



# HUAWEI



## HUAWEI



# 1

Kevin Frayer/Stringer/GettyImages

## THE INTERNATIONAL MANAGER<sup>1</sup>

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## LEARNING OBJECTIVES

**After reading this chapter, you should be able to:**

- 1.1 Describe “globalization”
- 1.2 Identify the influence of information technology on international management
- 1.3 Explain the connections between the economic and political contexts of business
- 1.4 Understand the influence of migration on the global workforce
- 1.5 Outline how the global context of international management affects managers’ work

### GANBEI<sup>2</sup> AND NO DEAL

Komal Gill, chief technology officer for the Canadian company Cascadia Netphone, sat in her room at the Four Seasons Hotel in Shenzhen, China, staring at the message on her smartphone. For the first time in her business career, she didn’t know what to do. That night she was scheduled to attend a banquet sponsored by the Chinese technology giant Huawei to celebrate an agreement between the two companies for Netphone to acquire 5G technology from Huawei. As a new form of wireless technology, 5G was expected to enable much faster Internet download speeds—possibly up to 100 times faster than current networks—to allow everyday devices and machines to be connected to a wireless network and to be a key technological link for such things as “smart” homes and self-driving cars. Netphone had chosen to try out Huawei’s technology because, as Komal’s boss put it, “It’s cheap and it works!” The trials had gone well, and Netphone was ready to sign an agreement with Huawei to acquire 5G technology from them.

However, the message on Komal’s phone said that instead of signing the agreement on Netphone’s behalf, she should instead tell the Huawei executives that everything must be delayed.

Why? Because of the arrest that week of Huawei executive Meng Wanzhou. She had been arrested in Canada at the request of the U.S. government, by means of a warrant seeking her extradition to the United States on fraud charges. The arrest had been followed by a ban on Huawei technology by the United States, Japan, Australia, New Zealand, and several European countries. These countries had security concerns involving the possibility that Huawei could use its technology to spy for the Chinese government, and indeed the U.S. government had for years tried to convince other countries not to buy equipment from Huawei. But because all this had happened during a trade war between the United States and China, the Chinese government claimed that Meng had done no

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wrong and that the arrest was politically motivated to secure trade advantages for the United States. Now, the message on Komal's phone from her Vancouver headquarters said the Canadian government, like the others, was considering banning Huawei technology and the agreement should not be finalized until the issue was resolved.

"Oh no," Komal thought. "Now not only do I have to be concerned with technology that is advancing very fast, I also have to deal with the global politics of who we do business with. I don't think the Canadian government will ban Huawei. After all, Netphone has involved the Centre for Cyber Security throughout the negotiations. But that may not matter if the U.S. administration really puts on the pressure."

"Well," she thought. "How do I get through dinner tonight? I've always been good at dealing with people from other cultures. I grew up in a multicultural home and in a multicultural country, and that has helped. But tonight will really test my abilities." She had prepared herself for the round of toasts that were usual at a Chinese banquet. But what was she going to say?

## INTRODUCTION

### Globalization

Globalization is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.

**Culture** Culture is a set of knowledge structures consisting of systems of values, norms, attitudes, beliefs, and behavioral meanings that are shared by members of a social group (society) and embedded in institutions and learned from previous generations.

In the preceding case, the problem faced by international manager Komal Gill had been created by a complex combination of technological, economic, political, and cultural factors, culminating in a situation dramatically affecting her company's business that had to be dealt with at the highest level. But the world of international management is no longer limited to jet-setting corporate executives such as Komal Gill or to experienced expatriate managers. Essentially all business conducted today is influenced by transactions across international borders and by events in other countries. Every international manager and many employees who may not think of themselves as "international"—such as the technical staff in Netphone anticipating working with the Huawei technology—are likely to find themselves affected by these apparently faraway economic and political events.

For example, twenty years ago, cotton farmers in West Texas who grew short-fiber cotton for making clothing such as blue jeans were worried about local weather factors, such as hail or lack of rain, which might result in crop failure. They now have an additional concern: the success of the cotton crop in faraway countries such as China leading to overseas competition that may reduce their prices and therefore their revenue. Likewise, many employees who may never have even left their own country have global responsibilities. In their work, contacts with those cultures are commonplace and are often dealt with by means of modern information technology, from within the home office. Thus, people who think of themselves as *local* workers and managers are forced to become international.

The work of international managers is affected by dramatic changes in economics, politics, and technology, changes that are often summarized by the term **globalization**. In this chapter, we explore these economic, legal, political, technological, and cultural factors, which together create the surrounding, rapidly changing *context* in which today's international managers must work. Each of these contextual factors is important; however, the most difficult one to understand and the one most often neglected by managers is **culture**.

## GLOBALIZATION

The term *globalization* is very common in contemporary writing about management. In order to understand the contexts that international managers work in, we must first define the term. However, definitions and descriptions of globalization vary widely. Globalization can be described as “thinking of the world as a single place” or as “an increase in the impact on human activities of forces that span national boundaries.”<sup>3</sup> A useful general definition is “globalization is a process whereby worldwide interconnections in virtually every sphere of activity are growing.”<sup>4</sup>

### Increased Use and Sophistication of Information Technology

The aspect of globalization with perhaps the most potential to shape the organizational context is the dramatic advance being made in information and communication technology.<sup>5</sup> Technological change happens very, very fast. Technological breakthroughs seem to occur on an almost daily basis, with each new device for communication or computing being even more powerful, smaller, less expensive, and more user friendly than the one before. For example, compared to the single computer owned by the Massachusetts Institute of Technology (MIT) in 1965, the computer in your mobile phone today may be a million times cheaper, a thousand times more powerful, and about a hundred times smaller!<sup>6</sup>

The effects of technology largely result from two connected activities. First, advances in information technology reduce the *cost* of communication, leading to more global goods. Second, as organizations in different countries try to keep up with the changes, this globalization of trade increases competition and contributes to the global spread and further development of technology. Computer technology now enables people everywhere to establish businesses that are unconcerned about traditional boundaries and barriers, including the barriers that economies of scale and scope create.<sup>7</sup> The decreasing price and increased sophistication of computing systems has given even small organizations and individual entrepreneurs capabilities that were previously available only to large multinational firms. Access to information, resources, products, and markets are all affected by this improved technology: Even small firms can now compete globally. Across countries at all levels of development, the majority of firms are small and medium sized enterprises (SMEs), so this new availability of powerful technology is very significant. Increasingly, even SMEs will have to think internationally.

These technological changes also mean that all organizations are less limited by the physical space they occupy. For example, it is now possible for teams of individuals from around the world to be rapidly brought together, connected by long-distance information technology, such as email, Skype, or Zoom, to achieve their goals quickly and to be then dissolved. Members thus contribute to the team from multiple global locations, without meeting face-to-face. Organizational boundaries are less rigid, and the parts of the organization’s production, sales and marketing, and distribution functions (the “value chain”) may all be located in different countries. Some experts warn that this technological change will render physical place irrelevant for so-called “virtual” firms and will eventually cause the undoing of nation-states as their boundaries become less relevant.<sup>8</sup> But others suggest that being physically present when communicating with someone else provides a psychological influence that electronic communication technologies can’t replace.<sup>9</sup>

**SMEs** Small and medium-sized enterprises are defined differently around the world. In the United States it means companies with 500 employees or less. In the EU it is 250 employees or less.

That is why the world's political and business leaders fly round the world to meet with each other face-to-face. The likely effect of these advances in information technology is that the work roles of both managers and other employees will need to be adjusted to reflect an increasingly information-driven context. And the dramatic increase in the use of information technology as a result of the COVID-19 pandemic will likely have a significant carryover effect in a post-pandemic world.

## Growing Economic and Organizational Interconnectedness

Free trade grew greatly from the 1990s. This dramatically increased economic interconnections among countries. The number of active regional trade agreements swelled from about 45 in 1990 to 100 in 2000 and 291 in January 2019.<sup>10</sup> The three largest trade groups, the European Union (EU), the North American Free Trade Agreement (NAFTA), and the Asia-Pacific Economic Cooperation (APEC), account for about one-half of the world's trade, with the strongest recent growth occurring in Asia. In addition, the World Trade Organization (WTO) was formed in 1995 as a result of the General Agreement on Tariffs and Trade (GATT), with the goal of reducing **tariffs** and making trade easier, and now has 164 member-nations. The Trade Facilitation Agreement signed in Bali in 2013 promotes world trade with developing and least developed countries. The result of these agreements has been to increase interconnectedness among the world's economies. Local economic conditions now therefore result from international as well as local influences. Despite recent **protectionist** movements in some parts of the world (protecting local industries against international competition, which may be seen as unfair), the effects of globalization seemed (until COVID-19 halted much international trade) unstoppable. Box 1.1 contains an example of the complications that can arise for countries and their businesses when trade conditions are changed.

**Tariffs** Tariffs are taxes used to restrict imports by increasing the price of goods and services purchased from another country, making them less attractive to domestic consumers.

**Protectionist** Relates to the theory or practice of shielding a country's domestic industries from foreign competition by taxing imports.

### BOX 1.1

#### RENEGOTIATING NAFTA

In August of 2017, after months of repeated threats from Donald Trump, the "America First" U.S. president, to withdraw from the 23-year-old North American Free Trade Agreement (NAFTA), the United States, Canada, and Mexico began the task of renegotiating the trade deal. NAFTA, signed in 1994, had created what was then the largest free-trade area in the world. It removed barriers to the flow of goods and services between Canada, the United States, and Mexico and, in the event of dispute, had an independent dispute settlement process. But in 2016, protectionism became a defining theme in the U.S. election, with Trump calling NAFTA "the worst trade deal ever made" and saying that it had resulted

in the loss of millions of U.S. jobs. By the summer of 2018, there was still no new NAFTA deal in sight. The Trump administration imposed tariffs on billions of dollars of exports from Canada and Mexico, and both countries retaliated with tariffs of their own. As chief negotiator for Canada Foreign Affairs Minister Chrystia Freeland had said at the start of the process, "There will be moments of drama!" And while Trump issued his threats and the negotiations took place, international managers in all three countries had to cope with uncertainty as to how the future trade conditions might affect their products.

For Canada, key issues in the negotiation were dairy products and softwood lumber. Canada's



dairy, egg, and poultry industries are governed by a supply-management system that protects Canadian producers from foreign competition through fixed prices, production quotas, and tariffs. These have long been opposed by other dairy producing nations. With regard to softwood lumber, the U.S. lumber industry contends that Canada unfairly subsidizes its lumber industry by providing cheap access to public land. With regard to Mexico, the biggest issue was automobile manufacturing because of Mexico's low wage structure compared to the United States and Canada.

On October 1, 2018, the new trade deal, called the United States, Mexico, Canada Agreement (USMCA), was finally signed. However, it is far from the radical change that Mr. Trump sought. It continues the North American free trade zone and most of its provisions but with some changes. For example, it requires that in order to qualify for zero tariffs, 75 percent of an automobile's

components must be made in the United States, Canada, or Mexico, and that 40 percent (up from 30 percent) of the labor that goes into building the car must be provided by workers being paid at least sixteen dollars an hour. Canada succeeded in one of its top priorities by saving the provision in the original agreement that allowed each country to challenge the others' trade restrictions in front of a neutral body. However, the Trump administration was able to get Canada to agree to reduce tariffs on some categories of dairy products, including milk powder and baby formula.

Thus, while President Trump called the USMCA "transformative," little actually changed: Protectionist rhetoric and political power were apparently largely overcome by the economic realities of globalization. The progress of the NAFTA discussions was followed by international managers in all three countries with great interest.

Globalization also affects organizational boundaries. As mentioned previously, it is now possible to locate production, sales and marketing, and distribution in different countries, thus capitalizing on specific advantages in each location. As a result, much international trade is between different subunits *within* firms. The UN Conference on Trade and Development reports that about one third of global trade is now intra-firm.<sup>11</sup> Moreover, traditional hierarchical organizational structures are being replaced by networks of less hierarchical relationships and cooperative strategic alliances with other firms. Multinational firms now manufacture and sell all over the world on an unprecedented scale, and there is more and more international production. And, as shown by our discussion of trade agreements, the world's economies are interdependent as never before. Thus, economic globalization connects countries and organizations in a network of international linkages that powerfully shape the context in which international managers must function. If previous levels of economic interdependence will remain after COVID-19 or if protectionism will have an increased influence is, at this time, an open question.

## More Complex and Dynamic Work Context

Related to the increased interconnectedness of economies and organizations are changes that affect the stability of the work context of organizations. These include *outsourcing*, *downsizing*, *privatization*, *migration*, and *team-based management*.

### Outsourcing and Downsizing

**Outsourcing** is the practice of hiring outside the organization to produce goods or perform services that were traditionally provided by the company's own employees. Outsourcing is usually undertaken to reduce costs. A company can outsource within its own country,

#### Outsourcing

Outsourcing is the business practice of hiring outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees.

**BOX 1.2****LONG-DISTANCE SERVICE<sup>12</sup>**

Neetu is a well-educated young Indian woman employed in a call center in Hyderabad, India. She deals by telephone, in English, with long-distance customers from the United States. Neetu is part of the international call center phenomenon, where customers in, say, Akron, Ohio, calling their U.S. supplier with a query about their local service, can find themselves talking to a customer service representative who is fluent in English and very familiar with the company's operations but is located in the Philippines or India. Neetu's earnings are a fraction of what a representative located in the United States would be paid, but her living costs are lower as well.

Neetu realizes that the call center industry, which nowadays employs several million people in her country, provides her with good employment. She is grateful for the opportunity to work in customer service and enjoys many of her interactions with clients. But she has a problem—abuse by customers. When some customers hear her accent and realize where she is from, they ask to speak to “an American.” Others accuse her

of “stealing jobs” from their own country. And there are a few who habitually lace their sentences with foul language, which is deeply offensive in Neetu's culture.

The abuse is sometimes so strong that Neetu frequently finds it necessary to go to the washroom and cry. Then she dries her eyes and returns to her desk, picks up her phone once more, and tries to disguise her voice so that she sounds more like someone from the U.S. Some U.S. companies have responded to the problem of abuse by means of elaborate efforts to mask the cultural identities of their Indian representatives—even paying for them to travel to the United States to be trained in U.S. accents as well as in understanding key features of U.S. culture, such as baseball or U.S. TV shows—to better enable them to engage with U.S. customers. But research has shown that disguising one's cultural identity, as Neetu does, on a regular basis is stressful and emotionally distressing. Some would say that being compelled or even expected to do so is also morally wrong.

but outsourcing is frequently done internationally, including both offshoring (relocating a business function to a distant country) and nearshoring (transferring a business process to a nearby country). The additional benefits of outsourcing can be larger workforces, access to industry experts, and increased flexibility. In recent years, organizations from developed countries have increasingly outsourced manufacturing, service, and administrative functions to developing countries where labor costs are low. This, however, can lead to unanticipated problems, including cross-cultural ones, as the case in Box 1.2. shows.

In recent years, the emphasis in outsourcing from Western companies to India and other countries has tended to move from call center work to *business process outsourcing* (BPO), involving back office functions such as accounting, payment processing, IT services, payroll, and quality assurance. As with call centers, BPO is attractive because modern administrative and IT systems mean that the work will be done just as well abroad as it would be at home and at a much lower cost. Because call centers and BPO involve the outsourced organization's people in communicating with the client organization's professional staff rather than with their customers, the abuse problem referred to in the case study is also less likely.

Businesses that seek to relocate their customer service and other functions prefer to do so in countries that have low labor costs, political stability, and lighter regulation enabling greater business flexibility. BPO often frees up the business, by delegating more

routine activities, to better focus on its strategic priorities. On the other hand, the geographical distance of the outsourced processes, the absence of day-to-day supervision by the client company, and different ethical standards may lead to inefficiency and threaten security. The running costs of BPO may be underestimated or may escalate unexpectedly as the business becomes excessively dependent on a particular provider or as the demand for such services grows. And in such arrangements, there are also always likely to be cross-cultural problems, such as the abuse suffered by Neetu (Box 1.2). Such cross-cultural issues with which international managers must deal are the main focus of this book.

Outsourcing often results in the **downsizing** of operations in the home country.<sup>13</sup> For example, globalization means that because of cheaper labor in Mexico or Malaysia, employees in Milan or Seattle organizations may be laid off. This was the source of President Trump's annoyance with the original NAFTA agreement (Box 1.1). As organizations seek to remain competitive in a more difficult international context, increased rates of **mergers and acquisitions** may result, also causing reductions in the workforce. These workforce changes have an effect not just on those who leave the company but also on those who remain, who may suffer reduced morale, productivity, and creativity. The company may also face legal action if terminated employees were treated unfairly.<sup>14</sup>

## Privatization

**Privatization** is a change of ownership in which public control over services (i.e., organizations owned or part-owned by the government) is handed over or sold to private enterprise organizations. This is usually done in the belief that a private organization will be more efficient than a government department. Governments in both developed and developing countries have for many years been selling state-owned business to private investors or contracting state-run services to private contractors.<sup>15</sup> Privatization sometimes enables formerly government-controlled enterprises to be available for purchase by foreign firms, thus reducing boundaries. In addition, because these enterprises have often been non-competitive, privatization has a dramatic effect on work life and management in these firms. To meet global standards of quality and efficiency, major changes in technology, workforce size, and management are often made.

Not all privatization, however, has had positive effects. For example, selling state assets raised significant sums of money for the UK government over the years, but this was a one-off benefit. It meant that the government lost out on any future income from these businesses, and in some industries, it also created a natural monopoly (where one firm is the most efficient number to have in an industry because of the huge costs of setting up competing businesses). Monopolies have no incentive to lower costs to consumers, so for industries that perform an important public service, there may be little advantage to turning a publicly owned monopoly into a privately owned monopoly.<sup>16</sup> Also, regulating private monopolies can be difficult. For example, the Hatfield train crash in the UK, where four people were killed and seventy injured because of a broken rail, was blamed on the fact that, following privatization, no one had taken responsibility for rail safety.<sup>17</sup>

In Eastern Europe, the change from communist to capitalist systems and the massive privatization that followed has had far-reaching effects. For example, parts of the former Soviet Union and its satellite countries now show greatly changed patterns of development.<sup>18</sup> Nine of these countries have become part of the European Union. Russia itself has engaged in world politics by annexing the Crimea, developing a

**Downsizing** Making an organization smaller by eliminating staff positions.

**Mergers and Acquisitions** Mergers and acquisitions are defined as the consolidation of companies. A merger is the combination of two companies to form one. An acquisition is when one company takes over the other.

**Privatization** The process of transferring an enterprise or industry from the public sector to the private sector.



contentious relationship with the Ukraine, and promoting the Eurasian Economic Union with five other former Soviet republics. China continues a distinctive pattern of privatization in which private firms exist and prosper within a communist state. While these changes seem to be in conflict with state socialism, they have contributed to a period of dramatic Chinese economic expansion. Although the pace of this expansion has recently slowed, China is still one of the world's fastest-growing economies.<sup>19</sup> While the pace of privatization has also slowed, the types of organizations it created continue to influence the context of global business. All this means that global political events, particularly the privatization of much industry, must be a constant concern for international managers.

## Migration

Because of the increased interconnectedness of economies and the weakening of political boundaries, the number of permanent migrants (people who move to another country and remain there indefinitely) is changing the composition of many countries' workforces. The amount of **migration** is large and increasing. Between 1990 and 2005, countries around the world gained 36 million permanent international migrants. In 2017, the number of international migrants in the world (people living in a country other than the one they were born in) was over 257 million, which was 3.3 percent of the world's population, roughly equivalent to the population of the world's fifth largest country, Brazil. A relatively small number of countries are the recipients of the majority of migrants, with 75 percent of all migrants in 2017 going to the top 28 countries.<sup>20</sup> As shown in Table 1.1, developed countries are the largest recipients of migrants, and China, India, and the Philippines lead the list of sources of migrants.

Two trends in migration have important implications for international management. First, the number and proportion of women migrants are increasing. In 1976 fewer than 15 percent of migrants were women, but in 2017, the equivalent figure was 48 percent.<sup>21</sup> Second, whereas the traditional pattern in the past was that the workers who moved from

**Migration** Migration is the movement by people from one place to another with the intentions of settling, permanently or temporarily, in a new location.

**TABLE 1.1 ■ Migrants as a Percentage of Total Population (Countries With at Least 20 Million Inhabitants)**

Country	Percentage of Population
Australia	33.3%
Saudi Arabia	31.4%
Canada	21.9%
Germany	14.9%
United States	14.3%
United Kingdom	13.2%
Spain	12.8%
France	11.1%
World	3.3%

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Source: Population Division of the United Nations Secretariat (2018)

less developed to more developed countries were low skilled, today's migrants are much more likely to be highly skilled.<sup>22</sup> The ease of movement of workers of all skill levels across borders, combined with low birth rates in the developed world, has changed the characteristics of the workforces in many countries, with key features being increased cultural diversity and more women in the workforce. Management policies and procedures must therefore reflect the differing needs of this new workforce. At a national level, nation-states that receive migrants become more multi-ethnic and multicultural: They therefore face increased challenges of integrating migrants from other cultures while maintaining their own national and cultural identity.<sup>23</sup> Box 1.3 illustrates some of these challenges, both material and psychological, and shows how technology may be used to help overcome them.

## Teams

Finally, organizations around the world increasingly seek to increase productivity through the formation of teams of workers.<sup>24</sup> However, teams look very different in an international context. Demographic changes—including increasing cultural diversity because of ease of movement across borders by workers of all skill levels, the rising average age of employees, and the addition of more women to the workforce—which were long predicted,<sup>25</sup> have now happened. Introducing teams in these increasingly multicultural workplaces is complex, involving changing work methods, compensation systems, levels of employee involvement, and the job of the supervisor.<sup>26</sup>

In summary, the changes caused by outsourcing, downsizing, privatization, international migration, and team-based management have combined to create a more complex and dynamic work context for firms around the world. It is in these complex situations that today's international managers must work.

### BOX 1.3

#### ARRIVAL ADVISER

Zsafia Balazs, the Hungarian-born Canadian Olympic swimmer, recalls her immigration to Canada as a child: "I didn't know at the time, as it happened so fast. I knew my parents were trying to get to Canada, but the actual move happened within a couple of weeks. To be honest I was scared because, I hate to admit it, but I was one of those people who thought Canada was a country full of ice and snow, and igloos. I was convinced I would have to dogsled to school."<sup>27</sup>

Many newcomers to Canada share Balazs' experience. Migrating to a new country is dramatic and stressful. But a Vancouver based non-profit organization called Peace Geeks is trying to take some of the stress out of it. They have created a smartphone app that connects newcomers to Canada with some of the first services they'll need in their new home. The app, called Arrival

Advisor, is similar to one used to help migrants during the recent Syrian refugee crisis.

According to Peace Geeks,<sup>28</sup> more than half of the immigrants arriving in Canada bring with them a smartphone and use it as a "survival tool." Arrival Advisor links immigrants to banking services, explains how to get a driver's license, and provides information on childcare. It can also help them look for a place to rent, navigate their new neighborhood, learn about social customs, and discover who can help them find a job. The app is free and runs even if the phone is not connected to Wi-Fi. It provides services in several languages, including English, Arabic, and French, but will soon operate in Chinese Simplified, Chinese Traditional, Korean, Punjabi, and Tagalog. At the time of this writing, the app is available in British Columbia and could soon roll out across the rest of the country.

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## More and Different Players on the Global Stage

Some people say that globalization is not new—just business as usual.<sup>29</sup> For example, international trade as a percentage of gross world product grew only slightly in the 20th century.<sup>30</sup> However, the number of new entrants to international business is difficult to ignore, as are shifting patterns of trade, investment (especially *foreign direct investment*, see ahead), capital, and labor. In particular, globalization has allowed capital markets that were previously closely national to become international, enabling both large and small firms around the world to participate in the global economy. A **flat world** is one in which the economic “playing field” has been leveled for all participants, small and large, from both developed countries and emerging economies, so that they all compete on equal terms. It is one in which value chains—for example, from research and development to production to sales to distribution—in both manufacturing and service industries are becoming (or can become) truly global.<sup>31</sup> While U.S. multinational firms have for many years dominated the international business landscape, Table 1.2 shows that in 2017 China and Japan combined were the home of more Fortune 500 companies than the United States.

The strength of a country’s economy can be gauged by the amount and growth rate of the goods and services it produces each year—its **gross domestic product (GDP)**. The gap between the regional GDP growth rates of the fastest growing and least dynamic regions of the world has begun to narrow, but in a context of low global growth. The many developing countries that rely heavily on exporting commodities have been badly affected by recent declines in prices, especially those of oil and other raw materials. In addition to the effects of commodity prices, sanctions against Russia

**Flat world** Thomas Friedman coined this term to suggest the world is flat in the sense that the competitive playing field between industrial and emerging market countries is leveling and that individual entrepreneurs as well as companies, both large and small, are becoming part of a large, complex, global supply chain extending around the world.

**Gross domestic product** Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period.

**TABLE 1.2 ■ Top 10 countries With the most Fortune 500 companies**

Rank	Country	Companies
1	USA	126
2	China	120
3	Japan	52
4	Germany	32
5	France	28
6	United Kingdom	21
7	South Korea	16
8	Netherlands	15
9	Switzerland	14
10	Canada	12

**Note:** The Global 500 includes Unilever under the heading “United Kingdom/Netherlands,” as such, the company is counted in the tally for both countries.

**Source:** Belanger, L. (2020, May 18). Global 500. Retrieved March 07, 2020, from <https://fortune.com/global500/2019/search/>.

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have damaged its economy and spilled over into slow growth in the emerging economies along its southern and western borders, which have been its traditional trade partners.<sup>32</sup> Countries across the globe have seen a dramatic decline in their GDP as a result of the COVID-19 pandemic. At the time of this writing, the depth of the likely global recession is unknown.

**Foreign direct investment (FDI)** is an investment by a firm in a business in another country. FDI is important for developing countries because they need funding to help local companies to expand and to develop infrastructure and other projects to increase jobs. The level of foreign direct investment (FDI) also has a globalizing effect. Between 1997 and 2017, FDI, as a percentage of world gross domestic product, doubled, but its changes fluctuate according to economic conditions. The decline in flows were observed in the early 2000s, after the **Internet bubble** was reversed in 2004 and peaked in 2007. FDI flows have now stabilized at approximately their 2004 levels. For developing countries, the average inward flow of FDI has risen from 10 percent of GDP in 1980 to over 30 percent now. For developed countries, the increase has been even greater.<sup>33</sup> The result of these changes in trade and FDI flows has been a shift of the economic “center of the world” away from North America and Western Europe and into Asia. Global economic turmoil since 2008 indicates that the effects of globalization not only have the potential to favor developed market economies and a small number of large emerging economies but that even in developed economies, these effects are not consistently positive.<sup>34</sup>

In addition, the service sector of the global economy is increasing rapidly: As much as 70 percent of advanced economies are contained in this sector, and trade in services is now about 20 percent of world exports. Research on patterns of FDI predicts that investment in manufacturing will decline relative to services, as services offer more attractive FDI opportunities. Further, developing and **transition economies**—those moving from being centrally planned to being market economies—are expected to absorb and generate increasing shares of global FDI, with Asia being a primary destination for it. While established economies are expected to remain the main sources of FDI, investments from China, India, and Russia will increase substantially.<sup>35</sup>

In summary, the players on the global economic stage are now more likely to include firms headquartered in Asia or Europe as opposed to the United States. They are also more likely to be small to medium-sized businesses and to be involved in the service sector. It has been suggested that globalization is not a trend but an overarching international system that shapes both the economic activity, the national politics, and the foreign relations of every country in the world.<sup>36</sup>

## Global Political and Legal Contexts

Many of the economic interconnections described previously are brokered by intergovernmental financial institutions, such as the International Monetary Fund, thus emphasizing the link between economics, politics, and organizations. Countries use their political systems to integrate the parts of society into a functioning unit, always seeking a balance between individual and national interests. The global shift from command-based to market-based economies suggests that many countries believe that free trade between countries can help to achieve that balance. However, the world continues to be organized around nation-states that operate with different political structures, values, laws, rules, and regulations applied to organizational practices. International managers must understand both the local and the international context in which they operate.

**Foreign direct investment** Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

**Internet bubble** A historic speculative bubble and period of excessive speculation mainly in the United States that occurred roughly from 1994 to 2000, a period of extreme growth in the use and adoption of the Internet.

**Transition economies** A transition economy is a country that is changing from a centrally planned economy to a market economy.

**Totalitarianism**

A system of government that is centralized and dictatorial and requires complete subservience to the state. In theocratic totalitarianism, the religious leaders are also the political leaders. In secular totalitarianism, ideological concepts as opposed to religion are the basis of the political system.

Around the world, there is a wide range of political systems. However, they can be roughly classified along a continuum that represents the degree to which citizens participate in decision-making. The two extremes of the continuum are the pure democracy advocated in ancient Greece at one end versus **totalitarianism** at the other. Key elements of political systems affecting organizations are political rights and civil liberties. The extent to which these freedoms exist in a country suggest the degree of government intervention in business (more freedom usually means less intervention). For example, in its 2019 report, Freedom House reported, for the 13th consecutive year, a decline in global freedom. It rated 39 percent of the world's countries as free, 24 percent as partly free, and 37 percent as not free. The most free included Australia, New Zealand, Canada, the United States, and most Western European countries. Of the 50 countries designated as not free, the least free were Syria, South Sudan, Eritrea, Turkmenistan, and North Korea.<sup>37</sup> Lack of freedom does not just affect individuals, it also affects the way business can be done.

The last two decades have produced enormous political change and have transformed the world's political landscape. After four decades of Cold War, the fall of the Berlin Wall in 1989 marked the beginning of a democratization process in many former totalitarian countries, notably those in Central and Eastern Europe. Many of these countries have now experienced great improvements in political rights and civil liberties. Their political changes have been accompanied by economic liberalization and privatization, leading to their increased participation in the global marketplace. But economic liberalization within countries is not always matched by political change.<sup>38</sup> For example, China has implemented some characteristics of a market economy while still maintaining totalitarianism. In China, pressures for the country to become more democratic are visible, but the government has been ready to use various unpopular measures to suppress dissent and maintain order, as in the recent pro-democracy protests in Hong Kong.<sup>39</sup> Other countries have started on the path to democracy only to find themselves regressing back to totalitarianism.<sup>40</sup>

What is the relevance of all this political change to international managers? Shifts in the political landscape draw attention to the need for global businesses to keep in mind the possibility that a government will undergo political changes. These changes may affect the organization, how the government is involved in the activities of organizations, and the overall legal context associated with doing business. With regard to global management, companies in some countries have relative freedom in their operations, whereas in other countries, many business activities are strictly regulated by legislation (e.g., local content requirements, carbon emissions, minimum wages, maximum work hours, unionization rights). Further, some countries, notably members of the European Union, partially harmonize their legislation to be equivalent in different countries. There is also rising pressure to comply with voluntary guidelines introduced by international organizations such as the United Nations, the Organization for Economic Cooperation and Development (OECD), and the International Labor Organization (ILO), especially in the area of corporate social responsibility. International managers need to be knowledgeable about the operation of such factors in the countries in which they work and those with which they deal.

In this context, political and legal pressures for organizations to act consistent with the local context can sometimes conflict with a more international orientation toward economic activities. For example, MNOs may wish to strategically deploy personnel to wherever in the world they are most needed, but laws regarding immigration or the national composition of a workforce with a country can limit this ability.

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## Positives and Negatives of Globalization

In this chapter, we have outlined the forces of globalization and indicated how this process influences the context in which international managers must operate. Whether globalization has a positive or negative effect is debatable. Proponents of globalization point to such things as the rising number of transactions across borders that have improved the situation of emerging economies (for example, their average standards of living); the formation and expansion of multinational companies, which can use economies of scale to lower costs while enhancing the quality of products; and the improvements in human rights around the world as a result of media scrutiny. Opponents to globalization will point out such things as the environmental damage caused by increased use of fossil fuels, the negative effects of global price competition, and the job insecurity caused by outsourcing.<sup>41</sup> The reality is that globalization has both positive and negative effects. One thing, however, is certain: Globalization affects all aspects of the contexts in which managers work and makes their jobs more complicated.

## THE CONTEXTS OF INTERNATIONAL MANAGEMENT

In addition to the global technological context, the elements of the international manager's context can be divided into four categories (economic, legal, political, and cultural) that can vary by country. First, making managerial decisions an international or global basis requires an understanding of the economic strategies of countries in (or with) which one is conducting business. Second, events are complicated by the variety of laws and regulations that exist around the world. Third, political systems form part of the framework in which management activity takes place. Box 1.4 provides an example of how globalization can affect the landscape in which managers must function.

These three aspects of the global business context (economic, legal, and political) provide the backdrop against which international managers must function. In the remainder of this book, although we recognize the importance of these aspects, our focus will be on the effect on management of a fourth factor, *culture*. We single culture out as being uniquely important to global management, for three reasons.

First, to a great extent, culture is *fundamental*. The economic, legal, and political characteristics of a country are the result of its culture and history. Even in cases where a single person (such as a dictator) or a small group of people maintains these systems through force, the country's history and culture remain deeply embedded in everything that happens in the country. As we discuss in more detail in Chapter 2, culture stems from the fundamental ways in which a society learns to interact with its environment. The economic, legal, and political systems that develop over time are the visible elements of a more fundamental set of shared meanings—that is, the culture. And the extent to which individuals share beliefs about the world around them is an indication that they share a culture.<sup>42</sup> Culture also affects the goals of the institutions of society, the way the **institutions** operate, and the **attributions** (causes assigned to why people behave) their members make for policies and behavior.<sup>43</sup>

Second, unlike the economic, legal, and political aspects of a country, which are mostly observable, culture is largely *invisible*. That is, the influence of culture is difficult to detect, and managers therefore often overlook it. Although culture may or may not

**Institution** An institution is social structure formed for a common purpose that influences the behavior of people and the way they live. Some institutions are government, education, religion, law, and so on.

**Attribution** The action of regarding something as being caused by a person or thing.

**BOX 1.4****THE GLOBALIZATION OF THE MUSIC INDUSTRY: FROM NAPSTER TO SPOTIFY<sup>44</sup>**

The music industry provides an example of how the interconnected forces (economic, political, legal, and cultural) of globalization have caused the industry to rethink the way it does business.

In 1998, entrepreneur Shawn Fanning introduced Napster, a way to share MP3 files and download music from the Internet. Napster altered cultural habits for music acquisition around the world. Business in the music industry saw an almost immediate downturn as Napster's 60 million users illegally exchanged over 1.5 billion titles in under three years. The market for compact discs (CDs) declined—for example, dropping 72 percent between 2000 and 2013 in the United States. The international economic downturn, combined with illegal copying of CDs, caused many music companies to cancel recording contracts for local artists. Artists in countries where music piracy was high were the hardest hit.

Organizations such as the Recording Industry Association of America, Universal Music Group, and EMI Group filed lawsuits against Napster, which ultimately caused its demise. However, the landscape of music acquisition and sharing had been changed forever. New legal platforms for the sale of digital albums emerged, such as iTunes and Amazon MP3, as well as music streaming services,

including Deezer, Rdio, Apple Music, and Spotify, that enabled music lovers to listen to performances of all their favorite music by means of their mobile phones or personal computers.

Music downloads are now the main source of global revenue for digital music. However, issues with regard to compensating music rights holders are not resolved. In March of 2019, the European Union passed a new copyright law designed to more fairly compensate musicians, publishers, and other online content creators. This law also makes the online platforms such as YouTube responsible for infringements of copyright laws by its users. While the music industry favors the new law, big tech firms such as Google say the law is vague and badly written. Whether or not these ideas will spread outside the EU is uncertain. Stay tuned!

This example shows how a global technological change was followed by shifts in the *economics* of the music industry and then in the *political and legal* context in which it operates. Each aspect of the external context is connected with the others. This interconnectedness is a key feature of globalization. And the combination of such forces means that international managers must constantly be scanning their economic, legal, and political and contexts.

be the most important influence on the practice of management, it is the aspect of the management context most often neglected.

Third, the effects of culture are *pervasive* (affecting everything and everyone). As noted in the next section, the practice of management is based on interpersonal interactions. A distinct characteristic of international management is that these interactions occur with individuals who are culturally different. For many managers, the international nature of their work context consists largely of working with a multicultural workforce in their own country: That in itself makes them international managers. This perspective on *international management*, that management is not what functions managers serve but what managers *actually do*, emphasizes the importance of interpersonal interactions across cultures.

### What International Managers Do

Management textbooks often describe management in terms of some form of Henri Fayol's 1916 definition that "to manage is to plan, organize, coordinate, command, and control."<sup>45</sup> However, these functions of management are difficult to observe; they do not operate in sequence, and there are some managerial activities that do not fit neatly into any of the categories.

Dissatisfaction with this description of management led to a search for alternative ways to describe what managers do. The best known of these studies was conducted by Henry Mintzberg in the late 1960s.<sup>46</sup> He suggested that managers have formal authority over their organizational unit and that this status divides their activities into *interpersonal*, *informational*, and *decisional* categories. Contrary to earlier beliefs that managerial work was systematic and rational, Mintzberg demonstrated that it was characterized by brief episodes, variety, and fragmentation, with a large amount of interpersonal interaction. We present a summary of the characteristics of managerial work in Box 1.5.

To some extent, these findings underlie the organization of subsequent chapters of this book around the leadership, decision-making, and communication and negotiation roles that are the key components of the international manager's job. Regardless of what the categories are called, there seems to be moderate agreement about the common behaviors associated with managerial work, in which interpersonal interactions are at the core.

## Organizational Context, Culture, and Managerial Roles

Despite the emphasis on describing the similarities among managers, there also appear to be major differences in the work of managers. Of particular interest is the extent to which the global context of international management may affect the manager's role. From the previous discussion of the contextual factors—economic, legal, political, cultural—it is clear that they face special demands and constraints. Although research has generally found more similarities than differences in managerial roles, some studies demonstrate the effect on managerial roles of contextual factors, such as technological complexity, the size of the firm, the amount of uncertainty in the environment, and the organization's structure.<sup>47</sup> In one example, managers in more centralized organizations spent more time in downward communication, whereas

### BOX 1.5

#### CHARACTERISTICS OF MANAGERIAL WORK

- It combines a specialist professional element and a general, "managerial" element.
- It involves liaison, person-management, and responsibility for a work process, beneath which there are more detailed work elements.
- Its episodes vary by duration, time span, recurrence, unexpectedness, and source.
- Much time is spent in day-to-day "trouble shooting" and ad hoc problems of organization and regulation.
- It involves much asking or persuading others to do things, involving the manager in face-to-face verbal communication of limited duration.
- Patterns of communication vary in terms of what the communication is about and with whom the communication is made.
- Little time is spent on any one particular activity and, in particular, on the conscious, systematic formulation of plans. Planning and decision making tend to take place in the course of other activity.
- Managers spend a lot of time accounting for and explaining what they do, in informal relationships and in activity concerned with "organizational politics," such as ensuring they remain influential.
- Managerial activities involve many contradictions, cross-pressures, and conflicts. Much managerial work involves coping with and reconciling social and technical conflict.
- There is considerable choice in terms of what is done and how: Part of managerial work is setting the boundaries of and negotiating that work itself.

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those in decentralized organizations emphasized upward communication.<sup>48</sup> In summary, the manager's role is affected by the constraints and demands of the organizational and national and international context and involves choices in which aspects the manager can emphasize.

Consistent with the choices that managers have in their roles, research also finds that managers can have jobs with similar demands and constraints and still differ in what roles they choose to emphasize. For example, when managers from different cultures have been compared, differences have been found in the activities that they emphasize. One study found that Korean and Japanese managers spent much more of their time in long meetings (meetings of more than sixty minutes), while U.S. managers spent more time in very short interpersonal interactions (less than nine minutes).<sup>49</sup> The roles and work behaviors of managers are therefore the result of both the national and the organizational context, which apply demands and constraints to the choices they make.

Much of the remainder of this book deals with the direct effect of culture on a manager's responsibilities. However, we emphasize that culture also affects the roles and behavior of managers indirectly, such as in their choices of informational, interpersonal, or decisional roles as well as in the sources of guidance they choose. Culture also has an indirect influence by shaping the context in which managers must perform.

For example, a study of Chinese managers found that although they share many behavioral characteristics with their U.S. counterparts, they do so in a setting that places different demands and constraints on their behavior.<sup>50</sup> Specifically, because of the strong hierarchical organizations in China, Chinese managers spent about the same amount of time in downward communication as U.S. managers but about four times as much time in communicating with superiors and only about one half as much time in communicating with outsiders and peers. Similarly, another study found that German and British firms showed differences in managers' roles.<sup>51</sup> For example, German organizations were flatter and more integrated. The German organizations emphasized technical controls, the British organizations, interpersonal controls. This resulted in German managerial jobs that involved less concern about gaining cooperation, less awareness of organizational constraints, less choice over job roles, more involvement in the technical aspects of tasks, less direct supervision, fewer meetings and networking, but more desk work than the jobs of British managers. In these cases, national cultural differences influenced managerial jobs indirectly. That is, culture shapes the context of managerial work, which in turn influences what managers actually do.

Managers throughout the world report that in order to understand and make decisions about their work activities, they rely heavily on their own judgment, shaped by their experience and training. But to understand how they should carry out their jobs, they also rely on other people and on **norms** for how to behave.<sup>52</sup> The other people include colleagues, superiors, and subordinates, as well as staff departments, internal and external consultants, and sometimes even friends and family members. Norms include organizational rules and procedures as well as governmental laws and also beliefs and standards about *how we do things around here* that are well known and are typically followed. As we discuss in Chapter 3, each of these sources of guidance provides different answers in different countries and is more heavily used in some parts of the world than in others. Being aware of the sources that tend to be relied on most heavily in a particular part of the world can help an international manager to have a constructive influence in an unfamiliar society.

The practice of management is dynamic. As globalization increases the amount of intercultural contact in organizational settings, the inadequacy of a **monocultural** understanding of management to explain and predict behavior in these settings becomes more apparent.

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**Norms** Standards or patterns of social behavior that is typical or expected of a group.

**Monocultural** Having or referring to a single culture.

## Culture and Research

In this book, we show how cultures and differences between cultures profoundly affect managers' work. But we do so from a systematic, objective, and scientific perspective. Much of people's thinking about cultures is unfortunately based on cultural myths, stereotypes, and prejudices, which international managers should avoid. Any description or discussion of cultural characteristics should be based on scientific evidence and should also avoid any suggestion that a tendency for members of a particular culture to think or act in a particular way is true of all or even most people of that culture. Therefore, everything we say in this book is based on the best research available to us. As students of management, readers of this book should be familiar with the value of social science in establishing a well-informed and balanced understanding of social and business issues.

### Summary

Globalization is affecting the context in which managers must work. Rapid change is occurring in economic alliances, trade and investment, and the international business community. All of this change is being aided by a revolution in information technology and is currently being dramatically influenced by a global pandemic. Therefore, today's international manager faces a business context that is more complex, more dynamic, more uncertain, and more competitive than ever before. The challenges presented by the economic, legal, and political contexts of international business are formidable. However, it is the influence of culture on management that can be the most difficult with which to deal, because culture has a broad influence on behavior and on other contextual factors and because cultural effects are difficult to observe.

While management can be defined in terms of both the functions that managers are expected to perform and the roles they play, focusing on what managers do emphasizes the importance of the interpersonal aspects of their jobs. All managers, regardless of where they work, share some similarities in their roles. In subsequent chapters of this book, the leadership, communication and negotiation, and decision-making roles of international managers are explored in detail. Important aspects of these roles and their associated behaviors differ around the world. These differences are the result of both direct effects of culture on management behavior and a more indirect effect of culture on the organizational context. Thus, by defining management in terms of managerial roles, which must be played out in a dynamic international context, we reveal the pervasive effects of culture on management.

### PRACTICAL IMPLICATIONS

#### For International Managers

Being a manager today means doing a lot of the same things that managers have always done. However, it also means doing them in an international business context that is in the process

of rapid and discontinuous change. In addition, it means doing them with people who will have grown up in very different cultural contexts. Therefore, a basic skill for the international manager of today is to be effective at cross-cultural interactions.

*(Continued)*



(Continued)

### For Students

Preparing for a career in international management should involve an acute and up-to-date awareness of what is going on in the business world and in the technological, economic, political, legal, and cultural contexts we have talked about in this chapter. This book and other textbooks

can only cover what has happened in the past. So start reading about what is happening now! If possible, try to find out some of the things that experts expect to happen in the future. Business magazines such as *Fortune*, *Time*, *Business Week*, and the *Economist* have extensive relevant background information, and the Internet allows you to follow up on any aspect that catches your interest.

## Questions For Discussion

1. What are the main forces affecting globalization?
2. How would you describe the global context in which managers must now function?
3. Give an example of how the various parts of the international business context are related.
4. Why is culture singled out as uniquely important to international managers?
5. What are some of the roles that managers might have in organizations? Do you expect them to be similar or different around the world?
6. Which managerial roles are the most likely to be influenced by a virtual work context?
7. What are the main factors influencing the changes in the work context around the world?

## Key Terms

Attribution 15	Institution 15	Privatization 9
Culture 4	Internet bubble 13	Protectionist 6
Downsizing 9	Mergers and acquisitions 9	SMEs 5
Flat world 12	Migration 10	Tariffs 6
Foreign direct investment 13	Monocultural 18	Totalitarianism 14
Globalization 4	Norms 18	Transition economies 13
Gross domestic product 12	Outsourcing 7	

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