The Global Challenge

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"Interest does not tie nations together; it sometimes separates them. But sympathy and understanding does unite them."


Year 2000. "For centuries that monumental, symbolic date has stood for the future and what we shall make of it. In a few short years that future will be here."

The nineties are bringing a new challenge to the international world of business, and how well a country or an organization reconceptualizes the role of management, and redefines the skills needed by managers of global organizations in this new environment, will be the measure of its participation in the future global economy.

A technology explosion is taking place, and thanks to the communications and financial revolution, the world economy is becoming much more integrated and richer overall, while the creation and enjoyment of that wealth are still very unbalanced. The leading creators and controllers of technology have increasingly become large multinational companies with more global reach than global responsibility, incapable of generating a solution to the imbalance between richer and poorer societies. It would be a task for those involved in international management to close the gap between the world's "haves" and "have-nots."

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It is important to look at the past, and recall that two hundred years ago, as the eighteenth century was drawing to a close, the world was experiencing similar trends. The Industrial Revolution brought social and economic changes that mark the transition from a stable and commercial society to a modern industrial society. Inventions and new technology transformed the factories resulting in large-scale machine production and greater economic specialization, changing the face of nations, providing the economic base for population expansion and improvement in living standards, remaining as a primary goal for less developed countries. But with the Industrial Revolution also come some problems, like; labor-management conflicts, worker boredom, environmental pollution, among many others. Social and political events in Europe resulted in a revolutionary tide originated in France in 1789, then expanding to neighboring countries. When a peaceful constitutional change to a more representative political system was more advisable, these revolutions produced demagogues, angry, violence, and a new pan-European war.

Past experiences show that, new scientific breakthroughs often create structural problems of distributing their benefits from the "haves" to the "have-nots" within that society. The present global community has a greater challenge, as technological progress can produce a trickle-down effect, improving the standards of living of all members of society over time; yet threatening to undermine the economies of developing societies.

The last decade of the twentieth century brought us the collapse of communism in the Soviet Union, and its satellites, resulting in the end of the Cold War. To the extent that the risk of large-scale military confrontation recedes, global economic competition will increase, generating a new kind of war; a moral or ethical war. Those in favor "of globalization seem to focus
overwhelmingly upon what it means for the "triad" of prosperous societies in North America, Europe, and Japan, they devote less attention to the prospect of a further marginalization of four-fifths of the earth's population not well prepared for these new commercial and financial trends."^2 Global managers will need to discard traditional models and views and begin to think from a global rather than a domestic point of view, in order to bring economic prosperity and political stability to marginalized regional economies.

This work intends to define some of the elements of globalization that are significant to international managers, who must learn how to apply them in an activity of constant change in the global economy of the future.

Till now, a country's natural resources and capital were the gauge used to determine its wealth. Examples like; Japan, South Korea, Singapore, Taiwan, and other Asian developing countries, demonstrated that natural resources are not indispensable for economic success.

Chapter I will attempt to describe how in today's business environment, human resources had become the competitive edge in the global economy. This chapter also will detail how well the U. S. firms' human resources are prepared to affront the task.

In Chapter II we will examine the importance of cultural diversity in international business, and how it impacts an organization in the areas of training, leadership, management techniques, motivation, and policy making among others.

Chapter III will discuss the importance of a global corporate culture and the ability of corporations to react promptly to constant change in their environments.

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Chapter IV will explore the complexity and contradictions inherent in any global organization and how to manage the tension for creativity and innovation.

Chapter V introduces a summary of the different risks a global organization is exposed to.

The final chapter pretends to delineate a variety of unexpected developments in international business. How they can benefit an organization and in numerous other circumstances prove to be undesirable and often costly to the firms involved.
"The only thing that one really knows about human nature is that it changes. Change is the one quality we can predicate of it. The systems that fail are those that rely on the permanency of human nature, and not on its growth and development. The error of Louis XIV was that he thought human nature would always be the same. The result of his error was the French Revolution. It was an admirable result."


Chapter I

**Human Resources, the competitive edge in the new global economy.**

Managers of global organizations must believe in constant change and growth rather than stability. They will have to be open to not only revising old thinking, but also developing new ways of thinking about organization and management. To solve new questions and reach new possibilities, they will need to handle old problems from a new perspective that requires a creative imagination, and situational and promptus thinking. In this new global environment, old patterns of organization and management are obsolete. Countries and organizations with the essential human resources trained accordingly, will be the ones who will take advantage of the new possibilities implied by the global economy.
After the end of the World War II, the U.S. had relatively modern facilities, and a well-trained and educated workforce, having developed a market for goods and services that was without paragon in the world. A huge transformation has taken place in science and technology since World War II, and it is unequivocal that the theories, methods, and applications of science have substantially altered the speed, size, and ease of everything we do.

Despite this transformation, "if we look at the methods of social science and adult education we are using today to help people deal with these accelerating scientific changes, we see that we are still fixed on many of the ideas and methods of the 1950s and 1960's in recruitment, selection, experiential training, compensation and benefits, and career development." Many American companies do not recognize the importance of cross-cultural training to international effectiveness. Global organizations no longer should have an international division, they should be unquestionably international, selecting the best people, and continually training them in the skills necessary for national responsiveness and cultural integration, needed for their global assignments.

According to Peter Drucker, a leading management authority, a really multinational organization "demands of its management people that they think and act as international businessmen in a world in which national passions are as strong as ever." Those firms whose top management consist of people from different countries and with diverse countries experiences are supposedly less likely to place the interests of one country above those of others and will almost certainly have a more global perspective. The experience of working abroad under some very different environmental conditions is very useful for seizing some of the difficulties that are

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not as customary in a unadulterated domestic context. But global exposure for top-level managers is not the only international management consideration. Global organizations must also attract and retain high-quality personnel within each country where they operate.

The ideal global manager must possess the ability to determine the types of policies from abroad that may be transferred successfully, as well as the types of local adjustments that are crucial to the organization. He or she must act like an architect designing the future, and not like a maintenance engineer preserving the status quo.

The most pressing and enduring problems in international business reported by the National Industrial Conference Board survey of senior international executives, were, the finding, training and holding of qualified managers. This is true when, predominantly any type of international problem, in the final analysis, is either created by people or must be solved by people; consequently, having the right people in the right place at the right time, is the most important feature to a company's international success. Determining labor needs, hiring the right people to meet the needs, motivating them to perform well, and improving their skills so they can move and execute more demanding tasks, are the top priorities of any firm with international ambitions. If quality control and customer focus were the main corporate objectives of the 1980s, selecting, training, and preparing managers to perform accordingly in the future global stage, will be the corporate objectives for the rest of this century.

Training employees to understand new technologies and to improve job performance is a priority for foreign competitors such as, Japan and countries from Europe, but not for U. S. organizations. American firms don't regard retraining as a basic cost of business, and very often

they consider it expensive and unable to produce immediate results. This shortsightedness is probably the result of general management practices and external financial pressures, in pursuit of short-term horizons to satisfy demanding bosses and shareholders. The irony is that, despite the fact that many managers blame the stock market pressures for short-termism, the most rapidly growing component of executive compensation is stock options, whereby they make themselves more vulnerable to these pressures.

The problem lies in that research and development, employee training, and other disbursements that are not capitalized as assets according to today's accounting norms are important investments in the long-term health and competitiveness of a firm, yet they are immediately charged to earnings. This does not please U.S. managers, that under the pressure to accomplish a positive quarterly reporting, opt not to allocate precious capital for intangibles like retraining.

Example of this is that, relative to the size of its economy, Japan committed far more money that the United States in capital equipment and employee training. (See Chart 1, on next page) "From 1976 through 1987, Japanese investment in machinery and equipment ranged from 14.9 percent to 20.6 percent of GNP." Meanwhile in the United States of America "it ranged from 7.5 percent to 9 percent."5

This is probably the main reason why American firms usually lag behind European and Japanese competitors in educating workers. Managers in Europe and Japan are gifted with a long-term horizon and are release from the pressure of quarterly reporting.

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Chart 1
Investment Nondefense R&D Expenditure

Source: Council on Competitiveness and the National Science Foundation
Though, American companies while not retraining in the same proportion as its competitors, has not abandoned the practice. According to "the National Association of Manufacturers, U.S. companies spend $30 billion a year to train workers, or about 1 percent to 2 percent of their payrolls annually."6

Studies trying to portrait Americans as more productive than its competitors, like a 1992 McKinsey and Co. survey, showed that the average full-time U.S. worker in 1990 produced $49,600 in equivalent goods and services a year, against $44,200 for a German worker and $38,200 for a Japanese worker. But, what they are missing is to recognize that American companies, while productive now, are scarcely investing in their future, which in the long run could place their business at risk.7

Countries such as; Japan, Germany, Sweden, the Netherlands among others, have been forced, by the nature of their geography, local market, and competitive advantage to compete internationally and globally for the past 40 years. Meanwhile most American firms lack a sufficient number of people with the necessary training and expertise to compete in the global scene at the same skill level as the countries mentioned before. This, probably is the result of America's most significant strength of the past, its domestic market without paragon anywhere else in the world.

In the last 30 or 40 years American enterprises have done little to educate and train their managers to organize and manage the firm's resources from a multicultural or international perspective. Evidence shows that the inability of U.S. firms to compete effectively in the global marketplace may lie in the lack of global mindsets in key managers. To meet the challenge of

7 Ibid.
conducting global firms in the future, global managers should master the development of global mindsets, as well as competencies, practices, and tasks that enable them as a global manager to act on these mindsets.

Successful managers in a global environment, have to be prepared to take more risks, open to retrain, like repenting of how they were doing things in the past, doing something differently in a very dedicated way. To be able to compete on a worldwide basis, they have to retrain themselves and their staff in a well thought-out program. The benefits will outweigh the costs by far.

Retraining means developing a global vision, where a manager becomes a person without a country, or rather, a person with multiple countries. Under this environment they will be able to create the ability to see the world without national biases, parenting strategies that use resources rationally and seize opportunities. This "global vision means understanding how small and interdependent the world has become."8

Several interrogations arise according to what U.S. managers feel today. If they have to allocate great part of their budgets on education and training, is it a business's responsibility not only to train its current employees but also to educate the workforce of the future? and How should be business's involvement in education?

According to Secretary of Education Richard Riley "the majority of high school graduates - around 75 percent - either will not attend or will not finish four years of college."9 This will be the fountain from where our workforce will emerge. This vast majority that will not attend universities are hence ill equipped to contend with the practical world, product of an

elementary and secondary level of education that tends to be distorted towards a linear curriculum that prepares our students simply for college entrance. Therefore, business should be supportive and amply engage in the process of implementing school-to-work programs and learn from the schools that have satisfactorily combined vocational-technical education with academics.
"Culture is an instrument wielded by teachers to manufacture teachers, who, in their turn, will manufacture still more teachers."


Chapter II

The importance of cultural diversity in international business.

According to Adler and Jelinek, culture is, "whether organizational or national... a set of taken-for-granted assumptions, expectations, or rules for being in the world. As paradigm, map, frame or reference, interpretive scheme, or shared understanding, the culture concept emphasizes the shared cognitive approaches to reality that distinguish a given group from others."10

Cultural diversities are the most important and embarrassing variables that an international organization has to confront in the global environment. Potential markets are influenced by local values, attitudes, economic limitations, and tastes, and therefore they differ in what, when, where, how and why people buy or consume a product. Different nationalities possess distinctive characteristics that must be understood. Global managers have to recognize that some things are done differently by the peoples in other parts of the world. This will help them to avoid costly blunders to their organizations.

Japan's success in the global marketplace was the generating factor for Americans to realize that their beliefs and assumptions about behavior, were not the same as those existing in other countries. This awareness impelled the interest in studying the influence of cultural factors on economic performance.

Cultural divergence can be found in multinational organizations, enlisting expatriates and/or nationals in their branches abroad, multinational corporations employing nationals in other countries, and multinational firms employing third country nationals in their global operations.

Analysis and findings of a Delphi study conducted by Adler concluded that "major benefits of multiculturalism that organizations could potentially realize in the future as enhanced abilities to: 1) be more creative and innovative, 2) deal more sensitively with foreign customers, 3) attract the best personnel from around the world, 4) assume a more global perspective of opportunities, 5) create a unifying organizational culture based on the best of all members' national cultures, and 6) adapt more effectively to environmental change."

The requirements of a global manager extend well beyond traditional management practices, to reflect sensitivity to cultural diversity and understanding of different and sometimes conflicting social forces. Their task must point to recognize and focus on the limited requirements for organizational loyalty and devotion, confronting the presence of different cultural values, and beliefs. Their management practices must be framed in the context of continuous change and diversity.

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11 A Delphi study is a technique that sifts expert opinion into a revelation of the future. A group of experts is selected, and each one is required to formulate individually his point of view about the probability of a future event or events in his or her area of expertise. Then in a second round of reports he or she makes an individual prognostic. After several rounds the likely result is a link of expert opinion on the most likely prediction of a future event or situation.

There is a general consensus, that culture is learned, not innate and various aspects of culture are interrelated. Culture is shared and defines the boundaries of different groups. It doesn't matter where in the world a human being born, they all share the same essential needs for food, shelter and clothing. Later in their lives they develop different desires for nonessential things based on influences from families and other individuals around them, that are the result of the culture. The consequence translates in different beliefs, morals, customs and habits learned from their peers.

One of the fundamental duties of a global manager is to earn profits from the satisfaction of human wants and needs. To understand and influence the consumers needs and wants, the global manager must also be familiar with the consumers' culture.

Unfortunately, individuals who are familiar with only one cultural pattern may be convinced they have an awareness of cultural differences elsewhere, when really they don't. To reach this awareness, they need to compare other cultures, and at the same time to perceive the important features of their own, avoiding to fall in ethnocentricity. Each society considers its culture superior to all others and this is called "ethnocentricity." Trying to introduce or force a particular "cultural way" foreign to the local one may be answered with inflexible refusal. The solution to this scenario is to learn the characteristics of the local culture so they can adapt to them. The global manager can undertake a good deal of research by reading about and discussing about the local culture and also investigating what local individuals think of other cultures.

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It is important to pay special attention to the behavior of those people who are well accepted or those with whom one would like to be associated in a given society in order to emulate their behavior.

To learn the culture of the new environment where business is been conducted it is essential. Knowing the language of a society can become the key to understand its culture. Language expresses the thinking pattern of a culture - and to some extent even forms the thinking. To a large degree, international business depends on communication and languages are the principal means of communication. Every time a language and cultural barrier must be crossed, there is a potential communication problem.

Citizens of the United States of America in general have been remised in learning foreign languages, whereas citizens of other nations have invested much time and effort in language study. Although international business is increasingly being transacted in English, it should not be assumed that all foreign executives speak it.

Tom Peters in his book "Thriving on Chaos," describes the American ineptitude and arrogance about language skills, especially when it comes to Asia. He claims that by 1990 only 10,000 Americans were studying Japanese. "Worse yet, that number is only 2,000 more than in 1973. In Second to None: American Companies in Japan, a study of over a thousand successful subsidiaries of United States firms operating in Japan, journalist Bob Christopher recalls a highly placed Japanese official remarking that he has never met a U.S. salesperson who speaks fluent Japanese. Nearly ninety percent of U.S. executives in Japan don't even bother to try to learn the language, according to one poll. And while you might get away with doing business in English in the office during the day, real business - after-hours relationship-building - is conducted almost
exclusively in Japanese; furthermore, fewer than 1 percent of Japanese wholesalers, so essential to success, speak English." Americans' insensitivity to other cultures is confirmed by United Nations polls which report that among citizens of developing countries, Americans place last in sensitivity for foreign cultures.14

Communication between managerial parties speaking different languages requires the intermediary of translators. During negotiations this retards the process and introduces considerable risks of miscommunication. Those in charge of the translation may lack the substantive understanding or knowledge of concepts and terminology of the different aspects of business being negotiated and fail to interpret appropriately the technical meanings of statements covered. The outcome is ambiguity or misrepresentations. An American manager doing business with a foreign company where their management do not speak English, have to rely mainly on translators provided by the local environment. The translator typically is in a subordinate relationship to the local negotiator and in most of the situations, strongly identifies with the later's view and objectives, exposing the negotiator from the American corporation to the additional risk of cultural and political biases.

Inability to read the local language will shield the American managers from the operational and psychological characteristics of the local societies and will help to increase their unawareness about the foreign country. Success can only be achieved if the language barriers are reduced and the level of cross-cultural learning raised. It is important to note, that according to "recent surveys of multinational corporations indicate that almost 50 percent of them do not have

any predeparture language or cultural training for people being assigned abroad, although most provide in-country training.\textsuperscript{15}

Language is the key to culture and a manager with global aspirations must learn it, if his/her drive is to understand the people and the culture of the local environment. In most instances, there will be as many cultures in a country as there are languages, and those involved in international business should learn both the spoken and unspoken language of the local society, and be able to recognize those differences.

But recognition is not enough, the global manager must learn to associate the differences and to harmonize their behavior patterns. Therefore they need to be sensitive to international cultural differences and trained to constructively cope with them.

The influences originated by social and cultural forces and affecting international business are more imperceptible and often more indirect than the influences caused by economic variables. At the same time this influences are more widespread, and for this reason more often ignored or misjudge. Most of the deficiencies in global management, can be imputed to manager's weaknesses in connecting cross-cultural differences and adapting business behavior to the norms of other countries.

It is normal for an organization to offer different training programs to improve productivity, but the majority of them lack the vision to offer language classes for their employees involved in foreign operations. This in the long run could be a good investment and result in less shaky communications, lower accident rates, better quality control and help to build a better environment among associates.

A good example to imitate, is what it is happening in Sweden, where language training has become obligatory for foreign workers. They must received 240 hours of language instruction on company time at an estimate cost of $800 per worker.\textsuperscript{16}

Multinational firms need to encourage and facilitate language training for managers from both the home and the host country. This will not only improve communication but also enhance the internationalization of management essential in the multinational organization.

Foreign assignments of over a year should require a language training and without doubts this will be a worthwhile investment.

\textsuperscript{16} Business Week, (March 31, 1973), page 95.
"One gets to the essence of culture not by studying those things which were said at the time, but by studying those things which were not said."

-Alfred Whitehead

CHAPTER III

Global Corporate Culture

Developments in information technology and basic changes of our global economy are generating unprecedented challenges with which old mind-sets are unable to deal. How well an organization designs its managerial style, self organize itself and flow with change, will define how positive its corporate culture it is. Corporations under this type of environment need new ways of thinking and new ways of acting.

Organizational culture silently guides company's employees. It develops during company's infancy and flows to its current practices. It is reflected in employee's work styles, the common language used, and in the common stories told about what it's like to work in that particular organization. Global corporate culture consists of values, norms of behavior, systems, policies, and procedures through which the multinational organization adapts to the complexity of the global environment.

A multinational business organization must be multicultural. Each corporate body in a global organization's structure is exposed to influence from its host country's culture. Though reciprocating with its own inputs to the national culture, the business entity remains but a local
constituent. In most cases the organization is no only receiving the influence of the national culture, but it is contributing to it adding new cultural views, assimilated by the local culture after a phase of ripening and dissemination. According to Endel-Jakob Kolde, "national culture is always much broader in scope and more pluralistic in composition than the corporate culture, as long as the company remains uninational in scope. National culture can wholly absorb not only a single company's culture in its entirety, but all domestic company cultures in the nation's domain. The reverse-corporate culture absorbing the complete national culture-is an apparent impossibility. Consequently, the corporate culture can receive inputs from its national environment only on a selective basis, accepting what is necessary or irresistible and screening out the rest."\(^{17}\)

It is important for the company's welfare to overcome ethnocentric tendencies, and to harmonize technological imperatives with local values and traditions, and to maintain political neutrality. When the existing culture of a host country represents a barrier for modernization and business efficiency, the solution is to introduce change by utilizing the change-producing mechanisms of the local culture rather than trying to produce the change directly.

From a systems perspective **global corporate culture** it is structured process. "That is, it is fundamentally process, not structure. *But it is process that is structured in a way that allows it to be monitored, measured, and modified.*"\(^{18}\) Another example of structured process are TQM and methods for continuous improvement.

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In order to survive the global competition, an organization must rely on global managers with the necessary skills to deal with complexity and adaptability and at the same time be responsive to constant change. If an organization's corporate culture is not flexible enough to respond to change, this would be the organization's greatest obstacle to adapt to the changes in the new environment. Forming a global organizational culture comprises developing the integrating values, techniques, and processes that allow a firm to effectively manage continuous change in a competitive global environment. Developing a global corporate culture, will transform an organization and its management into an entity where it is difficult to detect a single country influence, from the top executive to the lowest level of the organization.

All organizations need some form of structure within which to operate. If this structure is not physical, then it needs to be based on shared vision, values, and norms of behavior; that is, a strong corporate culture.

It is imperative that global companies line up their recruitment policies to preserve their corporate culture in the face of local ethics. International business enterprises must recognize that differences in culture affect the way foreign managers staff their operations, and it is through recruitment that they are able to balance their own values and cultures with those of the different countries where they conduct business. This is like performing a cultural balancing act, trying to find a way to preserve the corporate identity around the globe without altering the diverse cultures of the nations where operations are being carried.

Different companies have different approaches to these policies. For example Richard Gros, vice president of personnel at Somers, New York-based PepsiCo Foods and Beverages International, states that his company has opted for four core competencies to be crucial in the
company's global recruitment standards. PepsiCo's four priorities according to Gros are; integrity, employees who show a drive for results, respect for others and the last one, candidates who demonstrate they are capable of business thinking.\textsuperscript{19}

Integrity is also defined by PepsiCo as "honesty, candor, the ability to communicate openly and the ability to deliver what's promised," avoiding bureaucracy. Having a drive for results means that the employee has a commitment to achieve goals. Those who are able to show respect for others, will be capable to work in teams, and also to respect different beliefs, different values, and different ways of doing business. Business thinking means that the employee must have the ability to break complex problems into solvable ones, rethinking the problem in a creative way, using their imagination, and demonstrate their desire to grow and learn. These are the four competencies that helped PepsiCo Foods and Beverages International to maintain its corporate culture and values globally.

Cultural variance from country to country can't be ignored, and if there is an ethical conflict, sometimes it may be best for the organization to simply do business elsewhere. It is impossible to compete in an international location when the company's ethics and the host country's ethics don't blend. A possible solution to this dilemma it is to have an agent doing business in the country of conflict and let the firm just do the supplying. It is important to recognize that the dilemma exists, and companies must be sensitive to cultural differences, without compromising their morals, but being aware of the different attitudes around the planet.

A borderless world doesn't mean that corporations don't have personality. Actually, corporate culture is the framework of an effective corporation. It's the language that

\textsuperscript{19} "Global companies reexamine corporate culture" - (Survival Guide for Recruitment in the 90's) \textit{Personnel Journal}, August 1994 Volume 73 Number 8 page 12.
communicates the firm's mission and its ways of doing business. It provides guidelines for people to follow and communicates the company's unique identity. The ability to transplant the corporate culture from one country to another, is critical to the success of most international enterprises. Generally, it shows up on the bottom line. No matter what the type of corporate culture, when business goes global, the culture is translated overseas. It blends with the host-country culture and changes, just as translated language experiences changes from its origins.

An organization's corporate culture defines the nature of the company and objectives it hopes to accomplish. Human Resource's ability to adequately transplant this culture, making it agreeable from country to country, should be the organization's HR main concern. Since corporate culture is the language that communicates a firm's mission, the efficiency of transplanting that culture to the different locations in the globe where the company operates, is critical to its success.

Higher technology, faster transportation and free access to information has helped to made this a borderless world, where political boundaries between nations may remain, but industry, tourism, finance, and geographic borders are vanishing continually. But this doesn't imply that corporations are without personality. Actually, corporate culture is the basic structure of an effective global corporation, and indicates the company's mission and its ways of doing business, providing the guidelines its members follow and communicate the organization's distinctive identity.

In large global organizations, with many people coming from different cultures, and different belief structures, the diffusion of shared values is likely to have the greatest impact on stimulating long-term internal organizational competence. Considering that the internal parts of a
company operating in a global environment are expected to be diverse, shared values are
important to ensure that everybody in the firm share a similar mentality and code, even if they do
not all come from similar backgrounds.

The best example to understand how important it is the role of shared values in building
a highly effective, decentralized multinational, is the case of Unilever, a British-Dutch consumer
goods company. At Unilever, top management permanently stimulates all employees to learn the
"Unilever" way of thinking. This is distinctly demarcated in the minds of all who work with
Unilever, regardless of where in the globe they work. Former Unilever Chairman Ernest G.
Woodroofe, addresses in the following quote the way in which careful selection has come to
embody a strong competitive advantage for this multidomestic organization.

"The talents, the flair, the intuitive thinking, and the points
of view of many different cultures can be brought to bear on a
problem, whether it is one of science, management,
organization, or consumer response. But, of course, it is not
easy to do this, for if people from many cultures are to work
effectively together, they must also acquire for themselves some
common language of communication, some common culture.

... We must do this within the context of an overall Unilever
way of doing things -- what in America would be called a
business philosophy. I must emphasize that the Unilever way is
not an Anglo-Dutch philosophy, but one to which all
nationalities have contributed: one which Englishmen and
Dutchmen have to absorb as much as do Brazilians and
Swedes.

Lei, David; Slocum, John W., Jr.; Slater, Robert W. "Global strategy and reward systems": the key roles of
...I mean that in giving advice, in settling out company policy, or in reporting on marketing campaigns, technical developments, or political changes, there is [or should be] an accepted way of doing things which is readily understood in all parts of the Unilever world. Moreover, this pattern of behavior is not simply imposed from the center. Rather, its elements have been drawn from all parts of the organization, and they have been crystallized by the center."

Understanding local attitudes helps corporate cultures take root. Those companies trying to impose their homeland characteristics in a foreign environment will likely face opposition. Those with a more sensitive approach to local attitudes and customs are bound to be more successful.

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(Creativity)

"Whatever creativity is, it is in part a solution to a problem."
Brian Aldiss (b. 1925), British science fiction writer.

(Innovation)

"The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds."
John Maynard Keynes (1883–1946), British economist.

CHAPTER IV

Complexity and contradictions inherent in any global organization and how to react promptly to manage the tension for creativity and innovation.

A Global business environment is a more complex business world, more complex to understand and more complex to manage. Global managers of newly globalized firms sense this complexity they are exposed to, as a result of the organization's first moves into globalization. It is after some years that they realize that this new complexity is not a transitory condition, but is something inherent to the concept of global operations and need to be conscientiously managed.
Great part of this complexity derives from implicit contradictions in the demands placed on a global organization, its inexorable need for global efficiency and local environment responsiveness, often generate tension over the allocation of resources.

It has become clear that living with and managing diversity will be a central theme of the coming century. The eruption of ethnic identities throughout different parts of the earth, the reassertion of the value of diversity in the United States, and the rebound of the values of fundamentalist religious concerns in the Middle East and middle America, all confirm the management of diversity as one of the most important skill requirements of the twenty-first century.

Global managers are faced with the traditional task of assessing their strengths and weaknesses, and matching them to the environment, but they have to do so within the context of the varied political, cultural, labor, and ethical environments around the world. Strengths at home can become weaknesses at another place or the reverse: weaknesses may surprisingly be seen as strengths. The effective implementation of any global strategy, requires that international organizations utilize national differences, scale economies, and synergies between different activities to achieve and maintain a competitive advantage. The global manager's strategic task is to apply these sources of competitive advantage to the fullest capacity. Also it is necessary that global firms develop the capability to both integrate globally and be locally responsive. Those firms that focus on integrating and being responsive are following an "administrative coordination strategy." According to this model, on one side, the firm suppose to follow both strategies concurrently, and in another, it requires that the firm make each strategic decision.

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according to its own merits. But, this flexible approach is not easy to carry out, because continual administrative changes constantly are needed in order to confront each new situation. Local responsiveness and worldwide integration are trade-offs between flexibility across countries and flexibility within countries, while the firm concentrates on internal efficiency. On the other scenario, "the administrative coordination strategy, pursues external flexibility (within and across countries), often at the expense of international efficiency."

The truth is that in theory, the firm can benefit from the advantages of both the worldwide integration and the national responsiveness strategies, but the limitation is that the firm should count with the indispensable management skills and flexible organizational structure to react adequately both to pressures for integration and responsiveness.

A good example of how some companies are attempting to be both locally responsive and globally integrated, has been reported by Business Week (May 14, 1990.) To accomplish this the companies should count with creative managers to maintain a balance between operating as a global organization and at the same time customizing products to local tastes. Global firms are forming a force of executives of different nationalities with past experience at foreign postings. One of the examples mentioned in the article, show that of Dow Chemical's top 25 executives, 20, including CEO Frank Popoff, have had international experience. For GE Plastics, the general manager of auto marketing worldwide is Dutch, and the manager of plastics marketing is German. Peter Mercer, a human resources executive for the same company in Pittsfield, MA, manifests that "Nationality really doesn't make a difference."
It is not the case that these companies are renouncing identification with a single nation, but they are trying to become local companies in several countries, shaking up old-fashioned matrix management. Like Richard Dulude a member of Corning Glass Works' board of directors says, old-style matrix management is "too bureaucratic, too slow, and too expensive in today's market."25

The capacity or incapacity to manage complexity, contradictions, and conflict is extremely tied to cultural values.

Americans for example, are not use to an unpredictable environment, they are more comfortable practicing the scientific method to determine future outcomes. American cultural values have always emphasized pragmatism, action, and cooperation. But in different areas of the globe these values are relatively rare or overlooked. So, when American managers confront the competing interests present in international operations and the complexity of their style in a variety of cultures, their usual approach is to try to implement their intrinsic belief in cooperation and fair play as the basic spirit of organizational life.

Americans also are not familiar with contradiction. Being action-oriented they attempt to arrange contradictory choices in order to decide how they can move forward, leaving aside what is right in a philosophical sense, opting for what is manageable and possible to complete the task and moving forward.

Contradictions on the other hand, inheres at the foundation of Eastern thinking. This causes their philosophy to be inclined toward flow and change rather than stability. They see life as two different poles - yin and yang - and between these two poles there are continuous fluctuation forming a rhythm in the universe. Tao, (reality) is been considered a process of

25 Ibid.
constant flow and change, and this change is expected as part of its natural dynamic.

Organizational life as well as life's activities, generate new demands that swing the momentum back toward the end of the spectrum that is not conventional.

Among the several contradictions global managers must face, Paul Evans and Yves Doz noted the following ones: Individualism - Teamwork, Analysis - Judgment/Intuition, Cost - Quality, Efficiency - Responsiveness, Centralization - Decentralization, Competitiveness - Partnership, Differentiation - Integration, Comprehensiveness - Applicability, Control - Entrepreneurial chaos, Hierarchy - Network. Also they noted that to manage global operations effectively, it is necessary to understand the dynamic balance between these dualities and the fact that each one of those contradictions can be the right or the wrong answer to the proposition.  

Complexity and contradiction are embedded in any global organization and the main task is not to rule out them, but to control the tension for creativity, imagination and innovation. An excellent definition about complexity in today's international business by Jacques and Clement, describes it as a "function of the number of variables operating in a situation, the ambiguity of these variables, the rate at which they are changing, and the extent to which they are interwoven so they have to be unraveled in order to be seen."  

To successfully manage complexity and conflict, global managers must be able to concurrently distinguish the validity of conflicting interpretations while making decisions that deliver the best interests of the firm.

A manager involved in intercultural business activities should undertake the not easy task of assessing the extent to which outside values and forms of organization can be successfully introduced into the host culture. This task means that they should realize that he or she is engaged not only in marketing a product or service, but also in international social marketing. The answer to the adapt or innovate problem depends in part on whether the innovation harmonizes with or disrupts the social organization of the host country society and in part on whether the innovation will result effective for economic development.

A society is never a passive recipient of new ideas, skills or foreign firms. A society's response to the impact of foreign organizations or other external intrusions depends on whether the innovation satisfy a need within the society. Some innovations are accepted and become part of the host culture as a result of assimilation. Other innovations are usually acceptable but include details that do not contemt with the host culture, meanwhile other ones may be accepted for awhile and then rejected, sometimes vehemently.
"It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be. . . . This, in turn, means that our statesmen, our businessmen, our everyman must take on a science fictional way of thinking."

Isaac Asimov (1920-92), Russian-born U.S. author.

CHAPTER V

Different risks a global organization is exposed to.

An organization's decision of going global and selecting different international locations can be influenced by a variety of risks. Some of these risks are not present at all or are present to a much lesser magnitude in its domestic operation environment. The perceived risk involves consideration of the social environment, the economic environment, and the political environment. A serious assessment of the possible risk should consider the stability and compatibility of a particular location. Stability can be measured by the degree and level of
unanticipated change. Compatibility can be determined by the degree of disparity between the firm and country in terms of culture, systems, objectives etc..

A foreign location's risk process can be conceived of as embracing both assessment of risk and management of risk. This process would help a firm to predict the level of risk that exists in any situation and then decide how to proceed with that particular risk.

According to Gregory, this process of risk management should be viewed as consisting of five different steps. The first one, identifying government policies and activities that could affect the organization's operations. The second one, evaluating, the odds of pertinent government policies and activities that are actually occurring, as well as measuring their specific effect on company operations. The third step consists of to decide how to deal with the risks that have been identified. How they can be reduced, transferred, or bypassed using different techniques. An organization should choose those practices that best serve its most important interests. There are many opportunities in risky situations, but the risk needs to be identified and managed. The purpose of the fourth step is the implementation of those techniques that have been identified as most appropriate and beneficial for the organization. In other words, shifting risk management from analysis to action. Selection and trade offs of all the selected techniques are been executed at this step. The last step is the evaluation of the firm's risk management, providing the opportunity to accentuate the probability of different risks and to measure the effectiveness of the risk management procedures implemented.

The degree of risk present in any situation depends on the particular company. A local environment may result quite safe for one company, meanwhile may be quite risky for another.

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For example, for a company that relies on local government support, a repeated change in government would suggest a risky environment, but for a firm whose operations are of little interest to the host government would result relatively safe.

An assessment of a firm capability, location attractiveness, and perceived risk should lead an organization to identify external opportunities and threats and internal strengths and weaknesses. After these factors are recognized, then they can be compared to the entry options available to the organization.

The entry selection can be considered of in terms of the level of involvement that an organization would like in a particular location. In a very favorable situation the firm would opt to maximize its involvement; but in an unfavorable scenario would be recommendable to minimize its involvement, meanwhile is there are mixed expectations the involvement should be moderate. Level of involvement and ownership are not necessarily the same, even though increased ownership often suggests increased involvement, joint ventures and other options of foreign participation can also be undertaken at different levels. The entry options available for a particular location are determined by the local regulations existing in a given location, and the firm should consider only those options that are allowed.

In the case of a firm concerned about foreign exchange risk, it should structure its investments to minimize assets that are exposed to changes in exchange rates. If the organization is worried about social risks, it may decide to participated in a joint venture with a local associate. If the subject of concern is political risk, such as nationalization or expropriation of assets, the firm should be inclined to limit ownership or position key aspects of its business operation externally.
When the result of the local assessment is an ideal one for the firm, it should maximize its presence in the host country, given the existent regulations. One option can be a wholly owned subsidiary if permitted, if this is not possible it should consider the highest possible ownership option within the regulations that do exist.

Relatively low location attractiveness and high marked risk, suggests that the firm can use its capabilities more efficiently and safely in other site. The organization can choose to maintain a presence in this location because it believes the situation may change in the future, and should do so by being involved in exports or licensing.

A limited location expectations, where a safe environment is present, should incline the company to keep a presence to be prepare to operate in the country if the location becomes more attractive. The possibilities here, are; likely exports or a licensing agreement, perhaps a sales branch.

If the company's capability and the perceived risks are both concerns, but the location still offers some attractiveness, the organization should maintain some degree of presence. A possible consideration in this scenario, is a joint venture that would offset its weaknesses and limit its exposure.

Other possibility is when the location has some degree of attractiveness but the company's capability is doubtful. The company under this circumstance should maximize its ownership and evaluate a joint venture partnership that can furnish essential complementary strengths.

When unattractiveness is accompanied by a safe environment prospect, a minimal presence can be advisable. The way to maintain such a presence might be exercised through
exports or a licensing agreement that does not place undue pressure on the organization's capabilities.

Any organization facing an unfavorable environment and high risk prospect, should maintain no presence in that particular location.

It is important to realize that this is only a very simplistic approach, and a more precise analysis should be assessed for each instance, in order to accomplish the best results for the organization.

When considering international business risk, two categories should be appraised: one that can be called commercial risk, or normal business risk and the second, the environmental risk. The first one "normal business risk," shows the natural risk, consequence of being in business, such as a better product, lower price, or better technology from a competitor. "Environmental risk," arise out of economic, social, and political events, trends, or shocks, affecting the business environment. All these changes bring uncertainty, and this uncertainty can be translated as being an important environmental risk.

In this second category of risk, we can include the risk of nationalization, expropriation, confiscation and forced divestment that exists in some countries. When the host government decides to confiscate company assets, takes them over with no compensation to the affected organization. A government wish to acquire the assets of a company against the firm's will, is known as forced divestment. Force divestment can take the form of expropriation, taking over one firm, or nationalization, that it is the takeover of an entire industry. Sometimes, under situations when relations between the local government and the international organization, reach a point where cooperative coexistence is no longer possible, the host government have resorted
to expropriation or severe and strict operational controls. One way to cope with this type of political risk is procuring investment insurance.

Under international law forced divestment is legal as long as it is accompanied by prompt and equitable compensation. It is important to notice the possibility of these risks, but "in fact, the occurrence of unwanted takeovers is relatively low in comparison to total foreign investment. Forced divestment rose during the 1970s and peaked in 1975-76 but have declined through the 1980s." Lately "some countries have reprivatized industries that were previously nationalized." Among the myriad of problems a global manager has to deal with should be mentioned the changes in currency values. Fluctuations in the rate of exchange cause the value of the local currency to change relative to foreign money. When the exchange rate declines, local money appreciates in value, and represents more foreign money. On the contrary, if the exchange rate goes up, domestic currency depreciates in value, and more American dollars would be necessary to pay for a unit of the foreign currency. A devaluation of the host country currency value can represent that any profit forwarded to the parent company may not be worth as expected. Costs for raw materials or supplies, can increase far more than planned, and this can reduce the company's earnings. Also foreign debt obligations can become more expensive. The threat of a reduction in the host currency value, can alter the normal operating procedures of subsidiaries in the threatened country. In order to reduce exposure to devaluation, capital expenditures should be suspended, and local currency borrowing increased as much as possible. Capital returns to headquarters may be expedited in the form of, royalties, dividends, or a variety of fees as well as


30 Ibid.
The local branch should be capable of financing these outflows and conduct business on the remaining funds. The subsidiary must not hold excess cash and should reallocate moneys to other locations of the organization. It is important to consider that these approaches are only feasible, to the extent that local government regulations permit them, local financing is available, and the added costs of transfers are less than the possible losses from devaluation. The manager involved in this type of operation must be familiar with forecasting the causes of currency value fluctuations. The different variables that can influence the local currency exchange rate are; rates of inflation, long-term interest rates, political stability, labor environment, balance of payments, monetary and fiscal policy, the host country ties to other currencies, and speculation that become an effect of possible devaluations.

A company doing worldwide business, may institute different courses of action in its quest to reduce its net exposure. Possible options include converting assets in strong currencies and maintaining liabilities in weak denominations. Although, these measures are not risk exempt. The company's real challenge, consequently, is to optimize its strategy.

A clear example of this position is Asea Brown Boveri, Inc. (ABB), an electrical engineering giant. The firm has a unquestionably defined mission statement and a culture that supports the mission. "Owned jointly by ASEA AB in Sweden and BBC Brown Boveri Ltd. in Switzerland, the enterprise purchased U.S. - based Combustion Engineering and a large division of U.S. - based Westinghouse in 1989, which raised its worldwide employee population to 213,000 and its revenues to about $30 billion a year."

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Richard P. Randazzo Assea Brown Boveri's vice president of Human Resources says "We think about ABB as a company without any regard to national boundaries, we just operate on a global basis. A lot of other companies see boundaries and barriers, but from a business standpoint, this company is intent on transcending those boundaries." Indeed, more than 50% of its sales are in Europe, 20% are in North America, 20% in Asia, and the rest are in South America and Africa. The official language is English, and the official currency is the dollar.

According to Randazzo, ABB's culture is focused tightly on making money. "Its personality profile is a hands-on, action-oriented, travel-to-the-opportunity kind of business. Each division acts locally in response to customers and employees. But managers are required to think globally about sourcing. For example, if the dollar is strong relative to the Swedish krona, then the company sources more from Sweden because goods and services are cheaper there. When that changes, sourcing also changes."

Despite the fact that international financial management involves extra risks, the basic concepts of financial risk remain the same for both domestic and global financial managers. The basic principle that higher risks should not be considered without higher expected returns, remains unchanged in the global business arena. Therefore, foreign opportunities may need to promise higher returns than domestic ones.

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32 Ibid, page 82.
33 Ibid, page 83.
"Doublethink means the power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them."


CHAPTER VI

Unexpected developments in international business.

Dealing with the cultural differences that managers encounter around the world is a significant challenge because people are naturally ethnocentric. People in general believe that the way things are performed in their own culture is the best way. This generally leads to the argument that when things are conducted differently they are not as good. Different is somehow wrong. Global managers should be capable to accept the concept of different as simply different, and be able to understand and identify why it is different.

It is fundamental for a global manager to understand the distinction between international business and national or domestic business environments. These environmental differences contribute to behavioral and managerial differences. The objectives of an organization may not change, but, its structure, plans, policies, and operating standards experience a multitude of adjustments or even complete revisions when the firm expands its operations beyond its domestic environment. International expansion will bring new hurdles as well as new opportunities in each
foreign location. Information and insights perhaps inconsequential for domestic management, would be essential in an international expansion.

Each country has its own rules on how to conduct business. Therefore the experience of doing business in a new country confronts a company with different requisites, unknown before in its domestic environment.

Environmental constraints in domestic business can be viewed not only as limitations but also as unifying factors common to the national business system as such rather than to management in particular. This means that, certain environmental constraints behave not as differentiating but as integrative forces in the domestic business process.

When operations expands beyond the domestic sphere, the environmental setting loses the intrinsic consistency of a national economy and takes on new perspectives. A consequence will be a set of new ground rules as defined by law, economic institutions, and custom; new incompatibilities, interactions, and balances among external forces; and new opportunities as well as controversies. Companies searching for rational options among the alternatives available in different foreign locations, must be capable to understand, identify, and anticipate both the negative and the positive consequences of the international environment.

A multinational setting is without doubt more dynamic than a domestic setting. Each country is identify by its own economic realities, and also by its own sources and causes of domestic changes. "To be able to establish its goals and strategies rationally, a firm must not only understand its environment but also be sensitive to the sources and forces of change that
constantly transform the incentives, impediments, and rewards which define opportunities and provide the standards for managerial performance.34

Managers of global organizations should be aware of some of the differences among business cultures, to be prepare for successful experiences when they leave their home country to work in other cultures. Indeed, without leaving the country, we all realize that it is indispensable to improve our cultural knowledge as we mature, and go through the different steps of our life.

Different cultures have a different set of attitudes and beliefs that influence almost all phases of human behavior and help bring order to a society and its individuals. The more managers can learn about different key attitudes, the better prepared they will be to identify why other individuals behave as they do, particularly when their views differ from those that the managers have learned to expect in dealing with their own people.

Global management can indeed encounter a variety of unexpected developments. Sometimes these unexpected experiences benefit the organizations involved. In many other cases, the surprises prove to be undesirable and costly to the firms.

Among the numerous subjects covered by attitudes and beliefs, the most important ones are, the attitudes toward time, toward change, and toward achievement and work.

For example, in the United States time is extremely important, but for other cultures could mean just the opposite, and doesn't deserve much consideration. A true anecdote about an American who has worked in the Middle East for 20 years illustrates the Middle Eastern idea of time as follow:

"A lot of the misunderstandings between Middle Easterners and foreigners are due to their different concepts of time and

space. At worst, there is no concept at all of time in the Middle East. At best, there is a sort of open-ended concept." On the other side, the head of Egypt's Industrial Design Center, an Egyptian, expresses, "The simple wristwatch is, in some respects, much too sophisticated an instrument for the Middle East. One of the first things a foreigner should learn in Egypt is to ignore the second hand. The minute hand can also be an obstacle if he expects Egyptians to be as conscious as he of time ticking away."35

David A. Ricks in his book "Big Business Blunders" (1983) refers the following story:

An American manager in the South Pacific had hired local employees without using the traditional island status system. By hiring too many of one group, he threatened the traditional balance of power. The islanders talked over this unacceptable situation and came up with an alternative plan. It had taken them to 3 A.M. to arrive at a decision. Because time was not important in their culture, they saw no reason to wait until morning to make their suggestion to the American manager. They went to his residence and woke him. It did not occur to him that they might want to talk business at 3 A.M. Their appearance caused him to panic because he assumed they planned to attack him, so he called in the Marines. Clearly this was a situation where understanding the local culture would have been beneficial.36

Another interest view about the time orientation of different cultures had been identified by Kluckhohn and Strodtbeck's value orientations model. They expressed that societies that are

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oriented toward the past try to find for solutions in the past; in the same way their forefathers would have done. The Chinese respect and veneration for older people implies an orientation to the past. Societies that are present oriented evaluate the immediate effects of their actions, wondering what will happen if they do something. American appeal for instant gratification demonstrates an orientation toward the present. Societies that are future inclined look to the long term results of today's events, questioning what will happen to future generations if specific things are done today. The Japanese drive for long-term results and planning can be regarded as a sign of their orientation toward the future.37

An American company doing business overseas is frequently surprised to realize that certain cultures do not regard change as Americans do. Attitudes toward change in other countries show that they react against something new, preferring something tried and proven instead the unknown. For example Europeans repeatedly remind Americans that they are a young nation lacking traditions, and this inclination for traditional methods makes it more difficult for global managers to incorporate a new managerial process.

Extreme contrasts among cultural attitudes toward work are present in different cultures. There is a saying in Mexico, "Americans live to work, but we work to live." This reflects that Mexican culture, considers work just necessary to obtain the essentials for survival, and once these have been obtained, people may lose the desire to work. In other industrial societies, work is a moral, and even a religious virtue. In this type of scenarios, a promise of overtime could fail to keep the workers on the job. Is more, the extra money generally results in them working less.

It is relatively clear that the present business scene is no longer circumscribed by national boundaries, and that companies dealing internationally, must possess a global awareness if they expect to survive and prosper in the actual international environment. They either will succeed or fail according to their ability to deal with this dynamic environment. Global business have become a fact of life, and managing any enterprise in the 1990's and the next century, will demand a complete international interaction. Global economies are so interdependent that events in distant locations must be taken into consideration by managers no matter where a particular business is located. This interrelation nature of global business, leads to a fundamental requirement for managers to think globally. A global approach means that opportunities and challenges can be found in different countries, recognizing the importance of diversity found around the world.

The countries of the world are connected by a multidimensional network of economic, social, and political ties. As these links grow more important and complex, nations will find themselves richer but more vulnerable to foreign problems, and this vulnerability increasingly will move the issues surrounding international trade and finance into the political arena. Therefore, it is important that global managers understand the consequences that changes in
political rules, or in financial matters can help or hurt their organizations. The issue is not will a change take place but rather which change will provide the most benefit with the least cost.

Although international managers must be capable to understand business concepts and techniques employed in industrialized nations, they must also know enough about the differences in the environmental forces of the markets in which they conduct business to be able to decide if a concept or a technique can be applied to another country without change, must be adapted to the local environment, or cannot be employed elsewhere.

Presently it's not uncommon for the top managers and a major portion of the multinational employees to be foreign nationals. That is because more and more United States firms are developing into transnationals, or globally integrated organizations. This organizations, to succeed, need to have foreign nationals running overseas operations since they are more in tune with the local environment, if the challenges of the global human resources game far exceed those posed in the domestic arena. The first stage should involve a global talent pursuit. The second how to manage the melting pot. Managing a culturally diverse workforce can be considered as walking through a minefield. Here is when global managers must show their situational and promptus thinking, adopting, innovating, or creating those decisions necessary to give a solution to a particular situation. They must tackle a mix of labor laws and social and legal issues which change from nation to nation. Despite all the inconvenience, developing a group of global managers can give those firms operating internationally a tremendous competitive advantage. Such leaders, master interpreters of local and global trends, and know how to adapt to cultural, political, and social changes, are nurtured, not born.
Entering to the new century, organizations with aspirations of being part of the new commercial global environment, will need to invest more heavily in the training of global leaders, and foster more cross-cultural teamwork within their organizations.

Undoubtedly human assets will be as important as technology when it comes to competing in the new global arena.
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