CHAPTER 1

Global realities and management challenges

A global manager is set apart by more than a worn suitcase and a dog-eared passport.

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Global managers are made, not born. This is not a natural process. We are herd animals; we like people who are like us.

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Twenty-five years ago, two highly respected management consultants published a comprehensive study of *Fortune 500* companies that sought to identify the key management characteristics of the most successful firms in the US.[3] National Public Radio called the book "one of the top three business books of the century."[4] Based on their research, the authors identified what they considered to be the top forty "excellent" companies. These firms shared several common features that clustered around the three themes of people, customers, and action. More specifically, the researchers concluded that success was associated with eight common company characteristics: a bias for action; close customer relations; an entrepreneurial spirit; productivity through people; a hands-on, value-driven management philosophy that guided everyday practice; a focus on core business areas; a flat organization design, including a small headquarters staff; and a combination of shared company values and high degrees of shop floor autonomy.

Five years after this landmark study was published, a *Business Week* investigation found that of the original forty "excellent" firms, a full one-third had experienced either significant financial loss or bankruptcy.[5] These failings were particularly severe in the technology sector of the economy, where companies such as Atari, Data General, DEC, Lanier, NCR, Wang Labs, and others had experienced significant setbacks. Worse still, today nearly a quarter of the original "excellent" companies are no longer in business.

What happened? Did the researchers use poor methodology or personal bias in selecting their top companies? Did business conditions change so rapidly that many winners suddenly became losers, while other former losers (those not initially selected as "excellent") suddenly became winners? In point of fact, a critical common denominator can be found across the less successful and failed firms: They either underestimated or largely ignored the power and presence of the emerging global economy. That is, they routinely exhibited a singular lack of awareness of global markets, geopolitical threats and opportunities, and factors that could facilitate or inhibit global competitiveness. Simply put, their world changed; they did not. While many of the original "excellent" firms were looking primarily within their own national boundaries for results, the business environment had shifted significantly global issues and opportunities. Thus, for many of these firms, the global economy simply left them behind to be replaced by more competitive firms from both the US and beyond. Indeed, it is difficult today to imagine a best-selling business book that does not take a global perspective, instead of a national one, and incorporate global data and companies into its investigation.

Had more of the firms in this and similar studies published around the same time paid more attention to business in the *global* environment, they would have quickly found that a major ingredient in the long-term success of contemporary firms is the quality – including global qualifications and experience – of their employees all the way from the top management team to the field representatives, production supervisors, and rank-and-file employees. This is where the rubber meets the road in global competitiveness. As MIT economist Lester Thurow observed, the future success of companies – and countries – rests largely on the quality of their technology and their people, not necessarily their cost of materials and labor.[6] In our view, principal among the traits of these "quality" people is their global frame of reference as it relates to managerial behavior and performance. And a global frame of reference is not an easy thing to achieve.

On a managerial level, the plight of many of today's failed or mediocre managers is evident from the legion of stories about failures in cross-border enterprise. Managers are responsible for utilizing human, financial, informational, and physical resources in ways that facilitate their organization's overall objectives in turbulent and sometimes hostile environments about which they often understand very little. These challenges can be particularly problematic when operations cross national boundaries. Nonetheless, ignorance or unfamiliarity with local business customs is seldom an acceptable excuse for failure, and with the current global infatuation with a fairly narrow definition of leadership (lead, follow, or get out of the way), there is seldom any room for anything but success. In fact, particularly in many Western cultures, lack of success is more often attributed to personal failure than external considerations beyond management's control.

As globalization pressures increase and managers spend more time crossing borders to conduct business, the training and development community has increasingly advocated more intensive analyses of the criteria for managerial success in the global economy. As more attention is focused on this challenge, an increasing cadre of management experts are zeroing in on the need for managers to develop perspectives that stretch beyond domestic borders. This concept is identified in many ways (e.g., global mindset, cultural intelligence), but we refer to it simply as *multicultural competence*. Whatever it is called, its characteristics and skills are in increasing demand as large and small, established and entrepreneurial firms strive for global competitiveness.

The challenge of managing successfully in an increasingly complex and global environment is the topic of this book. While the concept of globalization has clearly caught on, and while these challenges are very real, we will suggest in this volume that working to meet these challenges is far more the result of hard work, thinking, reflection, and attentive behavior than any of the quick fixes that are so readily available. We will suggest further that to accomplish this, managers will need to develop some degree of multicultural competency as an important tool to guide their social interactions and business decisions and prevent themselves from repeating the intercultural and strategic mistakes made by so many of their predecessors.

Clearly, working and managing in the global economy requires more than cross-cultural understanding and skills, but we argue that without such skills the manager's job is all the more difficult to accomplish. If the world is truly moving towards greater complexity, interconnections, and corporate interrelationships, the new global manager will obviously need to play a role in order for organizations and their stakeholders to succeed.

Globalization, change, and competitiveness

Although there are many ways to conceptualize globalization, most definitions share common roots. For our purposes here, and following the work of *New York Times* columnist Thomas Friedman, we define *globalization* as the inexorable integration of markets, capital, nation-states, and technologies in ways that allow individuals, groups, corporations, and countries to reach around the world farther, faster, deeper, and cheaper than ever before.[7] In essence, this new global reality represents a major paradigm shift in international politics, economics, and business that impacts corporations and their managers, as well as society-at-large. And, as experience teaches us, few such changes occur without winners and losers. This process is increasingly creating a powerful backlash from those left behind by the new economic and political system.

Economic historians have suggested that, as a world-changing phenomenon, globalization has passed through three reasonably distinct phases.[8] Phase one involved the globalization of countries and ran roughly from the 1400s through to the early 1900s. In this phase, nations tried with varying degree of success to define their relationships with other nations. The Age of Imperialism of the seventeenth and eighteenth centuries, when several of Europe's largest countries tried to divide up much of the rest of the world as colonies, provides a good example of this. Phase two involved the globalization of companies and ran throughout most of the twentieth century. This was the age when many well-known multinational corporations were born and companies began seeing their markets in global terms. Phase three – the current phase – began roughly with the twenty-first century and involves the globalization of individuals. This is when globalization is experienced on a personal level; it affects individuals, for example when an Indian entrepreneur hires young people trained in Hindu temple art to make computer-assisted character designs for global computer game companies. This is a global application of a traditional Hindu art form, and it indicates just how personal globalization can become. Globalization can also be felt on a personal level when outsourced or imported products, ranging from automobiles to toothpaste, lead to downsizing and job losses for individuals in the local economies. The recent economic meltdown has only added to these troubles.

Moreover, because of a decline in the cost of both transportation and telecommunications, combined with the proliferation of personal computers and the bandwidth and common software applications that connect them, global companies are now able to build global workflow platforms. These platforms can divide up almost any job and, with scanning and digitization, outsource each of its components to teams of skilled knowledge workers around the globe, based on which team can perform the function with the highest skill at the lowest cost. Jobs ranging from clothing manufacturing to accounting to radiology are examples of this. Thus, the advice to large and small countries alike around the world seems to be to get on board the global train and find a place to add value; otherwise you risk being left behind.

Globalization drivers

Many factors account for this new global economy. We refer to these as *globalization drivers*. These include the various forces emerging from the global environment that essentially force countries, institutions, and companies to adapt or fail. Consider the following drivers:

- *Increased customer demands and access to competing products and services*. Customers around the world are increasingly demanding more for less. They are putting increased pressure on both the price and quality of products and services that various firms offer. Customers increasingly prefer global brands over local products; they want Blackberries, iPhones, or BMWs, not because they are Canadian, American, or German, but because they are "branded." They see themselves as pacesetters, demanding only the latest in technologies, luxuries, products, and services. Moreover, customers increasingly have greater access to products and services that go beyond local distributors (e.g., internet and television shopping).
- *Increased technological innovation and application*. Improved telecommunications and information technology facilitate increased access to global networks, markets, partners, and customers. Basic and applied research, often conducted by global strategic alliances or international joint ventures, is increasingly generating new products and services (e.g., new technologies, new medicines, new DNA or genetic applications), thereby creating new markets.
- *Increased power and influence of emerging markets and economies*. As many economic forces continue to globalize, differences between haves and have-nots have tended to accentuate. Emerging markets present traditional corporations with a particular challenge, while many emerging economies are demanding greater respect and greater access to global markets. Meanwhile, some economies and societies fall further into poverty and despair. Consider: Zimbabwe continues to sink in a world of official corruption and violence in which its 2008 inflation rate exceeded 250 million percent and expiration dates are now printed on its national currency.
- *Shared R&D and global sourcing*. Many companies are going global in order to spread their research and product development costs across multiple regional markets. Outsourcing is now the rule, not the exception. Consider: 70 percent of the components used to manufacture Boeing's 787 Dreamliner are sourced from foreign

suppliers.[9] Global supply chains are becoming increasingly efficient, while transportation and logistical costs are often declining.

- *Increased globalization of financial markets*. Global economies and financial markets have become increasingly interdependent. Access to capital markets is becoming increasingly globalized. This trend has proven catastrophic in some cases where these intertwined markets have collapsed simultaneously.
- *Evolving government trade policies*. Governments are increasingly supporting local economic development initiatives to lure new (and often foreign) investments and create local employment. They are also increasingly supporting aggressive trade initiatives to support global expansion of local companies. Trade barriers are being systematically reduced across much of the world through multilateral trade agreements (e.g., NAFTA, WTO). However, with increased recessionary pressures, it is anyone's guess whether this trend will continue or reverse itself.

Taken together, the results of these globalization drivers represent a sea change in the challenges facing businesses and the way in which they conduct themselves in the global economy, and they have a direct influence on the quality and effectiveness of management. Companies are under increasing pressures for greater efficiencies and economies of scale. Local firms have no place to hide.

Globalization presents companies with both challenges and opportunities, however. The manner in which they respond – or fail to respond – to such challenges will in large measure determine who wins and who loses. Those that succeed will need to have sufficient managers with economic grounding, political and legal skills, and cultural awareness to decipher the complexities that characterize their surrounding environment. And tying this all together will be the management know-how to outsmart, outperform, or outlast the competition on a continuing basis. However, while globalization seems to be inevitable, not all cultures and countries will react in the same way, and therein lies one of the principal challenges for both corporate strategy and national policy.

And looking to the future, what new and different globalization pressures will likely emerge to challenge international (and national) companies and their managers? How will these new pressures affect the opportunities and threats faced by firms? And how will these new pressures affect the management skills that will be required to succeed in the future?

The globalization enigma

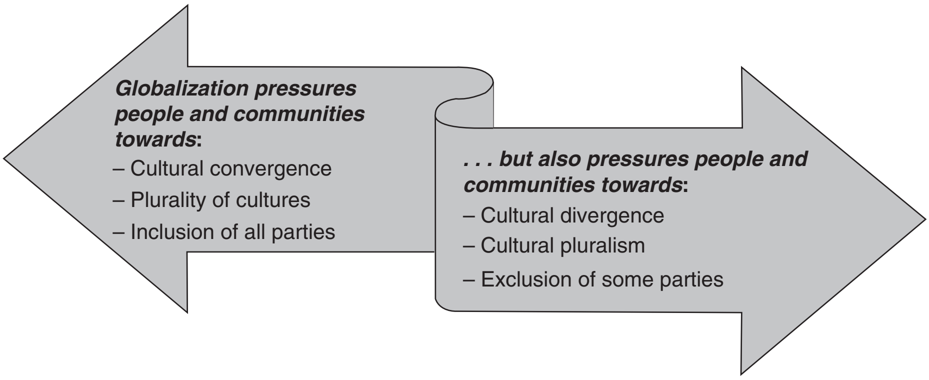
Increasingly today, there is an ongoing – and often heated – debate over the merits or demerits of globalization. Some people, including many economists, argue that globalization represents a major instrument of change that can help solve many of today's economic development challenges around the world. It provides a vehicle by which less developed nations can acquire the technology, foreign investment, and training necessary to compete head-on in the future. It represents a ladder to development and prosperity. Other people, including many sociologists, argue the reverse – that globalization represents the exploitation of the weak by the strong, and in doing so threatens the cultural viability of many regions of the earth. It is a mechanism used by multinationals and their governments to oppress and destabilize the workers and governments of weaker nations.

In point of fact, both arguments have merit, due in part to the intricacies and contradictions inherent in the concept itself. In other words, globalization is not exactly what it seems to be to the casual – or even the dedicated – observer. It is complex, contradictory, and impossible to manage. Globalization is, in reality, a highly complex social, economic, and technological phenomenon that must be carefully nuanced to be understood. It is neither linear nor monolithic. Efforts to make it exclusively positive or negative are by definition naïve and unhelpful. As such, managers around the world must avoid the temptation to position themselves with a prejudged, clear-cut, black-and-white viewpoint of events on the ground that often ignore the subtle – and sometimes hidden – realities of globalization.

Much of what we know about globalization is still a work-in-progress, and what we do know presents us with apparently opposing and often contradictory forces that require some form of integration in order to achieve meaningful understanding. This presents managers with an enigma that can hamper understanding. Because of this, management analysis and understanding of the complexities of the global environment can be facilitated by focusing on understanding parallel and often competing *globalization dualities*, instead of looking for right or wrong answers. That is, the global environment exists as a series of push-pull realities that can make simple conclusions both inaccurate and risky.

The application of a dualities approach to improve analysis and understanding is not new. Indeed, researchers and scientists from many divergent fields have long used this technique to better understand certain phenomena. For example, researchers in the field of physics stopped arguing long ago over whether light should be considered in particle versus wave modes.[10] Philosophers also realized that traditional debates alternatively stressing objectivism and subjectivism, or realism and idealism, miss the point of the complexity of approximating truth. In sociology, authors acknowledge the intermixing of structure and action to understand group behavior.[11] Psychologists

Exhibit 1.1 The globalization enigma: contradictions and challenges



stress the need to consider the interplay of both contextual and intrapersonal variables.[12] Economists, too, are beginning to accept the need to work on assumptions of both increasing and decreasing returns[13] and multiple versus single equilibrium.[14] Science seems to march under the banner of integrating knowledge that spans beyond the simplistic “either-or” logic in favor of a more holistic “both-and” approach. This approach can also assist with understanding recent globalization effects and outcomes.

Using a dualities perspective, we can view globalization as existing in a dynamic state of flux and consisting of multiple processes and forces that flow in different, and often conflicting, directions.[15] These conflicting forces can often influence how firms organize, people communicate, and managers manage; hence, the enigma. In point of fact, we can identify three such globalization dualities, each operating in two conceptually distinct areas. For global managers, this presents three important challenges, as summarized in Exhibit 1.1.

Cultural convergence versus cultural divergence

The first challenge facing managers and their companies in the new global economy involves the contradiction, or duality, between *cultural convergence* and *cultural divergence*. Simply put, does globalization lead to converging or diverging modes of behavior? That is, does increased globalization cause nation-states to become more similar in nature and outlook or does it force them to retrench and reinforce their unique beliefs and value systems? (Consider the ongoing events in the Middle East as an example here.) This debate can lead managers in circles if questions are considered in terms of discovering a final overall pattern of either convergence or divergence. Rather than force an answer that is only half true, a duality perspective is required to see that globalization in fact leads simultaneously to both increased convergence and increased divergence. Understanding this will make the manager's job in new environments considerably easier.

To see how this works, consider the global fast-food industry. For the past half-century, a few major (mostly American) players in this industry have come to dominate this global market. Concerns about the health implications of fast-food consumption aside, many voices have been raised against the heavy influence of American-based fast foods on the diets and cultures of people around the world. Traditional, non-American eating behaviors are seen as becoming endangered with the corresponding diminution of world cultural diversity. As critics see it, a convergence process is emerging in countries around the world in which brands like McDonald's, KFC, Burger King, and Taco Bell are increasingly and widely recognized. At the same time, however, a divergence process is also operating here. Non-American companies around the world are increasingly adopting the mass-production and mass-distribution approaches of US fast-food firms to provide alternative outlets that emphasize their own culinary traditions. In doing so, far from trying to make all tastes converge toward a unique global standard, fast-food companies typically adapt their menu offerings in foreign countries to match their traditional consumption habits. Big Macs in Israel, for instance, are served without cheese, thereby permitting the separation of meat and dairy products required of kosher restaurants. In India, McDonald's serves vegetarian McNuggets and Maharajah Macs to comply with Hindu and Muslim prohibitions of beef and pork, respectively. It also serves espresso coffee and cold pasta in Italy, McLox (grilled salmon) in Norway, *vin ordinaire* in France, and beer and frankfurters in Germany.[16] As Harvard anthropology professor James Watson observes, "McDonald's restaurants symbolize different things to different people at different times in their lives: predictability, safety, convenience, fun, familiarity, sanctuary, cleanliness, modernity, culinary tourism, and 'connectedness' to the world beyond. Few commodities can match this list of often contradictory attributes. One is tempted to conclude that the primary product is the experience itself."[17] As we have seen, this is an experience that both converges with, and diverges from, the experience of consumers in various parts of the world.

Next, consider a second example dealing with corporate governance across borders.[18] In Germany, labor unions have traditionally held important seats on corporate boards, while in Japan loyal senior managers can cap off careers with a stint in the boardroom. Founding families hold sway on Indian corporate boards, while Communist Party officials dominate corporate boards in China. Just as different nations have developed different languages, foods, and local customs, they have also adapted their own forms of corporate governance. Now, as business continues to globalize, new pressure from international capital markets and government regulators threaten to diminish the local and national flavor of corporate boards. Companies around the world are increasingly being pressured to converge on a model developed largely in the UK and North America in response to the growing power of global capital investors. A central focus of corporate governance is the structure of the corporate board. Many firms are moving to create boards that are more independent from management, populated by non-executive members, and organized around committees overseeing management, compensation, and auditing. In the next fifteen years, it is estimated that corporate boards around the world will move toward a model in which boards typically have ten to fifteen members and three or four major committees. As far back as 1997, Sony rocked Japan Inc. when it reduced the size of its board from thirty-eight to ten and adopted other Western-style characteristics. India, too, has taken steps to increase the independence of its board members with a new law requiring half of all directors to be independent. At the same time, however, despite new regulatory codes and well-meaning attempts at initiating good governance practices, worldwide convergence on one model seems unlikely. Nations and companies will continue to exhibit local characteristics because different countries have followed varying patterns of economic development. A complex mix of historic, legal, political, and economic factors shapes each nation's corporate landscape. As a result, corporate governance and board structures will continue to vary around the world, sometimes significantly.

Thus, the initial fears by business commentators and social critics that globalization would ultimately lead to cultural and business homogenization are clearly unfounded. Indeed, recent experience suggests that cultural differences have not only not been reduced, but, indeed, globalization has made such differences even more salient and pronounced in places. In a swing of the pendulum, some voices are now warning against the excessive proliferation of options and the dangers of social fragmentation brought about by globalization.[19]

Plurality of cultures versus cultural pluralism

The second globalization challenge facing managers and their companies involves the concept of pluralities. Before the current globalization wave, we often heard people talk