

Short essay: 300 words

After reading Modules 11 and 12 in your textbook and reading Case 5 on international licensing, what are your thoughts? Share at least two main ideas/topics you took out of the textbook and/or case 5 that you believe to be important when accessing global trade and its challenges. Please, justify your response, and feel free to cite outside sources (read the rubric in the syllabus).

Module 11

module 11

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Global Leadership Issues and Practices

“Global leaders become who they are by cultivating particular ways of looking at the world, thinking about problems and opportunities and acting with integrity in pursuit of solutions.”

—Financial Times Lexicon¹



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LEARNING OBJECTIVES

After studying this module, you should be able to:

- LO 11-1 Discuss the importance of creating a company “global mind-set.”
- LO 11-2 Describe what distinguishes the practice of global leadership from domestic leadership.
- LO 11-3 Identify the competencies required for effective global leadership.
- LO 11-4 Distinguish among the approaches for selecting and developing effective global leaders.
- LO 11-5 Describe global team leadership skills.
- LO 11-6 Identify some of the challenges of leading global change.

Lindsay Levin's Quest for International Leaders

Lindsay Levin is definitely a leader. She has been the CEO of a British conglomerate in auto dealerships, property, and residential health care facilities. Ernst and Young named her an Entrepreneur of the Year. As her career developed an international context, she became concerned about international leadership and the potential for everyone to make a difference. She founded the nonprofit social organization Leaders' Quest, operating programs in 26 nations, whose mission is to catalyze change across international borders by helping people build the skills they need to lead. Viewing the ability to bridge divides, such as those between nations, cultures, perspectives, and sectors, as a core requirement for successful change, Levin connects leaders from all disciplines to develop solutions for today's biggest challenges.

Levin's involvement stems from her concern about what it means, in a shared and increasingly complex, ambiguous, and interconnected world, to be a responsible business. This question arose for her while she was an economics student at Cambridge University in the United Kingdom. Her desire to lead such business efforts and then apply them to fight poverty, malnutrition, and other world problems soon followed. Levin described sitting under a tree in Kenya talking with some local farmers after a meeting. The farmers wanted to know, “How is it that when the financial crisis came to Europe and America that some of us had our goats and shacks repossessed?” The question brought home to her that decisions made in London and New York could reverberate to influence the lives of rural Kenyan goat farmers. She realized that, despite our technical brilliance that has led to vaccines and solar power and made vast amounts of knowledge widely available at minimal effort; despite a remarkable century of achievements in understanding ourselves and our planet that have taken us from a hot air balloon in France to the far side of the moon, we still face many challenges: We are frightened of strangers. We are unable to feed, clothe, and educate everyone.

Leaders' Quest sponsors a fellowship program and has an active corporate and nongovernmental organization (NGO) training program. Levin has recognized that the core ability to bridge divides may lead to unlikely partnerships and collaborations. For example, Aaron Sonson, a South Londoner and co-founder of the Stop & Search app, which keeps track of police-search incidents, partnered with Bill Leask, product director at PR Newswire Europe, to develop an ITV London News feature. The Leaders' Quest approach involves a new way of seeing called active hope, based on three skills: asking questions by letting go of judgment and embracing uncertainty; listening; and building the courage to act. The Leaders' Quest world is portrayed as a Fuller projection map (Dymaxion map), which shows the earth as a 20-faced icosahedron shape, connected through 12 points (see Figure 11.1). With the Fuller map, the Earth is a closely connected landmass and we can see our connectedness, rather than our separation, as with the more familiar Mercator projection.

FIGURE 11.1 Fuller or Dymaxion Projection Map



“One of the things I love about this work is the privilege to keep learning and exploring,” Levin said. “You have to keep your mind open and keep your eyes open. I love the fact that certainty gets challenged all the time if you're learning.” Levin describes her founding of Leaders' Quest and her own development in the 2013 book *Invisible Giants: Changing the World One Step at a Time*. Invisible giants are individuals who emerge, often against great odds, to inspire confidence and commitment to change in those around them. Her thoughts on what is required to be a “bold” leader are presented in a November 2016 address to the Business for Social Responsibility conference (found at <https://leade.rsquest.org/blog/bsr-conference-2016-be-bold-series>). Check it out: You might want to get involved. As she observes, “In my experience, people have infinite potential to grow and to create.”

Sources: “Lindsay Levin: Showreel of Talks Around the World,” Youtube, www.youtube.com; Molly Callahan, “International Leader, Entrepreneur Lindsay Levin to Deliver CPS Graduation Address,” *News@Northeastern*, May 10, 2017, www.news.northeastern.edu; Frederick Denver, “Lindsay Levin of Leaders' Quest and the Philosophy Behind Compassion X,” *The Business of Giving*, August 24,

Can you be a global leader? If so, what will you need to do to prepare yourself for such a role? As we investigate leadership in the context of international business to help you answer these questions, we need to recognize that the leadership challenge varies by company and context. There is no universal approach to selecting and developing global leaders. However, we know that a strong grasp of the business fundamentals that underlie international business is an important first step. Experiences in different cultures, languages, and other unfamiliar areas may also help you develop the "right stuff" to meet the complex international challenges that global leaders confront.

Although many international business opportunities exist, most companies do not have the leaders they need to exploit these opportunities. Our first step in this module's exploration of global leadership is to investigate the concept of *global mind-set*. Then we look at global leadership, how it differs from leadership in the domestic context, and why it is important, along with a closer look at some of the current global leaders. We identify some of the competencies an effective global leader needs, as well as some of the issues associated with candidate selection for global leadership positions and how companies develop global leaders. Then we look at the leadership of global teams and the most critical challenge global leaders often face, the management of global change.

The Global Mind-Set

LO 11-1 Discuss the importance of creating a company "global mind-set."

Research indicates that many CEOs feel developing a company **global mind-set** is a "prerequisite for global industry dominance."² Global mind-set is defined as a view "that combines an openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesize across this diversity."³ Global mind-set has two key components: (1) intellectual intelligence, which includes business acumen, and (2) global emotional intelligence, which includes self-awareness, cross-cultural understanding, cultural adjustment, and cross-cultural effectiveness.⁴ These two components form the foundation of the behavioral skills that constitute a person's global leadership style. The manager with a global mind-set is open to understanding others from different backgrounds, is less judgmental about people from other cultures, and is eager to approach issues from multiple perspectives.

Percy Barnevik, who served as the leader for the merger of the Swedish firm Asea AB with the Swiss company BBC Brown Boveri Ltd. to create the global engineering and manufacturing giant ABB, observed that "Global managers have exceptionally open minds. They respect how different countries do things, and they have the imagination to appreciate why they do them that way. But they are also incisive; they push the limits of the culture. Global managers don't passively accept it when someone says, 'You can't do that in Italy or Spain because of the unions,' or 'You can't do that in Japan because of the Ministry of Finance.' They sort through the debris of cultural excuses and find opportunities to innovate."⁵ Developing a cadre of managers and a company culture that embrace a global mind-set is a key challenge for global leaders. This challenge helps to highlight what is different and important about global leadership.

IN TODAY'S WORLD, SUCCESS FOR ANY LEADER IS ABOUT BEING A GOOD INFLUENCER. . . . IF YOU IMPOSE YOUR METHOD, IF YOU'RE NOT SENSITIVE OR AWARE OF THE OTHER PERSON'S METHOD, EITHER YOU WON'T COME TO A DECISION OR YOU WON'T GET BUY-IN.

—Sunil Nayak, CEO of Sodexo's Corporate Services Asia-Pacific⁶

Global Leadership: What It Is and Why It Matters

LO 11-2 Describe what distinguishes the practice of global leadership from domestic leadership.

Leadership is a complex multidisciplinary concept with many definitions. Among the ways we can understand it are to consider an individual's traits and behaviors, the way the individual uses power to influence, the context of the leadership situation, and a combination of these approaches. Even a cursory review of the academic and managerial works of literature reveals the existence of many different definitions of leadership.⁷ Our working definition of **leadership** refers to the behaviors and processes required for organizing a group of people in order to achieve a common purpose or goal.

Most experts agree that leadership is not the same thing as management, although they overlap.⁸ Warren Bennis, one of the leading scholars of leadership and management, made the following helpful distinctions:

- The leader innovates; the manager administers.
- The leader develops; the manager maintains.
- The leader challenges the status quo; the manager accepts it.
- The leader has a long-range perspective; the manager has a short-term perspective.
- The leader asks "what?" and "why?"; the manager asks "how?" and "when?"
- The leader's eye is on the horizon; the manager's eye is always on the bottom line.
- The leader originates; the manager imitates.
- The leader inspires; the manager controls.⁹

MANAGEMENT IS DOING THINGS RIGHT; LEADERSHIP IS DOING THE RIGHT THINGS.

—Peter F. Drucker¹⁰

Given these distinctions between leadership and management, we now consider what is different about leadership at the global level.

HOW GLOBAL LEADERSHIP DIFFERS FROM DOMESTIC LEADERSHIP

The leadership competencies needed in a domestic setting are also important in global contexts. Yet global leaders confront more and different contexts than do domestic leaders. This suggests that global leaders must be attuned to how things work in local cultural contexts, how things differ between different contexts, and whether and how to modify principles and practices in response to those differences. When they examined the work characteristics of more than 12,000 global leaders, researchers from CEB, a subsidiary of Gartner, found that in comparison to their peers who operated in single markets, global leaders:

- Worked with 17 percent more people that they did not manage directly.
- Were 32 percent less likely to possess accurate market information.
- Had a 74 percent broader span of responsibilities.
- Worked with 160 percent more stakeholders.¹¹

As these results clearly suggest, global managers confront a dramatically different leadership context than do their domestic peers.

Scholars have identified four overlapping dimensions of complexity that are relevant to globalization and the challenge confronting global leaders: (1) *multiplicity*, which refers to the geometric growth in the volume and nature of issues global leaders deal with; (2) *interdependence*, which recognizes that although dispersed geographically, different units of the company are systematically linked to each other and increasingly dependent on external organizations; (3) *ambiguity*, which refers to the challenge of dealing with information that lacks clarity and incorporates both quantitative and qualitative dimensions, hindering the understanding of cause-and-effect relationships and the effectiveness of subsequent problem-solving efforts; and (4) *dynamism*, which recognizes that the international system itself is constantly changing.¹²



CULTURE FACTS @internationalbiz

In low-power-distance cultures like the United Kingdom, the United States, the Netherlands, Germany, and Scandinavia, people tend to negotiate their performance goals. In high-powerdistance cultures like Belgium, France, and Italy, such goals tend to be dictated by senior managers. #lowpowerdistance #highpowerdistance #performancegoals





Globalization increases the complexity of the firm's external environment—(geographic and cultural), as well as its internal environment—consisting of the broader range of backgrounds and motivations among employees. As a result, globalization places an increased emphasis on the recruitment and development of managers who can operate successfully in such a challenging environment.¹³ In Project GLOBE, an important global study of leadership using data from 17,300 middle managers from 951 organizations in the food processing, financial services, and telecommunications services industries, researchers found that people in different nations had some similar and many dissimilar understandings of the traits of leaders.¹⁴ The 22 leadership traits that were universally *acceptable* included being decisive, informed, honest, dynamic, administratively skilled, able to coordinate, just, a team builder, an effective bargainer, dependable, a win-win problem solver, a forward planner, intelligent, and a seeker of excellence. Eight leadership traits were universally *unacceptable*: being ruthless, egocentric, asocial, nonexplicit, irritable, noncooperative, dictatorial, and a loner.

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Project GLOBE—more commonly known as the House study, after its initiator, Robert J. House—found that the largest number of leadership traits were contingent on cultural context. These included enthusiasm, readiness to self-sacrifice, openness to risk taking, sincerity, ambition, sensitivity, self-effacement, compassion, uniqueness, and willfulness. Follow-up studies by the same research team developed country clusters based on leaders' styles. Here are the six styles with their focuses¹⁵:

- *Performance-oriented*: high standards, decisiveness, innovation vision, and core values.
- *Team-oriented*: pride, loyalty, collaboration, team cohesiveness, and a common purpose.
- *Participative*: input from others in decision making and implementation; delegation and equality.
- *Humane*: compassion, generosity, patience, and support; well-being of others.
- *Autonomous*: independent, individualistic, and self-centric.
- *Self-protective*: procedural, status-conscious, face-saving, safety, and security.¹⁶

Table 11.1 summarizes the findings of this second study,¹⁷ grouping the country clusters by their preference for leader styles. Each of the clusters differs significantly from the others, but there is no significant difference within the cluster. These studies highlight the context-specific aspect of global leadership and the traits of global leaders.

TABLE 11.1 Project GLOBE's Societal Clusters and Preference for Leadership Styles

Performance	Team	Participative	Humane	Autonomous	Self/Group Protective
Higher					
Anglo	SE Asian	Germanic	SE Asian	Germanic E.	Middle Eastern
Germanic	Confucian	Anglo	Anglo	European	Confucian
Nordic	L. American	Nordic	African	Confucian	SE Asian
SE Asian	E. European		Confucian	Nordic	L. American
L. European	African			SE Asian	E. European
L. American	L. European			Anglo	
	Nordic			African	
	Anglo			Middle Eastern	
	Middle Eastern			L. European	
	Germanic			L. American	
Mid-Range					
Confucian		L. European	Germanic		African
African		L. American	Middle Eastern		L. European
E. European		African	L. American		
			E. European		
Lower					
Middle Eastern		E. European	L. European		Anglo
		SE Asian	Nordic		Germanic
		Confucian			Nordic
		Middle Eastern			

Although most of the competencies found in domestic leadership success are also required for global leadership, the degree of difference between the two activities is so great—and the nature of the possible outcomes within a global context can be so profoundly greater—that many scholars regard global leadership as different in kind from domestic leadership.¹⁸ As one team of researchers noted, global leadership

differs from domestic leadership in degree in terms of issues related to connectedness, boundary spanning, complexity, ethical challenges, dealing with tensions and paradoxes, pattern recognition, and building learning environments, teams, and community, and leading large-scale change efforts—across diverse cultures.¹⁹

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THE CHALLENGE OF FINDING GLOBAL LEADERS WITH THE “RIGHT STUFF”

Globalization is not only creating many new business opportunities; it also is creating opportunities for a new breed of leaders who can operate in an increasingly globalized world. Rapid economic growth in emerging markets, particularly the BRIC nations (Brazil, Russia, India, and China), is creating large new markets for consumer and industrial goods. The revolution in communications and computer technology, including the Internet, social media, smartphones, and other developments, enables diverse and geographically dispersed groups of employees to collaborate in their work and to learn from and with each other. Developments in shipping and logistics are heightening pressure on companies to reconfigure their international value chains in order to maintain competitiveness. An expanded geographic scope of operations is exposing companies to different regulatory environments, a more diverse set of suppliers and competitors, and a variety of unfamiliar risks.



Tidjane Thiam, Chief Executive of Swiss bank Credit Suisse.

©Moritz Hager/REUTERS/Newscom.

International companies require a new type of leader to compete successfully in this complex and dynamic global environment. In addition to proficiency in business, these leaders must have cultural understanding and adaptability; be able to understand and reflect upon the meaning of their own culture and how that influences their leadership behavior and effectiveness, and be able to work with and inspire individuals from a range of nations and cultures.²⁰

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Where are such global leaders found? They can come from anywhere in the world. An Iranian–American son of Iranian immigrants (Arash Ferdowsi) founded Dropbox. A Cote d'Ivoire born son (Tidjane Thiam) is CEO of the Switzerland-based bank Credit Suisse. And a woman born in Cuba (Geisha Williams) who immigrated to the United States with her parents when she was 5 years old is president and CEO of a gas and electricity utility company (PG&E). With the right preparation, global leaders with the “right stuff” can come from anywhere on the planet.

What Competencies Are Required for Effective Global Leadership?

LO 11-3 Identify the competencies required for effective global leadership.

What competencies should a global leader have to perform successfully? Research conducted by Aperian Global, a consulting company whose goal is to open the world for its clients, identified five abilities returning expatriates thought necessary for a successful global leadership assignment. These are the ability to:

- *See differences*, a self-awareness in cultural contexts. Leadership patterns are shaped by culture, and other ways exist to get things done.
- *Make connections* because, in the global environment, relationships are a prerequisite for getting things done. "Results through relationships" is a key observation.
- *Adjust*, a kind of "frame-shifting" that requires cognitive flexibility to see differences and adjust behavior quickly.
- *Integrate and lead change*, a complex ability to adjust to some local practices while selling other practices into the local environment, a combination of adapting and questioning the status quo.
- *Localize*, an ability to develop local talent.²¹

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Management scholar Henry Mintzberg and others have identified a range of roles that a global leader may need to take, including:

- *Monitor*—scanning environments, seeking information, monitoring different units of the company.
- *Spokesperson*—advocating and representing the company, communicating with different levels of internal and external stakeholders.
- *Liaison*—networking, coordinating, spanning internal and external boundaries.
- *Leader*—motivating and coaching individuals and teams, building and maintaining corporate culture.
- *Negotiator*—making deals, managing conflict.
- *Innovator*—seizing opportunities, generating new ideas, promoting a vision for the company.
- *Decision maker*—troubleshooting, making decisions.
- *Change agent*—taking action, developing and implementing change plans.²²

This broad range of duties suggests that global leaders require a complex mix of competencies in order to be effective.

Research by scholars at the Center for Creative Leadership suggests that global leaders are more challenged in the areas of emotional stability, ability to learn, and decision-making and negotiating roles than are domestic leaders²³ due to the impact of cultural differences. In addition, Project GLOBE researchers concluded that a global mind-set, cultural adaptability and flexibility, and tolerance for ambiguity are attributes global leaders needed in order to be effective.²⁴ From a survey of the research on global leadership, Alan Bird has collected over 220 competencies and divided them into three categories: those needed to manage the business, to manage people and relationships, and to manage the self.²⁵ The three parts of [Table 11.2](#) summarize these leadership competencies by type, with examples of behavior associated with each.²⁶

TABLE 11.2A Business Competencies

Vision and Strategic Thinking	Intellectual intelligence, able to deal with complexity, oscillation between details and big picture, environmental scanning, frame-shifting
Business Savvy	Business acumen, results orientation, global capitalist, technical savvy, finding creative solutions, third-way solutions
Managing Communities	Customer orientation, stakeholder orientation, building partnerships and alliances, influencing stakeholders, building community, boundary spanning
Organizational Savvy	Total organizational acumen, designing and aligning, architecting, managing a budget on a worldwide basis
Leading Change	Catalyst for strategic change, catalyst for cultural change, lead change

TABLE 11.2B People Competencies

Cross-Cultural Communication	Communication skills, culture bridge, cultural interest and sensitivity, cultural understanding, mindful communication, cultural self-awareness
Interpersonal Skills	Emotional intelligence, influencing, urgent listening, relationship interest, social flexibility, results through relationships
Valuing People	Skilled people reading, understand actors, cultural acumen, respectful modernizer, respect for others, pragmatic trust
Empowering Others	Being able to empower others, energizing, rewarding and feedback, connective teaching, sharing leadership
Teaming Skills	Team building, multicultural teaming, managerial ability, with an emphasis on teamwork and interpersonal skill

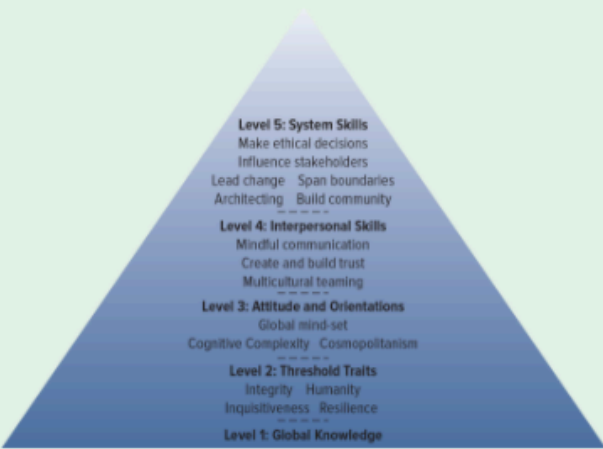
TABLE 11.2C Self-Competencies

Resilience	Stress and emotional resilience, resourceful, optimistic, energetic, self-confidence, personal management, life balance
Character	Integrity, maturity, exhibit character, honesty, conscientiousness, self-identity, core values and flexibility, make ethical decisions, tenacity
Inquisitiveness	Inquisitiveness, curiosity and learning, aggressive insight, open-mindedness, openness to experience, inviting the unexpected, nonjudgmentalness, confident humility, motivation to learn (also mistakes)
Flexibility	Thinking agility, authentic flexibility, open-minded and flexible in thought and tactics, interest flexibility, tolerance for ambiguity, embrace duality
Global Mind-Set	Global mind-set cosmopolitanism, cognitive complexity, thinking globally

Source: Andrea Straub-Bauer, consultant, "Overview of Global Leadership Competencies," <http://di.dk/-globalleadershipacademy/newsandarticles/insights/Pages/GlobalLeadershipCompetenciesanoverview.aspx>, accessed February 08, 2015.

In contrast to the lists of leadership competencies, the five-level Pyramid Model of Global Leadership presented in [Figure 11.2](#) attempts to identify a progression of skills required for effective global leadership. At the bottom level is a baseline of necessary global knowledge. Building on this knowledge is the second level of four threshold traits: humility, integrity, inquisitiveness, and resilience. Level 3 includes attitudes and orientations that affect the way global leaders perceive and interpret their world, while the fourth level includes interpersonal skills that enable global leaders to effectively cross cultures. Level 5, the very apex of the pyramid, includes system skills that enable global leaders to effectively influence people and systems inside and outside the company.

FIGURE 11.2 Pyramid Model of Global Leadership



Source: Adapted from Mark E. Mendenhall, Joyce Osland, Allan Bird, Gary R. Oddou, and Martha L. Maznevski, *Global Leadership: Research, Practice, and Development*. New York, NY: Routledge, 2013, 216.

Only 19.9 percent of board of directors' positions in the United States are held by women. Norway, France, and Sweden each have over 30 percent women in these roles, and Japan has 3.5 percent.

#womeninleadership #boardofdirectors



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GLOBAL DEBATE

Are Global Leadership Positions What Corporations and Women Have Been Waiting For?

The World Bank has stated that a core development objective is to achieve gender equality and the full participation of women in business, particularly in developing nations. Despite this, as noted by Nancy Adler, most of the research on leadership has focused on men, with only a minor portion addressing the potential of women as leaders. Research has continued to show uneven participation of women in leadership roles in business.

Here's a summary of the situation for women CEOs in the United States. Although they occupy more than 51 percent of the managerial and professional positions in U.S. organizations, there are relatively few women in the top tier of corporate leadership. Women CEOs such as Phebe Novakovic at General Dynamics and Vicki Hollub at Occidental Petroleum represent a very small minority of the leadership in publicly held corporations. Most of the women who serve as CEOs in the United States have started their own firms or have taken over the leadership of a family business. As of 2018, only 4.8 percent of chief executive officers in S&P 500 companies were women, despite comprising 44.7 percent of all employees in those firms. Slightly more encouraging is that 26.5 percent of all executive/senior level managers and officials were women, suggesting that the number of women CEOs in the United States might expand in the future, given their numbers in the executive pipeline.

Research has shown that women's and men's typical leadership styles differ. For example, women tend to view leadership as an opportunity to empower their subordinates and enhance their potential to excel; men tend to see their leadership position as a chance for exerting control over their subordinates. Adler argues for more women in global leadership positions, due in part to research suggesting that traits and qualities typically associated with women are consistent with those linked to effective global leadership. She found that global leaders who were women:

- Came from diverse backgrounds, with no predictable pattern associated with their route to leadership positions.
- Were not selected for leadership positions by only women-friendly companies or countries.
- Symbolized hope, change, and unity through their selection as leaders, particularly in light of their position as outsiders who were going against the odds, thereby suggesting the potential for organizational or societal change.
- Were driven to achieve success based on vision, rather than desire for hierarchical status.
- Relied upon broad-based, popular support or support directly from the marketplace, instead of traditional, hierarchy-based support.
- Pursued paths to power that involved lateral transfers within their organizations, instead of the more traditional path up the hierarchy common among men.
- Leveraged the enhanced visibility that they received due to their status as women or as "the first woman." This special status led to more attention from the media, and they were able to use this visibility as a platform to enhance their position and performance.

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Consistent with Adler's work, other research has found that women tend to have a leadership style that is more participative, interactional, and relational, with greater levels of emotional intelligence and empathy, than is the case for men. These are attributes of successful global leadership, and some research has shown that multinationals experience significantly improved profitability when they increase their hiring of women, particularly at the senior management level. Women also have been found to attribute greater importance to the areas of social responsibility, inclusion and diversity, and global skills—and women were believed to be better prepared in these areas as well—than was the case for men. They also tend to use leadership styles that are more participative and democratic and less directive and autocratic than the leadership styles that tend to be used by men.

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Phebe Novakovic, Chairman and CEO of General Dynamics. (left) Vicki Hollub, President and CEO of Occidental Petroleum Corporation. (right)

©Ron Sachs/Pool via CNP - NO WIRE SERVICE/dpa picture alliance/ Alamy Stock Photo;
©F. Carter Smith/Bloomberg/ Getty Images.

The idea that women should be recruited to lead global efforts of companies is a logical consideration, given the research. What do you think? Would such a human resource strategy bring companies competitive advantage? Would it bring women the corporate leadership positions they seek?

Critical Thinking Questions

1. The research findings suggest that women might be better suited than men for the challenges of global leadership. Yet how could this be true, given the small number of women occupying executive leadership positions?
2. What options might be available for increasing the level of women's participation in global leadership positions?
3. Are there certain industries, nations, or other contexts in which it would be inappropriate or undesirable to have women as leaders? Why or why not?

Sources: "Women CEOs of the S&P 500," *Catalyst Inc.*, October 03, 2018, www.catalyst.org; "Women CEOs of the S&P 500," *Catalyst Inc.*, October 03, 2018, www.catalyst.org; Jordan Siegel, Lynn Pyun, and B. Y. Cheon, "Multinational Firms, Labor Market Discrimination, and the Capture of Outsider's Advantage by Exploiting the Social Divide," *Administrative Science Quarterly*, April 02, 2018; Nancy Adler, "Global Leadership: Women Leaders," *Management International Review*, vol. 37, no. 1, 1997, 171–96; Mark E. Mendenhall, Torsten M. Kühmann, and Gunter K. Stahl, *Developing Global Business Leaders: Policies, Processes and Innovations*. Westport, CT: Quorum Books, 2001, 73–97; J. B. Rosener, "Ways Women Lead," *Harvard Business Review*, vol. 68, no. 6, 1990, 119–25; N. Fondas, "Feminization Unveiled: Management Qualities in Contemporary Writings," *Academy of Management Review*, vol. 2, no. 1, 1997, 257–82; Marc A. Brackett, Susan E. Rivers, Sara Shiffman, Nicole Lerner, and Peter Salovey, "Relating Emotional Abilities to Social Functioning: A Comparison of Self-Report and Performance Measures of Emotional Intelligence," *Journal of Personality and Social Psychology*, vol. 91, no. 4, 2006, 780–95; and Alice H. Eagly, and Blair T. Johnson, "Gender and Leadership Style: A Meta-Analysis," *Psychological Review*, vol. 108, no. 2, 1990, 573–98.

**WE ARE NOT TALKING about GLOBAL BUSINESS EFFICIENCY.
WE'RE TALKING about CULTURAL COMPETENCY DEVELOPMENT
LEADING to GLOBAL BUSINESS EFFECTIVENESS. !!**

—Cornelius Grove²⁷

The broad array of global leadership competencies we have covered highlights the complex and diverse nature of global leaders' challenges. Research in this area began in the 1990s and is still in its infancy.

Selecting and Developing Effective Global Leaders

LO 11-4 Distinguish among the approaches for selecting and developing effective global leaders.

The process of selecting and developing global leaders has been evolving along with our understanding of global leadership. Here we look at how companies select and develop their global leaders. We look at the way competencies are assessed, then review models for developing global leaders, and finally, review the way global leadership competencies are developed.²⁸

ASSESSING GLOBAL LEADERSHIP COMPETENCIES

A key challenge confronting companies faced with the need for developing global leaders is assessing the competencies of candidates. Since the study of global leadership is in its infancy, there are many competing models for its skills and attributes, and the variations across these models complicate assessment.

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There are many assessment instruments available to assess global leadership competencies. Among the most widely respected are the Cross-Cultural Adaptability Inventory (CCAI),²⁹ the Intercultural Development Inventory (IDI),³⁰ the Global Competencies Inventory (GCI),³¹ and the Global Executive Leadership Inventory (GELI).³² The CCAI is a tool for self-assessment of cross-cultural adaptability. It can be used to assess an individual's capability to adjust to a new culture and to design a training program to enhance success in relocating to another culture. The IDI identifies the competencies associated with intercultural sensitivity, and it often is used to assess the ability to modify cultural perspective and to adapt behavior to different cultural contexts. The GCI assesses personality predispositions linked with effective intercultural behavior and global managerial skills. It addresses competencies in 16 areas, categorized within perception management, relationship management, and self-management. The GELI is a 360-degree feedback approach for identifying leadership competencies and gaps. Each of these instruments can help people understand aspects of their global leadership competencies.

MODELS FOR DEVELOPING GLOBAL LEADERS

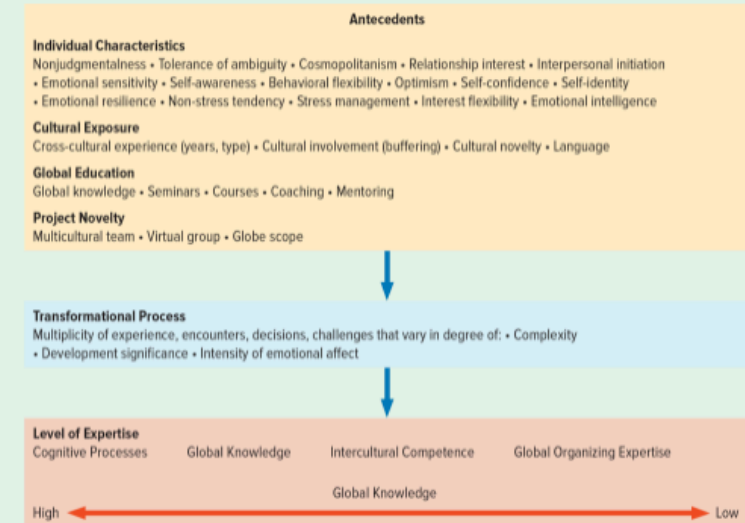
An important issue facing international companies is the need to understand how to develop effective global leaders. Are candidates just "born global," with a special set of skills and attributes that makes them effective in global leadership contexts, or do these capabilities get developed over time, as a result of some interplay among personal attributes, experience, and other factors? Most experts in the field think global leadership effectiveness is the result of a developmental process rather than innate capability, at least in part.³³ As a result, various models of global leadership development have been proposed. Understanding these models may assist the international company in developing appropriate processes for developing its cadre of global leaders. This section discusses two models: the Global Leadership Expertise Development (GLED) model and the "right stuff" model.

The Global Leadership Expertise Development (GLED) Model

A model designed for developing the expertise of global leaders, the GLED model (Figure 11.3) emphasizes the process by which expertise is developed.³⁴ It begins with antecedents for the development of global leaders and their expertise, divided among four categories: individual characteristics, cultural exposure, global education, and project novelty. The level of global leadership expertise is thought to be determined by four dependent variables: cognitive processes, global knowledge, intercultural competence, and global organizing expertise. The model assumes a transformational process influences the relationship between the initial conditions and the outcomes that result. This transformational process consists of the set of experiences, interpersonal encounters, decisions, and challenges related to the global leader's expertise, and it is thought to be the primary cause of the different levels of global leadership expertise we observe among leaders with global responsibilities.

FIGURE 11.3 The Global Leadership Expertise Development (GLED) Model

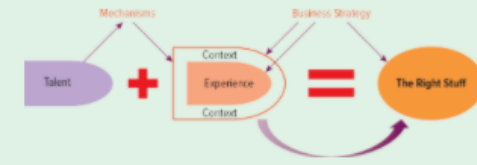
FIGURE 11.3 The Global Leadership Expertise Development (GLED) Model



The "Right Stuff" Model

The "right stuff" model (Figure 11.4) focuses on developing global leaders that have the "right stuff" in terms of what they have learned and what they are able to do as leaders. Producing leaders with the right stuff is the result of interaction and partnership between the leader and the organization. The basic talent of the leadership candidates, combined with their developmental experiences and the context in which these experiences occur, help produce the global leader's skills and capabilities, the right stuff for the company in a particular context. This model argues that the company's global business strategy is a major determinant of the relevant lessons and skills the leader needs. Because it is strategy-dependent, the right stuff for a global leader will vary across organizations. For example, a company whose strategy depends on extensive use of alliances with external organizations will require leaders with skills and experience in working with entities beyond the firm's formal boundaries. A decision to compete in a broad array of less-developed nations, for instance, will help determine the number and range of cultural capabilities the company's leaders will require as well.

FIGURE 11.4 The "Right Stuff" Model



As our discussion so far suggests, the development of global leaders is a complex process that demands flexibility in order to match the individual, organizational, and external contexts in which the leaders need to learn and perform. A standardized approach applied to all leadership candidates and across all contexts is unlikely to be successful in developing effective global leaders.



Nelson Mandela, first post-apartheid president of the Republic of South Africa.

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TOOLS AND TECHNIQUES FOR DEVELOPING GLOBAL LEADERSHIP SKILLS

How can individuals develop the required skills and experiences of global leaders? Recognize first that it is a nonlinear process that may include all sorts of diverse experiences. Differences in personal backgrounds and attributes, as well as in the companies and their contexts, suggest that development efforts need to be individualized. Global leaders require strong training in business fundamentals, including international business. Knowledge of history, geography, and political science, among other topics, is valuable because these areas enhance international understanding and performance. Training in language and culture is also valuable.

// REMEMBER TO BE CURIOUS ABOUT OTHER CULTURES AND ENJOY THE CHALLENGES OF COMMUNICATING IN A COMPETITIVE, FAST-PACED GLOBAL BUSINESS ENVIRONMENT. //

—Maya Hu-Chan, *Alliant University's Global Leadership Development Center*³⁵

Much of this learning may come through traditional channels, such as university study, intensive international business simulations, and short executive courses and seminars.³⁶ However, a deeper, nuanced understanding of the complex issues of global leadership is seldom achieved solely through traditional learning methods. To develop the skills necessary to deal effectively with the complex, ambiguous, high-level challenges that global leaders face requires an array of techniques and experiences. Some of these can occur during or shortly after university studies. Future leaders can live with a host family while studying abroad in order to enhance language and cultural fluency; take on international internships both paid and unpaid; undertake personal and business travel to international locations; identify and participate in short- or long-term expatriate assignments within international markets; develop effective networks from contacts at university or work and other contexts; pursue opportunities to work within multicultural and international teams (including virtual teams); pursue mentoring and coaching opportunities as both giver and receiver; and seek international volunteer work, an often-overlooked way to learn experientially and build global skills. Consciously considering your developmental needs and pursuing an appropriate set of activities such as these can be invaluable in developing global leadership capability.



CULTURE FACTS @internationalbiz

Leaders in emerging markets, with communal cultures that value hierarchy, particularly India and China, are inclined to focus heavily on hands-on management, operational process, and control of individual performance. Leaders in the individualist and low-power-distance Benelux and Nordic countries tend to focus more heavily on planning, strategy, and communication. **#communalcultures #individualist #lowpowerdistance**



The goal of the leadership development process is to develop global leadership experientially through transformational experiences.

Of course, not all international and cross-cultural experiences will have the same impact, and ongoing reflection and self-assessment are necessary to identify learning gaps and opportunities for further development. If you aspire to be a global leader, you need to recognize your need to monitor and assess your development and undertake efforts to ensure you are making substantive progress.

IB IN PRACTICE

Volunteer Assignments Build Global Leadership Skills

Students and recent graduates often wonder how they can get a start on building their international leadership skills when they may not have international experience or jobs with international responsibilities. Management scholar Paula Caligiuri describes a recent development in corporate social responsibility programs that might offer a way forward.

A growing number of corporate employees are taking volunteer assignments in international corporate social responsibility (CSR) programs that range from three to six months, with release time and compensation sponsored by the company. The programs team up corporate employees from companies such as GlaxoSmithKline, Dow Corning, PepsiCo, FedEx, and IBM with nongovernmental organizations (NGOs) in order to build employees' corporate social responsibility values and other skills fundamental to global leadership. We know that "to work effectively in different cultures and with culturally diverse others, responsible global leaders require cross-cultural competencies [that include] a tolerance of ambiguity, perspective taking, humility, and resilience." Caligiuri's analysis of these CSR programs and her assessment of their benefits suggest they are an effective way to build global leadership skills.

Caligiuri and her colleague, Christian Thoroughgood, suggest that to build responsible global leadership skills, the experience should have five key features. First, it should include *meaningful collaboration with peers across cultures*, since such activities build cultural agility and empathy and interest in the needs of the target population. Volunteer assignments should also be a *cultural stretch for your functional skills*. The experience should test the limits of cultural knowledge and assumptions so you can know the limits to which you are culture-bound. You can then further push these limits through your volunteer experience.

The opportunity to *practice cultural humility* is a third suggested feature of participation in an international volunteer program whose goal is to build global leadership skills. Cultural humility is the extent to which you appreciate contributions of host nationals and recognize that you have something to learn from their country. It allows you to understand how your behavior is interpreted by the host country members with whom you interact.

The opportunity to *practice cultural humility* is a third suggested feature of participation in an international volunteer program whose goal is to build global leadership skills. Cultural humility is the extent to which you appreciate contributions of host nationals and recognize that you have something to learn from their country. It allows you to understand how your behavior is interpreted by the host country members with whom you interact.

The fourth feature of any program to which you commit to building your global leadership skills is that it should *positively reinforce corporate social responsibility behavior* with meaningful projects. Caligiuri points out that “neuroscientists have discovered that when acting with generosity and altruism, the human brain responds” with the sensation of pleasure. That may be why volunteer programs are able to develop responsible global leaders: “Doing good also feels good.” The final feature Caligiuri recommends is that the programs *encourage empathy*. Empathy, the ability to understand and share another’s feelings, is fostered by the opportunity to observe the effects of your altruism on others.

Organizations to help you find placements likely to have the five features Caligiuri recommends and sort through the many volunteer and internship options include NGO Abroad, Volunteer Match, AIESEC, and One World 365. If you decide to, you can strengthen your global leadership skills the corporate way.

Sources: P. Caliguri, C. Thoroughgood, “Developing Responsible Global Leaders through Corporate-Sponsored International Volunteerism Programs,” *Organizational Dynamics*, vol. 44, no. 2, April–June, 2015, 138–145; and P. Caliguri, Ahsia Mencin, and Kaifeng Jiang, “Win–Win–Win: The Influence of Company-Sponsored Volunteerism Programs on Employees, NGOs, and Business Units,” *Personnel Psychology*, vol. 66, no. 4, November 03, 2012, 825–860.

Leading Global Teams

LO 11-5 Describe global team leadership skills.

Global teams with members in more than one country are an increasingly common approach in international work. Such teams are characterized by high levels of diversity, geographic dispersion, and virtual rather than face-to-face interaction. Several dimensions add to their complexity, including members from different national cultures whose locations are in different time zones with different communication technologies available, and different corporate, cultural, and economic contexts in which team members are embedded. We begin with a discussion of team leadership in general, examining the three activities in which team leaders usually engage, and then we address the added challenges global teams bring to leadership, including their performance management.

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LEADING TEAMS

Leading teams in almost any context includes three main activities: establishing the team, coaching team members, and setting team norms.³⁷ Each has an enhanced aspect when the context is global.

The first leadership activity is to establish the team itself. In this process, the leader encourages strong member identification with the team and its norms, because this identification leads to better performance. When team members see one another as each member sees himself or herself, and when team members feel their team is distinctive, even when it is very diverse, high levels of motivation are likely to exist.³⁸ An environment where these positive team norms can come into play is especially useful in global teams, where high levels of diversity challenge team members to grasp one another’s self-concepts, which are influenced by subtle levels of cultural values.

The next group leader activity is coaching team members. When faced with diversity, co-workers who are unfamiliar with the work of a group member tend to expect that person to perform poorly. Such expectations occur regardless of the person’s actual skill level and can be self-fulfilling.³⁹ The team leader can confront this bias by publicizing the strengths of team members. Motivational coaching is also important as the team begins its task, and strategic coaching may be valuable when strategic choices come into play, later in the team’s evolution.

Setting team norms is the third key activity for all team leaders. **Team norms** are defined as “legitimate, shared standards against which the appropriateness of behavior can be evaluated.”⁴⁰ They greatly influence the dynamics of the team, especially in two areas, cooperation and consideration. Cooperation is critical, especially when team members are not located in the same place. Often in work life, face-to-face interaction takes priority, and responding to requests from a nearby co-worker may be much easier than responding to the geographically distant team member who is also in a different time zone. One way to support cooperation in a global team is to increase the level at which team members see one another as members of their in-group. Reward structures also can encourage group cooperation.

Norms of consideration—sensitivity to others or what is sometimes described as good manners—are also important to teams, and especially global teams. For example, when potentially offensive language is self-censored, diverse groups tend to build trust more quickly. The sooner that happens, the sooner the team can move to a constructive focus on the task at hand.

COMPLEXITY FOR TEAMS IN THE GLOBAL CONTEXT

In addition to these traditional team leader roles, the global team leader is acting within the context of globalization. As we described earlier in this module, globalization brings a great shift toward increasing complexity. The three specific conditions identified in the international context that contribute to globalization’s complexity are increased multiplicity, increased interdependence, and increased ambiguity.⁴¹ We look at these forces a bit more closely to understand the complexity that global team leaders face.

Multiplicity arises from the increased number of players in the game. Globalization brings more competitors, more stakeholders, and more customers, creating many more relationships to manage and viewpoints to consider. Multiplicity contributes to increased levels of interdependence, including economic interdependence, interdependence among the various activities of the firm’s value chain, and interdependence among alliance partners. Along with multiplicity and interdependence comes increased ambiguity, which results from the multiple ways we have to interpret an increasing amount of data. Yet the more data we have, the less clear the path for interpreting these data. Cause-and-effect relationships are not clear; there are many plausible ways to interpret the same data, and the information itself may not be clear. We are left not knowing how to interpret the data we do have in a way that will guide decisions.

GLOBAL TEAM LEADERSHIP AND CULTURE

Global team leaders have to address the basic conditions of team performance—organization, social processes, and task processes—as well as the issues that accompany an international context. A major part of this context is culture. Global team members bring different cultural expectations to the team environment, including the way they think of the team at deep levels. (Is the team a family? A tribe? A collection of friends? A sports team?) Explicitly addressing these differences in cultural expectations can lead to superior performance. Researchers have pointed out, though, that the inclination in diverse teams is to suppress differences and focus on what team members have in common.⁴²

As you study the impact of cultures, you will learn that they influence the way people think about defining and managing roles and identifying acceptable communication and conflict resolution norms. In cultures with high power distance—for example, most Asian and Latin American cultures—team members will expect a clear hierarchy and a single leader with decision-making power. They may not be fully aware of their expectations (like most of us). In Scandinavian cultures, a more fluid leadership model is expected; leadership is shared and also shifts around, depending on the task and the leader’s ability. In individualistic cultures such as the United States or Britain, task roles are clearly defined and responsibility is allocated, with individual rewards assumed. Contrast this to more collectivist cultures such as

expectations to the team environment, including the way they think of the team at deep levels: (1) the team as family; (2) a tribe; (3) a collection of friends? A sports team?) Explicitly addressing these differences in cultural expectations can lead to superior performance. Researchers have pointed out, though, that the inclination in diverse teams is to suppress differences and focus on what team members have in common.⁴²

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Global teams also need to explicitly address their communication and conflict norms. Compare some Latin countries—where speaking up at any time is fine, even when someone else is talking—to some Asian countries, where people respond only to direct questions and silence is a comfortable way to communicate. How do cultural predispositions operate in the virtual world? How do team members from different cultures deal with disagreement? Is open disagreement appropriate? Or is harmony so valued that disagreement is suppressed? The team needs to be able to resolve conflict constructively, but as you can imagine, reaching the point where they can do so may take some work.

One way to get at understanding the various cultures of team members is to use the map-bridge-integrate (MBI) model. Developed by Martha Maznevski, the MBI model is a process that can open up the cultural assumptions team members may have.⁴³ *Mapping*, the first step, lets the team members discuss their differences and similarities; that is, they map their relevant characteristics. This is followed by a *bridging* effort. Here, team members communicate with each other about the differences and establish how they will work with one another. Bridging includes decentering—seeing the other person's point of view, a bit akin to empathy—and avoiding blame. Effective bridging also enables *integration*, which is the process of managing the various differences, so team members begin to understand the expectations and assumptions of their peers, as well as their backgrounds and skills. The application of the MBI steps takes time, yet it can enable teams to function better and achieve improved performance.



Multicultural team in meeting.
©Ute Grabowsky/Photothek/Getty Images.

VIRTUAL AND GEOGRAPHICALLY DISPERSED TEAMS

Many global teams are geographically dispersed and communicate through technology. Leading a team whose members are on different continents and in different time zones, and who connect through technology such as texting, e-mail, or videoconferencing, creates unique leadership challenges. Virtual communication, even with video content, lacks the richness of face-to-face communication. Research suggests that initial face-to-face meetings for teams that plan to subsequently work virtually are a good way to build trust among team members, and trust is critical for the team's functioning.⁴⁴ Most teams meet face-to-face at their launch and during crises. Maznevski points out that virtual teams with high performance actually schedule regular face-to-face meetings to discuss progress and issues and to further develop their relationships. Such regular meetings create a kind of heartbeat. "[T]eams that have a strong heartbeat can manage all other tasks virtually in between their face-to-face meetings, and . . . this is both less expensive and more effective than getting together 'whenever we need to.'"⁴⁵

PERFORMANCE MANAGEMENT IN GLOBAL TEAMS

What do we understand about rewarding global team performance in culturally diverse, geographically dispersed virtual global teams?

Researchers suggest that the one factor accounting for many of the failures of global teams is ineffective reward and recognition strategies.⁴⁶ The questions that are critical for global team effectiveness include:

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- Are rewards based on individual performance, team performance, or a combination of the two?
- What factors come into play with team-based pay?
- What role can recognition play?

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Individual-based rewards are most common in virtual global teams, despite the fact that individual contributions are difficult to discern, especially in a virtual environment. Team-based rewards are thought to encourage **social loafing**, the tendency of some people to put forth less effort when they are members of a group. Many researchers see a combination of individual and group rewards as a good way to avoid this problem. There are five areas to consider when establishing a balance of team and individual rewards:

1. What is the nature of the task? How interdependent is it? The greater the task interdependence, the higher the portion of team-based rewards should be.
2. How stable is the team membership? If the team boundaries are fluid or if membership changes are frequent, appropriate team rewards will be difficult to determine.
3. What are the national cultures of the team members? The individualism-collectivism dimension of the cultures needs to be considered. High levels of team rewards are appropriate for teams whose members are from collectivist cultures, and high levels of individual rewards are appropriate for teams whose members are from more individualist cultures. With high levels of cultural diversity, the team should be included in the development of the reward system.
4. What are the labor laws that affect employee compensation? In many locations, salary levels are set by local or national laws or by labor unions, and their flexibility is constrained.
5. What are the available reward options? In addition to financial rewards, recognition is a valued reward. These rewards are most successful when they incorporate national cultural values of team members.⁴⁷

Remember that performance appraisal for global teams will also be influenced heavily by national culture, and by the other team variables mentioned in our discussion of rewards and recognition.

Global team leadership is an evolving skill whose importance will increase as the internationalization of business increases. Early research suggests that global teams require the same leadership skills basic teams need, plus the increased awareness and more subtle leadership skills that help the team build on its diversity and its geographic dispersion, all in a context that is increasingly complex.

Leading Global Change

LO 11-6 Identify some of the challenges of leading global change.

Leading organizational change is always a difficult process, largely because it deals with changing individual behaviors. Jim Clawson believes change is the central part of leadership. He writes that leadership has three elements: "(1) seeing what needs to be done; (2) understanding all the underlying forces at play in the situation; and (3) having the courage to initiate actions to make things better."⁴⁸ Key players in the successful change process have to alter their behavior, which rests on their assumptions, values, beliefs, perceptions, tasks, and roles.⁴⁹ If the scope of the change global managers hope to effect is global, then the process becomes exponentially difficult. The difficulty comes from the size of the organization, its geographic dispersion, and, most significantly, the varying expectations and values that surround personal assumptions about change in different national-level cultures.

INDIVIDUALLY, WE ARE ONE DROP. TOGETHER, WE ARE AN OCEAN.

—Ryunosuke Satoro⁵⁰

CHANGE MODELS

Research on global change is in its early stages, and it builds on the more general study of change. Here, we look at two models for change and its leadership, and then at the aspects of culture that may influence global change leadership. Each of the models describes the *process* of change and its stages.

Probably the best-known change model, developed by Kurt Lewin, is a three-stage process of unfreezing, moving, and refreezing.⁵¹ The first stage, *unfreezing*, requires overcoming inertia and preparing people for change, including dealing with defense mechanisms against the proposed change. At this point, there is stress, tension, and recognition of the need for change. The second stage is *moving* the proposed behaviors into practice, a period often characterized by confusion. *Refreezing* is the final stage when the new behaviors are either accepted and institutionalized or rejected.

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GET THAT JOB! FROM BACKPACK TO BRIEFCASE

CHAD HENRY: Developing Global Leadership Skills and Experience, Beginning with an Internship in Croatia

I went to college on a football scholarship, and after completing my degree, I was searching for direction. I wanted to do something different with my life. I didn't see myself as a traditional "finance guy" and thought these traditional career paths would not bring me personal fulfillment. I sought to step into a new frontier, the opportunity to work and live abroad.



Chad Henry's development of global leadership skills began in Croatia.
Courtesy of Chad Henry.

I accepted an AIESEC internship to Croatia (see AIESEC.org), a place I knew almost nothing about. I gathered as much information as possible before leaving, a bit like cramming for an exam. My main preparation focused on understanding where I was going, ensuring that it was safe, and preparing information for my parents.

My internship was for 12 months, but I ended up becoming fluent in Croatian, had a range of jobs, and stayed for 10 years. Croatia was in the midst of change, and it was an exciting time. I lived in Split, Varaždin, and Zagreb and traveled throughout Europe. My work was in export development, strategic development, and foreign direct investment. I also played professional baseball for a Croatian team and

stayed for 10 years. Croatia was in the midst of change, and it was an exciting time. I lived in Split, Varaždin, and Zagreb and traveled throughout Europe. My work was in export development, strategic development, and foreign direct investment. I also played professional baseball for a Croatian team and coached a team playing American football.

The keys to my adjustment included keeping a very open mind and maintaining my determination to succeed. These qualities helped me deal with challenges as they presented themselves. The biggest challenge I confronted was learning to accept things as they are without making value judgments, remembering that things are relative rather than absolute. While as individuals we learn through our cultures a certain way to do things or approach situations, this doesn't make it right or wrong. When you can learn to accept different viewpoints and see the value in them—even if not necessarily agreeing with them—then it allows you to enjoy and adapt to the culture in which you are immersed.

My rewards from my time in Croatia included learning to manage people who have intrinsically different work values; finding a way to work with people that brings out their best, and being accepted by friends in another culture. I learned to see and understand things from multiple perspectives and to adapt and react to adverse and sometimes hostile situations.

Here are my recommendations for life abroad:

- Make sure you understand the perspective of others while you are abroad. This perspective is developed by cultural differences and values. Without understanding them, you won't be able to resolve differences and disputes or motivate others.
- Learn the local language.
- Have a general understanding of the history of the country.
- Ask questions.

Have a lot of fun and enjoy the privilege, not always an easy one, of learning another culture.

Source: Chad Henry.

Expanding the level of description found in Lewin's model, John Kotter's approach to change suggests eight steps:

1. Increase urgency, so that people are inspired to move toward real and relevant objectives.
2. Develop the guiding team, so that those involved in leadership are the right people, with high emotional commitment and the right combination and levels of skills.
3. Develop a change vision and strategy.
4. Communicate the vision for buy-in.
5. Empower broad-based action by removing obstacles.
6. Generate short-term wins that are rewarded.
7. Don't let up; foster determination and persistence.
8. Make the change stick through leadership development and succession.⁵²

These models might be misconstrued to imply that change is an orderly process and that the steps are nicely sequential. In practice, whether incremental or transformative, change is not neat and orderly, largely because it rests on human behavior. Often it includes a lot of learning through trial-and-error approaches.

CHANGE AND CULTURE

Not surprisingly, aspects of culture are related to the process of change. These include cultural traits that govern our tolerance of ambiguity, power distance, attitude toward planning, communication styles, and flexibility. Recent research suggests that the influence of national culture on change efforts is stronger than the influence of organizational culture.⁵³ In her work on the implementation of change, Joyce Osland looks closely at this issue, and our discussion is informed by her observations.⁵⁴ Cultures characterized by a high tolerance of ambiguity—that is, cultures that have low uncertainty avoidance—are likely to be more change-friendly. The United States is a prime example. Cultures with high uncertainty avoidance are inclined to avoid change. To lead change in cultures such as Japan, Germany, and France, the process has to be very well outlined and communicated with frequency.



CULTURE FACTS @internationalbiz

Cultures that have high uncertainty avoidance are inclined to avoid change. **#highuncertaintyavoidance**
#avoidchange



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LO 11-1 Discuss the importance of creating a company "global mind-set."

A global mind-set "combines an openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesize across this diversity." It has two key components: (1) intellectual intelligence, which includes business acumen, and (2) global emotional intelligence, which includes self-awareness, cross-cultural understanding, cultural adjustment, and cross-cultural effectiveness. The manager with a global mind-set is open to understanding others from different backgrounds, is less judgmental about people from other cultures, and is eager to approach issues from multiple perspectives.

LO 11-2 Describe what distinguishes the practice of global leadership from domestic leadership

Global leadership is leadership behavior that occurs in a more complex global context, where the challenge is heightened by multiplicity, interdependence, ambiguity, and dynamism. The difference between domestic and global leadership in the level of demands on skills and their applications is so great, and the possible outcomes in a global context can be so profoundly greater, that we can regard global leadership as being different in kind from domestic leadership.

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LO 11-3 Identify the competencies required for effective global leadership.

Global leaders require a complex mix of competencies. Various researchers have identified different sets of these, including business acumen; adaptability across cultures; ability to develop individuals from and across diverse cultures; global strategic thinking; ability to establish business in new markets; ability to build global teams; competency in interacting with local political interests; emotional stability; ability to learn; decision-making and negotiating ability; global mind-set; cultural adaptability and flexibility; and tolerance for ambiguity. Others have argued for the importance of (1) a high level of cognitive complexity in order to collect and comprehend contradictory data from a variety of sources and to subsequently make effective decisions; (2) excellent interpersonal skills to enable individuals to understand how to behave within particular countries and situations; (3) capability for learning from experience; and (4) advanced capacity for moral reasoning in order to comprehend ethical dilemmas. The Pyramid Model of Global Leadership identifies five levels of competencies: global knowledge, threshold traits, attitudes and orientations, interpersonal skills, and system skills.

LO 11-4 Distinguish among the approaches for selecting and developing effective global leaders.

The Global Leadership Expertise Development (GLED) model suggests that existing conditions and transformational processes interact to produce global leadership expertise. The "right stuff" model suggests that the basic talent of leadership candidates, combined with their developmental experiences and the context, will help produce the right stuff in terms of skills and capability. However, this model argues that the company's global business strategy is a major determinant of the relevant lessons the global leader needs to learn and the skills that will be developed, and thus what represents the right stuff for a global leader will vary across organizations.

LO 11-5 Describe global team leadership skills.

Global team leadership is an evolving skill. Research suggests it requires all the basic team leadership needs plus the increased awareness and more subtle leadership skills that help the team build on its diversity and its geographic dispersion—all in a context that is increasingly complex. A tool to support understanding of the various cultures of team members is the map-bridge-integrate (MBI) model. An ability to create trust in virtual teams is also an important skill for leaders of global teams.

LO 11-6 Identify some of the challenges of leading global change.

Leading organizational change is always a difficult process, largely because it deals with changing individual behaviors. Global change also requires an ability to quickly grasp cultural differences in an environment characterized by increased levels of multiplicity, interdependence, ambiguity, and flux.

Use the globalEDGE website (<http://globalEDGE.msu.edu>) to complete the following exercises:

1. You've been assigned as the Asia Region Business Manager to your company's offices in China. Find the *culture crossing guide* for China in the "Culture" page of the "Global Insights" section of globalEDGE and review the basic and business-related culture facts for China. Considering the range of roles of a global leader Henry Mintzberg and others identified, as discussed in this chapter, discuss which and how the cultural aspects of China would affect the ways these roles of the global leader are executed in the business environment. What are some of the challenges likely to arise while executing these roles?
2. As the business manager in charge of the Latin American operations of your medical devices company, you are asked by the top management to make a choice between Brazil and Chile and decide on the country your company should invest and build a new manufacturing facility in. Leaving all other aspects of the business aside, compare the different risk factors of two countries in the "By Classification" section of the "Global Insights" of globalEDGE and get ready to discuss your decision and your reasoning with the top management. Explain to them what do the risk factors listed on this page mean and which of them are crucial for your industry and why.

MINI CASE

JUSTIN MARSHALL: A FAILED GLOBAL LEADERSHIP OPPORTUNITY?

Justin Marshall earned a bachelor's degree in business, with honors, from a prominent midwestern state university in the United States. After graduation, he worked for two years in finance for a consumer products company and then for two additional years in business development, consistently receiving excellent performance reviews. He then pursued an MBA at one of the top-ranked U.S. universities, ultimately graduating in the top 5 percent of his class. He was recruited by several corporations and accepted a generous offer to work for Compcorp, a prominent computer software and services company. Justin quickly worked his way up the corporate hierarchy. By the age of 31, he had been promoted to divisional vice president for the United States, where he oversaw the transformation of his division from a mediocre performer to one of Compcorp's most profitable units.

Justin's performance as division VP caught the eye of the company's senior executives, and he was offered the opportunity to become VP of the Asia-Pacific region. This division had sales growth but had underperformed major competitors in recent years. Compcorp's executives told Justin they wanted him to replicate his earlier success and transform the Asia-Pacific unit's performance.

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Justin leaped at this opportunity. He dreamed of living and working abroad, and he felt confident he could quickly diagnose the unit's problems and turn it around. Within a month, he had transitioned out of his former position, packed up his family, and moved into an apartment near the Hong Kong headquarters of his division. Applying the skills and experiences he had honed in earlier positions, Justin began an aggressive evaluation of his new division. He pored over the financial statements and other documentation, met with dozens of key people throughout the division, and quickly initiated changes to help ratchet up performance. Rigorous reporting requirements and performance reviews were implemented, and Justin met with each of his country managers and other key executives to agree on a set of ambitious cost-cutting and revenue growth targets. He instituted close monitoring of individual unit performance, with results shared across the unit's top managers. As he expected, performance showed a strong uptick during his second quarter as division VP. When he traveled back to headquarters for a quarterly review meeting with his superiors and the heads of other divisions, he proudly pointed out his unit's performance improvements and projected even stronger results for upcoming quarters. He basked in the positive feedback and attention his achievements received from his bosses and was delighted with a substantial performance bonus. Justin felt it was only a matter of time until he was promoted again, perhaps into a senior VP position back at headquarters.

During the months after he returned to Hong Kong, results for his third quarter in office declined slightly, and he was surprised to receive resignation letters from several of his key managers. A few took comparable positions with competitors, and rumors of morale problems began to filter back to the Hong Kong offices. Despite his efforts to turn the situation around, staff departures and performance decline trends continued into Justin's fourth quarter on the job. A team from the U.S. headquarters visited the region several times, meeting with Justin and a number of his executive team members and other subordinates, trying to discern the problem and how to resolve it.

Justin realized he needed to do something soon to reverse the performance trend or his position would be at risk. He initiated a number of rapid changes, yet performance did not improve. Shortly after his unit reported subpar performance for his fifth quarter, he was invited back to company headquarters for a meeting with the company's president. Justin was informed he was being reassigned to a VP position in one of Compcorp's less prestigious domestic units, and that a replacement was being appointed to lead the Asia-Pacific region.

Although it was termed a lateral transfer, Justin knew his reassignment was viewed in the company as a demotion and that his once high-flying career had encountered serious turbulence. Despite his efforts to focus on his new position and reestablish his visibility in the company, he felt his actions were not paying off. Within a year of his transfer back to the States, he left the company to pursue opportunities with a different organization.

Critical Thinking Questions

1. What might explain Justin's failure to perform well in his new leadership role as the head of the Asia-Pacific division?
2. What might Compcorp have done to increase prospects for Justin's successful performance? What might Justin himself have done to enhance the likelihood of success in his new assignment and to help avoid derailing an otherwise highly promising career in Compcorp?

International Markets: Assessment and Entry Modes

Module 12

“Think locally, offer value, and be patient. That last one is key: You can make an elephant dance. But it takes time to learn the right tune.”

—Om Malik on marketing to India, *Business 2.0*¹



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LEARNING OBJECTIVES

After reading this module, you should be able to:

- LO 12-1 **Review** the steps of market screening and techniques for environmental analysis.
- LO 12-2 **Discuss** the value of trade missions and trade fairs.
- LO 12-3 **Describe** some of the problems market researchers encounter in foreign markets.
- LO 12-4 **Explain** international market-entry methods.

Marketing to the Millennials: Global Trends and Differences

Business owners and marketing professionals pay attention to changing demographics and their potential impact on consumer behavior and market opportunities within and across nations and regions of the world. An important target market internationally is the group commonly referred to as “millennials”—those individuals born from about 1982 to 2004. Of course, millennials share many attributes with other populations of consumers, such as baby boomers or generations X or Z. However, market analysts have also identified some interesting traits and trends associated with millennials, as well as how these attributes may vary across countries or regions of the world.

InSites Consulting, an international marketing research firm with offices on four continents, identified “five paradoxical trends” among millennials: (1) amortality (an anti-aging trend reflected in developments such as health and fitness apps and “sportainment” sporting holidays); (2) sharconomy (or shortcut society, reflected in the growth of MOOC [massive open online course] companies like Coursera; Uber ride-sharing; and peer-to-peer lodging such as AirBnB); (3) cloaking (creation of private pages or closed groups on social media sites such as Facebook; desharing and unselfies (deleting or use

of self-destructing messages and use of anonymous dark websites); (4) predictable consumer behavior (integrating and analyzing data from online searches and choices to predict consumer preferences and behavior); and (5) serendipity (enjoying “surprises” such as those obtained through coincidental discoveries on social networks or through surprise boxes of cosmetics and skin care products from Bespoke Post or Birchbox).

GlobalWebIndex, a London-based firm collecting and analyzing consumer data, examined the digital behavior of about 37,000 millennials across 40 nations. Among their findings: (1) nearly all millennials owned a smartphone and used it as their most important device for accessing the Internet, with this preference ranging from 55 percent in Europe and 56 percent in North America to 77 percent in the Middle East and Africa and 76 percent in the Asia Pacific; (2) millennials used an average of 2.8 different devices, including phones, computers, and tablets, to spend nearly 4 hours online daily; (3) despite their substantial online activity, broadcast television still consumes more of millennials’ daily time; (4) millennials spend 2 hours and 38 minutes per day on social media, with an average of nine social media accounts per user; and (5) while social media activity is an important channel for millennials to conduct product research, traditional commerce sites remain the primary option for online purchase transactions.

GlobalWebIndex also discovered some interesting regional differences in millennials’ online activity. In terms of streaming TV, Netflix’s penetration was 77 percent in Latin America and 82 percent in North America, but was used in the past month by less than 25 percent of European respondents. iQiyi was the leader for streaming content in the Asia Pacific region, Shahid.net in the Middle East and Africa, and national providers like the BBC’s iPlayer in the United Kingdom and France’s MYTF1 were the leaders in Europe. While Spotify was the dominant service for music streaming in North America, Latin America, and Europe, QQ Music and Kugou were the leaders in the Asia Pacific. For online gaming, 25 percent of respondents worldwide owned game consoles, with the popularity of these devices being greatest in North America (56 percent), followed by Europe and Latin America at 35 percent each. In contrast, the Asia Pacific and the Middle East and Africa reported the greatest tendency to use smartphones for gaming, at 75 and 74 percent, respectively, versus a low of 59 percent in Europe. While 46 percent of millennials in the Asia Pacific used ad-blocking software monthly, in North America and Europe the percentages were 27 and 25, respectively.

In the United States alone, millennials account for one-quarter of the overall population and, by 2020, worldwide this group will spend \$1.4 trillion annually. What might demographic traits and trends such as these mean to businesspeople and marketers trying to identify the best markets worldwide for their products and services? How could these insights be best used in order to focus market entry or expansion efforts?

Sources: Philip Bump, “Here Is When Each Generation Begins and Ends, According to Facts,” *The Atlantic*, March 25, 2014, www.theatlantic.com; “InSites Consulting,” *InSites nv*, 2018, www.insites-consulting.com; “Millennials: Examining the Attitudes and Digital Behaviors of Internet Users Aged 21–34,” *Trendstream Limited*, 2018; Dan Schawbel, “10 New Findings About the Millennial Consumer,” *Forbes*, January 20, 2015; and Cassandra Wade, “Marketing to Millennials: Trends You’ll See in 2018,” January 08, 2018, www.universalsawilde.com.

Market Screening Approaches and Techniques

LO 12-1 Review the steps of market screening and techniques for environmental analysis.

International environmental forces can complicate our efforts to assess the attractiveness of foreign markets for potential expansion. While companies have used a range of approaches to assess foreign markets, many of them tend to be unsystematic and prone to error. Here we offer a more systematic, structured approach to the international market screening process.



CULTURE FACTS @internationalbiz

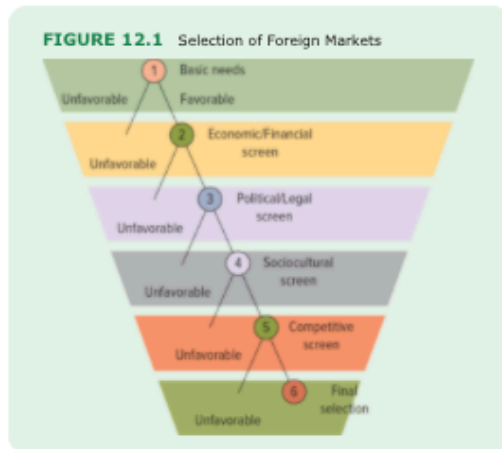
@CampbellSoupCo Campbell Soup Co. had to exit the Russian market, not because Russians didn't like soup, but because they liked it too much. Soup is one of the main dishes of the Russian diet and is traditionally and proudly made from scratch. Switching to the precooked soups was not a cultural possibility.³ #RussianMarket #soup #maindish #diet #fromscratch



Market screening is an application of environmental scanning in which the firm identifies markets by using analysis of the environmental forces active in markets to eliminate the less desirable ones. **Environmental scanning** is a broader procedure in which a firm scans the world for changes in the environmental forces that might affect it.² For some time, environmental scanning has been used by managers during the strategic planning process to provide information about world threats and opportunities that could influence the context in which the firm operates. Those who do environmental scanning professionally may belong to organizations such as the Society of Competitive Intelligence Professionals (www.scip.org). If the firm does not have the internal capability, environmental scanning services are available from a number of private firms such as Smith Brandon International (www.smithbrandon.com) and Stratfor (www.stratfor.com).



In market screening, the firm reviews markets based on the market's basic need potential and the external environmental forces in the market, such as economic, financial, political, legal, and cultural conditions. Although these forces may be placed in any order in a screening, the arrangement suggested in [Figure 12.1](#) progresses from the least to the most difficult analysis based on the accessibility and subjectivity of the data. In this way, the smallest number of candidates is left for the final, most difficult—and hence, most costly—screening.



Market screening is useful both for the firm selling exclusively in the domestic market but aware that it possibly might increase sales by expanding into foreign markets, and for the firm that is already an international company (IC) and wants to avoid missing potential new markets. In both situations, market screening provides an ordered, relatively fast method of analyzing and assessing the nearly 200 countries (and multiple market segments within countries) to pinpoint the best prospects.

In this module, we will look at two levels of market screening: **country screening**, using countries as the relevant unit of analysis, and **segment screening**, using a within-country analysis of groups of consumers. The initial screening is for the basic needs potential and eliminates countries that do not have a basic need for the product under consideration.

INITIAL SCREENING—BASIC NEEDS POTENTIAL

An initial screening based on the basic need potential is a logical first step because if the need for the good or service is lacking, no reasonable expenditure of effort and money will enable the firm to successfully market goods for which there is no need potential. For example, the basic need potential of some goods depends on various physical forces, such as climate, topography, and natural resources. If the firm produces air conditioners, the analyst will look for countries with warm climates. Makers of large farm tractors might not consider Switzerland a likely prospect because of its mountainous terrain. Builders of large yachts might consider a landlocked country such as Paraguay to be an unattractive potential market, and areas known to have humid climates are not likely markets for humidifiers. In areas such as Singapore, where there are small apartments known as shoe-boxes, there may be a market for low-profile, small-scale furniture.

The basic need potential of some goods is easy to assess. For example, producers of specialized industrial materials or equipment such as heavy-duty snow-removal equipment find little difficulty in assessing their basic need potential. With less specialized products that are widely consumed, assessing basic need potential can be more challenging. For example, establishing a basic need for chocolate, consumer robots, or movies in ultra HD is difficult, because for these products we are addressing desires rather than needs.

There are many public sources for data to use in establishing the basic need potential. A list of firms in an industry is available from the industry's association and from specialized trade media. A builder of cement kilns can obtain the names and addresses of cement plants worldwide through the website of the Portland Cement Association. Analysts who want to know where U.S. competitors are exporting their products can go to the International Trade Administration (ITA) at www.trade.gov. The U.S. Department of Commerce also has the report, *U.S. Exports of Merchandise*, on the National Trade Data Bank (NTDB), which is available online by subscription. This report's information is especially useful because it includes both units and dollar values, permitting the analyst to calculate the average price of the unit exported. Many national government trade or commerce offices compile foreign trade statistics. The U.S. Department of Commerce releases a monthly report, *U.S. International Trade in Goods and Services*, commonly referred to as the FT900. In addition, *country market surveys* published by many countries indicate products for which there is an established market in a given country. For example, the data office of the European Union (Eurostat) publishes an annual, *External Trade*, and JETRO (the Japanese External Trade Organization) publishes a wide assortment of trade and industry data.

Be aware, though, that imports do not completely measure a market's potential. Trade flows show the magnitude of current sales, but imports may not be the whole story on market potential. There could be poor marketing, lack of foreign exchange, and high prices (potentially caused by transportation, duties, and markups). Nor can imports give much indication of the potential demand for a brand new product.

Import data indicate only that a market has been buying certain products from abroad, and are no guarantee that these imports will continue. A competitor may decide to produce locally, which, in many markets, will cause imports to cease. Change in a country's political situation also may reduce or eliminate imports, as in present-day Syria or Yemen. Nevertheless, import data do provide the firm with a conservative estimate of the immediate market potential at the going price. If local production is being considered and calculations show that goods produced in the country could be sold at a lower price, the firm might reasonably expect to sell more than the quantity currently being imported.

SECOND SCREENING—FINANCIAL AND ECONOMIC FORCES

After the initial screening, the analyst will have a much smaller list of prospects. Then a second screening based on financial and economic forces further reduces the list of potential markets. The major areas of concern here are trends in inflation, currency exchange rates, and interest rates. Other financial factors, such as credit availability, paying habits of customers, and rates of return on similar investments, are also important. This screening, though, is not a complete financial analysis. That occurs later if the market analysis and assessment disclose that a country has sufficient potential for capital investment.

Two measures of market demand based on economic data are especially useful at this point: *market indicators* and *market factors*. In addition, *trend analysis* and *cluster analysis*, both of which depend on economic data, may be used to estimate demand.

Over the next few years, the number of online shoppers in Latin America is expected to grow annually by more than 10 percent. According to [Table 12.1A](#) and [Table 12.1B](#), Brazil has the largest number of online buyers and also the largest overall e-commerce market.

TABLE 12.1A Latin America E-Commerce Market Growth, 2018–2022 (US\$ billions)

	2018	2019	2020	2021	2022
Total Retail Sales (US\$ billions)	1,988	2,094	2,189	2,270	2,354
Number of E-Commerce Buyers (millions)	131	142	153	163	174
Average E-Commerce Revenue per Buyer (U.S. dollars)	290.2	304.9	318.0	329.6	342.5

TABLE 12.1B B2C Sales in Latin America, by Country, 2018–2022 (US\$ billions)

	2018	2019	2020	2021	2022
Argentina	5.0	5.7	6.3	6.9	7.4
Brazil	21.3	23.9	26.6	29.2	31.7
Mexico	10.3	12.0	13.6	15.3	16.9

Economic data that serve as yardsticks for measuring the relative market strengths of various geographic areas are known as **market indicators**. As an example, an analyst might develop an index of e-commerce potential for Latin America and key markets within that region by collecting and ranking data of the sort found in [Tables 12.1A](#), [12.1B](#), and [12.1C](#), so that the countries in the region could be compared. The data would include indicators of the strength and growth rate of the overall economy, as well as factors related more specifically to e-commerce or communications that would aid the growth of e-commerce. Three indices suggest themselves for this analysis, with each indicator given equal weight:

$$\begin{aligned}\text{Market size} &= \text{Size of urban population} + \text{Electricity consumption} \\ \text{Market growth rate} &= \text{Average growth rate in commercial energy use} + \text{Real GDP growth rate} \\ \text{E-commerce readiness} &= \text{Mobile phones per 1,000} + \text{PCs per 1,000} + \text{Internet hosts per million people}\end{aligned}$$

TABLE 12.1C Number of Digital Buyers in Latin America, by Country, 2018–2022 (millions)

	2018	2019	2020	2021	2022
Argentina	26	26	26	27	28
Brazil	73	80	87	95	101
Mexico	40	43	46	49	51

Sources: eMarketer, *Latin America E-commerce 2018*, <https://www.emarketer.com>, accessed November 10, 2018; "Latin American Commerce," <https://www.eshopworld.com/blog/latin-american-e-commerce>, accessed November 10, 2018; Statista, <https://www.statista.com>, accessed November 10, 2018; and author estimates.

The rankings on these three indexes could then be used to form a composite ranking.

Market factors are similar to market indicators except they tend to correlate highly with the market demand for a given product. If analysts of a foreign market have no factor for that market, they may be able to use one from the domestic market or a comparable subsidiary to provide an approximation for the foreign market. To be able to transfer these relationships to the country under study, the analysts must assume that the underlying conditions affecting demand are similar in the two markets. This process, called *estimation by analogy*, can be quite helpful. If, for example, we are a smartphone supplier and know that one in five Ugandans replaces his or her smartphone each year, we might use the same relationship to estimate demand for replacement tablets in a new, similar market. If there are 3 million existing smartphones in the new market, we might forecast that 3 million $\times$ 0.20, or 600,000, replacement tablets will be sold annually. The constant in the country under study may be somewhat different, but the estimates will represent a reasonable approximation and a base from which further analysis can be conducted. Many such factors exist, and generally, research personnel are familiar with them.

When analysts know the historical growth rates of either the relevant economic variables or the imports of a product, they can forecast future growth by means of **trend analysis**, a statistical technique used to estimate future values by successive observations of a variable at regular time intervals that suggest patterns. In trend analysis, a time series similar to a regression model, or the arithmetic mean of past growth rates, may be applied to historical data. When using growth rates, remember to make adjustments or develop alternate scenarios, because trend analysis assumes that past conditions affecting the dependent variable will remain constant. If the average annual growth rate is applied mechanically, in just a few years, the dependent variable may reach an incredible size. For example, a 5 percent growth rate, compounded annually, will result in a doubling of the original value in only 15 years.

As multinationals expand their presence to more markets, managers are searching for ways to group countries and geographic regions by common characteristics. **Cluster analysis** divides objects (market areas, individuals, customers, and other variables) into groups so that the variables within each group are similar. A team of college softball players sitting at a table in a restaurant might constitute a small cluster, while users of iPhones and Android phones might be two different clusters. Marketers use cluster analysis to identify a group of markets where a single promotional approach can be employed; attorneys use it to group nations according to similarities in certain types of laws, and anthropologists use it to group similar cultures. In other words, cluster analysis is used to classify a "mountain" of information into meaningful "piles."

THIRD SCREENING—POLITICAL AND LEGAL FORCES

The elements of the political and legal forces that can eliminate a market from further consideration or make it more attractive are many. We review those that most impact the IC, including barriers to entry, government controls, stability of government policy, and political stability.

Entry barriers to ICs may be established by the host government. Import restrictions can be positive or negative, depending on whether managers are considering whether to serve the market by exporting (can the firm's products enter the country?) or by setting up a foreign plant (will competitive imports be kept out?). If an entry objective includes 100 percent ownership, will the nation's laws permit it, or is some local participation required? Put another way, will the government accept minority local ownership, or does the country require that a minimum percentage of the subsidiary be controlled by nationals? Are there laws that reserve certain industries for either the government or its citizens?⁴ Is the host government demanding that the foreign owner turn over technology to its proposed affiliate that the foreign owner prefers to keep at the home-country plant? Perhaps the host government has local content restrictions that the prospective investor considers excessive. There may be a government-owned company that would compete with the proposed plant. Depending on the circumstances and how strongly management wishes to enter the market, any one of these conditions may be sufficient to eliminate a nation from further consideration.

GLOBAL DEBATE

Should Africa Be the Next Priority Market for International Companies?

The population of the 50 countries designated by the United Nations Statistics Division as comprising sub-Saharan Africa exceeded 1 billion people in 2018. By 2060, the region's population could reach 2.7 billion, nearly four times Europe's projected population of 702 million, and it will be home to the ten nations globally that have the youngest average population age. This population growth rate reflects traditionally high birth rates combined with declining rates of infant mortality and increased life expectancy. The population of Nigeria alone is projected to exceed that of the United States by 30 million people in 2060. Compared to projections of declining populations for many developed nations, some view the sub-Saharan region as poised for an exciting future, one rich with opportunity for achieving economic growth, attracting foreign investment to employ the abundant pool of working-age adults, and meeting the infrastructural and consumer needs of a large and expanding population.

The World Bank projected an economic growth rate of 3.4 percent in 2018 for sub-Saharan Africa, sustaining the region's position as among the two most rapidly growing economic areas in the world. About one-third of the sub-Saharan nations have been posting growth rates of 6 percent or more, and another 40 percent have been growing 4 to 6 percent annually. Although about 60 percent of the region's GDP is currently concentrated in three nations—Nigeria, South Africa, and Angola—the World Bank expects most nations in the region will achieve "middle income" status by 2025 and that the combined GDP will be \$29 trillion by 2050. Continued policy developments targeted toward structural areas, including governance, education, health, labor market, and business climate reform, could help enhance the attainment of the region's growth potential. Many people believe the region has reached a critical tipping point where the rich natural resource base, the abundant population of working-age people, and the rapid pace of technological innovation combine to fuel a sustained growth phase similar to that experienced by East Asia's Tiger economies.

However, the diverse set of nations comprising the region suggests that growth will be uneven across countries. Many nations in the region suffer from severe poverty, low levels of education, inadequate housing stock, underdeveloped transportation infrastructure, lack of clean water or adequate sanitation, and a history of corruption, weak legal systems, and other institutional gaps. Foreign investment and international support will be essential for leveraging domestic capabilities and achieving the region's potential as an attractive market for international companies. As noted by Chief of the International Monetary Fund's Regional Studies Division Papa N'Diaye, "weak private investment has weighed on growth." Director of the Macroeconomic Policy Division at the Economic Commission for Africa Adam Elhiraika stated, "Mobilizing domestic revenue and private investment is critical for Africa, given the infrastructure gaps and rising cost of external borrowing."



Critical Thinking Questions

1. What might make sub-Saharan Africa an attractive market for entry by international companies? Which types of firms or products might be expected to do best? Why?
2. What arguments could be made for why sub-Saharan Africa would not represent an attractive market for entry by international companies? Explain your reasoning.

Sources: David Canning, Sangeeta Raja, and Abdo S. Yazbeck, *Africa's Demographic Transition: Dividend or Disaster?* Washington, DC: World Bank Publications, October 22, 2015; "Sub Saharan Africa Population 2018," *World Population Review*, November 10, 2018; and "Growth in Sub-Saharan Africa Projected at 3.4 Percent in 2018," *United Nations Economic Commission for Africa*, 2018, www.uneca.org.

When there are no objectionable barriers to entry, a market may still be excluded if management believes there are undue restrictions on the repatriation of earnings. For example, the host government may set limits on allowable repatriation of profits linked to the amount of foreign investment or other criteria, or the nation may have a history of inability to provide foreign exchange for profit remittances.

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Stability of government policy is another consideration. Is there continuity in policy when a new leader takes office, for example? What is the political climate? Is the government stable, or is there infighting among government leaders? Public life must also be examined. Is there visible unrest? Do the armed forces have a history of intervention when there are public disturbances? Business can adapt to any form of government and thrive, as long as the conditions are stable. But instability creates uncertainty, and this complicates planning. An often-heard complaint is, "They've changed the rules again." Note the distinction between *political stability* and *policy stability*. Rulers may come and go, but if the policies that affect businesses do not change very much, these political changes really may not affect the firm. In fact, if we measure political stability in terms of changes in leadership at the top, the United States is politically unstable compared with many countries, since top leadership can change every four years! Sources for political and policy stability analysis are many, such as Stratfor (www.stratfor.com); Business Environment Risk Intelligence S.A. (www.beri.com); the Economist Intelligence Unit (www.economist.com); and the PRS Group (www.prsgroup.com), all of which publish rankings that compare countries on the issue of political risk.



U.S. manufacturer Vogmask wants to sell fashion face masks in Asia.
©Bobby Yip/REUTERS/Newscom.

FOURTH SCREENING—CULTURAL FORCES

A screening of the remaining candidates on the basis of cultural factors is next and is often an arduous process. First, recognition of cultural factors is a fairly subjective and interpretive process. The analyst, unless a specialist in the country, must rely on the perceptions and opinions of others. Second, data are difficult to assemble, particularly from a distance. Fortunately, consultants who are "old hands" with experience in the country or region are available. Some may have a particular methodology, such as Clotilde Rapaille, whose approach is described in the minicase at the end of this module. Professional organizations and universities also hold seminars to explain the cultural aspects of doing business in a particular area or country.

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After the fourth screening, the analyst should have a list of countries for which an industry demand appears to exist. Now we want to know which of these potential markets seems to offer the best prospects for the firm's products. A fifth screening based on the competitive forces will help provide this information.

aspects of doing business in a particular area or country.

After the fourth screening, the analyst should have a list of countries for which an industry demand appears to exist. Now we want to know which of these potential markets seems to offer the best prospects for the firm's products. A fifth screening based on the competitive forces will help provide this information.

FIFTH SCREENING—COMPETITIVE FORCES

In this screening, we examine markets on the basis of competitive forces such as:

1. The number, size, and financial strength of the competitors.
2. Their market shares.
3. Their marketing strategies.
4. The apparent effectiveness of their promotional programs.
5. The quality levels of their product lines.
6. The source of their products—imported or locally produced.
7. Their pricing policies.
8. The levels of their after-sales service.
9. Their distribution channels.
10. Their coverage of the market. (Could market segmentation produce niches that are currently poorly served?)

Examining regional or ethnic subcultures in a particular foreign market may be important, as the topic of market coverage suggests. These subcultures may be natural or at least identifiable segments for which specific marketing programs may be successful. For example, 1.5 million Japanese descendants live in Brazil, about half of all the ethnic Japanese outside of Japan. There is also a significant ethnic-Brazilian presence in Japan. In this screening, we eliminate countries where research shows that strong competitors would make a profitable operation difficult to attain unless the firm is following a strategy of being present wherever its global competitors are or believes entering a competitor's home market will distract the competitor's attention from that market.

FINAL SELECTION OF NEW MARKETS

Although much can be accomplished through analysis, there is no substitute for personal visits to markets that appear to have the best potential. An executive or company team should visit those countries that still appear to be good prospects, having reviewed the screening data along with any new information that the researcher can supply. Preparing a list of points on which they wanted to gather more information on their visit would be useful here. The goal of the visit is to corroborate what was learned from the five screenings, the desk research phase. A trip report would include firsthand observations on the market, including competitive activity, appraisal of the suitability of the firm's current marketing mix, and availability of support services (such as warehousing, media agencies, and credit).

This field trip should not be hurried as much time should be allotted to this part of the study as would be spent on a similar domestic field trip. The point is to develop a feel for what is going on, and this cannot be accomplished quickly. The need is to see what is there and not operate on assumptions. For example, while Japanese youths model themselves after American basketball stars by wearing Nike sneakers, an observer of athletic shoe use in Japan might notice that these kids change into off-brand sneakers when they actually play basketball. Or it seems to be relatively more common for men to shop in grocery stores in Chile, as compared with elsewhere in Latin America. And in East Asia, there is not much of a tradition of men taking on the "do-it-yourself" home improvement projects for which Home Depot and similar brands are famous. These types of observations are not likely to be available without actual, substantive visits to the potential new market.

In many cases, the field trip report will provide the final data for the decision. Sometimes, though, the company's required financial and people commitments are so great that management will want to have data gathered in the potential market rather than depend solely on desk research and field reports. This could be the position of a consumer products manufacturer that plans to enter a large competitive market of an industrialized country. It might also be the recommendation of the manager making the field trip if the market conditions are seen to be substantially different from those to which the firm has been accustomed. In face-to-face interviews, information is often revealed that would never be written. In these situations, research in the local market will supply information about market definition and its future projection and will also assist in the formulation of an effective marketing mix.

IB IN PRACTICE

Uniqlo Tries to Succeed in U.S. Fashion Clothing Market

Uniqlo, known for providing high-quality private-label casualwear at low prices, is a wholly owned subsidiary of Fast Retailing Company Ltd. of Japan. The biggest apparel chain in Asia with about 800 retail sites, Uniqlo is currently opening about 100 stores per year in China and expects to have over 1,000 stores there by 2021. The brand's designs are simple, reflecting Japanese minimalist traditions and the company's philosophy of "Made for All."

In 2017, Fast Retailing had revenues of \$17.3 billion and profits of \$1.6 billion, with Japan contributing 44 percent of total revenues. *Forbes* reported that Uniqlo has a brand value of \$7 billion, placing the company 91st among the world's most valuable brands. Uniqlo aims to achieve sales of \$28 billion by 2020, based largely on international expansion. If it achieves this target, Uniqlo would become the world's largest apparel company.

When a brand achieves a position of leadership in its home country and region, a logical next step is to seek opportunities for expansion in other regions. This is especially the case for Uniqlo, which targeted the United States as an expansion priority. Up until now, however, Uniqlo has experienced considerable challenges in extending its brand within the highly competitive U.S. market.

The label's first effort to crack the U.S. market came in 2005, with stores opening in three different suburban New Jersey shopping malls. This effort failed and the stores were closed two years later.

Uniqlo changed tack and opened a store in New York's trendy SoHo fashion district, followed by two additional, large New York sites in 2011. At the time, the company announced a goal of 200 stores and \$10 billion in U.S. sales by 2020. Uniqlo rapidly opened new stores, including many in shopping malls, reaching 20 locations by 2014. Still, performance fell short of expectations, leading to the closure of several mall-based stores.

The company reflected on its second failed market expansion effort before developing and launching a third assault on the U.S. market. Although viewed as a market Uniqlo must be present in, Chief Marketing Officer Masahiko Nakasuji stated, "We have a very, very low presence" in the United States. The brand has once again tweaked its strategy for becoming a mainstay in the American shopping scene. In addition to retreating from its previous goal of 200 U.S. stores, the retailer shuttered stores in suburban malls in favor of larger locations in cities like Boston, Chicago, and Washington, D.C. "That's probably the best way to let the people understand what we are selling," said Nakasuji, "We have a very big brand in Asia, but in the U.S. . . . we need to let the people know about our product."



Uniqlo store in Tokyo, Japan.
©Mark Eitzi/Aflo Co. Ltd./Alamy Stock Photo.

One problem is that Uniqlo doesn't do a great job communicating the quality and functionality of their products to the American consumer. Because prices are comparable to fast-fashion competitors like H&M, Zara, and Forever 21, many consumers assume Uniqlo's products are also low quality and disposable. When the company attempted to raise prices in 2015 to reflect their higher quality,

One problem is that Uniqlo doesn't do a great job communicating the quality and functionality of their products to the American consumer. Because prices are comparable to fast-fashion competitors like H&M, Zara, and Forever 21, many consumers assume Uniqlo's products are also low quality and disposable. When the company attempted to raise prices in 2015 to reflect their higher quality, customers balked and sales flattened. Meanwhile, the brand has a limited number of styles and size ranges, and consumers often complain that Uniqlo's clothes are designed for Asian body types. American consumers often have a different, larger body structure, making it harder to find Uniqlo apparel that fits well. Uniqlo's minimalist approach to clothing design may also need to be modified. As Chief Executive Tadashi Yanai said, "unless [the clothing] shows sexiness, it doesn't really sell" in the United States. But reworking Uniqlo's designs for the U.S. market may complicate international production and logistical practices and undercut profitability.

The challenge of Uniqlo's restart in the United States is compounded by its timing. Not only are online retailers like Amazon taking a larger share of the market, but the fast-fashion space is crowded. Despite having 53 U.S. stores at the end of 2018, the company's brand is still relatively unknown outside of major urban areas. Uniqlo's success in extending its international reach into the critical U.S. market may rest upon its ability to break out from the competition.

Sources: Krystina Gustafson, "As Retailers Close Stores, the World's Third-largest Apparel Player Takes Another Run at the U.S.," *CNBC*, March 29, 2017, www.cnn.com; Adrienne Pasquarelli, "Why Uniqlo Is Done Chasing Trends and How It Will Conquer U.S. Consumerism," *Advertising Age*, March 30, 2017, www.adageindia.in; "Uniqlo: The Strategy Behind the Global Japanese Fast Fashion Retail Brand," *Martin Roll*, July 2018, www.martinroll.com; and Kathy Chu, Ken Brown, and Mayumi Negishi, "Uniqlo's Parent Presses to Become World's Top Retailer," *The Wall Street Journal*, March 05, 2014, www.wsj.com.

SEGMENT SCREENING

When a company intends to do business in several countries, managers can choose two broad market screening approaches: country or segment. In the first approach, Brazil may be viewed as a target market segment. Using the second approach, while Brazil is the physical location of a large group of consumers, the important variables for segmentation are shared needs and wants among consumers *across nationalities*. These consumers may reside in different countries and speak different languages, but they have similar desires for a product or service. From this perspective, age, income, and psychographics (lifestyles) are the essential means of identifying market segments. The relevant marketing question is not where consumers reside but whether they share similar wants and needs. The targeted consumers might be global teens, middle-class executives, or young families with small children; each of these segments may share wants and needs across borders.

When we identify and assess segments, it is important that they be:

1. **Definable.** We should be able to identify and measure segments. The more we rely on lifestyle differences rather than socioeconomic indicators, the more difficult this becomes, but the more accurate the resulting analysis is likely to be.
2. **Large.** Segments should be large enough to be worth the effort needed to serve a segment and have the potential for growth in the future. Of course, as we adopt 3D printer manufacturing, the need to find large segments is beginning to recede for some products, including clothing and other consumer products, perhaps leading to a further wave of localization.
3. **Accessible.** If we cannot reach our target segment for either promotional or distribution purposes, we will be unsuccessful.
4. **Actionable.** If we cannot bring into play the components of marketing programs (the 4 Ps of product, promotion, place, and price), we may not be successful. For example, in Mexico, the price of tortillas was formerly controlled by the government. Therefore, competition on the price variable was impossible. Foreigners could not penetrate the Mexican market for the standard tortilla by offering a lower price.
5. **Capturable.** Although we would love to discover market segments whose needs are completely unmet, in many cases these market segments are already being served. Nonetheless, we may still be able to compete. Where segments are completely captured by the competition, however, our task is much more difficult.

In the final analysis, our view of the rest of the world tends to be organized along national lines. However, attempting to leave that viewpoint behind when examining international markets may be useful. With the increasing recognition of subcultures *within* nations and similarities among subcultures *across* nations, we may wish to expand our horizon beyond the conventional view of the nation as the relevant unit of analysis.

Trade Missions and Trade Fairs

LO 12-2 Discuss the value of trade missions and trade fairs.

When government trade specialists perceive a foreign market opportunity for an industry, they may organize a **trade mission**, a market visit by businesspeople and/or government officials in search of business opportunities. The purpose is to send executives from firms in the industry to a country or group of countries to learn firsthand about the market, meet important customers face-to-face, and make contact with people interested in representing their products. Because of discounted airfares, hotels, and hospitality during the visit, the cost to the firm may be less than if the firm's managers visited on their own. Moreover, the impact of a group visit often is greater than that of an individual company's visit. Before the mission's arrival, consulate or embassy officials will have publicized the visit and made contact with local, interested companies. A country's federal government, state governments, trade associations, chambers of commerce, and other export and development-oriented organizations also organize trade missions.

Many nations hold periodic **trade fairs**, large exhibitions at which companies promote the sale of their products. Trade fairs are open to the public, but during certain hours (generally mornings), entrance is limited to businesspeople interested in doing business with the exhibitors.

Many fairs in developing countries are general, with displays of many kinds of products, such as the China Import and Export Fair in Shanghai, China, which in 2018 had over 25,000 exhibitors and over 200,000 buyers in 1.2 million square meters of exhibition space.⁶ In contrast, fairs in Europe are usually specialized. Several examples are the CeBIT computer trade fair, the Paris Air Show, and the Frankfurt Book Fair.

In addition to making contact with prospective buyers and agents (direct sales are often made during these meetings), most exhibitors use these trade fairs to learn more about the market and gather competitive intelligence. They also receive feedback from visitors to their exhibits and have the opportunity to observe their competitors in action.



The CeBIT trade fair is the largest computer expo, held annually in Hanover, Germany.⁵

©John Macdougall/AFP/Getty Images.

Research in the Local Market and as Practiced

LO 12-3 Describe some of the problems market researchers encounter in foreign markets.

When a firm's research personnel have had no experience in the targeted country, often management brings in a local research group to do the work. Generally, home-country research techniques may be used, though they may need to be adapted to local conditions. The person in charge of the project needs to have experience either in that country or in one that is culturally similar and preferably in the same geographic area. If secondary data are unavailable in the market, the researchers must collect primary data, and here they face other complications caused by cultural problems and technical difficulties.⁷

If the researchers are from one culture and are working in another, they may encounter a series of cultural problems. When they are not proficient in the local language or dialect, the research instrument or the respondents' answers must be translated. A number of languages may be spoken in a country (for example, there are 31 endangered languages in Italy), and even in countries where only one language is used, a word's meaning may change from one region to another.⁸ For example, the Spanish word "chucha" is used in Colombia to describe armpit odor that is bad, while the same term in Argentina refers to a woman's reproductive organ and, in Chile, something that is distant may be referred to as "esta la chucha."⁹ The meaning of the Spanish term "buzo" is diver, but it refers to sweatpants in Chile and Costa Rica, a sweatshirt in Argentina, and in Guatemala, it refers to someone with expertise at doing a task.



CULTURE FACTS @internationalbiz

In some U.S. market studies, a multistage sample that selects rural counties at the first stage may include counties with a high density of Spanish speakers who require a Spanish questionnaire. Translations are also made in some surveys on an ad hoc basis during fieldwork; interviewers orally translate their questionnaire in order to communicate with respondents who require another language.¹⁰

#spanish #spanishspeakers #translations

Researchers encounter other cultural problems as they try to collect data. Low levels of literacy may make the use of mail questionnaires virtually impossible. If a husband is interviewed in a market where the wife usually makes the buying decisions, the data obtained from him may be worthless. Nor is it always clear who should be interviewed. Respondents sometimes refuse to answer questions because of their general distrust of strangers. In other instances, the respondent's desire to please may lead to answers calculated to please the interviewer; this is known as **social desirability bias**.

Often, people have practical reasons for not wanting to be interviewed. In some countries, income taxes are based on the apparent worth of individuals as measured by their tangible assets. In such countries, when asked if there is a stereo or TV in the household, the respondent may suspect the interviewer of being a tax assessor and refuse to answer. To overcome such a problem, experienced researchers often hire college students as interviewers because their manner of speech and their dress correctly identify them as what they are.



Researchers may also encounter various technical difficulties. Up-to-date maps are often unavailable. The streets chosen for sampling may have three or four different names along their length, and the houses may not be numbered. In Japan, a grid system is used for addresses rather than street names and numbers, and it is said in Tokyo only cab drivers can find street addresses. In Venice, Italy, street signs can be 600 years old and impossible to read.¹¹

Despite the many hindrances encountered in carrying out foreign market research, marketers persist. As you might assume from the availability of secondary data, marketing research is highly developed in many areas where markets are large and incorrect decisions are costly. Among the approaches are collaborative online research communities and the use of big data.

Online research communities (known under a variety of names such as Market Research Online Communities or MROC's) are a new trend in market research. These are online platforms that connect a company with a group of interested consumers to collaborate with them in qualitative research projects. InSites Consulting, discussed in the opening vignette, found that consumers are ready to help co-create the future of brands and products/services. InSites also found that in Asia, a mobile app increases engagement: mobile users logged in 2.3 times more, viewed 1.4 more pages, and made 65 percent more contributions to the discussion than nonmobile participants.¹²

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Many of us live in international markets, yet the art of catering to multiple cultures has yet to be perfected, and we face multiple barriers in our attempts to market to an international audience. Identifying a market need, a basic element of starting a business, becomes more complex in a foreign country. After all, these countries have different cultures, priorities, and needs for their day-to-day lives than a typical domestic consumer, and just as in the home market, those needs will vary among communities. As one of the largest pizza chains in the world, Pizza Hut has some experience in the international arena, with more than 16,000 restaurants in over 100 nations.¹³ In the chain's recent efforts to boost profits, it gathered data about customers' preferences and then broke down its customer base into clusters and microclusters based on consumer purchasing habits, characteristics, and other behaviors. These microgroups can then be targeted with specific engagement programs across channels, such as in Pizza Hut restaurants or the chain's website.

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The increasing ability of firms to access vast amounts of data on customers and market trends is creating an opportunity often described as "big data." **Big data** refers to the massive sets of data, both structured and unstructured, that businesses are collecting, which can be analyzed with advanced data analysis methods such as predictive analytics or user behavior analytics to provide valuable insights into consumer needs and trends. Retailers are using data analytics to improve their market positioning efforts. For example, the top management team in one business unit of an Asian retailer devoted 60 to 70 percent of its time over the course of a decade to visiting over 3,000 potential store locations.¹⁴ This time expenditure was an inefficient use of senior managers' time and skills. So the company developed an artificial intelligence-powered modeling tool to identify factors associated with high- and low-performing retail locations. Applying this tool, within only a few weeks the company was able to identify over 1,000 potential store locations, saving valuable time and expense. The company then used this big-data approach to scan for retail locations in other markets.

Ironically, big data analytics will also play a part in literally personalizing the shopping experience. This trending form of analytics in fashion and other consumer goods will be able to identify each visitor and customize the experience accordingly. The online e-commerce platform is able to suggest products that link to the history of purchases and to the profile of the customer making the purchase.

Banks know a lot about their customers, too. As the ability to process large amounts of data becomes ubiquitous, banks are discovering that big data can be good for far more than fighting fraud. One way of using data is to try to sell customers more products. Santander sends out weekly lists to its branches of customers who it thinks may be interested in particular offers from the bank, such as home insurance. Some of the products banks are offering through this targeted process are not even financial. In Singapore, Citigroup keeps an eye on customers' card transactions for opportunities to offer them discounts in stores and restaurants. Citi opened a new innovation lab in Singapore that brings together those data analysts with big institutional customers and a large analytics center in Bangalore.

Several forward-thinking governments in the developing world are demonstrating how government can catalyze the development of the ecosystem through the opening of its own datasets and the active management of big data use. Kenya developed an innovative Open Data Portal (<http://www.opendata.go.ke>), which includes a full digital edition of the country's census, detailed government expenditure data, government household income surveys, energy and infrastructure information, and the location of schools and health facilities, among other data. The portal provides unlimited data access on the web and through mobile phones to researchers, web and software developers, journalists, students, civil society, and the general public. Civic organizations, mobile application developers, and media groups are already using the data to improve understanding of population patterns, increase the transparency of governments, and map public services.¹⁵

What Methods Are Available for Entering Foreign Markets?

LO 12-4 Explain international market-entry methods.

Once a company has decided to enter into a foreign market, it must decide which of the many different options for market entry would be the best strategic fit for the company. An example of Starbucks entering into China shows how Western companies can adapt successfully to local markets. In China, Starbucks faced cultural entry barriers, given China's thousands of years drinking tea and a strong, traditional tea culture. Yet today, many Chinese drink coffee at Starbucks, which in 2018 had more than 3,300 stores in 141 Chinese cities. Building on this momentum, the company plans to open an additional 2,700 stores over the next four years, or a new store every 15 hours.¹⁶ It successfully connected a coffee way of life with the younger, emerging Chinese middle class, while incorporating respect for tea traditions into its offerings, including space to sip, chat, and check iPhones. Starbucks in China illustrates that global brands can adapt their offerings to local markets and succeed. The ability to think differently, implement good strategies, adapt to local markets, and commit long term are all important steps to being successful in international markets.

We now turn to ways ICs can enter new markets, market-entry modes. They are described in terms of whether equity is part of the IC's commitment to the new market, as summarized in [Figure 12.2](#). We look first at nonequity-based modes, which tend to have less risk but also less control of their product in the market, and then at equity modes, which have more risk and also more control.

FIGURE 12.2 Modes of Market Entry

Nonequity-Based Modes of Market Entry

- Exporting
- Turnkey project
- Licensing
- Franchising
- Management contract
- Contracted manufacturing

Equity-Based Modes of Market Entry

- Wholly owned subsidiary
- Joint venture

NONEQUITY MODES OF ENTRY

If a company wishes to enter foreign markets without equity investments in the market entry, a number of alternatives are available. In this section, we discuss exporting, turnkey projects, licensing, franchising, management contracts, and contracted manufacturing.

Most firms begin their involvement in international business by exporting—that is, by selling some of their regular production beyond their domestic market. This method requires little investment and is relatively free of risks. It is an excellent way to get a feel for international business without committing significant resources.

A **turnkey project** is an export of technology, management expertise, and, in some cases, capital equipment. The contractor agrees to design and erect a plant, supply the process technology, provide the production inputs, and then train the operating personnel. After a trial run, the facility is turned over to the purchaser. The exporter of a turnkey project may be a contractor that specializes in designing and erecting plants in a particular industry, such as petroleum refining or steel production. The turnkey supplier earns money from its expertise by delivering a plant ready to run rather than merely selling its technology. Once they build the turnkey installation, companies often provide work training as well.



CULTURE FACTS @internationalbiz

Franchising is a form of business popular in the West, where individualistic cultures reward the individual over the group. It is also a popular form in more collectivistic or communal cultures. The world's top three franchising countries are the United States, Japan (at over 220,000 units in both franchised and corporate units), and Canada. Japan's culture measures high on communalism on many cultural frameworks. #franchising #individualisticcultures #unitedstates #japan #canada



Frequently, worldwide companies are called on to furnish technical assistance to firms that have sufficient capital and management strength. By means of a **licensing** agreement, one firm (the licensor) will grant to another firm (the licensee) the right to use any kind of expertise, such as manufacturing processes (patented or unpatented), marketing procedures, and trademarks for one or more of the licensor's products. The licensee generally pays a fixed sum when signing the licensing agreement and then a royalty of 2 to 5 percent of sales over the life of the contract (five to seven years with an option for renewal is one common way to structure such agreements). The exact amount of the royalty will depend on the amount of assistance given and the relative bargaining power of the two parties. In 2017, the World Bank reported that charges for the use of intellectual property totaled more than \$48 billion in the United States, and more than \$403 billion worldwide.¹⁷

In recent years, courts in the United States and the European Union increasingly have been enforcing patent protection laws. Apple sued Korea's Samsung Electronics for copying patented features of its iPhone, with a U.S. jury ordering Samsung to pay \$539 million in damages.¹⁸ As a result of increased enforcement of patent laws, more companies at home and abroad have begun to obtain licenses, as an alternative to making illegal copies, at least in some cases.



Technology is not the only thing that is licensed to support a firm's market entry. In the fashion industry, a number of designers license the use of their names. Ralph Lauren, one of the largest such licensors, reported an average of \$173 million per year in licensing revenues from 2013 through 2017 for a broad range of items within apparel, home, fragrance, and accessories categories.¹⁹

Despite the opportunity to obtain a sizable income from licensing, many firms, especially those that produce high-tech products, still will not grant licenses. They fear that a licensee will become a competitor when the agreement expires or that the licensee will seek to market the products aggressively outside its home territory. At one time, licensors routinely inserted a clause in the licensing agreement that prohibited exports, but most governments will no longer accept such a prohibition.



A Polo Ralph Lauren store in Busan, South Korea.
©Heorshie/Alamy Stock Photo.

Firms have also gone international with a different kind of licensing—**franchising**. Franchising is a form of licensing in which one firm contracts with another to operate under a specific set of rules, permitting the franchisee to sell products or services under a well-publicized brand name and a well-proven set of procedures with a carefully developed and controlled marketing strategy. Fast-food operations (such as Subway, McDonald's, KFC, and Burger King) are the most numerous. Other types of franchisors are hotels (Intercontinental), business services (The UPS Store), fitness (Jazzercise), building maintenance (ServiceMaster, Nationwide Exterminating), car rental and dealers (Hertz, Europcar), and real estate (ReMax). More than 400 U.S.-based franchisors have international operations, generating more than \$6 billion in franchise fees from these foreign sites.²⁰ A survey of International Franchise Association members showed that 61 percent have international franchisees or international operations, with 16 percent generating 25 to 35 percent of their overall revenues from international activities.²¹

The **management contract** is an arrangement under which a company provides management in some or all functional areas to another party for a fee that typically ranges from 2 to 5 percent of sales. International companies make such contracts with firms in which they have no ownership (e.g., Hilton Hotel provides management for foreign hotels that use the Hilton name, and Delta provides management assistance to foreign airlines); joint-venture partners; and wholly owned subsidiaries. The last arrangement allows the parent to siphon off some of the subsidiary's profits. This becomes important when, as in some foreign exchange-poor nations, the parent firm is limited in the level of profits it can repatriate. Moreover, because the fee is an expense, the subsidiary is likely to receive a tax benefit in the IC's home country. This practice may also allow the parent firm to better manage its corporate-wide tax burden by reducing profits within higher-tax nations by moving them to countries with lower tax rates.

International firms employ **contracted manufacturing**, an arrangement in which one firm contracts with another to produce products to its specifications, in order to enter a foreign market or to subcontract work there. Entering a foreign market via contracted manufacturing does not require an investment in plant facilities, so it is sometimes thought of as foreign direct investment without investment. The contracting firm's sales organization markets the products under its own brand. With the subcontract, when the international firm is the largest or only customer of the subcontractors, there is, in effect, a new company created in the host nation that generates employment and foreign exchange. Frequently, the international firm will lend capital to the foreign contractor in the same way that a global or multinational firm will lend funds to its subsidiary. From the home country point of view, this practice is often politically sensitive and known as outsourcing.

EQUITY-BASED MODES OF ENTRY

When management does decide to make a foreign direct investment, it usually has several alternatives available, though not all of them may be feasible in a particular country. They include the wholly owned subsidiary and joint venture. We also mention here the strategic alliance, which may be either an equity or a nonequity way to enter a market.

A company that wishes to own a foreign subsidiary outright may start from the ground up by building a new plant (greenfield investment) or acquiring a going concern. With an acquisition, a company might purchase its distributor, thus obtaining a distribution network familiar with its products. Historically, ICs making foreign direct investments have preferred wholly owned subsidiaries when possible. However, foreign investors in the United States have demonstrated a preference for acquiring going concerns for the instant access to the market they provide. Moreover, they also have one less competitor after the purchase. Sometimes it is not possible to have a wholly owned subsidiary in a foreign market because the host government may not permit it, the firm may lack the capital or expertise to undertake the investment alone, or there may be tax and other advantages that favor another form of investment, such as a joint venture.

A **joint venture** may be a corporate entity formed by an international company and local owners, by two international companies for the purpose of doing business in a third market, a corporate entity formed by a government agency (usually in the country of investment) and an international firm, or a cooperative undertaking between two or more firms for a limited-duration project. Large construction jobs such as a dam or an airport are frequently joint ventures. Often these joint ventures are **strategic alliances**, which are collaborations with competitors, customers, and/or suppliers. Strategic alliances may take other forms as well and are a response to growing global competition in an environment of increased research, product development, and marketing costs. A strategic alliance can provide faster market entry and start-up; gain access to new products, markets, and technologies; and share costs, resources, and risks. We are probably aware of airlines' code-sharing alliances. Other examples include Starbucks partnering with Barnes & Noble to provide coffee shops in bookstores and the giant pharmaceutical Eli Lilly's more than 100 strategic alliances aimed at discovery, development, and marketing.

GET THAT JOB! FROM BACKPACK TO BRIEFCASE

ELLA MICHELICH IN ROMANIA: Keep an Open Mind When Entering a New Culture

After entering college with no major in mind, I finally decided on international business and analytics. I was drawn to the creativity, curiosity, and empathy that are required in international business and I saw how the hard skills of analytics complemented that.



Ella Michelich in Romania.
Courtesy of Ella Michelich.

My first experience with international business, even before coursework, was my job as a research assistant to an international business and strategy professor. Through my research work, I have been exposed to more ideas, areas of study, and various challenges that accompany research than I would

My first experience with international business, even before coursework, was my job as a research assistant to an international business and strategy professor. Through my research work, I have been exposed to more ideas, areas of study, and various challenges that accompany research than I would have been exposed to through classroom learning alone. The projects I worked on are what pushed me to want to go abroad while still in college. I have been learning about global issues and contributing to international databases without ever leaving my small area of the Midwest, let alone the country. I wanted to take the skills I gained as a research assistant and apply them internationally, but I wasn't sure how I could do it.

At one point, I had considered changing my international business major. I was scared I could not afford the international immersions required for my major, as I had always heard about how expensive studying abroad is. The typical study abroad trip also did not appeal to me; I would still be surrounded by my own culture and not pushed out of my comfort zone if my trip involved traveling, living, and studying with other students from my own school or country. Then the professor I was working for recommended that I volunteer abroad through AIESEC, the world's largest youth-run nonprofit, which partnered with the United Nations. So I took his advice and applied for an AIESEC internship.

The summer after my sophomore year, I spent six weeks in Romania, working at an educational summer camp for young children. My co-workers, who were also international students, and I crafted and delivered English language lessons, created science experiments, and prepared other workshops to teach the children about cultures around the world. While at times the work was difficult and tiring, the passion of my Romanian bosses is what kept me pushing forward. They were a group of three older Romanians whose dream was to change the educational system in their country and shape learning into a positive experience for students. Their hope was to eventually turn their summer camp into a full-fledged school.

To prepare myself to go to Eastern Europe, when my only prior international travel was on a childhood trip to Mexico, was a bit overwhelming initially. I tried to have few expectations about the country, the culture, or my living situation. I tried to keep an open mind and accept that there is no such thing as "weird" when entering a new culture, only "different." Romanians proved that these differences, while substantial, did not equate to "bad." I felt so welcomed into the lives of everyone I met in Romania and I am so grateful to have made wonderful friends who shaped my trip into such a positive and caring experience. I did begin to experience burnout about a month into the trip when the language barriers (I spoke no Romanian and picked up only a few words during my internship) and complete upheaval of my normal life became more and more apparent to me. However, after realizing the importance of body language and nonverbals and how far they went in communication, and creating a routine for each day, I began to feel much more at home.

Back at school in the U.S., I feel more confident in myself and my ability to adapt. Now, I'm hungry for new challenges and hopefully another—longer—assignment abroad. I am exploring a potential career in consulting and hopefully one day international project management, but I also have an interest in joining the Peace Corps so I can apply what I've learned throughout my undergraduate career and push myself further to be a global citizen.

Source: Ella Micheli.

SUMMARY

LO 12-1 Review the steps of market screening and techniques for environmental analysis.

The screening process examines the various forces in succession, eliminating countries at each step. The sequence of screening is (1) basic need potential; (2) financial and economic forces; (3) political and legal forces; (4) sociocultural forces; (5) competitive forces; and (6) personal visits. Each step reduces the number of prospects, and research at each successive stage is more difficult and expensive. Environmental analysis is a review of external, environmental forces. The two basic approaches are country screening and segment screening.

LO 12-2 Discuss the value of trade missions and trade fairs.

Trade missions and fairs allow potential buyers and sellers to explore market potential for the products they are selling and to explore import opportunities if they are seeking products. They also offer opportunities for networking and direct observation of competitors.

LO 12-3 Discuss some of the problems market researchers encounter in foreign markets.

Both cultural and technical difficulties await the market researcher in foreign markets. Language and dialect issues may be present. A social desirability bias may be in operation. Technical difficulties such as unreliable mail service or unreadable street names may be present as well. Luckily, Internet-based research is helping to lessen these difficulties.

LO 12-4 Explain international market-entry methods.

Nonequity-based modes of entry include exporting, turnkey projects, licensing, franchising, management contract, and contracted manufacturing. Equity-based modes of market entry include wholly owned subsidiaries and joint ventures. Strategic alliances can take nonequity or equity forms of involvement.

KEY TERMS

big data 331
cluster analysis 323
contracted manufacturing 334
country screening 321
environmental scanning 320
franchising 333
joint venture 334
licensing 333
management contract 334
market factors 323
market indicators 322
market screening 320
segment screening 321
social desirability bias 330
strategic alliance 334
trade fair 329
trade mission 329
trend analysis 323
turnkey project 332

 **globalEDGE RESEARCH TASK** <http://globaledge.msu.edu/>

Use the globalEDGE website (<http://globaledge.msu.edu/>) to complete the following exercises:

1. The U.S. Commercial Service prepares a series of reports titled the *Country Commercial Guide* (or, CCG) for each country of interest to U.S. investors. Utilize this guide to gather information on South Africa. Imagine that your company is in the machinery industry and is considering entering this country. Select the most appropriate entry method and discuss its advantages and disadvantages. Be ready to support your decision with the information collected from the commercial guide.
2. Your company is in the construction industry and plans to expand to new international markets. You are selected as the project manager and you need to come up with a plan to evaluate the market potential of countries. First, find the "Market Potential Index" on globalEDGE and review the dimensions measured and indicators (measures) that are used to measure those dimensions. Now, considering the characteristics of the construction industry, design an industry-specific market potential index. What are the dimensions you would measure, and which indicators would you use to measure those dimensions?

MINI CASE

CLOTAIRE RAPAILLE: CHARLATAN OR CODE BREAKER EXTRAORDINAIRE IN INTERNATIONAL MARKET RESEARCH?

Clotaire Rapaille could be either a grand charlatan—or an advisor your company simply cannot do without. Originally a psychologist treating autistic children in Europe, Rapaille now operates from a mansion in upstate New York, where top management seeks his advice on "the code" that will allow them access to the Indian, French, or Norwegian psyche. This insight should help the firm understand the motivations that will draw these people to buy its products.

Rapaille's earlier breakthrough insights came in the process of comparing French and American attitudes toward cheese. For the French, he says, cheese is alive, and the French would not put cheese in the refrigerator any more than put the cat there. Rapaille's insight is that for U.S. consumers cheese is "dead," so they seal it in a plastic "casket" and put it in a refrigerator, which is really a "morgue." They are more concerned about safety and control of sanitation than about taste; the French reverse these preferences. As a result, more French than U.S. consumers die from eating cheese. However, U.S. consumers eat a relatively sterile and tasteless product, while the French enjoy a variety of cheeses U.S. consumers can barely fathom. The cultural archetype that this code suggests connects at a deep—Rapaille would say reptilian—level with U.S. concerns about sanitation and cleanliness as a primary yet unstated psychological factor, the "why" in buying choices and decisions. The French, in contrast, have a greater implicit concern for the sensual experience and have a relatively more relaxed approach to cleanliness. The archetype is found in cheese: individually plastic-wrapped slices of Kraft processed cheese versus a creamy, runny brie left on the counter after dinner for the next morning's baguette.

Rapaille's clients include JPMorgan, NASA, LEGO, Seiko, Absolut Vodka, and Samsonite and at least 50 of the Fortune 100 firms. In 2015, Rapaille released a book titled, *The Global Code: How a New Culture of Universal Values Is Transforming Business and Marketing*. This book is aimed at uncovering the new phenomenon of "global unconscious," or core values and feelings that are imitated worldwide, as a result of constant interconnectedness. Page 338

Teams under Rapaille's direction have "broken the code" for "anti-Americanism," "China," "seduction," the "teen Internet," and more. An excursion to India led him to pronounce that the caste system was simply a "practical" way of signaling to all their places in society. "It's not a problem, it's a solution," he summarized.

From this process, he discovers cultural archetypes, which are long-lasting, compared to opinions, which may change more readily. Some former clients have scoffed at him, using "the cheese is dead" as a constant mantra, mocking his methods. For others, the idea that complex attitudes can be summarized in a word or phrase (such as the German code for Americans, which is "John Wayne") is, well, silly. Yet many of the same established clients come back to him—P&G has returned 35 times.

Critical Thinking Questions

1. Is Rapaille's code system a short-cut code to understanding the complexities in culture and a way to make market research easier? Or is it a superficial hoax sold by a charlatan? Explain your answer.
2. As a manager, would you hire Clotaire Rapaille or his company to assist you in assessing and interpreting international market opportunities?

Sources: Adam Hanft, "The Man Behind the Culture Code," *Fast Company*, January 26, 2007, www.fastcompany.com; "Clotaire Rapaille," IPFS, 2018, www.ipfs.io; Clotaire Rapaille, *The Global Code: How a New Culture of Universal Values Is Reshaping Business and Marketing*, New York, NY: St. Martin's Press, September 29, 2015; "Interview: Clotaire Rapaille," *Frontline*, November 09, 2004, www.pbs.org; and Danielle Sacks, "Crack This Code," *Fast Company*, April 01, 2006, www.fastcompany.com.