called "the deal of the century." "For many years these farmers have had the fortune to cultivate what is considered some of the richest land in France," said Berthod. "Now they'll have to find another occupation."

Also less than enchanted about the prospect of a magic kingdom rising among their midst was the communist dominated labor federation, the Confédération Générale du Travail (CGT). Despite the job-creating potential of Euro Disney, the CGT doubted its members would benefit. The union had been fighting hard to stop the passage of a bill which would give managers the right to establish flexible hours for their workers. Flexible hours were believed to be a prerequisite to the profitable operation of Euro Disneyland, especially considering seasonal variations.

However, Disney proved to be relatively immune to the anti-U.S. virus. In early 1985, one of the three state-owned television networks signed a contract to broadcast two hours of dubbed Disney programming every Saturday evening. Soon after, *Disney Channel* became one of the top-rated programs in France.

In 1987, the company launched an aggressive community relations program to calm the fears of politicians, farmers, villagers, and even bankers that the project would bring traffic congestion, noise, pollution, and other problems to their countryside. Such a public relations program was a rarity in France, where businesses make little effort to establish good relations with local residents. Disney invited 400 local children to a birthday party for Mickey Mouse, sent Mickey to area hospitals, and hosted free trips to Disney World in Florida for dozens of local officials and children.

"They're experts at seduction, and they don't hide the fact that they're trying to seduce you," said Vincent Guardiola, an official with Banque Indosuez, one of the 17 banks wined and dined at Orlando and subsequently one of the venture's financial participants. "The French aren't used to this kind of public relations—it was unbelievable." Observers said that the goodwill efforts helped dissipate initial objections to the project.

Financial Structuring at Euro Disneyland

Eisner was so keen on Euro Disneyland that Disney kept a 49 percent stake in the project, while the remaining 51 percent of stock was distributed through the London, Paris, and Brussels stock exchanges. Half the stock under the offer was going to the French, 25 percent to the English, and the remainder distributed in the rest of the European community. The initial offer price of FFr 72 was considerably higher than the pathfinder prospectus estimate because the capacity of the park had been slightly extended. Scarcity of stock was likely to push up the price, which was expected to reach FFr 166 by opening day in 1992. This would give a compound return of 21 percent.

Walt Disney Company maintained management control of the company. The U.S. company put up $160 million of its own capital to fund the project, an investment which soared in value to $2.4 billion after the popular stock offering in Europe. French national and local authorities, by comparison, were providing about $800 million in low-interest loans and poured at least that much again into infrastructure.

Other sources of funding were the park's 12 corporate sponsors, and Disney would pay them back in kind. The "autopolis" ride, where kids ride cars, features coupes emblazoned with the "Hot Wheels" logo. Mattel Inc., sponsor of the ride, is grateful for the boost to one of its biggest toy lines.

The real payoff would begin once the park opened. The Walt Disney Company would receive 10 percent of admission fees and 5 percent of food and merchandise revenue, the same arrangement as in Japan. But in France, it would also receive management fees, incentive fees, and 49 percent of the profits.

A Saloman Brothers analyst estimated that the park would pull in three to four million more visitors than the 11 million the company expected in the first year. Other Wall Street analysts cautioned that stock prices of both Walt Disney Company and Euro Disney already contained all the Euro optimism they could absorb. "Europeans visit Disney World in Florida as part of an 'American experience,'" said Patrick P. Roper, marketing director of Alton Towers, a successful British theme park near Manchester. He doubted they would seek the suburbs of Paris as eagerly as America and predicted attendance would trail Disney projections.

The Layout of Euro Disneyland

Euro Disneyland is determinedly American in its theme. There was an alcohol ban in the park despite the attitude among the French that wine with a meal is a God-given right. Designers presented a plan for a Main Street USA based on scenes of America in the 1920s, because research indicated that Europeans loved the Prohibition era. Eisner decreed that images of gangsters and speak-easies were too negative. Though made more ornate and Victorian than Walt Disney's idealized Midwestern small town, Main Street remained Main Street. Steamships leave from Main Street through the Grand Canyon Diorama en route to Frontierland.

The familiar Disney Tomorrowland, with its dated images of the space age, was jettisoned entirely. It was replaced by a gleaming brass and wood complex called Discoverland, which was based on themes of Jules Verne and Leonardo da Vinci. Eisner ordered $8 or $10 million in extras to the "Visionarium" exhibit, a 360-degree movie about French culture which was required by the French in their original contract. French and English are the official languages at the park, and multilingual guides are available to help Dutch, German, Spanish, and Italian visitors.

With the American Wild West being so frequently captured on film, Europeans have their own idea of what life was like back then. Frontierland reinforces those images. A runway mine train takes guests through the canyons and mines of Gold Rush country. There is a paddle wheel steamboat reminiscent of Mark Twain, Indian explorer canoes, and a phantom manor from the Gold Rush days.

In Fantasyland, designers strived to avoid competing with the nearby European reality of actual medieval towns, cathedrals, and chateaux. While Disneyland's castle is based on Germany's Neuschwanstein and Disney World's is based on a Loire Valley chateau, Euro Disney's *Le Château de la Belle au Bois Dormant,* as the French insisted Sleeping Beauty be called, is more cartoon-like with stained glass windows built by English craftsmakers and depicting Disney characters. Fanciful trees grow inside as well as a beanstalk.

The park is criss-crossed with covered walkways. Eisner personally ordered the installation of 35 fireplaces in hotels and restaurants. "People walk around Disney World in Florida with humidity and temperatures in the 90s and they walk into an air-conditioned ride and say, 'This is the greatest,'" said Eisner. "When it's raining and miserable, I hope they will walk into one of these lobbies with the fireplace going and say the same thing."

Children all over Europe were primed to consume. Even one of the intellectuals who contributed to *Le Figaro*'s Disney-bashing broadsheet was forced to admit with resignation that his ten-year-old son "swears by Michael Jackson." At Euro Disneyland, under the name "Captain EO," Disney just so happened to have a Michael Jackson attraction awaiting him.

Food Service and Accommodations at Euro Disneyland

Disney expected to serve 15,000 to 17,000 meals per hour, excluding snacks. Menus and service systems were developed so that they varied both in style and price. There is a 400-seat buffeteria, 6 table service restaurants, 12 counter service units, 10 snack bars, 1 Discovery food court seating 850, 9 popcorn wagons, 15 ice-cream carts, 14 specialty food carts, and 2 employee cafeterias. Restaurants were, in fact, to be a showcase for American foods. The only exception to this is Fantasyland which re-creates European

Exhibit 4 The Euro Disneyland Resort

5,000 acres in size
30 attractions
12,000 employees
6 hotels (with 5,184 rooms)
10 theme restaurants
414 cabins
181 camping sites

Source: Roger Cohen, "Threat of Strikes in Euro Disney Debut," *New York Times,* April 10, 1992, p. 20.

fables. Here, food service will reflect the fable's country of origin: Pinocchio's facility having German food; Cinderella's, French; Bella Notte's, Italian; and so on.

Of course recipes were adapted for European tastes. Since many Europeans don't care much for very spicy food, Tex-Mex recipes were toned down. A special coffee blend had to be developed which would have universal appeal. Hot dog carts would reflect the regionalism of American tastes. There would be a ball park hot dog (mild, steamed, a mixture of beef and pork), a New York hot dog (all beef, and spicy), and a Chicago hot dog (Vienna-style, similar to bratwurst).

Euro Disneyland has six theme hotels which would offer nearly 5,200 rooms on opening day, a campground (444 rental trailers and 181 camping sites), and single family homes on the periphery of the 27-hole golf course.

Disney's Strict Appearance Code

Antoine Guervil stood at his post in front of the l,000 room Cheyenne Hotel at Euro Disneyland, practicing his "Howdy!" When Guervil, a political refugee from Haiti, said the word, it sounded more like "Audi." Native French speakers have trouble with the aspirated "h" sound in words like "hay" and "Hank" and "Howdy." Guervil had been given the job of wearing a cowboy costume and booming a happy, welcoming Howdy to guests as they entered the Cheyenne, styled after a Western movie set.

"Audi," said Guervil, the strain of linguistic effort showing on his face. This was clearly a struggle. Unless things got better, it was not hard to imagine objections from Renault, the French car company that was one of the corporate sponsors of the park. Picture the rage of a French auto executive arriving with his or her family at the Renault-sponsored Euro Disneyland, only to hear the doorman of a Disney hotel advertising a German car.

Such were the problems Disney faced while hiring some 12,000 people to maintain and populate its Euro Disneyland theme park. A handbook of detailed rules on acceptable clothing, hairstyles, and jewelry, among other things, embroiled the company in a legal and cultural dispute. Critics asked how the brash Americans could be so insensitive to French culture, individualism, and privacy. Disney officials insisted that a ruling that barred them from imposing a squeaky-clean employment standard could threaten the image and long-term success of the park.

"For us, the appearance code has a real effect from a product identification standpoint," said Thor Degelmann, vice president for human resources for Euro Disneyland. "Without it we wouldn't be presenting the Disney product that people would be expecting."

The rules, spelled out in a video presentation and detailed in a guide handbook, went beyond height and weight standards. They required men's hair to be cut above the collar and ears with no beards or mustaches. Any tattoos must be covered. Women must keep their hair in one "natural color" with no frosting or streaking and they may make only limited use of make-up like mascara. False eyelashes, eyeliners, and eye pencil were completely off limits. Fingernails can't pass the end of the fingers. As for jewelry, women can wear only one earring in each ear, with the earring's diameter no more than three-quarters of an inch. Neither men nor women can wear more than one ring on each hand. Further, women were required to wear appropriate undergarments and only transparent panty hose, not black or anything with fancy designs. Though a daily bath was not specified in the rules, the applicant's video depicted a shower scene and informed applicants that they were expected to show up for work "fresh and clean each day." Similar rules are in force at Disney's three other theme parks in the United States and Japan.

In the United States, some labor unions representing Disney employees have occasionally protested the company's strict appearance code, but with little success. French labor unions began protesting when Disneyland opened its "casting center" and invited applicants to "play the role of [their lives]" and to take a "unique opportunity to marry work and magic." The CGT handed out leaflets in front of the center to warn applicants of the appearance code, which they believed represented "an attack on individual liberty." A more mainstream union, the Confédération Française Démocratique du Travail (CFDT) appealed to the Labor Ministry to halt Disney's violation of "human

Exhibit 5 **What Price Mickey?**

	Euro Disneyland	Disney World, Orlando
Peak Season Hotel Rates		
4-person room	\$97 to \$345	\$104–\$455
Campground Space		
	\$48	\$30–\$49
One-Day Pass		
Children	\$26	\$26
Adults	\$40	\$33

Source: BusinessWeek, March 30, 1992.

dignity." French law prohibits employers from restricting individual and collective liberties unless the restrictions can be justified by the nature of the task to be accomplished and are proportional to that end.

Degelmann, however, said that the company was "well aware of the cultural differences'' between the United States and France and as a result had "toned down" the wording in the original American version of the guidebook. He pointed out that many companies, particularly airlines, maintained appearance codes just as strict. "We happened to put ours in writing," he added. In any case, he said that he knew of no one who had refused to take the job because of the rules and that no more than 5 percent of the people showing up for interviews had decided not to proceed after watching the video, which also detailed transportation and salary.

Fitzpatrick also defended the dress code, although he conceded that Disney might have been a little naive in presenting things so directly. He added, "Only in France is there still a communist party. There is not even one in Russia any more. The ironic thing is that I could fill the park with CGT requests for tickets."

Another big challenge lay in getting the mostly French "cast members," as Disney calls its employees, to break their ancient cultural aversions to smiling and being consistently polite to park guests. The individualistic French had to be molded into the squeaky-clean Disney image. Rival theme parks in the area, loosely modeled on the Disney system, had already encountered trouble keeping smiles on the faces of the staff, who sometimes took on the demeanor of subway ticket clerks.

The delicate matter of hiring French citizens as opposed to other nationals was examined in the more than two-year-long preagreement negotiations between the French government and Disney. The final agreement called for Disney to make a maximum effort to tap into the local labor market. At the same time, it was understood that for Euro Disneyland to work, its staff must mirror the multi-country make-up of its guests. "Casting centers" were set up in Paris, London, Amsterdam, and Frankfurt. "We are concentrating on the local labor market, but we are also looking for workers who are German, English, Italian, Spanish, or other nationalities and who have good communication skills, are outgoing, speak two European languages—French plus one other—and like being around people," said Degelmann.

Stephane Baudet, a 28-year-old trumpet player from Paris, refused to audition for a job in a Disney brass band when he learned he would have to cut his ponytail. "Some people will turn themselves into a pumpkin to work at Euro Disneyland." he said. "But not me."

Opening Day at Euro Disneyland

A few days before the grand opening of Euro Disneyland, hundreds of French visitors were invited to a pre-opening party. They gazed perplexed at what was placed before them. It was a heaping plate of spare ribs. The visitors were at the Buffalo Bill Wild West Show, a cavernous theater featuring a panoply of "Le Far West," including 20 imported buffaloes. And Disney deliberately didn't provide silverware. "There was a moment of consternation," recalls Fitzpatrick. "Then they just kind of said, 'The hell with it,' and dug in." There was one problem. The guests couldn't master the art of gnawing ribs and applauding at the same time. So Disney planned to provide more napkins and teach visitors to stamp with their feet.

On April 12, 1992, the opening day of Euro Disneyland, *France-Soir* enthusiastically predicted Disney dementia. "Mickey! It's madness," read its front-page headline, warning of chaos on the roads and suggesting that people may have to be turned away. A French government survey indicated that half a million might turn up with 90,000 cars trying to get in. French radio warned traffic to avoid the area.

By lunchtime on opening day, the Euro Disneyland car park was less than half full, suggesting an attendance of below 25,000, less than half the park's capacity and way below expectations. Many people may have heeded the advice to stay home or, more likely, were deterred by a one-day strike that cut the direct rail link to Euro Disneyland from the center of Paris. Queues for the main rides, such as Pirates of the Caribbean and Big Thunder Mountain railroad, were averaging around 15 minutes less than on an ordinary day at Disney World, Florida.

Disney executives put on a brave face, claiming that attendance was better than at first days for other Disney theme parks in Florida, California, and Japan. However, there was no disguising the fact that after spending thousands of dollars on the pre-opening celebrations, Euro Disney would have appreciated some impressively long traffic jams on the auto route.

Other Operating Problems

When the French government changed hands in 1986, work ground to a halt, as the negotiator appointed by the Conservative government threw out much of the ground work prepared by his Socialist predecessor. The legalistic approach taken by the Americans also bogged down talks, as it meant planning ahead for every conceivable contingency. At the same time, right-wing groups who saw the park as an invasion of "chewing-gum jobs" and U.S. pop-culture also fought hard for a greater "local cultural context."

On opening day, English visitors found the French reluctant to play the game of queuing. "The French seem to think that if God had meant them to queue, He wouldn't have given them elbows," they commented. Different cultures have different definitions of personal space, and Disney guests faced problems of people getting too close or pressing around those who left too much space between themselves and the person in front.

Disney placed its first ads for work bids in English, leaving smaller and medium-sized French firms feeling like foreigners in their own land. Eventually, Disney set up a data bank with information on over 20,000 French and European firms looking for work and the local Chamber of Commerce developed a video text information bank with Disney that small- and medium-sized companies through France and Europe would be able to tap into. "The work will come, but many local companies have got to learn that they don't simply have the right to a chunk of work without competing," said a Chamber official.

Efforts were made to ensure that sooner, rather than later, European nationals take over the day-to-day running of the park. Although there were only 23 U.S. expatriates among the employees, they controlled the show and held most of the top jobs. Each senior manager had the task of choosing his or her European successor.

Disney was also forced to bail out 40 subcontractors who were working for the Gabot-Eremco construction contracting group, which had been unable to honor all of its commitments. Some of the subcontractors said they faced bankruptcy if they were not paid for their work on Euro Disneyland. A Disney spokesperson said that the payments would be less than $20.3 million and the company had already paid Gabot-Eremco for work on the park. Gabot-Eremco and 15 other main contractors demanded $157 million in additional fees from Disney for work that they said was added to the project after the initial contracts were signed. Disney rejected the claim and sought government intervention. Disney said that under no circumstances would they pay Gabot-Eremco and accused its officers of incompetence.

As Bourguignon thought about these and other problems, the previous year's losses and the prospect of losses again in the current year, with their negative impact on the company's stock price, weighed heavily on his mind.

Questions for Review

1. Using Hofstede's four cultural dimensions as a point of reference, what are some of the main cultural differences between the United States and France?
2. In what way has Trompenaars's research helped explain cultural differences between the United States and France?
3. In managing its Euro Disneyland operations, what are three mistakes that the company made? Explain.
4. Based on its experience, what are three lessons the company should have learned about how to deal with diversity? Describe each.

Source: This case was prepared by Research Assistant Sonali Krishna under the direction of Professors J. Stewart Black and Hal B. Gregersen as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility. Reprinted by permission of the authors.

In-Depth Integrative Case 2

Wal-Mart's Japan Strategy

In March 2002, Wal-Mart first entered the Japanese market by acquiring a $46 million stake in Seiyu, the nation's fifth-largest supermarket retailer.[1] Another main player in the deal was Sumitomo Corp., a leading trading company in Japan. Sumitomo's solid business base and knowledge of the retail sector was viewed as helping Wal-Mart effectively enter and expand in this unique market. As part of the deal, Sumitomo increased its stake in Seiyu to 15.6 percent.

Although Seiyu's existing distribution channels gave Wal-Mart an established local partner, two years after the initial entry, its success was unclear. In September 2003, Seiyu forecast a loss of $83 million for the March–December period, blaming a poor economic environment and an unfavorable produce climate.[2] While Wal-Mart is confident of its decision, the two companies have a different approach to management strategy, operations, and marketing. Wal-Mart specializes in large-scale general merchandise stores, mainly in suburban areas. Seiyu had traditionally focused on profitable grocery stores in city-center locations. Over time, Wal-Mart is expected to move away from these locations and focus on opening new open-spaced outlets.

In addition to meeting its quantitative goals, Wal-Mart's ability to effectively relate to Seiyu's employees will be an integral piece of the mix. Japanese and Americans have many distinct sociocultural differences, and these variations must be understood and properly managed by those who will be overseeing Seiyu's operations. In the final analysis, Wal-Mart's lasting success will hinge on its ability to understand cultural nuances and properly convey its message to both Japanese consumers and employees alike.

Wal-Mart's International Expansion

Wal-Mart is one of the largest and most admired global companies (see Tables 1, 2, and 3). Relying on long-term opportunities outside of its domestic market to expand sales, Wal-Mart is slowly and steadily making its way in many international regions, especially Japan (see Tables 4 and 5). As of late 2003, if ranked separately, Wal-Mart's international division would have been number 33 on the Fortune 500 list. According to John Menzer, Wal-Mart's international division president and CEO, "our challenge is to rake up one-third of the company's sales, and take our global scale to the local level."[3] While Wal-Mart has been successful in making some inroads overseas, its success has been far from universal. For example, in Mexico and the U.K., the company's efforts to offer the lowest price to customers backfired because of resistance from established retailers. In Mexico, three of the largest domestic retailers constructed a joint buying and operational alliance solely to compete with Wal-Mart.[4]

As Wal-Mart continues to expand its global operations, analysts are curious to see how the company is received and whether consumers' opinions in fragmented market settings are able to move past their desire for lower prices. So far, labor advocates and environmentalists have created headaches for the U.S behemoth, making start-up procedures both cumbersome and expensive.

Japan, home of the world's second-largest consumer market, has been aggressively targeted by Wal-Mart as a key piece in its international strategy. Historically, reaching Japan's fickle customer base has been quite a challenge. In Japan, consumers often equate bad quality with low prices. Not so in the United States. But Wal-Mart isn't naive. It realizes that changing consumer perceptions won't be easy or cheap, especially in the wake of recent competitive moves intended to counter its entrance into the nation of the rising sun. Succeeding where many large corporations have failed before it means that Wal-Mart has to be able to capture a distinct place in the hearts and minds of the Japanese customer as, specifically, a retail destination that offers an abundance of quality goods at rock-bottom prices.

The timing seemed right for Wal-Mart's expansion to Japan. The Japanese economy had been in the midst of a prolonged recession but was showing some signs of recovery. The country seemed ready for a discount retailer who could provide lower-priced goods for cash-strapped consumers. In 2002, the nation's economy grew just 1.6 percent while household income dropped. During the quarter ending September 30, 2003, household income dropped 1.4 percent, and consumer spending flattened. With the country experiencing deflationary forces in the prices of consumer goods, Wal-Mart hoped it would begin to attract more and more bargain-hungry consumers.

Although real estate prices dropped substantially over the past couple of years, they are still relatively high. Rather than build massive supercenter-size stores, Japanese retailers often stick with smaller shops that are easier to open in densely populated urban areas. Through the Seiyu ownership, Wal-Mart has been able to avoid up-front building costs, giving itself a swift advantage over hobbled

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Table 1 **Wal-Mart Balance Sheet as of December 31, 2003**

Wal-Mart Corporation Consolidated Balance Sheet (in millions)

	2003	2002	2001	2000
Assets				
Cash and equivalents	2,758	2,161	2,054	1,856
Accounts receivable	2,108	2,000	1,768	1,341
Inventories	24,891	22,614	21,442	19,793
Total current assets	30,483	27,878	26,555	24,356
PP & E (net)	48,700	42,556	37,617	32,839
Total assets	94,685	83,527	78,130	70,349
Liabilities and Shareholders Equity				
Accounts payable	17,140	15,617	15,092	13,105
Notes payable	4,538	2,257	4,234	1,964
Accrued liabilities	8,945	7,174	6,355	6,161
Total current liabilities	32,617	27,282	28,949	25,803
Long-term debt	16,607	15,687	12,501	13,672
Total liabilities	55,348	48,425	46,787	44,515
Shareholders equity	39,337	35,102	31,343	25,834
Total liabilities and shareholders equity	94,685	83,527	78,130	70,349

Source: Wal-Mart 2003 Annual Report.

Table 2 **Wal-Mart Income Statement, December 31, 2003**

Wal-Mart Income Statement (in millions, except per share amounts)

	2003	2002	2001	2000
Net revenue	244,524	217,799	191,329	165,013
Cost of sales	191,838	171,562	150,255	129,664
SG&A	41,043	36,173	31,550	27,040
Interest expense	925	1,186	1,195	841
Interest provisions	4,487	3,897	3,692	3,338
Net income	8,039	6,671	6,295	5,377
Basic EPS	$1.81	$1.49	$1.41	$1.21
Diluted EPS	$1.81	$1.49	$1.40	$1.20
Dividends per share	$0.30	$0.30	$0.28	$0.24

Source: Wal-Mart 2003 Annual Report.

Table 3 **The 10 Most Admired Global Companies**

Rank	Company	Country
1	**Wal-Mart Stores**	**U.S.**
2	General Electric	U.S.
3	Microsoft	U.S.
4	Johnson & Johnson	U.S.
5	Berkshire Hathaway	U.S.
6	Dell	U.S.
7	IBM	U.S.
8	Toyota Motor	Japan
9	Procter & Gamble	U.S.

Source: www.fortune.com.

Table 4 Wal-Mart Time Line

1962: First Wal-Mart opens in Rogers, Arkansas.
1968: Wal-Mart moves outside Arkansas with stores in Sikeston, Missouri, and Claremore, Oklahoma.
1969: Company incorporated as Wal-Mart Stores Inc.
1977: Wal-Mart makes first acquisition, 16 Mohr-Value stores in Michigan and Illinois.
1981: Wal-Mart makes second acquisition, 92 Kuhn's Big K stores.
1983: First Sam's Club opens in Midwest City, Oklahoma; U.S. Woolco stores acquired.
1985: Grand Central Stores acquired.
1988: David Glass named CEO of Wal-Mart Stores Inc.; first supercenter opens in Washington, Missouri; Supersaver units acquired.
1990: Wal-Mart becomes nation's number-one retailer; McLane Co. of Temple, Texas, acquired.
1991: Western Merchandisers Inc. of Amarillo, Texas, acquired; "Sam's American Choice" brand products introduced; Wal-Mart enters first international market with the opening of a unit in Mexico City.
1992: Sam Walton dies; S. Robson Walton named chairman of the board; Wal-Mart enters Puerto Rico.
1993: Wal-Mart International division formed with Bobby Martin as president; 91 Pace Warehouse clubs acquired.
1994: 122 Woolco stores in Canada acquired; three value clubs opens in Hong Kong.
1995: Wal-Mart enters its 50th state—Vermont; enters Argentina and Brazil.
1996: Wal-Mart enters China through a joint-venture agreement.
1997: Wal-Mart has first $100 billion year, with sales totaling $105 billion.
1998: Wal-Mart introduces Neighborhood Market concept in Arkansas; acquires 21 Wertkauf units in Germany; enters Korea.
1999: Wal-Mart acquires 74 Interspar units in Germany and ASDA Group PLC in the United Kingdom.
2000: H. Lee Scott named president and CEO.; Progressive Grocer names Wal-Mart its Retailer of the Year.
2002: Wal-Mart purchases a 34 percent interest in Japanese retailer Seiyu Ltd., with options to purchase up to 66.7 percent of the company.
2003: Wal-Mart sells McLane Co. subsidiary to Berkshire Hathaway Inc. *Fortune* magazine names Wal-Mart most-admired company.

Source: Walmart.com.

Table 5 International Distribution Coverage as of December 31, 2003

Wal-Mart Stores Inc. Global Distribution Coverage

Country	Number of Stores				
	1999	2000	2001	2002	2003
Argentina	13	11	12	12	11
Brazil	14	20	26	25	22
Korea	5	6	9	15	15
Canada	166	174	185	220	213
Mexico	458	496	452	625	552
Puerto Rico	15	15	16	21	52
China	6	11	16	31	26
Germany	95	95	95	92	94
United Kingdom	232	241	250	269	258

Source: Wal-Mart 2003 Annual Report.

Japanese retailers. Nevertheless, Wal-Mart's ultimate challenge will lie in its ability to convince Japanese consumers that its everyday low prices don't translate into poor product quality.

Retail Environment in Japan

Japan is the second-largest and one of the wealthiest economies in the world, with a GDP of $3.15 trillion and per capita GDP of about $25,000 (Exhibit 1). Japan's retail market has its own culture-specific quirks that are often difficult for outsiders to fully grasp. The sector has produced a few causalities in recent years, including the painful structuring of retailing bellwethers such as Mycal and Daiei.[5] With many of its global competitors struggling, Wal-Mart sensed an opportunity to strike in Japan. Concerned over past market-entry failures, Wal-Mart deliberated for over four years before purchasing a minority stake in Seiyu.[6] This sluggish pace has given many new and existing retailers adequate time to react to Wal-Mart's entrance. Archrival Carrefour, the world's second-largest retail chain, entered Japan about a month before Wal-Mart with its first store in Makuhari. Ostensibly, Carrefour's move was designed to steal market share from fledgling retail players before the U.S. retail giant had a chance to streamline with Seiyu. Big, traditional Japanese retail outlets have suffered from rising competition from newly emerging stores such as Uniglo leveraging low prices of imported goods. In addition, a decline in personal spending, in juxtaposition with a poor economic climate, has given discount retailers some traction with consumers who now need their money to work longer and harder.

There is bound to be some concern over Carrefour's preemptive entrance, but Wal-Mart is confident it has learned from past mistakes and knows that getting to market faster doesn't necessarily equate to being better. For example, in Germany, where retail regulations and swift price competition are both fierce, Wal-Mart reacted before its inventory systems were in place, and the result was substantial operating losses.[7] While such a deliberate strategy might cost the firm some advantages, international head John Menzer believes the bit-by-bit approach is the way to go in Japan. "We've been criticized for going too slowly (in Japan). But we have to do it step-by-step. In three years, we'll be fully loaded."[8]

Japan's multilayered distribution networks have notoriously made selling merchandise more expensive for retailers. This is unfamiliar territory for Wal-Mart, which demands supplier accreditation before even considering the product line in the United States. Their ultimate goal is to eventually supersede the current network of suppliers and wholesalers. With a weak economy, suppliers may be convinced to sell direct in an attempt to produce incremental cash flows. Seiyu doesn't own a fleet of trucks or distribution warehouses, so Wal-Mart has been content with working with wholesalers during the short term. Typically, wholesalers' margins are between 7 and 20 percent, according to Jerry Black, managing director of global practices for Kurt Salmon and Associates, an Atlanta retail-consulting company. If Wal-Mart is eventually able to supersede the wholesaler segment, they will be in a much better position to distribute goods at a cheaper cost, which will enable them to pass along some of the price savings to customers. Changing the nature of the supply chain process in Japan will not be easy and is sure to be met with stiff resistance. According to Black, suppliers must decide whether they want to rock the boat by going to Wal-Mart directly.

A majority of the competition reacted swiftly as news of Wal-Mart's entrance began to surface. Aeon, a midsize retail player, began making adjustments as early as 2001. Along with remodeling existing stores and creating labor efficiencies, Aeon began a campaign to eliminate all middlemen from its supply chain.[9] Convincing suppliers to go direct has been quite a challenge, but Aeon has managed to get more than 20 existing partners to come on board and approximately 20 more are waiting in the wings. A survey by Goldman Sachs in 2003 found prices on Aeon's nongrocery items were approximately 9.4 percent below the local average, identical to discounts Wal-Mart has been offering through Seiyu stores.[10]

Ito-Yokado, Japan's leading supermarket retailer, has not reacted to Wal-Mart's entry in the same fashion. Ito is convinced that quality is what sells in Japan, and the firm has launched an aggressive marketing campaign entitled "Made in Japan" to convey its message. By labeling quality products with a traditional Japanese symbol, the rising sun, Ito-Yokado hopes to bring a sense of Japanese national pride to the surface. "Ito-Yokado isn't offering everyday

Exhibit 1 Japan at a Glance, 2002

Area: 145,882 square miles

Location: East Asia

Population: 126.8 million (15% younger than 15; 67% between ages 15–65; 18% 65 and older)

Capital and largest city: Tokyo (population 34.8 million)

GDP: $3.15 trillion

GDP composition by sector: Agriculture 2%, Industry 35%, Services 63%

Per capita GDP: $24,900

GDP real growth rate: 1.3%

Labor force: 67.7 million

Unemployment: 4.7%

Inflation: −0.7%

Source: Racher Press Research.

low prices. It's offering higher quality," explains Yoshinobu Naito, an Ito-Yokado board member.[11] Ito has also balked at the idea of developing supercenters because it believes that land rates are still cost-prohibitive. Moreover, Ito has not reduced its staff as a means of cutting costs. It steadfastly believes that Japanese customers demand a quick entry and exit from its stores and eliminating staff would delay this process.

Entry Strategy: Too Slow or Just Right?

Wal-Mart has been very forthcoming about its entrance in Japan: slow and steady. Greg Penner, senior VP and CFO, Wal-Mart Japan, says Wal-Mart's stake in Seiyu will grow from its current 37 percent to 50 percent by December 2005 and to 67 percent by December 2007.[12] Drawing from its past international experiences in Germany and Mexico, and given the psychological dynamic of the Japanese consumer, Penner believes that the current strategy is the best way to avoid growing pains and mistakes made in Germany and Mexico.

In a land where department stores rule, Wal-Mart sees overwhelming potential. However, there is concern that such a deliberate pace will give the competition time to create barriers. Driving the strategy is the installation of Wal-Mart's Retail Link operation, a JIT inventory replenishment system shared between retailer and supplier, effectively eliminating the wholesaler and speeding up payables and receivables collections.[13] However, since getting burned in Germany and Mexico by cutting corners, Wal-Mart has been more than calculating in developing its infrastructure capabilities in Japan. According to Carl Steidtmann, chief economist at Deloitte Research, retail software will have to be translated into Japanese and Japanese suppliers and retailers will have to go through a transformation to adapt to Wal-Mart's technology-focused management systems.[14] Many analysts believe that a tight inventory management system is imperative if Wal-Mart is to become successful in Japan. Another obstacle to overcome is Japan's multilayered distribution system. While Wal-Mart is quick to bypass such networks within the United States, personal interaction when doing business is much more prevalent in Japan, making these distribution layers more difficult to supersede.

After a careful round of evaluations, Wal-Mart believed Seiyu was the partner best suited for its entry strategy. The logic was simple. By working through a local partner, Wal-Mart believed it could better wade through Japan's long and costly network of suppliers, which has long frustrated many other foreign investors. "Wal-Mart has to change the system from the inside out," said Seth Sulkin, president of Pacifica Malls K.K., which develops shopping centers in Japan. Since only the biggest Japanese retailers have leverage with manufacturers, partnering with an existing market leader should prove invaluable when attempting to negotiate direct deals. Moreover, Wal-Mart avoids having to build stores and can take advantage of Seiyu's well-recognized brand.

Starting in early 2000, Seiyu began divesting itself from failing formats and businesses and was able to develop some financial stability. With 414 stores and more than $9 billion in sales, a strong customer base, and heavy saturation in the Tokyo area, where real estate prices are exorbitant, Seiyu made a very attractive target. Furthermore, Seiyu's strength in food retailing gave Wal-Mart a natural extension for its supercenters, where food products are the most prominent. However, Seiyu is loaded with debt, with a debt-to-capital ratio more than twice the industry average. In the half year that ended in August 2003, Seiyu lost $77 million as sales slipped roughly 4 percent from the same period a year earlier. Wal-Mart has also pushed Seiyu to reduce the number of planned store closings from five to three because it believes it can make productivity gains in some of these existing outlets.

Penner strongly believes that over time Japanese customers will begin to see the value in Wal-Mart's unique selling proposition, one where low prices rule.[15] Wal-Mart hopes its "Every Day Low Prices" moniker will have a substantial impact given the troubled Japanese economy. So far that hasn't happened. Seiyu currently operates as high-low retailer; it offers special promotions to its customers depending on the day. For example, Seiyu stores run 100-yen specials on certain items on Tuesdays. This on-again, off-again promotional strategy is in sharp contrast with Wal-Mart's everyday deals. Executives believe it will take both time and effort to convince loyal Seiyu customers that rock-bottom prices are available every day. Eventually, Wal-Mart hopes customers will realize that the company doesn't offer lower-quality products at low prices but quality products close to the manufacturing cost of other retailers.

Labor and Human Resources Challenges

Labor costs have also been a problem. In response, Wal-Mart developed a five-year plan to reduce full-time employee hours by about 40 percent, partly through early retirement and an increase in part-time staff. Furthermore, Seiyu announced that it planned on cutting jobs by up to 40 percent, some 2,500 jobs, over a three-year period beginning in mid-2003.[16] The remaining employees will have to begin to learn to sell the Wal-Mart way.

To reinforce the importance of selling correctly, Wal-Mart is putting store managers through weeklong training sessions and has flown hundreds of Seiyu workers to company headquarters in Arkansas. "Japanese might think what we're doing is very tough, but they have to realize that this is the world standard," said Seiyu's CEO

Masao Kiuchi. Workers receive quite a bit of "cultural training" to teach them to be more outspoken, upbeat, and goal-oriented.

However, trainees have had a more difficult time with Wal-Mart's practice of continually praising co-workers. In a society where being humble is paramount, many workers have had difficulty accepting this type of praise. While achieving employee buy-in has been difficult at times, Jeff McAllister, Wal-Mart COO in Japan, is confident that their plan is working. "Once they understand what you want them to do, you get follow-through."[17] By computerizing all Seiyu's operations, remodeling dilapidated stores, and retraining staff, Wal-Mart will be in a better position to capitalize on the future.

The Wal-Mart Effect

In recent years, Japan's economy has been one of the poorest performers among developed nations, making the playing field well suited for Wal-Mart's deal-oriented businesses. Department store leaders Seibu, Mitsukoshi, and Takashimaya have all experienced flat growth over the last five years. Each has been able to generate over $1 billion in sales, but rates of return and margins remain low as supply-chain expenses creep upward. As a result, most retailers are burdened by high debt, resulting in higher department store prices. If Wal-Mart is able to construct supplier agreements in Japan similar to those in the United States, then it will have a huge advantage over its competitors in its ability to price low. Moreover, the Japanese market appears to be ready for value chains. A growing numbers of 100 yen stores, which are equivalent to dollar stores in the United States, are already popping up in major markets all over Japan.[18] Some retailers have seen this coming and are in the midst of a consolidation boom in an attempt to add both breadth and depth to fight Wal-Mart's size and strength. In June 2003, Seibu Department stores and Sogo Co. merged to form Millennium Retailing Inc., becoming one of Japan's largest department store groups.[19]

While these huge department stores are concerned about Wal-Mart's entrance, it doesn't appear to be keeping all of them up at night. Koji Nose, president of Mitsukoshi U.S.A., said recently, "Wal-Mart will have an effect, but not a big impact."[20] Wal-Mart's ability to find appropriate locations for its stores will have a material impact. Since the Japanese travel mostly by railroad instead of in cars, the firm is hoping to secure locations on edges of big cities where commuters shop. Most downtown cities in Japan are heavily saturated with retail shops, so finding alternative locations will be integral to getting top-of-mind awareness among consumers.

What's Next for Wal-Mart?

If Wal-Mart is able to duplicate what it has done in the United States, it may change the way consumer goods are sold and distributed in Japan. Cutting costs and streamlining its supply chain are two main priorities already in the works. Its partnerships with Seiyu and Sumitomo have already given Wal-Mart a large foothold in Japan's multi-dimensional distribution system.[21] If Wal-Mart is able to effectively skip the middleman, then it should be able to pass lower costs along to the customer. According to Bill Wertz, Wal-Mart's director of international corporate affairs, "We're reorganizing Seiyu in a style more consistent with Wal-Mart in the U.S."[22] Wal-Mart executives have been actively involved in the corporate transformation of Seiyu, but Seiyu's executives will continue to run the business. Retail Link is scheduled to be fully operational by 2004, giving executives little time to reorganize the entire operational structure.

In support of its international operations, Wal-Mart announced the opening of a Global Procurement (GP) USA Export Office in February 2003 at world headquarters in Arkansas. The GP USA Export Office will grant U.S. suppliers access to buyers in more than 17 countries and in so doing provide a service to those domestic suppliers who have been unable to navigate through restrictive import regulations in foreign countries. "We see the GP USA Export Office as a window to new markets," said Ken Easton, Wal-Mart's Senior VP of Global Procurement. "We want to sell American products globally, but we will also need to work with the U.S. government to break down barriers that we encounter."

Consistent with its policies in the United States, Wal-Mart has pushed Seiyu to increase the number of part-time employees by about 2,000 during the same three-year period. In the United States, Wal-Mart's human resource policies have been met with substantial backlash as employees complain that they are intentionally given fewer hours so that they do not qualify for full-time employee benefits, especially health care services. Union activity is also discouraged. How the Japanese worker will react to these policies is unknown, but they are sure to cause some controversy over the upcoming years.

With declining customer spending, price deflation, and economic recession expected to continue in the short term, Wal-Mart is confident it can make significant inroads under its low-price model. As Japanese customers become more value conscious, there arises a huge opportunity for discount retailers to capitalize on changing cultural conditions.

Questions for Review

1. Do you believe Wal-Mart can be successful by circumventing the current Japanese distribution system? What are some of the problems you foresee?
2. Do you agree with Wal-Mart's entry strategy? What are some of the inherent risks? Do you think that a faster market entry would be more effective?

3. In your opinion, what is the single most important thing Wal-Mart can do to ensure success in Japan? Explain.
4. Do you think Wal-Mart is doing enough cross-cultural training with its Seiyu employees? What are the greatest challenges Wal-Mart faces in relating to its Japanese employees?

Exercise

Pair up with a classmate. One of you will play the role of head of a retail distribution firm in Japan, while the other plays the role of a marketing strategist for Wal-Mart Inc. Debate and discuss the pros and cons of entering and participating in the Japanese distribution system and the difficulties that must be overcome.

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