Introduction

This book is for managers like Rachna, an Indian now in Europe globally sourcing service contracts for a US-based multinational; like Jonatas, a Brazilian now in Singapore, optimizing a supply chain for a specialty chemicals firm created from a European–Middle Eastern joint venture; like Rich, a Canadian who returned to his home country after working abroad, to innovate new practices in the oil industry; like Frances, a young Chinese leader developing as a global leader; and like Jaclyn, just starting her career, intrigued about international management and eager to learn what it entails.

This book is for managers like Jan, a senior German manager who has worked and lived in many countries, and is now CEO of a large multinational firm and working with his teams to develop and implement global strategies; like Magdi, a senior Lebanese manager who has also worked and lived in many countries, and now in charge of global production for a large multinational firm; and like Amy, an American senior manager in Silicon Valley with a great track record in new product development and marketing in innovative firms around the world. It is for people like Eivind, Mads, Kirsi, and other leaders in Human Resources responsible for attracting, assessing, developing, and enabling all the people who manage their organizations internationally.

It's also for people like Jemilah, Ed, Teo, Feena, and Dermot: senior leaders in global non-governmental organizations (NGOs) who are actively trying to help the world while simultaneously revolutionizing their industry to make aid more effective. And it is for Jesper, Mahoto, and Liesbeth, managers creating innovative ways to combine aid, development, and entrepreneurship to help people help themselves in countries with developing economies.

This book is not just a book about global business. It is about *people who conduct business – and manage other types of organizations – in a global* *environment*. It discusses and explores typical situations that managers encounter: the problems and opportunities; the frustrations and rewards; the successes and failures; the decisions they must make and the actions they must take.

Bird and Mendenhall (2016) have pointed out that there is ambiguity in the terminology used by management scholars when talking about management outside the strictly domestic context. They consider "international management" to be the broadest classification incorporating international strategy, talent management, and other aspects of managing an organization. It also includes understanding and practicing cross-cultural management. You will find all these activities and skills discussed in this book.

International management is not an impersonal activity, and it should not be studied solely in an impersonal way. It is important to understand trade theories; to be able to weigh the pros and cons of exporting versus licensing; or to understand the advantages of a joint venture versus a wholly-owned subsidiary. But eventually, theory must give way to practice; strategizing and debating alternatives must give way to action. Working globally means interacting with colleagues, customers, and suppliers from other countries to achieve a specific outcome. We focus on these interactions, on getting things done with and through other people in an international context.

Globalization means that one does not have to travel to another country to be exposed to situations of cultural diversity. For example, consider a manager in Boston who worked for Genzyme, which is one of the world's leading biotech companies. This company was founded in Boston in 1981 and was acquired by Sanofi SA from France in 2011. Now the American manager may travel to France frequently or interact with French mangers when they come to Boston. This same manager possibly interacts with a number of other local Boston companies that are also now foreign-owned. He or she may have an account with Citizen's Bank (owned by the Royal Bank of Scotland Group) or Sovereign Bank (owned by Santander from Spain); purchase insurance from John Hancock (owned by Manulife Financial of Canada); and buy groceries from Stop & Shop (owned by Ahold Delhaize of the Netherlands). And managers from these companies also are likely to be experiencing working with their Scottish, Canadian, Spanish, and Dutch counterparts.

In countries with long histories of immigration, such as Canada, the USA, and Brazil, there is considerable diversity within the domestic workforce and many managers experience working with cultural diversity as part of their daily routine. Managers in all of these countries find the material in this book is also useful in these situations, and they can apply it without their ever having to leave their home base.

Focus on the Voyage

This book is based on the philosophy that learning is a lifelong, continuous process. Although the book contains many recommendations about how to interact and manage in other cultures, rather than simply provide what appear to be the “answers” about the way to act in global management situations and an illusion of mastery, we hope it stimulates and facilitates even more learning about other cultures and how to work effectively with others. For some readers, the material in this book may represent a first encounter with different cultures. Other readers may have been exposed to different cultures through previous courses or personal experience. For those with prior exposure to other people and places, the journey continues with a new level of insight. For those without prior experiences, welcome to an interesting journey!

Bibliography

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PART I

The New Global Context

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Henry W. Lane, Martha L. Maznevski
Excerpt
More Information

1 Global Leaders in the Twenty-First Century

It's a dangerous business, Frodo, going out your door. You step onto the road, and if you don't keep your feet, there's no knowing where you might be swept off to.

J. R. R. Tolkien, *The Lord of the Rings*

Globalization: That Was Then, This Is Now

The phrase "That Was Then, This Is Now" comes from the book of that title by S. E. Hinton (first published in 1971), and it has become a popular expression indicating that things change.

Change is the only constant. After the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in the late 1980s led to major reductions in tariffs and created the World Trade Organization, companies hastened to become global. However, according to *The Economist*, the global company is now in retreat. "The biggest business idea of the past three decades, is in deep trouble," it noted. "Companies became obsessed with internationalizing their customers, production, capital and management … Such a spree could not last forever; an increasing body of evidence suggests that it has now ended" (The Economist, 2017). What happened?

"**Globalization**" became one of the biggest buzzwords in business and in business schools. Proponents of globalization saw it reducing poverty and bringing the world closer together. Opponents saw it as a vehicle for continued Western or American economic and cultural domination.

Until recently, business schools made two implicit assumptions in discussions about globalization. The first was that globalization and **global organizations** were recent phenomena. However, by some accounts globalization began when our ancestors started moving out of Africa; one only needs to read about trade routes such as the Silk Road, the Spice Route, and the Triangle Trade to realize that globalization has been an ongoing process. And as one of the oldest religious institutions, the Catholic Church may have been the world's first global organization. Recent economic globalization has been propelled by **trade liberalization**, **deregulation**, and reduced transportation costs. Modern communication technologies and channels, such as the Internet and mobile phones, have made the process manageable and more visible, and today social media facilitates commentary and discussion both positive and pejorative.

The second assumption was that globalization primarily focused on economic considerations. It is true that trade liberalization opened borders across which capital and products moved more easily, particularly in Europe, where cross-border restrictions of goods are nearly non-existent. However, globalization has also been propelled by other factors. Airline travel and reliable, inexpensive communication have effectively reduced distances and minimized the impact of physical boundaries so that corporations can manage far-flung operations. Alliances and networks blur the lines of organizational boundaries. The forces of deregulation, industry consolidation, and technology have reshaped corporate and social landscapes. Companies globalized by both responding to and feeding the trend of boundary erosion.

In 1983, economist Theodore Levitt contributed to popularizing the concept of economic globalization. He stated that technology and globalization were shaping the world and that they would converge resulting in "global corporations, offering everyone simultaneously high-quality, more or less standardized products at optimally low prices" (Levitt, 1983). To many academics and executives, globalization became primarily about the production and distribution of products.

In 1987, Christopher Bartlett and Sumantra Ghoshal were writing about the need to develop **transnational** capabilities. In so doing, they popularized the concept of the **transnational corporation** (Bartlett and Ghoshal, 1987, 2002). Corporations increasingly began thinking of themselves as global, transnational organizations. In 2006, Sam Palmisano, the former CEO of IBM, characterized the modern global company as a globally integrated enterprise that "fashions its strategy, its management, and its operations in pursuit of a new goal: the integration of production and value delivery worldwide. State borders define less and less the boundaries of corporate thinking or practice" (Palmisano, 2006; The Economist, 2008).

The increasing global reach of companies, as discussed in business schools, is usually considered from narrow perspectives, such as the number of markets served, the global reach of the supply chain and sources of supplies, where parts of the company's value chain are located, and alliances, or mergers and acquisitions, to source intellectual capital (knowledge). These market-oriented and technology-oriented perspectives describe only a part of the reality of globalization. They also tend to focus on external factors, such as trade and investment flows or the percentage of international sales to total sales while ignoring organizational and human considerations.

A basic feature of globalization is that people, countries, and organizations worldwide have become more economically interdependent. However, the erosion of national and company boundaries has led to concern over control of national boundaries and the influx of immigrants. **Brexit**, the rise of **populism**, **economic nationalism**, concern about immigration, the 2016 election of Donald Trump as President of the USA, and the increased popularity of right-wing parties in Europe have all contributed to what Bob Moritz, Global Chairman of PwC (PricewaterhouseCoopers), refers to as a "new phase of globalization" (Moritz, 2017) while Larry Summers (2016) calls it "responsible nationalism" (see also Girod, 2017).

There have been positive and negative effects from globalization. On the positive side, globalization has increased wealth in the world overall, reduced poverty, improved living standards, and spread innovations. However, the distribution of those gains has been uneven.

Economist Branko Milanovic, a leading scholar on income inequality and author of *Global Inequality: A New Approach for the Age of Globalization* (Milanovic, 2016), in a speech at the World Bank (October 2013) said, "Globalization has benefited an emerging 'global middle class,' mainly people in places such as China, India, Indonesia, and Brazil, along with the world's top 1 percent. But people at the very bottom of the income ladder, as well as the lower-middle class of rich countries, lost out." In addition to a greater distortion in the distribution of wealth from globalization, we have witnessed the appearance of a dark side to globalization as pollution, terror, and criminal enterprises globalized and cyber security became a major concern. Therefore, we must be specific when we discuss globalization – the globalization of what and to the benefit of whom?

Executives such as Bob Moritz (2017) believe that the benefits of globalization outweigh the harms. He said:

> For those of us who share that view – that globalisation's pros outweigh its cons – it's time to get in the game. Although keeping immigrants and imports out may sound like a quick fix to workers struggling to keep up in the global, high-tech marketplace, it's important to seek alternate solutions. We are now at the inflection point where the idea of making globalisation work for more people needs to be supported with action.

Much of the observation and writing about the new phase of globalization and its slowdown reflects a North American and Western European orientation and must be understood from that perspective. The location of globalization drivers such as technology, cost structures, growth rates, population trends, and consumers appears to be shifting away from the North Atlantic region (Europe and the USA) to an Asian one (China, India). Jeffery Sachs (Sachs, 2017) believes that,

> The dominance of the North Atlantic was a phase of world history that is now closing … the so-called American century has now run its course. The United States remains strong and rich, but no longer dominant.

The key word in his opinion is "dominant." As Sachs suggests, we are not necessarily moving to a China Century or to an India Century, but perhaps a "World Century" characterized by greater economic and technological equality.

What does this all mean for US, Canadian, or EU companies? Their rush to expand globally may slow but they will not simply abandon their international operations and crawl back into their domestic shells. The Economist (2017) sees three operating modes in the future of global business. First, **multinational corporations** (MNCs) will increase their local footprints (production, supply chain, management) to reduce government criticism and nationalistic concerns. Second, technology companies will use more franchising to grow internationally. Finally, companies with e-commerce platforms will continue to grow globally.

The need for executives who can function effectively in this new era of globalization and who are able to manage complex internal and external networks will not disappear. In this book, we focus primarily on the business and management dimensions of globalization and on organizations that attempt to integrate their global activities.

When we examine the processes of companies that globalize, sterile statistics give way to people who create and manage the processes. The picture that emerges at the operational level is often less glamorous than the one provided by macro-level descriptions. The road to globalization has been littered with the debris of ill-considered mergers, acquisitions, and new market entry attempts. In other words, globalization is easy to talk about, but difficult to do.

What is a Global Company?

What exactly is a global company? Is it a company that has plants and subsidiaries in many countries? Is it a company that sells its products and services around the world? Or is it a company that derives more of its revenue from international sales than from domestic sales? Those are some of the characteristics of a global company but we don't believe a company is truly global until the management and employees develop a global mindset. Jack Welch, former CEO of General Electric, said "the real challenge is to globalize the mind of the organization … Until you globalize intellect, you haven't really globalized the company" (Rohwer, 2000).

Just because a company operates in multiple locations around the world, sells its products in many countries, and derives revenue from international sales does not necessarily make it a global company. It simply means that it functions in a lot of countries. Global strategy is executed by, and global operations are managed by, people from one country interacting with people from another country. They are the managers who interface with the suppliers, alliance partners, and government officials. They are also the people who manage the plants and workforces around the world.

You don't globalize companies unless you globalize people. For example, think of a Japanese company that operates in many countries but whose top managers all have Japanese passports. This is a Japanese company operating in many countries – but not necessarily a company that has been truly globalized. A global company will have a cadre of managers who have global mindsets and understand how to operate in the modern world of economic, political, and cultural interdependence.

In 1990, C. K. Prahalad characterized the world of global business:

> A world where variety, complex interaction patterns among various subunits, host governments, and customers, pressures for change and stability, and the need to reassert individual identity in a complex web of organizational relationships are the norm.

> This world is one beset with ambiguity and stress. Facts, emotions, anxieties, power and dependence, competition and collaboration, individual and team efforts are all present ... Managers have to deal with these often conflicting demands simultaneously.

Although Prahalad did not use the term "**complexity**," he described this characteristic of globalization accurately. Rather than considering globalization as the proportion of trade conducted across national borders, or by some other economic or social measure, we argue that we should talk about it as a manifestation of complexity that requires new ways of thinking and managing.

Managing Globalization = Managing Complexity

The sixth edition of this book was written just as the global economic crisis was unfolding in 2008. We fully expected that by the time we wrote the seventh edition, the crisis would have been resolved and we would be describing the opportunities and lessons from recovery. Yet as we write the eighth edition, the economic and geopolitical conditions that managers face may have become more demanding. Some writers describe this "new normal" as VUCA – volatile, uncertain, complex, and ambiguous – a term originally used by the US military to describe the post-Cold War situation.

As part of our research for *The Blackwell Handbook of Global Management: A Guide to Managing Complexity* (Lane et al., 2004a) we were trying to learn from managers what globalization meant to them. Economists tended to define globalization in terms of flows of goods or money or people across borders but we sensed that managers experienced it differently in their day-to-day roles. We spoke with managers who were working both outside and inside their home countries, traveling a lot or a little. When we asked them, "What is the effect of globalization on your management role?" their answer surprised us. They all responded: "It's exhausting."

When we probed further, we found that whatever level of cross-border transactions a single manager dealt with, the effect of a more globalized economy and society meant increased complexity. This increased complexity, in turn, meant that the traditional way of managing – often one learned in business school – was not adequate. Managers were working harder to understand complex forces in order to plan and execute with some predictability. The result was a feeling of being overwhelmed and exhausted. Our experience with managers today suggests that this trend continues. Although it may represent the "new normal," many managers have not yet developed the mindset or skills to manage effectively within it.