PAPER - XVIII

CROSS CULTURAL BUSINESS MANAGEMENT

# Unit I

**The learning objectives from this lesson are as follows:**

1. **To understand basic Concept of Culture for a Business Context**

2. **To understand the basic features of Corporate Culture**

3. **To understand how Cultural Differences affect Business Decision Making**

4. **To understand how Cultural Background of Business stake holders affect Decision Making**

**Introduction:**

Corporate culture is a synthesis of management styles, values and communications styles. It is generally understood as "The way things are done" In an organization. It describes the situation not as stated but as practiced. Though organizational structure, System, policy and strategy direct and channelize the workflow, the actual behavior of people is conditioned by corporate culture. It is intangible and hard to quantify.

There are several factors that bear a significant influence in shaping the Management style of an Organisation. These include the leadership style, organizational factors, motivational methods and tools, as well as communication styles and methods.

**Corporate Culture**

**Definitions**

 ■"Consists of a set of symbols, ceremonies, and myths that communicate the underlying values and beliefs of that organization to its employees." - Ouichi

■"The way we do things around here."

Many articles and books have been written in recent years about culture in organizations, usually referred to as "Corporate Culture." The dictionary defines culture as "the act of developing intellectual and moral faculties, especially through education." This writing will use a slightly different definition of culture: "the moral, social, and behavioral norms of an organization based on the beliefs, attitudes, and priorities of its members." The terms "advanced culture" or "primitive culture" could apply to the first definition, but not the latter.

Every organization has its own unique culture or value set. Most organizations don't consciously try to create a certain culture. The culture of the organization is typically created unconsciously, based on the values of the top management or the founders of an organization.

Hewlett-Packard is a company that has, for a long time, been conscious of its culture (The HP Way) and has worked hard to maintain it over the years. Hewlett-Packard's corporate culture is based on 1) respect for others, 2) a sense of community, and 3) plain hard work (Fortune Magazine, May 15, 1995). It has been developed and maintained through extensive training of managers and employees. HP's growth and success over the years has been due in large part to its culture.

Another successful company that expends a lot of energy in maintaining its workplace culture is Southwest Airlines. Southwest is the only major airline in the U.S. that has been profitable in each of the last five years. It also has a good reputation as an employer. In an article written in the ACA (American Compensation Association) Journal, Winter 1995 issue, Herb Kelleher, Southwest's CEO, indicated how Southwest maintained its culture:

"Well, first of all, it starts with hiring. We are zealous about hiring. We are looking for a particular type of person, regardless of which job category it is. We are looking for attitudes that are positive and for people who can lend themselves

to causes. We want folks who have a good sense of humor and people who are interested in performing as a team and take joy in team results instead of individual accomplishments.

"If you start with the type of person you want to hire, presumably you can build a work force that is prepared for the culture you desire...

"Another important thing is to spend a lot of time with your people and to communicate with them in a variety of ways. And a large part of it is demeanor. Sometimes we tend to lose sight of the fact that demeanor - the way you appear and the way you act - is a form of communication. We want our people to feel fulfilled and to be happy, and we want our management to radiate the demeanor that we are proud of our people, we are interested in them as individuals and we are interested in them outside the work force, including the good and bad things that happen to them as individuals."

In both of these examples, the top management of the companies was vigilant about maintaining their cultures. The behavior rules and boundaries are relatively clear and communicated often. However, this is not typical. I believe most organizations operate with a diversity of cultures. This is especially true considering the increasing worldwide mobility of people and cultures and values.

**So, we may say that the Basic features of corporate culture are:**
**■Employees are at once the consequence, creators, and carriers of culture**
**■Cultural values are reflected in a variety of ways (overt & subtle)**
**■Culture changes but it does so slowly**
**■Cultural values are necessarily few, because values inevitably conflict**

There's some debate over whether companies should design their personnel policies and reward systems around cultural values. Currently companies tend not to, because of the concern about stereotyping certain cultures.

A popular trend is for companies to "reengineer" themselves, which involves an attempt to change their culture, usually to a team orientation. Studies indicate that the following are necessary for a company to change to a "team culture:"

• Common and consistent goals

• Organizational commitment

• Role clarity among team members

• Team leadership

• Mutual accountability with the team

• Complementary knowledge and skills

• Reinforcement of required behavioral competencies

• Power (real and perceived)

• Shared rewards

The importance of corporate culture is growing as the result of several recent developments. Companies are encouraging employees to be more responsible and act and think like owners. In exchange for more flexible work schedules, employees are expected to always be "on-call." With the demise of more traditional communities (e.g. neighborhoods, etc.), companies are filling employees' need to belong to a community. At the same time companies are encouraging teamwork and the formation of teams.

Therefore, organizational leaders shouldn't ignore corporate culture. Rather, it should be addressed in the organization's mission, vision, and goal statements, and emphasized in company sponsored training and company communication. The statements should include the following:

• To be financially successful, etc. (employees want to belong to a successful organization)

• To be accepting of cultural (ethnic) diversity

• To provide good working environment

• To allow scope for self-development and challenging job roles etc.

**Organizational Culture and Change**

As we have studied Organizational Culture is a dynamic system of shared values, beliefs, philosophies, experiences, habits, expectations, norms, and behaviors that give an organization its distinctive character. The culture helps guide the activities of the company, helps provide an unwritten code of behavior, and helps provide a shared sense of identity.

The corporate culture may be manifested in various ways such as statements of principle, stories, slogans, heroes, ceremonies, symbols, climate, and the physical environment. Some aspects of the culture may be guided or created by managers; others may be influenced by employees and other significant power groups within the company. Managers may influence the culture by defining company mission and goals, identifying core values, determining levels of autonomy, structuring the workplace, developing reward systems, and creating socialization opportunities that reinforce the culture.

It is presumed that the culture contributes to the effectiveness of the organization. If it does not, it may signal the need for change. Influences for change can be either internal or external to the organization. Some typical internal sources may be a change in managers, employees or technology. Some external sources may be political, technological or economic.

Depending on the nature of the change, it may be threatening, to many in the organization. Change may be of a strategic nature, structural, process-oriented or, people centered. Rapid, revolutionary change is particularly threatening.

Most organizations try to mitigate the unsettling effects of change by planning for it on an ongoing basis, rather than just reacting to crises that arise. Preparing for change may be assisted by a nine-step process:

1. Recognizing the need for change

2. Developing goals

3. Selecting a change agent

4. Diagnosing the problem

5. Selecting the intervention method

6. Developing a plan

7. Planning for implementation

8. Implementing the plan

9. Following up and evaluating

Various strategies can assist in promoting change within the organization such as developing mutual trust, establishing an environment of organizational learning and remaining adaptable.

The basic problem is that change efforts fail because people resist change! There are many reasons for resistance such as loss of security, fear of economic loss, loss of power and control, old habits, selective perception, and weaknesses in the proposed change. Aggravating factors are faulty thinking, inadequate process, and lack of resources, lack of time or poor timing, and a resistant culture.

Some of the techniques for overcoming resistance to change are invited participation, open communication, giving advance warning, maintaining sensitivity, and offering security in the face of change.

Change in an individual is usually enabled by a change in skills, knowledge, or attitude. Two approaches to this are the "three step approach" (unfreezing, change, freezing) and "force-field analysis" (overcoming the status quo by weakening the forces of resistance).Organizational development is the system of maintaining a climate where adaptability to change can be a constant through the use of diagnostic and change strategies. Management of change has dominated much of the recent management literature, and for good reason since it is of critical importance to most companies in the information age.

**Corporate communication: extended definition**
By corporate communication we mean the corporation's voice and the images it projects of itself to the various stakeholders. This includes areas such as corporate reputation, corporate advertising, and employee for communications, government relations and media management. We shall be discussing them at a later stage one by one.

These days most of the bigger organizations have departments of corporate communication which appeared on the organizational chart along with traditional functions like marketing or accounting.

The addition, corporate communication is also the processes accompany uses to communicate all its messages to key constituencies - a combination of meetings, interviews, speeches, reports, images advertising, and online communication. Ideally, corporate communication is an attitude of toward communication or a set of mental habits that employees internalize. The result is good communication practices that permeate an organisation and are present in all its communications with constituencies.

Corporate communications are defined as the products of communication, be they memos, letters, reports, websites, e-mails, speeches or new releases. In the

aggregate of these messages is what a company sends to it constituencies, whether internal or external.

Corporate communication can be one the major ways to counteract the persistent scrutiny and negative attention that businesses face. Second, a good strategy can offset the technological advances that enhance the scope of the publicity Barrage for stop. Third, numerous lessons from corporate world and demonstrate the harsh consequences of avoiding corporate communication. And finally, corporate communication can serve as differential advantage for your organisation. So few companies practice this art that they leave those that do, and does it well, standing out from the crowd.

Corporate communication has a direct impact on your work, no matter which were located on the organizational chart. Every manager needs to understand corporate communication, not just those officially in charge of public relations or communications. Think for a moment about the ways that corporate communication may affect you work life. Most obviously, as an employee, a company's internal communication influences your attitude towards the workplace: do you work in an atmosphere of trust or anxiety? Are you confident that the messages you hear about your organisation are timely and economist? Are there forums for voicing a concerns and offerings your perspective?

If you work with constituencies external to a company - and this applies to most of us - corporate communication influences these relationships. For instance, your company's reputation can affect yore ability to buy equipment, and negotiate a contract, or make a sale. A communications with the community can affect whether attempts to extend a business in to the community are greeted with enthusiasm of hostility. Solid relations with investors can cushion or accentuate the reaction of financial markets to union unrest, reports have defective products, and announcements of anticipated failures to meet project financial goals even those of you in start-up companies have to account corporate communications

because the very survival of entrepreneurial organizations depends on their ability to manage communications with investors, potential and current partners, employees, suppliers and customers.

**Case Study:**

**Nike's trouble in Asia**

Nike faced severe troubled situation when it failed to respond to allegations that its suppliers were using child labour in Southeast Asia and paying less than subsistence wages. When the charges were first made, Nike chairman Philip Knight denied them. He later he offered a weak rationalization - other companies abused overseas workers as well - that only served to inflame a public opinion against the company. The media has perception of Nike became increasingly negative, and US television networks encouraged public criticism by showing images of Malnourished Asian children working in sweatshops. Only after several years - India of 1998 - did Knight Institute a plan to remedy the problems, promising to raise wages and improve working conditions. The silence cost is company an enormous amount of good will.

Nike's Limited response to criticism was especially surprising for two reasons. First, according to research conducted Nike workers in Vietnam were paid above average wages and treated very well relative to the local economic conditions in Southeast Asia. The second, although unresponsive to the negative press, Nike was astute in using external communications to its advantage. It has done a great job of building its popular image among consumers with it's "just do it" advertising campaign and the use of famous spokes people such as Michael Jordan and Tiger Woods. In all likelihood, the company found it much easier to promote its brand than to respond to the bad publicity.

The costs to Nike of doing too little too late were substantial. The lesson here - for us as individuals as well as for companies - is that if you don't pay now, you pay later and you pay a lot more. Yet in many instances, companies are unwilling to

take preventive measures by launching and sustaining credible defenses for their actions. If initiated properly, these actions can actually result in shaping positive impression is in the minds of a company's key constituencies.

The cost of denial has also risen in recent years because new communication technologies make a corporation's activities are increasingly open to public scrutiny. Internet chat rooms along with the of proliferation of cable TV channels, allow for the immediate dissemination of potentially damaging information about companies and for the repeated airing of these accusations. If you all remember, the recent case in India of pesticides been found in cold drinks and worms being found in Cadbury's are an example of how modern technology can ruin a company's hard built image. Therefore, we can now understand that companies have a tough task to deal with both legitimate and false claims against them in this rapid-fire, technologically assisted environment.

**Managing the Corporate Image**

The fallout from the Enron collapse continues to impact the global business community.

The sad fact is that it appears that it wasn't the business concept that Enron got wrong; it was the corporate culture that was wrong. The impact now affects Andersen, the accounting firm that audited and appears to have approved the methodologies used by senior Enron executives to "cook" the books and to pad the financial reports given to shareholders, the investment community, and employees. It also affects numerous other companies as the investment community is acutely attuned to not getting caught out by the "next Enron." Even stalwarts such as General Electric have seen their stock prices dragged down by worries, concerns, and questions about how "aggressive" the company has been in interpreting financial reporting regulations.

Not surprisingly, the issues of ethics, business ethics, and corporate ethics, have suddenly become key topics of conversations and the subject of numerous articles in the business press.

**But Before we talk about business ethics here is an Experiment to Illustrate the Nature of Ethics** Imagine you are accountant or lawyer or in some similar profession, and you have been given charge of trust fund for a major charity. You discover that it was poorly managed, so that there is Rs.1 lakh sitting in an account that no one knows about. You are very expert in financial manipulations, and you can, if you want, take that money!!! No one will know! There you are, one lakh -- and you are not going to get caught if you take it for yourself. Question: would you take the money? My point is that if you did not take the money (and perhaps you did have a good reason to take it...), what stopped you was your ethics. It shows how ethics operates: it involves self-restraint in the face of advantage. "Ethics is what you do when no one is looking."

So, to speak about business ethics, this term refers to the system of moral principles and rules of conduct applied to business. This means that business should be conducted according to some moral standards. It should not act against the interest of society.

**The Basics of Ethics**

To the question, "Why be ethical?" some would reply, "Because it is your rational duty" (i.e. your duty to yourself as a rational being)? Some others would reply, "Because this will increase the sum of good in the world." ethics do not mention Religion or tradition or custom. They are about rational justification of moral positions. Business ethics is an application of these in the workplace. It has several broad aspects (i.e. principles that apply to all professions too):

- Doing good
- Not doing harm
- Confidentiality: respecting the privacy of clients

☐ Conflict of interest: keeping private interests separate from those of clients

☐ Respectability: do not tarnish the image of competitors by unfair practices & behaving in ways that do not bring the profession or industry into public disrepute

☐ Public duty: pay taxes and advising policy makers or the public in areas where one has special responsibility or expertise

☐ Do not deceive or cheat customers by selling sub-standard or defective products, or by any other means

☐ Competence: keeping up with the latest developments in one's profession

Moral reasoning might be about issues in general, e.g. war or about specific cases. In general moral reasoning, it might be relatively straightforward to apply principles and to take a position: I am a peace lover and oppose all war.

In businesses too, principles are applied, but the mere application of the correct principle will not solve an ethical problem. The manner in which principles are used is very important. The following questions about setting ethical priorities in business practice indicate some of what moral reasoning involves. They may be related to the theories and principles outlined above. They could form the basis of an ethical decision model.

1. Is this act just? Are benefits and burdens shared equitably?

2. Does this act directly and intentionally hurt others? Am I using others merely as means to my ends?

3. Have I consulted affected parties and obtained their informed consent where necessary? Have I respected their autonomy and sought their consent?

4. Are the risks acceptable and have I minimized avoidable risk? What measures have I taken to compensate for adverse consequences?

6. Would I do this act if it were a personal decision, not a professional one? Would I be prepared to exchange places with affected parties? Am I hiding behind my role or do I take account of Stakeholders?

8. Does it involve a conflict of interest?

9. Am I willing to take responsibility for the consequences of this decision and to be publicly accountable for them?

Unfortunately, the suggested solutions often mentioned -- more rules and regulations, more oversight entities (both internal and external), and clearer reporting of financial transactions -- will merely treat the symptoms of this current managerial crises but will do little to remedy the underlying condition. The true way to fix this problem is to understand how to create the right corporate culture through the corporate image management process.

Corporate image management will help senior executives to deal with another of the critical issue facing management today: corporate ethics or business ethics.
As The Economist asked in 1995, "how can a company ensure that its code of ethics is both followed and enforced?"

The sure-fire way is to develop a corporate culture that not only emphasizes ethical behavior, but a so punishes and banishes those who do not live up to the desired standards. Very rarely can a single employee engage in unethical behavior without other employees being "in the know," or at least suspicious.

A corporate culture, communicated and spread throughout the organization, that exhibits zero tolerance for unethical behavior and that is intricately tied to the corporate image is management's best form of assurance against this deadly disease.
This works a whole lot better than having internal policy police and a bundle of quarterly forms submitted, analyzed, and then stacked in some compliance officer's cupboard.

Companies that win the marketing battle are those who have the internal strength from knowing who and what they are, and where they are headed -- three of the most critical elements for managing the corporate image.

The underlining principle of business philosophy should be is "if it touches the stakeholder, it's an important issue." Nothing touches the stakeholder more than how he or she perceives your corporate image. This fundamental perception will be the major factor that determines whether the customer will decide to conduct business with you and, more importantly, enter into a long-term and mutually rewarding relationship with your organization.

There may be no greater marketing issue than corporate image management in today's increasingly competitive markets. Likewise, there may be no greater methodology for heading off potential business ethics and corporate ethics problems in your own organization than through re-evaluating your corporate image management process.

And it's not just in the area of financial manipulation that business ethics in recent years has gone off track. How many people justify such so-called guerilla marketing tactics as releasing highly twisted market share data?

Or the buying of market share and then claiming that market share actually grew, as if such growth had been organic. Or how about the stealing of someone else's idea? Or making a product announcement of a future product when the product is little more than a concept on the drawing board?

Unfortunately, marketers are also often no less dirty in their noncompliance and tricks than their colleagues in the financial department have been. Are the dirty tricks of politics now firmly embedded in the business world? Is the business community about to sink to the same level of distrust as politicians? It is indeed a slippery slope that we collectively appear to be on.

What can you do to ensure that your company, department, or work group abides by the highest business ethics?

What needs to be done is to create and manage the right corporate culture.

Why?

If you boast about all the copyrighted music you downloaded for free from Napster, what message does this send to your subordinates and colleagues?

If you take your spouse or significant other out to dinner and put it on your corporate expenses, what message does this convey?

If you lift materials out of some one else's presentation, or download data off the Internet without crediting the source, what other actions does this suggest as allowable?

Ethics is not a gray issue.

If you have a single seed of doubt about what you are doing, or planning to do, is wrong, it probably is!

As Dr. Martin Luther King wrote:

"Cowardice asks the question -- is it safe?

Expediency asks the question -- is it politic?

Vanity asks the question -- is it popular?

But conscience asks the question -- is it right?

And there comes a time when one must take a position that is neither safe, nor politic, nor popular; but one must take it because it is RIGHT."

What does this have to do with businesses?

Because, "if it touches the customer, it's an important issue for businesses."

Your business ethics will eventually be directly reflected in the way you interact and do business with customers, suppliers, channel partners, and others. Conducting business the RIGHT way is the ONLY way. This principle should be a nucleus of your marketing strategy and corporate culture.

As Nelson Mandela said, "the time is always right to do right."

If you don't, then your organization could well be on its way to a future induction in the Hall of Shame & Failures.

**Today's Most Important Managerial Issue**

We live in a world of change. As a matter of fact, the rate of change today is faster, and affects a larger portion of the earth's population, than at any other time in history. Yet, despite all this change, there is still one constant. And this is that marketing excellence and a strong corporate image are firmly linked. You cannot have one without the other. At least not for very long.

Because, at the end of the day, your competitors can mimic and better your product offer. They can create stronger distribution systems than yours. They can outspend you in advertising and promotions. And, of course, they can always beat you up on price. But the one thing a competitor cannot mimic or copy is a well-defined corporate personality.

This makes the management of your corporate image one of the most potent marketing and management tools available for senior executives to use in ensuring the viable execution of your corporate vision. Especially in today's world.

**Case Study:**

**Ethical business practices**

**Introduction**

Cadbury Schweppes was formed by a merger in 1969 between Cadbury and Schweppes. Since then the business has expanded into a leading international

confectionery and beverages company. Through an active programme of both acquisitions and disposals the company has created a strong portfolio of brands which are sold in almost every country in the world. Cadbury Schweppes has nearly 54,000 employees and produces Fast Moving Consumer Goods (FMCG).

Its products fall into two main categories:

• Confectionery

• Beverages.

Its portfolio of brands include leading regional and local brands such as Schweppes, Dr Pepper, Halls, Bournvita, and of course, the Cadbury masterbrand itself. These products are sold in a range of countries depending on consumer preferences and tastes.

The core purpose of Cadbury Schweppes is "working together to create brands people love". It aims to be judged as a company that is among the very best in the business world - successful, significant and admired. The company has set five goals to achieve this, one of which relates to Corporate Social Responsibility (CSR) - "To be admired as a great company to work for and one that is socially responsible to its communities and consumers across the globe".

This goal clearly states Cadbury Schweppes' responsibilities and recognises that what it does as a business impacts on communities and the lives of consumers.

Cadbury Schweppes takes its corporate social responsibility agenda seriously. As such it is a member of organisations like Business in the Community, International Business Leaders Forum and the Institute of Business Ethics. These organisations seek to improve the impact companies have on society. A key part of the Cadbury Schweppes approach to business lies in its ethical behaviour and close relationship with its stakeholder groups. As a company it believes that: "Respecting human rights and trading ethically is fundamental to the way we

work, not just within our owned and operated businesses but also in how we interact with our wider value chain.*"

In 'Our Business Principles' Cadbury Schweppes continues: "We believe that good ethics and good business go together naturally, to produce the best long term results for all our stakeholders."

The original Cadbury company was heavily influenced by the Quaker values of the Cadbury family who started the chocolate business over 150 years ago. The Quakers promote justice, equality and social reform. The legacy of these ideals informs Cadbury Schweppes' culture today and unites its many businesses around the world who uphold this heritage and act in an ethical manner.

From the outset, Cadbury treated employees with respect and cared for their welfare. The company's site at Bournville, near Birmingham, has always been more than just a factory having extensive amenities such as housing, sports facilities and parks all being part of the original complex.

**The importance of ethics in business**

Ethics concern an individual's moral judgments about right and wrong. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. The decision to behave ethically is a moral one; employees must decide what they think is the right course of action. This may involve rejecting the route that would lead to the biggest short-term profit.

Ethical behaviour and corporate social responsibility can bring significant benefits to a business. For example, they may:

• attract customers to the firm's products, thereby boosting sales and profits

• make employees want to stay with the business, reduce labour turnover and therefore increase productivity

• attract more employees wanting to work for the business, reduce recruitment costs and enable the company to get the most talented employees

• attract investors and keep the company's share price high, thereby protecting the business from takeover.

Unethical behaviour or a lack of corporate social responsibility, by comparison, may damage a firm's reputation and make it less appealing to stakeholders. Profits could fall as a result.

Along with good corporate governance, ethical behaviour is an integral part of everything that Cadbury Schweppes does. Treating stakeholders fairly is seen as an essential part of the company's success, as described here: "A creative and well managed corporate and social responsibility programme is in the best interests of all our stakeholders - not just our consumers - but also our shareowners, employees, customers, suppliers and other business partners who work together with us.*"

Ensuring that employees understand the company's corporate values is achieved by the statement of 'Our Business Principles' which makes clear the behaviour it seeks from employees.

Cadbury Schweppes' good practice was recognised when it was voted one of the "most admired companies for community and environmental responsibility" by Management Today magazine in 2003. It was also ranked second in the Food and Drink sector in the Business in the Community "Per Cent Club" Index of corporate giving for 2003, with an investment in the community of around 3of its UK pre tax profits.

* Cadbury Schweppes Corporate and Social Responsibility Report 2002

**Ethics at work**

**The supply chain and distribution process**

This describes the way in which raw materials are sourced and transformed into final products and delivered to customers. Cadbury Schweppes has direct control over what happens in the transformation stage of its own process and can also influence the behaviour of suppliers and distributors. For example, it performs due diligence on potential suppliers by requesting them to complete a questionnaire prior to engagement. This enables Cadbury Schweppes to monitor a supplier and check they adhere to stringent standards in particular criteria. One criterion, for example, may be the environment and the questionnaire allows the supplier to express whether they carry out audits or have an environmental policy.

## a) Dealing with suppliers

Cadbury Schweppes deals with tens of thousands of suppliers around the world and aims to work closely with them to ensure they receive fair treatment.

In the case of cocoa farmers for example, Cadbury Schweppes is a member of a global coalition, which is comprised of industry, governments, non-government organisations and special interest groups created to improve working practices on cocoa farms. The coalition has funded independent surveys into cocoa farming in West Africa that have contributed to the development of programmes to help local communities. In 2003, the coalition also established a foundation, the International Cocoa Initiative - Working Towards Responsible Standards for Cocoa Growing, which aims to support field projects and will act as a clearinghouse for best practices to ensure that cocoa is grown responsibly.

The work of the coalition, however, is only one way to support cocoa farmers and their families. Another practice is Fair Trade. Under this scheme cocoa is paid for at a fixed minimum price with a premium going to the farmer co-operatives in exchange for using the Fair Trade logo and accreditation. Presently, a modest amount of cocoa goes to the Fair Trade market. This scheme works best when farms have access to communications and warehousing facilities. Many farms, however, are family owned operations in remote areas and access to a Fair Trade

co-operative group may be difficult so the coalition is working to ensure these farms can benefit from the work that it does.

It is Cadbury Schweppes aim to help all cocoa farmers improve their standard of living by helping them develop sustainable crops of quality beans. In Ghana, for example, where Cadbury Schweppes buys most of its cocoa, the company supports farming communities through programmes on sustainable tree crop management and building wells for drinking water.

**b) Manufacturing**

As a major international company Cadbury Schweppes recognises its environmental responsibilities and the need to care for its workforce, local communities and all those who may be affected by its activities. For example, its environmental responsibilities include:

• treating waste water prior to disposal

• looking to improve its energy efficiency

• controlling the release of gases into the atmosphere.

**c) Distribution - to wholesalers and retailers**

The company aims to keep within acceptable limits the fuel consumption and air emissions that result from transporting its products. In the UK, for example, drivers are trained in the most efficient ways to operate their vehicles, which are also regularly maintained to keep them running at optimum efficiency.

**d) Dealings with consumers**

Cadbury Schweppes is committed to providing a range of high quality treats, refreshments and confectionery based oral care products which are marketed truthfully, labelled clearly and meet the highest safety standards.

For that reason the Cadbury Schweppes corporate social responsibility agenda now reflects growing consumer interest in issues of diet, nutrition and healthy lifestyle, and the way brands are marketed, especially to children.

The company also believes it is important to be open about its activities so its stakeholders can measure its success. Information is readily available in its reports and on its website regarding its progress in:

• community initiatives and employee volunteering

• environmental impact.


**Ethical business practices**
**Ethics and employment policies**

When recruiting staff, Cadbury Schweppes is eager to encourage diversity in the workplace. It therefore encourages applications from a wide range of people.

Greater diversity in the workplace encourages different ways of looking at and solving problems and may lead to greater creativity. To achieve such diversity, the company provides equal opportunities for its recruits regardless of gender, age, marital status, sexual orientation, disability, race or religion.

Vacancies are advertised worldwide via the company's websites and intranet so that employees can switch from one part of the organisation to another.

Once employed, Cadbury Schweppes provides career opportunities to enable staff to develop personally and grow in terms of experience and skills. The company's performance appraisal system provides a regular opportunity to review an individual's strengths and progress and construct development plans for each person. By allowing each individual employee to develop, the company can develop as a whole.

Other factors in its treatment of staff that reflect a socially responsible approach include:

• High levels of consultation that involve employees in decision-making. The company values discussion so that employees understand the nature of a problem, feel part of the process of finding a solution, and identify with the outcome.

• Offering appropriate levels of remuneration and rewards. Cadbury Schweppes regularly benchmarks its levels of pay against other companies to ensure it is competitive. Staff are also encouraged to have shares in the company and can purchase shares at a reduced price.

• Development and training is offered so employees are better able to carry out their duties and are more motivated in their work.

• The creation of a healthy and safe working environment so employees feel safe at work.

• The prevention of any form of harassment in the workplace.

Cadbury Schweppes has produced a formal statement of its policies towards employees that is part of a document called its Human Rights and Ethical Trading (HRET) Policy.

**Conclusion**

Cadbury Schweppes aims to lead the way with its ethical approach in business. Its core underlying values influence all its decisions throughout the value chain. Its stance on issues is clearly communicated both internally and externally to ensure its position is fully understood and to invite its stakeholders to share in it. This approach has contributed to the success of the business and has enabled it to become the world's leading confectionery company and third largest soft drinks company.

**Creating a Culture among Employees**

To be sure, some companies have long understood the benefit of making employees their biggest boosters. S.C. Johnson & Son Inc., the household-products maker, says in its corporate philosophy statement, "We believe our fundamental strength lies in our people." It encourages employee commitment with many work-life balance programs, such as sabbaticals to "recharge their batteries," including benefits and partial pay, and a "no meeting day" policy two Fridays a month. The meeting-free Fridays allow employees to be more productive so they don't have to take work home on the weekend.

To make employees effective reputation boosters, companies create a culture that supports and motivates them. The employees, in turn, will feel a robust allegiance and go above and beyond the performance expected of them. That's the philosophy at Citizens Financial Group, a regional bank in New England and Pennsylvania that is owned by the Royal Bank of Scotland Group.

Every morning as soon as CEO Larry Fish arrives at his office, his first order of business is sending kudos to a few of the bank's employees. He writes a note to thank them or congratulate them on a job well done. He wouldn't consider conveying his good wishes by e-mail because it lacks the personal touch of a handwritten message. "I spend more than half of my time on people, connecting with them emotionally," Mr. Fish says. "People work for more than their pocket, they also work for their heart. You can't have a successful business without happy employees."

His kind words do indeed seal many employees' commitment to Citizens. Terri Raymond, senior vice president and district sales director of in-store banking, feels as if she's part of a family and a very important contributor to Citizens. When Mr. Fish calls her by name and sends her congratulatory notes about her performance, it's a great ego boost. "The sweetest song to anyone's ears is their own name," she says, citing Dale Carnegie's famous line. "I feel like I'm working

directly for Larry. He makes me feel more committed to my job and eager to perform for the bank."

## A Commitment to Diversity

Creating a hospitable environment for all employees, regardless of gender, color, ethnic background or sexual orientation, can contribute mightily to corporate reputation. IBM Corp.'s reputation has certainly benefited from its commitment to diversity, which dates back many decades. IBM was a pioneer in promoting women (its first female vice president in 1943), equal-employment opportunity (a policy letter in 1953) and supporting gay employees (sexual-orientation protections in 1984). As a result, women and minorities have become advocates for the company and its diversity programs.

"A consistent heritage of diversity translates into a strong reputation that helps us attract and keep talented employees," says Ted Childs, vice president for global workforce diversity. "IBM did things long before they were required by law or public opinion. We were driven by our beliefs and sense of morality, not political correctness."

## Forging Bonds

Companies with exemplary reputations put a high priority on employee communications and strive to create a feeling of empowerment and ownership in their workers. For example, BMW of North America tries to forge a strong bond with new employees through a two-day orientation. They learn what the BMW brand stands for and the importance of consistently living up to that image of performance and driving excitement. "All employees are ambassadors of the company," says James McDowell, vice president of marketing. "We give them frequent opportunities to drive the cars, and they can lease them at special rates. It's important that they feel connected to the product and enthusiastic about it."

Personal recognition goes a long way toward making employees strong advocates for their companies. Each year, FedEx Corp. gives its humanitarian award to workers who "promote human welfare, particularly in life-threatening situations" and its Golden Falcon award to employees who demonstrate "exceptional performance or unselfish acts that enhance customer service." Winners have included a manager who expedited the delivery of donor organs and a technician who rescued a girl abducted by a stranger.

**A Fun Place To Work**

The workplace environment must excite and engage employees, too, if they are to give the peak performance that will bolster the company's reputation with customers and other stakeholders. Establishing such a culture is hard work that requires constant attention. No company understands that better than Ben & Jerry's, the ice-cream maker that has become legendary for its commitment to corporate responsibility and enjoys a superb reputation. Community service and environmental protection are important elements of the Ben & Jerry's culture, but it's also about having fun while making fabulous ice cream for consumers.

After the company was acquired in 2000 by Unilever PLC, it became critical to reassure employees about Ben & Jerry's continuing commitment to "improving our planet" and being a lively, creative place to work. That, in turn, would reinforce their commitment to the company and help maintain its positive reputation with the public.

The company decided to form a Culture Club, a team of 15 people from different departments to assess Ben & Jerry's culture historically and at the present time. A Global People Survey measured workers' attitudes about the company, and employees met in focus groups to discuss corporate values. "What I find very

different here is the level of commitment and passion -- and fun," says Yves Couette, a Unilever veteran and president and chief executive officer of Ben & Jerry's. "It's been a real eye-opener for me."

Mr. Couette encourages employees to continue many of Ben & Jerry's ways -- from wearing blue jeans and bringing their dogs to work to making the annual Take Your Child to Work day a special celebration. Employees' children create their own ice cream flavors and design their own paper cartons in the Cookie Dough Room and take nature walks around the pond near the company's headquarters.

Ben & Jerry's employees clearly feel pride in the company. It isn't unusual for them to walk into a grocery store and reconfigure a display of Ben & Jerry's ice cream if it's mixed up. When Chrystie Heimert flies on an airplane, she says people see her Ben & Jerry's bag and ask if she really works there. "It makes you feel so proud; people don't react the same way if you have an IBM briefcase," says Ms. Heimert, director of public relations.

The company's esprit de corps means low employee turnover. When Ben & Jerry's does have openings, the human-resources department is swamped with resumes. People even ask to do unpaid internships to get their foot in door.

With its employees so fired up, managers want to make consumers feel as enthusiastic about Ben & Jerry's, too. Ben & Jerry's recently created a "Get Connected" program to encourage employees to interact with and learn more about their customers.

They can answer customer letters, attend consumer focus groups, or visit stores with a sales representative or delivery person and pick shoppers' brains. Some people volunteer to lead factory tours or scoop ice cream at a Ben & Jerry's shop.

When they travel, employees might even call a loyal consumer and invite him or her to lunch or breakfast. That is truly getting close to the customer.

**Creating an image as an Employer**

With human capital ever more essential to sustaining growth and creating shareholder value, company leaders need to create an employment brand that attracts the best talent, just as they create a consumer brand that builds customer loyalty. This entails much more than offering competitive pay packages of stock options. We find a discernable set of common organizational features that impact the behavior of most segments of the workforce, enhancing the organization's effectiveness and employee satisfaction and motivation:

1. A clear and compelling strategy; 2. An innovative environment low in bureaucracy; 3. Challenging work assignments that enable employees to grow their capabilities; and 4. Rewards based, in part, on how well the organization performs. As leaders seek to build an employment brand, they can't rely solely on fashionable perks that make the company seem attractive to work for. With career advancement high on the agenda, continuous learning is a crucial part of any retention program. Our research shows that many leading firms are pursuing innovative approaches to developing employee skills, including:

**eLearning:** A large new industry has been created in just the last three years to provide firms with on-line learning. While a number of issues—lack of broadband infrastructure, costs of creative course development—have so far prevented elearning from delivering its full potential, the vision it offers is to deliver just-in-time content when individuals need it for their work, rather than the typical classroom training that occurs several months before or after a person needs a certain skill set. Qualcomm has already begun to reach this vision, with most of its training, particularly in technical skills and health and safety, developed in-

house and delivered either partly or completely over the Intranet. Among the benefits they have seen are: much lower cost and greater consistency of quality in course provision, greater flexibility for the user in when they take training, and greater retention of learning because of the interactive nature of the coursework.

**Simulations:** Pratt & Whitney has created a computer simulation of the core business decisions involved in developing new aircraft engines. The simulation not only provides hands-on instruction in some new business tools, but more importantly enables individuals from all the different functions involved in this complex process to appreciate the wider business context, to see the issues from many different perspectives (including the customer's) and to better understand where their role fits into this system.

**Project-based Learning:** Ford Motor Company is attempting to reinvent its entire operations into an e-business. As part of this strategic initiative, it has designed a unique leadership program for its high potential middle managers from around the globe. They deliver all the traditional course material on-line, devoting most of each person's effort to a project in which they use new electronic tools to fundamentally reinvent the way they work. The most innovative aspect of the program is that projects are intended not only to enhance business results, but also to enable individuals to better meet the needs of the stakeholders at home and in the community, as well as finding more time for themselves.

**Corporate Universities:** In order to emphasize their commitment to learning, hundreds of firms have now created corporate universities. Often formed in partnership with higher education institutions, the best of these corporate universities offer the chance to customize content to the needs of the business, while enabling individuals to receive course credits for the more general knowledge they acquire. Many corporate universities are now investing heavily in

moving their content on-line and increasing the experiential learning component of their face-to-face courses.

**Individualizing over the Net:** Just as the leading business-to-consumer and business-to-business companies are continuously mining the data they collect from the Internet and building personalized portals to allow them to build much closer relationships with individual customers, companies can also harness their own Intranet's capacity to develop a much more sophisticated understanding of their business-to-employee relationships. The current problems with achieving this are:

• Many human resource departments view the Intranet as a way to reduce costs and automate the delivery of employee transactions, rather than a chance to build richer relationships with individual employees;

• Most human resources departments lack the data mining skills needed to analyze the data effectively; and

• Too often, the focus is on standardizing human resource policies, rather than creating options that allow for customizing to individual needs.

**Review Questions:**

1. Define corporate culture.
2. What are the basic features of corporate culture?
3. Write an essay in order to highlight the importance of corporate communications. Try to incorporate examples from organisations which depict the importance of the above.

# Unit II

## Culture and Global Management

**The learning objectives from this lesson are as follows:**

5. **To understand basic aspects of Society & Culture**

6. **To understand Global Business Scenario and Role of Culture**

7. **To understand Elements & Processes of Communication across Cultures**

8. **To learn Communication Strategies to be adopted across cultures**

9. **To learn how to form High Performance Winning Teams across Cultures**

### Social & Cultural Environment

Marketing has always been recognized as an economic activity involving the exchange of goods and services. Only in recent years, however, have socio-cultural influences been identified as determinants of marketing behavior, revealing marketing as a cultural as well as economic phenomenon. Because our understanding of marketing is culture bound, we must acquire knowledge of diverse cultural environments in order to achieve successful international marketing. We must, so to speak, remove our culturally tinted glasses to study foreign markets.

The growing use of anthropology, sociology and psychology in marketing is explicit recognition of the noneconomic bases of marketing behaviour. We now know that it is not enough to say that consumption is a function of income. Consumption is a function of many other cultural influences as well. Furthermore, only non economic factors can explain the different patterns of consumption of two individuals with identical incomes-or by analogy, of two different countries with similar per capita incomes.

A review of consumer durables ownership in EU countries with similar income levels shows the importance of non income factors in determining consumption behavior. For automatic washing machines the range is from 72 percent in Sweden to 96 percent in Italy; for dishwashers, from 11 percent in the Netherlands and Spain to 34 percent in Germany; for clothes dryers, from 5 percent in Spain to 39 percent in Belgium; for microwave ovens, from 6 percent in Italy to 37 percent in Sweden; for vacuum cleaners, from 56 percent in Italy to 98 percent in the Netherlands. It is remarkable that the same countries (Italy, Netherlands, Sweden) can be at the high-penetration level for some appliances and at the low-penetration level for others. Only cultural difference can account for these variables.

## BASIC ASPECTS OF SOCIETY AND CULTURE

Anthropologists and sociologists define culture as "Ways of Living ", built up by a group of human beings, which are transmitted from one generation to another. A culture acts out its ways of living in the context of social institutions, including family, educational, religious, governmental, and business institutions. Culture includes both conscious and unconscious values, ideas, attitudes, and symbols that shape human behavior and that are transmitted from one generation to the next. In this sense, culture does not include one-time solutions to unique problems, or passing fads and styles. As defined by organizational anthropologist Geert Hofstede, culture is "the collective programming of the mind that distinguishes the members of one category of people from those of another".

In addition to agreeing that culture is learned, not innate, most anthropologists share two additional views. First, all facets of culture are interrelated: Influence or change one aspect of a culture and everything else is affected. Second, because it is shared by the members of a group, culture defines the boundaries between different groups.

Culture consists of learned responses to recurring situations. The earlier these responses are learned, the more difficult they are to change. Taste and preferences for food and

drink, for example, represent learned responses that are highly variable from culture to culture and can have a major impact on consumer behavior. Preference for color is culturally influenced as well. For example, although green is a highly regarded color in Moslem countries, it is associated with disease in some Asian countries. White, usually associated with purity and cleanliness in the West, can signify death in Asian countries. Red is a popular color in most parts of the world (often associated with full flavor, passion, or virility); however, it is poorly received in some African countries. Of course, there is no inherent attribute to any color of the spectrum; all associations and perceptions regarding color arise from culture.

## *CULTURE AND ITS CHARACTERISTICS*

1. Culture is **prescriptive.** It prescribes the kinds of behavior considered acceptable in the society. The prescriptive characteristics of culture simplify a consumer's decision-making process by limiting product choices to those, which are socially acceptable.

2. Culture is **socially shared.** Culture, out of necessity, must be based on social interaction and creation. It cannot exist by itself. It must be shared by members of a society, thus acting to reinforce culture's prescriptive nature.

3. Culture **facilitates communication.** One useful function provided by culture is to facilitate communication. Culture usually imposes common habits of thought and feeling among people. Thus, within a given group culture makes it easier for people to communicate with one another. But culture may also impede communication across groups because of a lack of shared common cultural values.

4. Culture is **learned.** Culture is not inherited genetically-it must be learned and acquired. Socialization or enculturation occurs when a person absorbs or learns the culture in which he or she is raised. In contrast, if a person learns the culture of a society other than the one in which he or she was raised, the process of acculturation occurs. The ability to learn culture makes it possible to absorb new cultural trends.

5. Culture is **subjective.** People in different cultures often have different ideas about the same object. What is acceptable in one culture may not necessarily be so in another. In this regard, culture is both unique and arbitrary.

6. Culture is **enduring.** Because culture is shared and passed along from generation to generation, it is relatively stable and somewhat permanent. Old habits are hard to break, and people tend to maintain its own heritage in spite of a continuously changing world. This explains why India and China, despite severe overcrowding, have a great difficulty with birth control. The Chinese view a large family as a blessing and assume that children will take care of parents when growth old.

7. Culture is **cumulative.** Culture is based on hundreds or even thousands of years of accumulated circumstances. Each generation adds something of its own to the culture before passing the heritage on to the next generation.

8. Culture is **dynamic.** Culture is passed along from generation to generation, but one should not assume that culture is static and immune to change. Far from being the case, culture is constantly changing-it adapts itself to new situations and new sources of knowledge.

## CULTURAL DIMENSION-I

## MEANING OF TIME

The workweek in many Middle Eastern regions runs from Saturday to Thursday. In many countries, it is customary to have lunch hours of two to four hours. Culture also affects attitude toward punctuality. Latin Americans have a relaxed attitude toward time. In Guatemala, a person may choose to arrive anytime from ten minutes to forty-five minutes late for a luncheon appointment. On the other hand, Romanians, Germans, and Japanese are very punctual. However, punctuality is a function of occasion. Although it is rude for a Japanese to be late for a business meeting, it is acceptable (and perhaps even fashionable) to be late for a social occasion.

## THE LANGUAGE OF FRIENDSHIP

In India, it is an honor to be invited to have dinner at a private home - a sign of real friendship. Thus, any business discussion at dinner would be inappropriate. In Italy, Egypt and China, dinner is a social event in itself, making it an all-evening affair, as exemplified by the ten-course meal in China. In the United States, people finish their meals in a hurry, as if eating were a mere necessity, and then quickly get on to the purpose or objective for having had the dinner.

Pillsbury is one company that owes its success in Japan to an ability to adjust to the radically different style of doing business there. The Oriental values of old friends, long courtship, trust, and sincerity were all understood by Pillsbury's management, and those values were kept in mind when Pillsbury decided to conduct business in Japan. Pillsbury saw its joint venture as like a marriage in a society where a divorce is frowned upon, and thus took great pains to learn the accepted way of doing business there.

## CULTURAL DIMENSION-II

## THE LANGUAGE OF RELIGION

A government itself can also make a religious mistake. As soon as Indonesia announced its plan to introduce state lottery, the controversy erupted. Religious leaders and students called

the lottery immoral and corrupt. After weeks of growing Muslim demonstrations, the government decided to drop the lottery idea.

Muslims launched a protest because Yokohama Rubber Co automobile tires had a tread pattern resembling the Arabic word for Allah. The tread was designed by computer to maximize driving safety. The company soon stopped making these tires and offered to replace the tires free of charge. The tire maker apologized for its lack of knowledge of Islam and stated that the tread was not mblaspheme Allah. eant to

## THE ART OF GIFT GIVING

Businesspeople need to understand customs of gift giving. In certain countries, it is offensive to offer a gift. Exchanging gifts is rare and inappropriate in Germany. Gift giving is also not a normal custom in Belgium or Britain, but flowers are a suitable gift when invited to someone's home.

In some countries, it is insulting when gifts are not presented since they are expected. Businesspeople should attempt to find out how to present gifts. When should it be presented-on the initial visit or afterwards? Where should a gift be presented-in public or private? What is the type of gift to give, whatshould its color be, and how many people should receive gifts? In Japan, gift giving is an important part of doing business, and gifts are usually exchanged at the first meeting.

## THE SEARCH FOR CULTURAL UNIVERSALS

An important quest for the global marketer is to discover cultural universals. A universal is a mode of behavior existing in all cultures. Universal aspects of the cultural environment represent opportunities for global marketers to standardize some or all elements of a marketing program. A partial list of cultural universals, taken from cultural anthropologist George P. Murdock's classic study, includes the following: athletic sports,

body adornment, cooking, courtship, dancing, decorative art, education, ethics, etiquette, family feasting, food taboos, language, marriage, mealtime, medicine, mourning, music, property rights, religious rituals, residence rules, status differentiation, and trade. The astute global marketer often discovers that much of the apparent cultural diversity in the world turns out to be different ways of accomplishing the same thing.

Music provides one example of how these universals apply to marketing. Music is part of all cultures, accepted as a form of artistic expression and source of entertainment. However, music is also an art form characterized by widely varying styles. Therefore, al. though background music can be used effectively in broadcast commercials, the type of music appropriate for a commercial in one part of the world may not be acceptable or effective in another part. A jingle might utilize a rock rhythm for North America, and "high life" for Africa. Music, then, is a cultural universal that global marketers can adapt to cultural preferences in different countries or regions.

**Exhibit:**

**TRUE EUROPEANS**

Consumer demands vary widely from one European country to another. The French cook their food at high temperatures and thus splatter grease onto oven walls. Understandably, most French consumers want self-cleaning ovens. The Germans, in contrast, do their cooking at lower temperatures and do not have much demand for this feature.

After acquiring Phillips's European appliance business. Whirlpool moved to transform sales and distribution systems in thirteen countries into two pan-European operations. On the manufacturing side, Whirlpool cut costs by standardizing parts and materials which account for 55 percent of an appliance's total cost. Before the move, the washing machine made in Germany and the one made in Italy did not contain any common parts; they did not even share one screw.

It has long been argued that national tastes dictate the kind of washing machine to be sold in a certain market. As a result, French consumers would not accept front loaders

because French kitchens have only enough space for the narrow, top-loading machines. Whirlpool Corp however, found that many of the differences in countries had less to do with consumer tastes but more to do with the fact that French manufacturers have always made only top loaders.

Whirlpool's study of laundry habits revealed that consumers across Europe want a washing machine that get clothes clean, is easy to use and trouble free, and does not use too much electricity, water, or detergent. If a machine can meet these significant criteria, consumer taste can change because such features as where the machine opens and its size are less important. Therefore, Whirlpool has treated Germans, British and Italians like true Europeans due to their similarities, which overshadow their differences.

Increasing travel and improving communications mean that many national attitudes toward style in clothing, color, music, food and drink are converging. The globalization of culture has been capitalized upon, and even significantly accelerated, by companies that have seized opportunities to find customers around the world. Coca-Cola, Pepsi, Levi Strauss, McDonald's, IBM, Heineken and BMG Entertainment are some of the companies breaking down cultural barriers as they expand into new markets with their products. Similarly, new laws and changing attitudes toward the use of credit are providing huge global opportunities for financial service providers such as American Express, Visa and Master Card International. According to one estimate, the volume of global credit card sales surpassed $2 trillion in the year 2000. The credit card companies and on-line marketers has to chose communication efforts to persuade large numbers of people to use the cards. There is great variation in the world in the use of credit and debit cards and cash. Japan is a cash and debit card culture, Europe is more have a check and debit card culture, and the United States is a credit card culture.

**Exhibit:**

**CULTURE SHAPES FOREIGN MARKETING**

International marketers all have stories to tell of their adventures-and misadventures-in foreign market cultures. These cultural constraints can affect all aspects of the marketing program. A couple of examples:

1. **Cosmetics-** Maybelline and Max Factor add brighter colors to their lipstick and makeup for Latin America. Vidal Sassiin adds more conditioner and a pine aroma to some shampoos in the Far East. Amway's skin care line in Japan has less lather and Amway removes the pork proteins found in some of its products for Muslim markets, such as Malaysia.

2. **Promotion-** Hollywood has found the best way to promote its movies in Asia is to use popular local musicians. When Warner Bros released "Lethal Weapon 4" in Hong Kong, its major promotion was a music video with a very popular heavy-metal band. Though music didn't relate to the film, scenes from the film were interspersed on the video. The song became the movie's "Asian theme song".

In Taiwan, a leading female singer made a music video based on "The English Patient". The studios usually don't even have to pay the local artists because both parties benefit.

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## *ELEMENTS OF CULTURE*

The anthropologist studying culture, as a science must investigate every aspect of a culture is an accurate, total picture is to emerge. To implement this goal, there has evolved a culture scheme that defines the parts of culture. For the marketer, the same thoroughness is necessary if the marketing consequences of cultural differences within foreign market are to be accurately assessed.

Culture includes every part of life. The scope of the term culture to the anthropologist is illustrated by the elements included within the meaning of the term. They are:

## 1. Material Culture-Technology, Economics

Material Culture is divided into two parts, technology and economics. Technology includes the techniques used in the creation of material goods; it is the technical know-

how possessed by the people of a society. For example, the vast majority of U.S. citizens understand the simple concepts involved in reading gauges, but in many countries of the world this seemingly simple concept is not part of their common culture and is, therefore, a major technical limitation.

Economics is the manner in which people employ their capabilities and the resulting benefits. Included in the subject of economics is the production of goods and services, their distribution, consumption, means of exchange, and the income derived from the creation of utilities.

Material culture affects the level of demand, the quality and types of products demanded, and their functional features, as well as the means of production of these goods and their distribution. The marketing implications of the material culture of a country are many. For example, electrical appliances sell in England and France but have few buyers in countries where less than 1 percent of the homes have electricity. Even with electrification, economic characteristics represented by the level and distribution of income may limit the desirability of products. Electric can openers and electric juicers are acceptable in the United States, but in less-affluent countries not only are they unattainable and probably unwanted, they would be a spectacular waste because disposable income could be spent more meaningfully on better houses, clothing or food.

## 2. Social Institutions- Social organizations, Education, Political Structures

Social Institutions include social organization, education, and political structures that are concerned with the ways in which people relate to one another, organize their activities to live in harmony with one another, teach acceptable behavior to succeeding generations, and govern themselves. The positions of men and women in society, the family, social classes, group behavior, age groups and how societies define decency and civility are interpreted differently within every culture. In cultures where the social organizations result in close-knit family units, for example, it is more effective to aim a promotion campaign at the family unit than at individual family

members. Travel advertising in culturally divided Canada pictures a wife alone for the English audience but a man and wife together for the French segments of the population because the French are traditionally more closely bound by family ties.

Education, one of the most important social institutions, affects all aspects of the culture from economic development to consumer behavior. The literacy rate of a country is a potent force in economic development. Numerous studies indicate a direct link between the literacy rate of a country and its ability for rapid economic growth. According to the World Bank no country has been successful economically with less than 50 percent literacy, but when countries have invested in education the economic rewards have been substantial. Literacy has a profound affect on marketing. It is much easier to communicate with a literate market than to one where the marketer has to depend on symbols and pictures to communicate. Each of the social institutions has an effect on marketing because each influences behavior, values and the overall patterns of life.

## 3. Humans and the universe-Belief systems

Within this category are religion (belief systems), superstitions, and their related power structures. The impact of religion on the value systems of a society and the effect of value systems on marketing must not be underestimated. Religion impacts people's habits, their outlook on life, the products they buy, the way they buy them, even the newspapers they read.

Acceptance of certain types of food, clothing, and behavior are frequently affected by religion, and such influence can extend to the acceptance or rejection of promotional messages as well. In some countries, focusing too much attention on bodily functions in advertisements would be judged immoral or improper and the products would be rejected. What might seem innocent and acceptable in one culture could be considered too personal or vulgar in another. Such was the case when Saudi Arabian customs officials impounded a shipment of French perfume because the bottle stopper

was in the shape of a nude female. Religion is one of the most sensitive elements of a culture. When the marketer has little or no understanding of a religion, it is easy to offend, albeit unintentionally.

Superstition plays a much larger role in a society's belief system in some parts of the world than it does in the United States. What an American might consider as mere superstition can be a critical aspect of a belief system in another culture. For example, in parts of Asia, ghosts, fortune telling, palmistry, head-bump reading, phases of the moon, demons, and soothsayers are all integral parts of certain cultures. Astrologers are routinely called on in Thailand to determine the best location.

## 4. Aesthetics-Graphic and Plastic arts, Folklore, Music, Drama, and Dance

Closely interwoven with the effect of people and the universe on a culture are its aesthetics, that is, its arts, folklore, music, drama, and dance. Aesthetics are of particular interest to the marketer because of their role in interpreting the symbolic meanings of various methods of artistic expression, color, and standards of beauty in each culture. Customers everywhere respond to images, myths, and metaphors that help them define their personal and national identities and relationships within a context of culture and product benefits. The uniqueness of a culture can be spotted quickly in symbols having distinct meanings.

Without a culturally correct interpretation of a country's aesthetic values, a whole host of marketing problems can arise. Product styling must be aesthetically pleasing to be successful, as must advertisements and package designs. Insensitivity to aesthetic values can offend, create a negative impression, and, in general, render marketing efforts ineffective. Strong symbolic meanings may be overlooked if one is not familiar with a culture's aesthetic values. The Japanese, for example, revere the crane as being very lucky for it is said to live a thousand years, however, the use of the number four should be avoided completely because the word four, shi, is also the Japanese word for death.

## 5. Language

The importance of understanding the language of a country cannot be overestimated. The successful marketer must achieve expert communication, and this requires a thorough understanding of the language as well as the ability to speak it. Advertising copywriters should be concerned less with obvious differences between languages and more with the idiomatic meanings expressed. It is not sufficient to say you want to translate into Spanish, for instance, because, in Spanish-speaking Latin America the language vocabulary varies widely. Tambo, for example, means a roadside inn in Bolivia, Colombia, Ecuador, and Peru; in Argentina and Uruguay, it means a dairy farm; and in Chile, a tambo is a brothel. If that gives you a problem, consider communicating with the people of Papua, New Guinea. Some 750 languages, each distinct and mutually unintelligible, are spoken there.

Carelessly translated advertising statements not only lose their intended meaning but can suggest something very different, obscene, offensive, or just plain ridiculous. Language may be one of the most difficult cultural elements to master, but it is the most important to study in an effort to acquire some degree of empathy. Many believe that to appreciate the true meaning of a language it is necessary to live with the language for years. Whether or not this is the case, foreign marketers should never take it for granted that they are communicating effectively in another language. Until a marketer can master the vernacular, the aid of a national within the foreign country should be enlisted; even then, the problem of effective communications may still exist. One authority suggests that we look for a cultural translator, that is, a person who translates not only among languages but also among different ways of thinking and among different cultures.

**Exhibit:**

## IT'S NOT THE GIFT THAT COUNTS, BUT HOW YOU PRESENT IT

Giving a gift in another country requires careful attention if it to be done properly. Here are a few suggestions:

### *Japan*

Do not open gift in front of a Japanese counterpart unless asked and do not expect the Japanese to open your gift.

Avoid ribbons and bows as part of gift-wrapping. Bows as we know them are considered unattractive and ribbon colors can have different meanings. Do not offer a gift depicting a fox or badger. The fox is the symbol of fertility, the badger, and cunning.

### *Europe*

Avoid red roses and white flowers, even numbers, and the number 13. Do not wrap flowers in paper. Do not risk the impression of bribery by spending too much on a gift.

### *Arab World*

Do not give a gift when you first meet someone. It may be interpreted as a bribe. Do not let it appear that you contrived to present the gift when the recipient is alone. It looks bad unless you know the person well. Give the gift in front of others in less personal relationships.

### *Latin America*

Do not give a gift until after a somewhat personal relationship has developed unless it is given to express appreciation for hospitality. Gifts should be given during social encounters, not in the course of business. Avoid the colors black and purple; both are associated with the Catholic Lenten season.

### *China*

Never make an issue of a gift presentation-publicly or privately. Gifts should be presented privately, with the exception of collective ceremonial gifts at banquets.

## ANALYTICAL APPROACHES TO CULTURAL FACTORS

The reason cultural factors are a challenge to global marketers is that they are hidden from view. Because culture is learned behavior passed on from generation to generation, it is difficult for the inexperienced or untrained outsider to fathom. Becoming a global manager means learning how to let go of cultural assumptions. Failure to do so will hinder accurate understanding of the meaning and significance of the statements and behaviors of business associates from a different culture.

For example, a person from a culture that encourages responsibility and initiative could experience misunderstandings with a client or boss from a culture that encourages bosses to remain in personal control of all activities. Such a boss would expect to be kept advised of a subordinate's actions; the subordinate might be taking initiative on the mistaken assumption that the boss would appreciate a willingness to assume responsibility.

## 1. MASLOW'S HIERARCHY OF NEEDS

The late A. H. Maslow developed an extremely useful theory of human motivation that helps explain cultural universals. He hypothesized that people's desires can be arranged into a hierarchy of five needs. As an individual fulfills needs at each level, he or she progresses to higher levels. Once physiological, safety, and social needs have been satisfied, two higher needs become dominant. First is a need for esteem. This is the desire for self-respect, self-esteem, and the esteem of others and is a power-ful drive creating demand for status-improving goods.

The final stage in the need hierarchy is self-actualization. When all the needs for food, safety, security, friendship, and the esteem of others are satisfied, discontent and restlessness will develop unless one is doing what one is fit for. A musician must make music, an artist must create, a poet must write, a builder must build, and so on. Maslow's hierarchy of needs is, of course, a simplification of complex human behavior. Other

researchers have shown that a person's needs do not progress neatly from one stage of a hierarchy to another. For example, an irony of modern times is the emergence of the need for safety in the United States, one of the richest countries in the world. Indeed, the high incidence of violence in the United States may leave Americans with a lower level of satisfaction of this need than in many so-called "poor" countries. Nevertheless, the hierarchy does suggest a way for relating consumption patterns and levels to basic human need-fulfilling behavior. Maslow's model implies that, as countries progress through the stages of economic development, more and more members of society operate at the esteem needs level and higher, having satisfied physiological, safety, and social needs. It appears that self-actualization needs begin to affect consumer behavior as well.

For example, there is a tendency among some consumers in high-income countries to reject material objects as status symbols. The automobile is not quite the classic American status symbol it once was, and some consumers are turning away from material possessions. This trend toward rejection of materialism is not, of course, limited to high-income countries. **In** India, for example, there is a long tradition of the pursuit of consciousness or self-actualization as a first rather than a final goal in life. And yet, each culture is different. For example, in Germany today, the automobile remains a supreme status symbol. Germans give their automobiles loving care, even going so far as to travel to distant locations on weekends to wash their cars in pure spring water.

## 2. THE SELF-REFERNCE CRITERION AND PERCEPTION

As we have shown, a person's perception of market needs is framed by his or her own cultural experience. A framework for systematically reducing perceptual blockage and distortion was developed by James Lee. Lee termed the unconscious reference to one's own cultural values the self-reference criterion, or SRC. To address this problem and eliminate or reduce cultural myopia, he proposed a systematic four-step framework.

**Step 1:** Define the problem or goal in terms of home-country cultural traits, habits and norms.

**Step 2**: Define the problem or goal in terms of the host culture, traits, habits and norms. Make no value judgments.

**Step 3:** Isolate the SRC influence and examine it carefully to see how it complicates the problem.

**Step 4:** Redefine the problem without the SRC influence and solve for the host-country market situation.

The lesson that SRC teaches is that a vital, critical skill of the global marketer is unbiased perception, the ability to see what is so in a culture. Although this skill is as valuable at home as it is abroad, it is critical to the global marketer because of the widespread tendency toward ethnocentrism and use of the self-reference criterion. The SRC can be a powerfully negative force in global business and forgetting to check for it can lead to misunderstanding and failure. While planning Euro Disney, chairman Michael Eisner and other company executives were blindsided by a lethal combination of their own prior success and ethnocentrism. Avoiding the SRC requires a person to suspend assumptions based on prior experience and success and be prepared to acquire new knowledge about human behavior and motivation.

## 3. ENVIRONMENTAL SENSITIVITY

Environmental Sensitivity is the extent to which products must be adapted to the culture-specific needs of different national markets. A useful approach is to view products on a continuum of environment sensitivity. At one end of the continuum are environmentally insensitive products that do not require significant adaptation to the environments of various world markets. At the other end of the continuum are products that are highly sensitive to different environmental factors. A company with environmentally insensitive products will spend relatively less time determining the specific and unique conditions of local markets because the product is basically universal. The greater a product's environmental sensitivity, the greater the need for managers to address country-specific economic, regulatory, technological, social and cultural environmental conditions.

The sensitivity of products can be represented on a two-dimensional scale as shown in the figure. The horizontal axis shows environmental sensitivity, the vertical axis the degree for product adaptation needed. Any product exhibiting low levels of environmental sensitivity-highly technical products, for example-belongs in the lower left of the figure. Intel was sold over 100 million microprocessors, because a chip is a chip anywhere around the world. Moving to the right on the horizontal axis, the level of sensitivity increases, as does the amount of adaptation. Computers are characterized by low levels of environmental sensitivity but variations in country voltage requirements require some adaptation. In addition, the computer's software documentation should be in the local language. At the upper right of the figure are products with high environmental sensitivity. Food, especially food consumed in the home, falls into the category because it is sensitive to climate and culture. McDonald's has achieved great success outside the United States by adapting its menu items to local tastes. Particular food items such as chocolate however must be modified for various differences in taste and climate. The consumers in some countries prefer a milk chocolate; others prefer a darker chocolate while other countries in the Tropics have to adjust the formula for their chocolate products to with stand high temperatures.

## INFLUENCE OF CULTURE ON CONSUMPTION

Consumption patterns, living styles, and the priority of needs are all dictated by culture. Culture prescribes the manner in which people satisfy their desires. Not surprisingly, consumption habits vary greatly. The consumption of beef provides a good illustration. Some Thai and Chinese do not consume beef at all, believing that it is improper to eat cattle that work on farms, thus helping to provide foods such as rice and vegetables. In Japan, the per capita annual consumption of beef has increased to eleven pounds, still a very small amount when compared to the more than 100 pounds consumed per capita in the United States and Argentina.

The eating habits of many people seem exotic to Americans. The Chinese eat such things as fish stomachs and bird's nest soup (made from bird's saliva). The Japanese eat uncooked seafood, and the Iraqis eat dried, salted locusts as snacks while drinking.

Although such eating habits may seem repulsive to Americans and Europeans, consumption habits in the West are just as strange to foreigners. The French eat snails. Americans and Europeans use honey (bee expectorate, or bee spit) and blue cheese or Roquefort salad dressing, which is made with a strong cheese with bluish mold. No society has a monopoly on unusual eating habits when comparisons are made among various societies.

Food preparation methods are also dictated by culture preferences. Asian consumers prefer their chicken broiled or boiled rather than fried. Consequently, the Chinese in Hong Kong found American-style fried chicken foreign and distasteful.

## INFLUENCE OF CULTURE ON COMMUNICATION PROCESSES

A country may be classified as either a high-context culture or a low-context culture. The context of a culture is either high or low in terms of in-depth background information. This classification provides an understanding of various cultural orientations and explains how communication is conveyed and perceived. North America and northern Europe (e.g. Germany, Switzerland and Scandinavian countries) are examples of low-context cultures. In these types of society, messages are explicit and clear in the sense that actual words are used to convey the main part of information in communication. The words and their meanings, being independent entities, can be separated from the context in which they occur. What are important, then, are what is said, not how it is said and not the environment within which it is said.

Japan, France, Spain, Italy, Asia, Africa and the Middle Eastern Arab nations in contrast, are high-context culture. In such cultures, the communication may be indirect, and expressive manner in which the message is delivered becomes critical. Because the verbal part (i.e. words) does not carry most of the information, much of the information is contained in the non-verbal part of the message to be communicated. The context of communication is high because it includes a great deal of additional information, such as the message sender's values, position, background, and associations in the society. As such, the message cannot be understood without its context. One's individual

environment (i.e. physical setting and social circumstances) determines what one says and how others interpret one. This type of communication emphasizes one's character and words as determinants of one's integrity, making it possible for businesspersons to come to terms without detailed legal paperwork.

Cultures also vary in the manner by which information processing occurs. Some cultures handle information in a direct, linear fashion and are thus monochromic in nature. Schedules, punctuality, and a sense that time forms a purposeful straight line are indicators of such cultures. Being monochromic, however, is a matter of degree. Although the Germans, Swiss and Americans are all monochromic cultures, the Americans are generally more monochromic than most other societies, and their fast tempo and demand for instant responses are often viewed as pushy and impatient.

Other cultures are relatively polychronic in the sense that people work on several fronts simultaneously instead of pursuing a single task. Both Japanese and Hispanic cultures are good examples of a polychronic culture. The Japanese are often misunderstood and accused by Westerners of not volunteering detailed information. The truth of the matter is that the Japanese do not want to be too direct because by saying things directly they may be perceived as being insensitive and offensive. The Japanese are also not comfortable in getting right down to substantive business without first becoming familiar with the other business party. For them it is premature to discuss business matters seriously without first establishing a personal relationship. Furthermore, American businesspersons consider the failure of the Japanese to make eye contact as a sign of rudeness, whereas the Japanese do not want to look each other in the eye because eye contact is an act of confrontation and aggression.

The cultural context and the manner in which the processing of information occurs can be combined to develop a more precise description of how communication takes place in a particular country. Germany, for example, is a monochromic and low context culture. France, in comparison, is a polychronic and high context culture. A low context German may insult a high context French counterpart by giving too much information about what

is already known. Or a low context German becomes upset when he feels that he does not get enough details from the high context Frenchman.

## SUBCULTURE

Because of differing cultures, worldwide consumer homogeneity does not exist. Neither does it exist in the United States. Differences in consumer groups are everywhere. There are white, black, Jewish, Catholic, farmer, truck driver, young, old, eastern, and western consumers, among other numerous groups. Communication problems between speakers of different languages are apparent to all, but people who presumably speak the same language may also encounter serious communication problems. Subgroups within societies utilize specialized vocabularies.

In order to understand these diverse groups of consumers, particular cultures must be examined. As the focus is on a subgroup within a society, the more appropriate area for investigation is not culture itself but rather subculture, culture on a smaller and more specific level.

A **subculture** is a distinct and identifiable cultural group that has values in common with the overall society but also has certain characteristics that are unique to it. Thus, subcultures are groups of people within a larger society. Although the various subcultures share some basic traits of the wider culture, they also preserve their own customs and lifestyles, making them significantly different from other groups within the larger culture of which they are a part. Indonesia, for instance, has more than 300 ethnic groups, with lifestyles and cultures that seem thousands of years apart.

There are many different ways to classify subcultures. Although race or ethnic origin is one obvious way, it is not the only one. Other demographic and social variables can be just as suitable for establishing subcultures within a nation.

The degree of intra-country homogeneity varies from one country to another. In the case of Japan, the society as a whole is remarkably homogenous. Although some found, the

differentials are not pronounced. There are several reasons why Japan is a relatively homogenous country. It is a small country in terms of area, making its population geographically concentrated. National pride and management philosophy also help to forge a high degree of unity. As a result, people work hard together harmoniously to achieve the same common goals. The need to work hard together was initially fostered by the need to repair the economy after World War II, and the lessons learned from this experience have not been forgotten.

Canada, in contrast, is a large country in terms of geography. Its population, though much smaller than that of Japan, is much more geographically dispersed, and regional differences exist among the provinces, each having its own unique characteristics. Furthermore, ethnic differences are clearly visible to anyone who travels across Canada.

Given the fact that each sub-cultural group is a part of the larger culture while possessing its own unique cultural, demographic, and consumption characteristics, a marketing question is the language that should be used so as to effectively appeal to a particular subculture. According to one study, Spanish language advertising positively affected Hispanic consumers in the United States by signaling solidarity with the Hispanic community. However, exclusive use of Spanish in advertising also had a negative effect since it appeared to arouse Hispanic insecurities about language usage. Therefore, language choice requires more research.

## PROCESSES OF COMMUNICATION ACROSS CULTURES:

Business customs are as much a cultural element of a society as is the language. Culture not only establishes the criteria for day-to-day business behavior but also forms general patterns of attitude and motivation. Executives are to some extent captives of their cultural heritages and cannot totally escape language, heritage, political and family ties, or religious backgrounds. One report notes that Japanese culture, permeated by Shinto precepts, is not something apart from business but determines its very essence. Although international business managers may take on the trappings and appearances of the

business behavior of another country, their basic frame of references is most likely to be that of their own people.

In the United States, for example, the historical perspective of individualism and "winning the West" seems to be manifest in individual wealth or corporate profit being dominant measures of success. Japan's lack of frontiers and natural resources and its dependence on trade have focused individual and corporate success criteria on uniformity, subordination to the group, and society's ability to maintain high levels of employment. The feudal background of southern Europe tends to emphasize maintenance of both individual and corporate power and authority while blending those feudal traits with paternalistic 'concern for minimal welfare for workers and other members of society. Various studies identify North Americans as individualists, Japanese as consensus-oriented and committed to the group, and central and southern Europeans as elitists and rank conscious. While these descriptions are stereotypical, they illustrate cultural differences that are often manifested in business behavior and practices.

A lack of empathy for and knowledge of foreign business practices can create insurmountable barriers to successful business relations. Some businesses plot their strategies with the idea that counterparts of other business cultures are similar to their own and are moved by similar interests, motivations, and goals-that they are "just like us." Even though they may be just like us in some respects, enough differences exist to cause frustration, miscommunication, and, ultimately, failed business opportunities if they are not understood and responded to properly.

Knowledge of the business culture, management attitudes, and business methods existing in a country and a willingness to accommodate the differences are important to success in an international market. Unless marketers remain flexible in their own attitudes by accepting differences in basic patterns of thinking, local business tempo, religious practices, political structure, and family loyalty, they are hampered, if not prevented, from reaching satisfactory conclusions to business transactions. In such situations, obstacles take many forms, but it is not unusual to have one negotiator's business proposition accepted over another's simply because "that one understands us."

## REQUIRED ADAPTATION

Adaptation is a key concept in international marketing and willingness to adapt is a crucial attitude. Adaptation, or at least accommodation, is required on small matters as well as large ones. In fact, the small, seemingly insignificant situations are often the most crucial. More than tolerance of an alien culture is required. There is a need for affirmative acceptance, that is, open tolerance of the concept "different but equal" Through such affirmative acceptance, adaptation becomes easier because empathy for another's point of view naturally leads to ideas for meeting cultural differences.

As a guide to adaptation, there are ten basic criteria that all who wish to deal with individuals, firms, or authorities in foreign countries should be able to meet. They are: (1) open tolerance, (2) flexibility, (3) humility, (4) justice/fairness, (5) ability to adjust to varying tempos, (6) curiosity/interest, (7) knowledge of the country, (8) liking for others, (9) ability to command respect, and (10) ability to integrate oneself into the environment.

In short, add the quality of adaptability to the qualities of a good executive for a composite of the perfect international marketer. It is difficult to argue with these ten items.

### Degree of Adaptation

Adaptation does not require business executives to forsake their ways and change to conform to local customs; rather, executives must be aware of local customs and be willing to accommodate those differences that can cause misunderstanding. Essential to effective adaptation is awareness of one's own culture and the recognition that differences in others can cause anxiety, frustration, and misunderstanding of the host's intentions. The self-reference criterion (SRC) is especially operative in business customs. If we do not understand our foreign counterpart's customs, we are more likely to evaluate that person's behavior in terms of what is acceptable to us.

The key to adaptation is to remain American but to develop an understanding and willingness to accommodate differences that exist. A successful marketer knows that in China it is important to make points without winning arguments; criticism, even if asked for, can cause a host to "lose face." In Germany, it is considered discourteous to use first names unless specifically invited to do so; always address a person as Hen; Frau, or Fraulein with the last name. In Brazil, do not be offended by the Brazilian inclination to touch during conversation. Such a custom is not a violation of your personal space but rather the Brazilian way of greeting, emphasizing a point or as a gesture of goodwill and friendship.

A Chinese, German, or Brazilian does not expect you to act like one of them. After all, you are not Chinese, German, or Brazilian, but American, and it would be foolish for an American to give up the ways that have contributed so notably to American success. It would be equally foolish for others to give up their ways. When different cultures meet, open tolerance and a willingness to accommodate each other's differences are necessary. Once a marketer is aware of the possibility of cultural differences and the probable consequences of failure to adapt or accommodate, the seemingly endless variety of customs must be assessed.

**1. Cultural Imperatives.** Cultural imperatives refer to the business customs and expectations that must be met and conformed to or avoided if relationships are to be successful. Successful business people know the Chinese word guan-xi, the Japanese ningen kankei, or the Latin American compadre. All refer to friendship, human relations, or attaining a level of trust. They also know there is no substitute for establishing friendship in some cultures before effective business negotiations can begin.

Informal discussions, entertaining, mutual friends, contacts, and just spending time with others are ways guan-xi, ningen kankei, compadre, and other trusting relationships are developed. In those cultures where friendships are a key to success, the businessperson should not slight the time required for their development. Friendship motivates local agents to make more sales and friendship helps establish the right relationship with end

users, leading to more sales over a longer period. Naturally, after-sales service, price, and the product must be competitive, but the marketer who has established guan-xi, ningen kankei, or compadre has the edge. Establishing friendship is an imperative in many cultures. If friendship is not established, the marketer risks not earning trust and acceptance, the basic cultural prerequisites for developing and retaining effective business relationships.

In some cultures a person's demeanor is more critical than in other cultures. For example, it is probably never acceptable to lose your patience, raise your voice, or correct someone in public however frustrating the situation. In some cultures such behavior would only cast you as boorish, but in others it could end a business deal. In China, Japan, and other Asian cultures it is imperative to avoid causing your counterpart to "lose face." In China to raise your voice, to shout at a Chinese person in public, or to correct them in front of their peers will cause them to lose face.

A complicating factor in cultural awareness is that what may be an imperative to avoid in one culture is an imperative to do in another. For example, in Japan prolonged eye contact is considered offensive and it is imperative that it be avoid. However, with Arab and Latin American executives it is important to make strong eye contact or you run the risk of being seen as evasive and untrustworthy.

**2. Cultural Exclusives.** Cultural exclusives are those customs or behavior patterns reserved exclusively for the locals and from which the foreigner is excluded. For example, a Christian attempting to act like a Muslim would be repugnant to a follower of Mohammed. Equally offensive is a foreigner criticizing a country's politics, mores, and peculiarities (that is, peculiar to the foreigner) even though locals may, among themselves, criticize such issues. There is truth in the old adage, "I'll curse my brother but, if you curse him, you'll have a fight." There are few cultural traits reserved exclusively for locals, but a foreigner must carefully refrain from participating in those that are reserved.

Foreign managers need to be perceptive enough to know when they are dealing with an imperative, an adiaphora, or an exclusive and have the adaptability to respond to each. There are not many imperatives or exclusives, but most offensive behavior results from not recognizing them. It is not necessary to obsess over committing a faux pas. Most sensible businesspeople will make allowances for the occasional misstep. But the fewer you make the smoother the relationship will be, When in doubt, rely on good manners and respect for those with whom you are associating.

## METHODS OF DOING BUSINESS

Because of the diverse structures, management attitudes, and behaviors encountered in international business, there is considerable latitude in ways business is conducted. No matter how thoroughly prepared a marketer may be when approaching a foreign market, a certain amount of cultural shock occurs when differences in contact level, communications emphasis, tempo, and formality of foreign businesses are encountered. Ethical standards are likely to differ, as will the negotiation emphasis. In most countries, the foreign trader is also likely to encounter a fairly high degree of government involvement.

### Sources and Level of Authority

Business size, ownership, public accountability, and cultural values that determine the prominence of status and position (PDI) combine to influence the authority structure of business. In high PDI countries like Mexico and Malaysia, understanding the rank and status of clients and business partners is much more important than in more egalitarian (low PDI) societies like Denmark and Israel. In high PDI countries subordinates are not likely to contradict bosses, but in low PDI countries they often do. Although the international businessperson is confronted with a variety of authority patterns, most are a variation of three typical patterns: top-level management decisions; decentralized decisions; and committee or group decisions.

Top-level management decision-making is generally found in those situations where family or close ownership gives absolute control to owners and where businesses are

small enough to make such centralized decision-making possible. In many European businesses, such as in France, decision-making authority is guarded jealously by a few at the top who exercise tight control. In other countries, such as Mexico and Venezuela, where a semi-feudal, land-equals-power heritage exists, management styles are characterized as autocratic and paternalistic. Decision-making participation by middle management tends to be de-emphasized; dominant family members make decisions that tend to please the family members more than to increase productivity. This is also true for government-owned companies where professional managers have to follow decisions made by politicians, who generally lack any working knowledge about management. In Middle Eastern countries, the top man makes all decisions and prefers to deal only with other executives with decision-making powers. There, one always does business with an individual per se rather than an office or title.

**Exhibit:**

**Meishi----- Presenting Business Card in Japan**

In Japan the business card, or Meishi, is the executive's trademark. It is both a mini resume and a friendly deity that draws people together. No matter how many times you have talked with a business person by phone before you actually meet, business cannot really begin until you formally exchange cards.

The value of a Meishi cannot be overemphasized; up to 12 million are exchanged daily and astaggering 4 billion annually. For a businessperson to make a call or receive a visitor without and is like a Samurai going off to battle without his sword. There are a variety of ways to present a card, depending on the giver's personality and style:

**Crab style** -held out between the index and middle fingers.

**Pincer**- clamped between the thumb and index finger.

**Pointer** – offered with the index finger pressed along the edge.

**Upside down** – the name is facing away from the recipient

**Platter fashion** – served in the palm of the hand.

The card should be presented during the earliest stages of introduction, so the Japanese recipient will be able to determine your position and rank and know how to respond to you.

The normal procedure is for the Japanese to hand you their name card and accepts yours at the same time. They read your card and then formally greet you either by bowing of shaking hands or both.

Not only is there a way to present a card, there is also a way of received a card. It makes a good impression to receive a card in both hands, especially when the other party is senior in age or status. Do not put the card away before reading or your will insult the other person, and write on a person's card in their presence as this may cause offenses.

As businesses grow and professional management develops, there is a shift toward decentralized management decision-making. Decentralized decision-making allows executives at different levels of management authority over their own functions. This is typical of large-scale businesses with highly developed management systems such as those found in the United States. A trader in the United States is likely to be dealing with middle management, and title or position generally takes precedence over the individual holding the job.

Committee decision-making is by group or consensus. Committees may operate on a centralized or decentralized basis, but the concept of committee management implies something quite different from the individualized functioning of the top management and decentralized decision-making arrangements just discussed. Because Asian cultures and religions tend to emphasize harmony and collectivism, it is not surprising that group decision-making predominates there. Despite the emphasis on rank and hierarchy in Japanese social structure, business emphasizes group participation, group harmony, and group decision making-but at top management level.

The demands of these three types of authority systems on a marketer's ingenuity and adaptability are evident. In the case of the authoritative and delegated societies, the chief problem would be to identify the individual with authority. In the committee decision setup, it is necessary that every committee member be convinced of the merits of the

proposition or product in question. The marketing approach to each of these situations differs.

**Communications Emphasis**

Probably no language readily translates into another because the meanings of words differ widely among languages. Even though it is the basic communication tool of marketers trading in foreign lands, managers, particularly from the United States, often fail to develop even a basic understanding of a foreign language, much less master the linguistic nuances that reveal unspoken attitudes and information. One writer comments "even a good interpreter doesn't solve the language problem." Seemingly similar business terms in English and Japanese often have different meanings. In fact, the Japanese language is so inherently vague that even the well educated have difficulty communicating clearly among them-selves. A communications authority on the Japanese language estimates that the Japanese are able to fully understand each other only about 85 percent of the time. The Japanese often prefer English-language contracts where words have specific meanings.

The translation and interpretation of clearly worded statements and common usage is difficult enough, but when slang is added the task is almost impossible. In an exchange between an American and a Chinese official, the American answered affirmatively to a Chinese proposal with, "It's a great idea, Mr. Li, but who's going to put wheels on it?" The interpreter, not wanting to lose face but not understanding, turned to the Chinese official and said, "And now the American has made a proposal regarding the automobile industry"; the entire conversation was disrupted by a misunderstanding of a slang expression.

The best policy when dealing in other languages, even with a skilled interpreter, is to stick to formal language patterns. The use of slang phrases puts the interpreter in the uncomfortable position of guessing at meanings. Foreign language skills are critical in all negotiations, so it is imperative to seek the best possible personnel. Even then, especially in translations involving Asian languages, misunderstandings occur.

Linguistic communication, no matter how imprecise, is explicit, but much business communication depends on implicit messages that are not verbalized. E. T. Hall, professor of anthropology and, for decades, consultant to business and government on intercultural relations, says, "In some cultures, messages are explicit; the words carry most of the information. In other cultures . . . less information is contained in the verbal part of the message since more is in the context."

## Negotiations Emphasis

All the just-discussed differences in business customs and culture come into play more frequently and are more obvious in the negotiating process than any other aspect of business. The basic elements of business negotiations are the same in any country; they relate to the product, its price and terms, services associated with the product, and finally, friendship between vendors and customers. But it is important to remember that the negotiating process is complicated and the risk of misunderstanding increases when negotiating with someone from another culture.

Attitudes brought to the negotiating table by each individual are affected by many cultural factors and customs often unknown to the other individuals and perhaps unrecognized by the individuals themselves. Each negotiator's understanding and interpretation of what transpires in negotiating sessions is conditioned by his or her cultural background the possibility of offending one another or misinterpreting each other's motives is especially high when one's SRC is the basis for assessing a situation. One standard rule in negotiating is "know thyself' first, and second, "know your opponent."

## Gender Bias in International Business

The gender bias toward women managers that exists in many countries creates hesitancy among U.S. multinational companies to offer women international assignments. Questions such as, Are there opportunities for women in international business? And should women represent U.S. firms abroad? Frequently arise as U.S. companies become

more international. As women move up in domestic management ranks and seek career-related international assignments, companies need to examine their positions on women managers in international business.

In many cultures-Asian, Arab, Latin American, and even some European women are not typically found in upper levels of management. Traditional roles in male-dominated societies often are translated into minimal business opportunities for women. This cultural bias raises questions about the effectiveness of women in establishing successful relationships with host country associates. An often-asked question is whether it is appropriate to send women to conduct business with foreign customers. To some it appears logical that if women are not accepted in managerial roles within their own cultures, a foreign woman will not be any more acceptable. This is but one of the myths used to support decisions to exclude women from foreign assignments.

It is a fact that men and women are treated very differently in some cultures. In Saudi Arabia, for example, women are segregated, expected to wear veils, and forbidden even to drive. Evidence suggests, however, that prejudice toward foreign women executives may be exaggerated and that the treatment local women receive in their own cultures is not necessarily an indicator of how a foreign businesswoman is treated.

When a company gives management responsibility and authority to someone, a large measure of the respect initially shown that person is the result of respect for the firm. When a woman manager receives training and the strong backing of her firm, she usually receives the respect commensurate with the position she holds and the firm she represents. Thus, resistance to her as a female either does not materialize or is less severe than anticipated. Even in those cultures where a female would not ordinarily be a manager, foreign female executives benefit, at least initially, from the status, respect, and importance attributed to the firms they represent. In Japan, where Japanese women rarely achieve even lower-level management positions, representatives of U.S. firms are seen first as Americans, second as representatives of firms, and then as males or females.

Similarly, women in China are seen as foreigners first and women second. Being foreign is such a major difference that being a woman is relatively minor. As one researcher notes, in China "businesswomen from the West are almost like 'honorary men' once business negotiations begin, the willingness of a business host to engage in business transactions and the respect shown to a foreign businessperson grow or diminish depending on the business skills he or she demonstrates, regardless of gender. As world markets become more international and as international competition intensifies, U.S. companies need to be represented by the most capable personnel available; it seems shortsighted to limit the talent pool simply because of gender.

## BUILDING HIGH PERFORMANCE WINING TEAMS ACROSS CULTURES

**Factors Affecting Team Building across Cultures:**

The following are some of the important factors, which make **Team Building across Cultures** complex and challenging:

**Differences in Labour Market Characteristics**

The skill levels, the demand and supply conditions and the behaviour characteristics of labour vary widely between countries. While some countries experience human resource shortage in certain sectors, many countries have abundance. In the past, developing countries were regarded, generally, as pools of unskilled labour. Today, however, many developing countries have abundance of skilled and scientific manpower as well as unskilled and semiskilled labour. This changing trend is incasing significant shift of location of business activities. Hard disk drive manufacturers are reported to be shifting their production base from Singapore to cheaper locations like Malaysia, Thailand and China. While in the past unskilled and semiskilled labour intensive activities tended to be located in the developing countries, today sophisticated activities also find favour with developing countries. The changing quality attributes of human resources in the developing countries and wage differentials are causing a locational shift in business

activities, resulting in new trends in the global supply chain management. India is reported to be emerging as a global R&D hub. India and several other developing countries are large sources of IT personnel. In short, the labour changing labour market characteristics have been causing global restructuring of business processes and industries.

**Cultural Differences**

Cultural differences cause a great challenge to Team Building. The behavioral attitude of workers, the social environment, values, beliefs, outlooks etc., are important factors, which affect industrial relations, loyalty, productivity etc. There are also significant differences in aspects related to labour mobility. Cultural factors are very relevant in inter personal behaviour also. In some countries it is common to address the boss Mr. so and so but in countries like India addressing the boss by name would not be welcome. In countries like India people attach great value to designations and hierarchical levels. This makes delivering and organisational restructuring difficult.

**Differences in Regulatory Environment**

A firm operating in different countries is confronted with different environments with respect to government policies and regulations regarding labour.

**Altitude towards Employment**

The attitude of employers and employees towards employment of people show great variations is different nations. In some countries hire and fire is the common thing whereas in a number of countries the ideal norm has been lifetime employment. In countries like India workers generally felt that while they have the right to change organisations, as they preferred, they had a right to lifetime employment in the organisation they were employed with. In such situations it is very difficult to get rid of inefficient or surplus manpower. The situation, however, is changing in many countries, including India.

**Difference in Conditions of Employment**

Besides the tenancy of employment, there are several conditions of employment the differences of which cause significant challenge. The system of rewards, promotion, incentives and motivation, system of labour welfare and social security etc., vary significantly between countries.

**Staffing Policy Determinants**

It should be pointed out that given the need to co-ordinate activities world-wide, and therefore the necessary ability of foreign subsidiary top executives to communicate directly with corporate headquarters, MNCs from some countries (e.g., Japan, South Korea, Taiwan) may need to depend more heavily upon home-country nationals because relatively few foreigners are fluent in the mother tongue of the home country. In contrast, language is less likely to prove a major restricting influence on the staffing policies of MNCs where English is the mother tongue. Japanese MNCs have been accused of adopting very ethnocentric staffing policies, and limiting job opportunities for non-Japanese nationals

**International Negotiation**

In a number of cases the foreign market entry and strategy implementation involve negotiation with the government of the foreign country and / or foreign firm. International business plans "are always often implemented through, face-to-face negotiations with business partners and customers from foreign countries. The sales of goods and services, the management of distribution channels, the contracting for marketing research and advertising services, licensing and franchise agreements and strategic alliances all require managers from different cultures to sit and talk with one another to exchange ideas and express needs and preferences. Executives must also negotiate with representatives of foreign governments who might approve a variety of their marketing actions' or in fact be the actual ultimate customer for goods' and services. In many countries governmental officials may also be joint venture partners, and in some cases vendors.

Successful negotiation demands threadbare analysis and evaluation of the commercial and their impressive presentation and proper understanding and appreciation of the cultural nuances of the negotiating party and skillfully navigating the negotiation process accordingly.

It is rightly said that "negotiation is both an art and a science. The science of it requires analyzing the relative bargaining strengths of each party and the different strategic options available to each party and assessing how the other party might respond to various bargaining ploys. The art of negotiation incorporate interpersonal skills, the ability to convince and be convinced, the ability to employ a basketful of bargaining ploys, and the wisdom to know when and how to use them. In the context of international business, the art of negotiation also includes understanding the influence of national norms, value systems, and culture on the approach and likely negotiating tactics of the other party as well as sensitivity to such factors in shaping a firm's approach to negotiations with a foreign government

**Cultural Problems In International Negotiations**

Important problems in international negotiations caused by cultural differences include those pertaining to the following:

      1. Language and non-verbal behaviours

      2. Values

      3. Thinking and decision making processes

Some problems may arise when negotiators are not able to properly communicate in a common language. Even when the same language is used, problems may arise due to different meanings for the same word in different cultures or because of different connotations when used in different contexts.

Cross-cultural differences in non-verbal communication are sometimes very perplexing. A particular gesture or symbol may have quite different connotations in different cultures. For example, the symbol Thums up signals approval in the United States,

Britain and Russia, but regarded highly offensive in Iran and is considered a rude gesture in Australia.

There are also significant cross-cultural differences in values. For" example, peoples differ in their adherence to time, promises etc. Similarly, business ethics vary substantially.

Culture can also have a significant impact on by whom and how decisions are made. Research has identified at least three fundamental aspects of decision making that differ significantly by culture. Decision by consensus is characteristics of collectivist-oriented cultures such as Japanese. Secondly, how decisions are made also varies by culture. One of the key factors that influence decisions is the role of information in the decision making process. In the United States and Sweden, managers emphasize rationality and utilise quantitative information. By contrast, French, Italian, and Argentinean managers emphasise past experience and qualitative information over quantitative data in making decisions. These examples further illustrate that the type of information that managers pay attention to and utilize in decision making can vary. Thirdly, culture also seems to playa significant role in the extent to which managers are comfortable in making decisions in uncertain environments. For example, managers from the United States, Germany, and Scandinavia seem to have the highest tolerance, while managers from Italy, Iberia, and Japan seem to have much Lower tolerance for making decisions in circumstances of uncertainty. These differences in tolerance can have a variety of implications. For example, if managers from Germany and Iberia are trying to an agreement concerning a joint venture in the context of significant uncertainty, they may clash and differ in their willingness to make decisions.

**International Asset Protection**

Company's investments and other assets in foreign countries may face the risk of expropriation. 'Governments are therefore concerned about the protection of the interests of their national companies in the foreign countries. The potential risk was more before the worldwide liberalisation set in the 1980s.

Important protective measures in this respect include the following:

**Coercion and Pressure**

Until the Second World War, home countries used military force and coercion to ensure that host governments would give foreign investors prompt, adequate, and effective compensation in cases of expropriation, under a concept known as the international standard of fair dealing. It may be noted that the home countries of the companies involved were developed ones and the host countries were developing nations and these host countries had little to say about this standard. In a two conference held at The Hague in 1930 and at Montevideo in 1933, participating developing countries got established a treaty stating that "foreigners may not claim rights other or more extensive than nationals."

Although military action or coercion of the old style are not much appreciated today, developed countries still use pressure of one or other sort to make developing countries to fall in line , such as trade pressures, aid, and influence with international lending agencies. Further, as the dependencia theory holds, developing economies have practically no power as host countries when dei1ling with MNEs. Their assets are of little importance in bargaining. Again, MNEs can enlist the loyalties of their home government's local elites to maintain their power.

**Bilateral and Multilateral Agreements etc.**

There are a number of Bilateral and Multilateral Agreements, Conventions, Treaties ete. between nations which seek to protect international assets and rights and to settle disputes.

There has in fact been a spurt in the investment treaties (BITs). The number of BITs quintupled during the 1990s reaching a total of 1,941 by end-2000 and shooting up to 2,099 by the end of 2001. In recent years, the developing countries constituted the largest number involved in the new BITs. They have also intensified the practice of concluding BIT among themselves (66 in 2001, compared with 36 in 2000). The least developed

countries (LDCs) have also shown a keen interest in entering in to BITs. A total of 23 LDCs were involved in the conclusion of 51 BITs in 2001. Of these, 13 were signed among the LDCs themselves, 24 with the rest of the developing world, 12 with developed countries and two with economies in transition.

At the regional and interregional levels, the number of investment-related instruments continues to grow, especially in the form of free trade and investment agreements.

The number of bilateral treaties for the avoidance of double taxation (DTTs) also increased, reaching a total of 2,118 at the end of 2000 and 2,185 by the end of 2001.

The WTO now is an important international organisation seeking to protect intellectual property rights and settle international trade disputes.

**Cultural Dimension 1**

**Is Murphy Brown French?**

Although Murphy Brown is a popular show in the United States, it is not a hit in Quebec. Candice Bergen, the show's star, is as well known in the United States as the Murphy Brown character and for her spokesperson role for the long-distance telephone carrier Sprint. Since Quebec residents prefer watching made-in-Quebec shows to watching American networks, they were not widely exposed to Sprint's U.S. advertising campaign and do not perceive Bergen to be a star.

In 1993, Bergen, who speaks French, filmed two sets of advertisements for Sprint's "The Most Worldwide" service. The service is called "Le Maxiphone" in French. Quebec's response to the commercials was below that in English-speaking Canada. Since the Murphy Brown show is dubbed in French in Quebec, Quebec consumers do not associate Candice Bergen's natural voice with that of Murphy Brown. Instead, Bergen in the commercials was, just an Englishwoman speaking French.

**Cultural Dimension 2**

**Children Should Be Seen but Not Heard**

A print advertisement for a children's nutritional supplement showed a boy wearing a baseball cap sideways. The boy, with his fist raised, said: "Come' on, Dad. If you can play golf five times a week, I can have Sustagen once a day." Singapore's Prime Minister G6h Chok Tong was unhappy with the advertisement since it promoted American-style insolence to parents. He criticized attitudes and manners that undermine Asian children's traditional politeness and deference to parents and elders. Singapore has waged a campaign against "Western values" that focus on individual rights at the expense of family and society. The advertisement in question was subsequently discontinued. Ironically, the advertisement originated in 'Malaysia and was created by Asians.

<center>**Communication Strategy**</center>

**A Global Product**

Reader's Digest is perhaps the world's most global magazine. The publication has remained unchanged and has been successful despite changes of culture. The magazine has endured for decades, earning the distinction of being the only mass-circulation, general-interest magazine that has survived the advent of television. The popularity of this largely standardized medium is confirmed by the 100 million people who read the magazine's forty-seven editions in nineteen languages. It has a worldwide circulation of more than twenty-eight million. Its latest addition is the Thai-language edition which was introduced in 1991.

Reader's Digest has always used the same formula for all markets: the same upbeat editorial format, with the same folksy illustrations for the magazine's back cover in all of its editions. The key to its success in Eastern Europe is its formula for mixing feature editorial from the United States and international sources with local stories. When it entered Poland in 1994, Reader's Digest Association set up a wholly owned subsidiary to publish Reader's Digest Wybor. Its full page advertisement in the New York Times proclaimed: "Hello Poland! The newest local edition of the world's most global

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magazine". According to the company, "the key for us is to have local people manage the operations and to become a local company."

**A World Car**

Making a world car is anything but easy. When Ford Motor Co. wanted to build a "world car" that could satisfy every taste, the concept sounded well. To make Ford Escort a world car, Ford pooled design, engineering, and manufacturing from North America and Europe. Unfortunately, rivalries were great. The car was designed in Europe, but American executives were skeptical of their European counterpart's business and engineering judgment. In the end, Ford produced two very different models. The American version was so thoroughly redesigned that the only common part that remained was the tiny water-pump seal.

Ford's subsequent cooperation with Mazda represented a better attempt to design world products. Mazda and Ford got together to design CT20 to be sold in ninety markets as Ford Escort or one of the various Mazdas (323, Protégé, or Familia). The process again was not easy. Mazda's designers correctly pointed out that Ford's license-plate recess was not large enough for all markets (e.g, Malaysian plates). They also had to agree on a rust-resistant alloy as well as the wheelbase length. While Mazda chose two lengths for different models) including a shorter one to achieve better handling on cramped Asian roads), Ford opted for just one wheelbase. To reduce noise, Mazda wanted to improve the engine, while Ford wanted other adjustments. A compromise was reached to retune the engine, add more insulation, and install the motor on softer rubber mounts. Mazda also manufactures Ford Probe, based on Mazda's MX-6.

Ford wanted to do the world car right the second time around when it bet $6 billion on the Mondeo. According to the company's rationale, a single car was worthwhile because of the convergence of emission standards, safety regulations, and consumer tastes. The plan was for the American and European versions to have 75 percent common parts. The American model is slightly longer and has more chrome.

Initial costs of this world car were high, but they were more than offset by the savings from engineering one car instead of two. There were obstacles, of course, and five European and American design studios had to compromise on design proposals that ranged from a soft and rounded body to a sharply angular one. Major responsibilities were divided, with Ford's chairman himself keeping an eye on the development. The U.S. division was responsible for automatic transmissions, while the European counterpart handled manual transmissions.

At last count, Mondeo is selling well in Europe. The American versions called Ford Contour and Mercury Mystique have also received critical acclaim, but the relatively high prices have hampered sales. Still Ford appeared to be successful in getting "two big elephants to dance".

As a product of compromise, a world product may have to be bland enough to partially please everyone while not really pleasing anyone. That is, it must satisfy the lowest common denominator of taste in different markets. Ford's Mondeo has done well in Europe, but American consumers have found the backseat of the American versions (Ford Contour and Mercury Mystique) to be too tight. Likewise, GM's 1997 front drive minivan is just right for the Europeans but a little bit too small for the Americans. As far as the automobile industry is concerned, a world car has another problem; it has to meet the world's toughest environmental and safety rules, thus increasing costs.

The trend toward an international or world product and away from a national product will continue as MNCs become more aware of the significance of world marketing. The willingness of several companies to consider designing a universal product for the world market is indeed a good indicator that this trend will continue.

**Marketing Strategy 1**
**A Tough Grandma**

Gertrude Boyle, in her 70s, is the owner of Columbia Sportswear Co., an outerwear company based in Portland. The company sells jackets and hats to hunters and fishermen. Columbia's big break came when it introduced a jacket with a zip-out lining (Bugaboo parka) that could be worn separately.

In 1983, Columbia's advertising agency put Gertrude Boyle and her son, Tim, in a humorous campaign. She was portrayed as a tough lady who, in one commercial, forced Tim to walk through a car wash to demonstrate the jacket's waterproofing. A more recent commercial showed Tim accidentally push his mother off a cliff. He was able to rescue her by knotting together the shell and liner of his Bugaboo parka. The jacket's resilience allowed him to pull her up. The campaign has been a huge success, turning the fledgling company into the world's largest manufacturer of outdoor apparel. It has captured 30 percent of the, outdoor apparel market in the United States and wants to penetrate overseas markets.

Gertrude was told that her campaign depicting her as a tough-talking matriarch might not be well received in Tokyo. Her Japanese distributor was concerned that Japanese shoppers would find her to be too abusive. But the campaign worked well in Japan and elsewhere, making Columbia's jackets best sellers. Overseas sales have tripled in two years.

Although Boyle's "Tough other" image works almost everywhere, certain points are difficult to export. For instance, the "Born to Nag" tattoo she sports in some advertisements was too difficult to translate.

**Marketing Strategy 2**
**Global, Maybe; Effective, Maybe Not**
PepsiCo ran a teaser advertisement repeatedly to announce its big event. The event was the debut of its commercial with pop singer Madonna who reportedly received $5 million for three Pepsi commercials. It would be "a record and advertising first" because the commercial would accompany the first public airing of Madonna's new song "Like a

Prayer." It was a novel approach since it was customary to launch pop songs on radio. Pepsi felt that its revolutionary approach might change-the way popular tunes were released.

Pepsi's novel approach involved placing the advertisement on a top-rated evening show in each country, representing one of the "largest single-day media buys" in history. It purchased two minutes of prime TV time in each of forty countries from Finland to the Philippines, and the company expected 250 million people to witness the event.

The event did not work out as planned. Madonna's video music was heavily criticized as having an antireligious tone. Because of the backlash, the company was forced to withdraw the advertisement later. It should be obvious that just simply running the same advertisement in numerous countries does not make it automatically effective. A bad advertisement run globally will achieve great impact-negatively.

**Marketing Strategy 3**

**Pan-European Advertising**

The Whirlpool brand was virtually unknown in Europe when Whirlpool Corp. formed a joint venture with Philips Electronics NY in 1989. Although Whirlpool could brand its appliances Philips-Whirlpool until 1998, it wanted its own image. Toward this end, Whirlpool wanted an advertising idea that could overcome Europe's national barriers. Electrolux and other competitors plus some of Whirlpool's national managers as well as Whirlpool's own advertising agency were quite skeptical of the pan-European approach.

Whirlpool carefully formulated ground rules and evaluated more than twenty proposed campaigns. It decided on a campaign under the slogan "Philips and Whirlpool bring quality to life." The campaign featured a cool, bluish dream world of dryers and dishwashers and emphasized high technology and the universal desire for more free time. The campaign worked as polls showed that more consumers were aware of Whirlpool and that they had positive associations with the company's products. Also in 1991 at the time when industry sales of major appliances in Europe stagnated, Whirlpool instead gained market share in Europe as a whole and in Germany, France, and Britain in

particular. Subsequently, it dropped the Philips name in Britain, Ireland, the Netherlands, and Austria and planned to do the same in the rest of Europe long before 1998.

## BUSINESS CULTURE IN CHINA

### Advertisers

In general, managers coming to China should ratchet up their sense of formality without becoming stiff--the key concepts are respect and professionalism, not ceremony. These simple ideas will help in guiding an executive through any strange situations, advises Frank Luijckx, director of IS for Europe and Asia-Pacific for the global polyethylene and hydrocarbons product lines at Dow Europe SA in Horgen, Switzerland.

### Decisions

The biggest specific difference between Western and Chinese business culture is in decision-making. Quick decisions are alien to the Chinese. Rapid decision making, incorporating quickly gathered and processed information, is a sign of an aggressive, highly competent manager in the West. But to the Chinese, haste is the sign of an idiot. The Chinese prefer to deliberate longer, even on decisions that might take Western managers five minutes, says George Koo, who has facilitated joint ventures between Chinese and Western companies since 1978 and is currently a senior consultant at Meridian Resources Associates Inc. in San Francisco. Discuss the issue, ask for feedback and explain your decision's rationale, he advises. This way, the staff will be more accepting and respectful of the decision. The Chinese want to be included in the decision-making process at a degree of collaboration that to a Western manager may seem unnecessary for relatively simple points but is nevertheless important in this culture. "A snap decision to them is an insult," adds Richard Loi, a Singaporean who is managing director of the UPS Parcel Delivery Co. in Beijing, United Parcel Service of America Inc.'s China joint venture. "They want to feel honored that you bring issues to them and ask what they would do. Even if you think it's a simple decision, mull it over and talk to

them about it." The results-buy-in, compliance, good feeling--will be worth the extra effort.

**When "Yes" Means "No"**

It's practically a cliché that Chinese people do not like to say no in a business setting nor admit that they don't understand something. Unlike in the United States, where we've been told since grade school that there are no dumb questions, the Chinese have not been encouraged to express puzzlement. Misinterpretation of these cultural norms by a Western manager can undermine the effectiveness of an IT department. Winferd Tsai, DuPont Co.'s IT manager for Greater China and a veteran of Hewlett-Packard Co.'s well-regarded operations in Taiwan, understands the nuances of the Chinese affirmative response. Often when a manager explains and assigns a task to a staffer, the person will respond, "No problem," Tsai says. Sounds reassuring, but that answer may be a product of the cultural tendency toward politeness and reluctance to disappoint. A "No problem" usually means "I'll try." Tsai warns, "You will still need to do a lot of follow-up with them. They also may not tell you if things start going wrong." The Chinese people's desire not to disappoint also manifests itself in a technical perfectionism that may mire an IT project. Trying to make everything technically perfect, the IT staff will come up with a thousand reasons to delay a project, regardless of the deadline, Tsai says. "You have to balance that and try to get them to focus not just on technical perfection but to think from the customer's perspective and the realities of business." Because they have not been exposed to the Western business culture that allows for risk taking and mistakes, "We have to work with them side by side, give them encouragement and show them that mistakes are acceptable," Loi says.

**Personal Style**

The Western mode of teaching, which encourages students to question and challenge the instructor, is unknown to the Chinese. In China teachers lecture and students dutifully take notes--no exchange is heard. For a Western manager attempting to instruct IT troops or train users, this silence can be unnerving. The Chinese must be urged to ask questions and interrupt, says Meimei Fox, a Meridian Resources consultant. Providing material in

advance gives staff a chance to review a topic and think of questions. It will also help put as much of the information into visual form as possible. This not only helps overcome language barriers, it plays to the Chinese tradition of pictorial representation. Fox also advises her clients to emphasize hands-on training to encourage the Chinese, who are strong theorists, to connect theories to applications in the real world of business. Above all, don't feel that it's condescending to repeatedly explain a new concept, direction or process. It's the best way to ensure understanding and compliance, according to several Western managers and consultants in China. "The people are intelligent and proud, and they will adapt to processes if they understand why they are being done," says Ian Shiers, president of Polaroid Asia Pacific International Inc. If a hard-boiled Western manager publicly chastises his Chinese employee, he may as well write his ticket home. It is an unforgivable offense to cause a person to "lose face." A public slight, such as passing someone over for an anticipated assignment, can be a relationship killer. IT innovation in China is still very much technology driven, as opposed to business-process driven as it is in the West. A new-style CIO from the West, with a strong business background and only a working knowledge of technology, will not fare well in China. The people are eager to learn leading-edge technology once they are persuaded of its value; therefore, they expect their managers to be technologically adept. That's the reason many Western companies view the Taiwanese as a good choice among expatriates to take technology management positions in China. "The young generation here knows and respects Taiwan's ability in technology," says Elwood Chen, the Taiwanese corporate systems project manager for Aetna      Life      Insurance      Co.      of      America's      new      venture      on      the

mainland. "IT managers from Taiwan are mostly technical people, and they have been successful here and win a lot of respect." Fraternizing after business hours may be becoming increasingly uncommon in the don't-do-or-say-anything-that-can-get-you-sued environment of the West. In China, gaining staff loyalty and peer support depends on breaking through the professional formality to form friendships. The Chinese expect a boss to be a leader both inside and outside the organization, says Meridian Resources' Koo. That means organizing social events for office personnel. Favorite activities include Dining (formal banquets, lunch or dinner at outstanding restaurants) Bowling Karaoke

nightclubs Picnic outings Soccer matches (But leave your golf clubs at home. Koo says golf is still tainted by bourgeois connotations because of its waste of valuable land.)

The business culture's high regard for relationships applies to people outside the company as well as inside. In fact, the very viability of a business depends on relationships with vendors, distributors and, most important, the municipal, regional and central government ministers whose disfavor can cripple a company. Entire books are written on this art of the relationship, known as guanxi (gwan-zhee), or connections. Guanxi can take the form of a night of karaoke with the local fire department regulator in order to get a new computer room plan approved. Or it could mean hosting a banquet with a customs official to make sure precious hardware shipments arrive at some point in the 20th century. At the highest levels, it could mean bringing your CEO to China to shake hands with the minister of a key industry sector that represents lucrative potential business. Although it is vital for a Western manager to understand the necessity of external relationships and the role of guanxi in China, the actual act of relationship building is best left to the ethnic Chinese on the staff. For one thing, they will more quickly understand the expectations of Chinese power brokers; for another, they have a lifetime of cultural habits that will enable them to handle delicate situations with more aplomb than a Western manager ever could. "A white face can throw off the dynamics," says one American IT manager. "There is a barrier there, and you can only go so deep in terms of a relationship." If it sounds as though there are many cultural land mines in China for the Western manager, take heart. In a couple of areas, Westerners, particularly Americans, have an advantage over their Chinese counterparts. One is directness. Although the Chinese can be notoriously indirect--they struggle to read the subtle signals in their bosses' manner and body language to interpret their desires--"they appreciate the Westerner's straightforward approach and ability to break the ice," Fox says. So don't worry if you feel the need to come right to the point. It will be appreciated. The second advantage Americans enjoy is that the Chinese expect them to goof up. The staff will cut an American more slack and be more forgiving of cultural miscues than they will a Chinese manager or expatriates from Hong Kong and Taiwan. But that's not license to be cavalier; it just means you get a little more rope before you might hang yourself.

**Key Concepts in Understanding Chinese Culture**

**Guanxi**: Throughout much of Chinese history, the fundamental glue that has held society together is the concept of guanxi, relationships between people. Today this means who you know and what these people believe their obligations are to you. With a good network of contacts in China, almost anything can be accomplished. Guanxi is how things get done. The power of guanxi is one of the reasons given for why China does not have a reliable legal system.

**Reciprocity**: This refers to the exchanging of favors between individuals and groups. People will presume upon those with whom they have guanxi, and understand the need for returning favors.

**Mianxi**: Face - Losing face, saving face and giving face is very important and should be taken into consideration at all times. Loosing your temper, confronting someone, putting someone on the spot, arrogant behavior, or failing to accord proper respect can cause a loss of face.

**Lijie and surface harmony**: Originally li meant to sacrifice, but today it is translated as the art of being polite and courteous. Proper etiquette preserves harmony and face. Therefore, the true emotions of a person do not matter as long as surface harmony is maintained.

For example, a public argument, or a boss reprimanding a staff member in front of others would disturb surface harmony and cause a loss of face. This is why the Chinese often use an intermediary to deliver bad news or unpleasant messages.

**Keqi**: Ke means guest and qi means behavior. It not only means considerate, polite, and well mannered, but also represents humbleness and modesty. It is impolite to be arrogant and brag about oneself or one's inner circle. The expression is most often used in the negative, as in buyao keqi, meaning "you shouldn't be so kind and polite to me," or "you're welcome."

**Inner and outer circles**: The rules of behavior set forth by Confucius apply to one's inner circle, i.e. family, friends, colleagues, and acquaintances. They do not, as a rule, apply to people outside the circle, i.e. strangers. It is not considered rude to bump into someone without offering an apology. The Western concept of being kind to strangers seems strange to the Chinese. This also explains why there is no strong concept of philanthropy in China.

*FRENCH CULTURE*

One of the most notable characteristics of France is the way in which so much of life -- from geography and transportation to government and business -- is centralized. This has affected the way in which the French people see the world.

In geographic terms, Paris is the center of the country, with road and rail links radiating out from the city. Even within Paris and other French cities, roads often lead in and out of a center.

Paris is also the center of many industries and activities. Unlike the US, which has its government in Washington, its finances in New York, and much of its entertainment industry in Los Angeles, Paris is the center of all of these components of French life.

In terms of power and authority, the French have traditionally placed significant power in the hands of one individual. In earlier times, this was a monarch. But even today, with a democratic government, the French presidency is a particularly strong office.

French business also follows this trend toward centralization. Authority is nearly always concentrated in the hands of a single individual. Offices are often laid out in this manner, as well, with the senior person in the middle and the lowest ranking employees the furthest distance away from the center of power.

**A class-conscious society**

French society is quite structured, and the lines that divide the classes of people can be difficult to traverse. This is a throwback to centuries of living with a monarch and an aristocracy.

In business, a person's ability and accomplishments are not always the means to attaining position. In a self-perpetuating "old-boy" network, many of the top managers in the country come from the upper social classes and attended the better schools and universities. The French, more than most, rely on their status and labels to propel them to the top rather than their individual drive and ability.

**French individuality**

Individuality is important to the French, but it has a different meaning from the "individualism" so often spoken of in the US. In American terms, individualism means self-reliance, and usually refers to a self-made and independent person. In France, "individuality" describes a person who has a distinctive character; someone who sets him or herself apart through unique and interesting opinions or style.

But while the French respect and enjoy uniquely individual characters, they wouldn't necessarily relate to the concept of a self-made person. There is less opportunity for social mobility in France. The French are born into societal classes and don't usually have the same individual opportunities as Americans who exhibit drive and ambition.

**A love of logic and language**

By nature, the French are deductive thinkers and respect articulate speakers. They also enjoy a good argument. The tradition in France is to start with the big picture and work your way down to the details. Because of this, arguments often revolve around logic. The French are known to play devil's advocate or challenge another person's line of thinking. They will argue vehemently to convince you of their position, but they view such arguments as sport and don't take these disagreements personally. In fact, they especially admire people who can present a logical argument and stand their ground.

Along with their love of logic is a great appreciation for language.The French enjoy conversation and take pride in being eloquent. There are thousands of bookstores across France, and authors and philosophers can reach the status of national hero. This is an important clue to the French communication style; they stress abstract thinking and look for the patterns behind the concrete information.

**Pride in their heritage**

The French are very proud of their nation, so much so that they often appear nationalistic or disparaging of anything or anyone not French. The French people live off the reflected glory of the country's years as a world power and its ongoing contributions to the arts and culture. There is a sense among the French that theirs is a special nation with a unique destiny in world affairs.

Like Americans, many French citizens do not speak another language, and often insist on speaking French in all business and government dealings. French was once considered the primary international language and today France resists the incursion of English, even to the point of barring new English words (such as in the computer field) from the French language

**Appointment Alert:**

• Ensure that you make appointments for both business and social occasions. While you should strive to be punctual, you won't be considered late if you arrive ten minutes after the scheduled time. There is an increased tolerance for arriving late as you go further south.

• French employees get five weeks of vacation, and take at least three in July or August. Moreover, France practically 'shuts down' in August.

• With the mandatory reduction of the work week to 35 hours, executives are getting additional vacation in lieu of shorter working weeks [14 to 16 extra days every year]. This results in a lot of offices being practically deserted during Christmas and Easter school closings. You will need to take this into account when planning your business trips to France.

• Generally, business hours are from 8:30 or 9:00 a.m. to 6:30 or 7:00 p.m. Lunch may last for two hours or more. In Paris, lunch begins at 1:00 p.m. In the provinces, lunch begins at noon or 12:30 p.m. Executives often stay in the office until 7:00 or 8:00 p.m.

• Staying late at the office is common, especially for individuals in more senior positions.

• The best time to schedule meetings is usually 11:00 a.m. or 3:30 p.m.

**Conversation**

**General Guidelines**

• you'll find that conversations often shift into spirited debates.

• Give opinions only on subjects that you are knowledgeable about.

• Studying French history, politics, and other aspects of the culture will be an advantage for you in conversation.

• Be prepared to answer questions about your own country, especially regarding political matters and its history.

• There is rarely a moment of silence, except when the topic under discussion has been exhausted, and nothing new has been introduced.

**Welcome Topics of Conversation**

　　• Food/praising French cuisine

　　• Art, music, and philosophy

• Sports

• Current events/history [if you know what you're talking about]

**Topics to Avoid**

• It is extremely bad manners to ask an individual about his political leanings or how he voted. You can, however, inquire about the political system or public opinion about political leaders.

• Do not criticize Napoleon, who has a lasting identity with the French spirit.

• Refrain from using the standard U.S. conversation opener, 'What do you do?'

• Avoid making personal inquiries in the course of a conversation, especially during first introductions.

**First Name or Title?**

• In accordance with French business protocol, use first names only when invited. Use of first name has become common for colleagues at work. This is less frequent when age or position gap is very large. Outsiders, clients, suppliers are usually referred to as Monsieur or Madame.

• When speaking French, use the 'vous' form until you are asked to use 'tu.'

• 'Madame' is a basic title of courtesy for all women, as is 'Monsieur' for men.

• Today, the courtesy title 'Mademoiselle' is rarely, if ever, used and should be avoided.

• The French will sometimes introduce themselves by first saying their surname, followed by their first name; if both sound like first names, this can be especially confusing [i.e. if Maurice Francois introduces himself as 'Francois', 'Maurice']. If unsure, be sure to ask.

**Review Questions:**

1. **What are the different cultural norms and values, and how do they differ around the world?**

2. **How do cultures affect the Communication process of an Organisation and to what extent?**

3. **How do Managers use the Global Consumer Culture to position their Goods in the local market?**

4. **What are the factors influences while building a high performance winning team? How the adverse factors can overcome?**

5. **Describe the important differentiating aspects of Chinese and French Culture.**

**Learning objectives:**

After reading this unit, you may be able to understand

- **Cross Culture – Negotiation & Decision Making.**
- **International and Global Business Operations.**
- **Strategy Formulation & Implementation.**
- **Aligning Strategies.**
- **Structure & Culture in an organizational Context**

 **CROSS CULTURE – NEGOTIATION AND DECISION MAKING**

## I. NEGOTIATION

The immense growth of global competition and co-operation has made it important for us to understand the dynamics of cross-cultural negotiation.. In order to overcome the issues of global business, managers of today have to use various tools and strategies. One of such tools is negotiation. **Negotiation is the process of bargaining with one or more parties for the purpose of arriving  at a solution that is acceptable to all**. As a conflict solving method negotiation plays a significant  role in global business especially in a cross-cultural environment.

**Negotiation is a process involving two or more people of either equal or unequal power meeting to discuss shared and/or opposed interests in relation to a particular area of mutual concern.**

**Negotiation is the process where interested parties resolve disputes, agree upon courses of action, bargain for individual or collective advantage, and/or attempt to craft outcomes which serve their mutual interests** As a process, negotiation has three dimensions. First, negotiation is an educational process: it enlightens the other side about your team's concerns, perceptions and aspirations. Second, negotiation is a problem-solving process: inevitably the parties involved have different perspectives that must be reconciled if there is to be progress. Third, negotiation is an interdependent process:

workable and sustainable progress depends on building a cooperative relationship with the other side. In general, negotiating a workable balance among competing interests requires a combination of direct and indirect diplomacy, discussion and consultation, compromise and concession, and above all, flexibility.

Moreover, negotiation is about conflict. In negotiation, conflict tends to be a product of the different interests held by the parties in relation to the area under discussion. The nature of the conflict is conditioned by the substantive, psychological and procedural requirements of both sides: respectively, the minimum objective, emotional needs, and resolution and implementation procedures requiring satisfaction for there to be an agreement. The conflict therefore need not be destructive: it can be used to promote communication and discussion which allows the parties to redefine old, unworkable, or to establish new, relationships. Furthermore, the nature of conflict changes over time which allows new opportunities for discussion and reconciliation. In general it is important to understand the nature of the conflict and to legitimize it in the negotiating process.

Finally, negotiation is about power. Power is the capacity to realize a desired outcome, or to change the stance of another party. Negotiation inevitably involves parties with different capabilities and resources. The ability to utilise these differences in an effective exercise of power will depend on the political, economic and social context surrounding the negotiations. The exercise of power manifests itself in the words and phrases used in the final agreement. It is therefore a contingent phenomenon subject to the particularities of the situation and the abilities of the parties involved to function in the given negotiating environment. As a result, in a contest of wills it is not inevitable that the party with greater resources and influence will always realise its objectives. In general, negotiating a workable solution among competing interests requires an understanding of the power dynamics at work because these will set the parameters in which an agreement will be realised.

## I.1  CULTURAL IMPLICATIONS
### FOR

# MANAGERS AND NEGOTIATORS

Considering the potential problems in cross-cultural negotiations, particularly when you mix managers from relationship-oriented cultures with those form information-oriented ones, it is a wonder that any international business gets done at all obviously, and the economic imperatives of global trade make much of if happen despite the potential pitfalls. But an appreciation of cultural differences can lead to even better international commercial transaction-it is not just business deals but highly profitable relationships that are the real goal of international business negotiation. For the efficient and effective international business negotiations few steps are important .Which includes:

(1) Selection of the appropriate negotiation team.
(2) Management of preliminaries, including training, preparation, and manipulation of negotiation wettings.
(3) Management of the process of negotiations, that is, what happens at the negotiation and table; and
(4) Appropriate follow-up procedures and practices. Each is discussed in this section.

Negotiation Teams One reason for global business successes is the large numbers of skillful international negotiators. These are the managers who live in foreign countries and speak foreign languages. In many cases, they are immigrants to the foreign countries or have been immersed in foreign cultures in other capacities. More business schools are beginning to reemphasize language training and visits abroad. Indeed, it is interesting to note that the original Harvard Businesses School catalog of 1908-1909 listed German, French, and Spanish correspondence within its curriculum

Traits such as maturity, emotional stability, breadth of knowledge, optimism, flexibility, empathy, and stamina are all important, not only for marketing executives involved in international negotiations but also for the technical experts who often accompany and support them. In studies conducted at Ford Motor Company and AT&T, three additional

traits were found to be important predictors of negotiator success with international clients and partners; willingness to use team assistance, listening skill, and influence at headquarters.

Willingness to use tam assistance is particularly important for American negotiators. Because of cultural heritages of independence and individualism, Americans often make the mistake of going it alone against greater numbers of foreigners. One American sitting across the negotiation table from three or four Chinese negotiators is unfortunately an all too common sight. The number of brains in the room does make a difference. Moreover, business negotiations are social processes, and the social reality is that a larger number of nodding heads can exercise greater influence than even the best arguments. It is also much easier to gather detailed information when teams are negotiating rather than individuals. For example, the Japanese are quite good ate bringing along junior executives for the dual purposes of careful note taking and training via observation. Compensation schemes that overly emphasize individual performance can also get in the way of them negotiating a negotiation team requires a split commission, which many Americans naturally avoid. Finally, negotiators may have to request the accompaniment of senior executives to better match up with client's and partner's negotiation teams, Particularly in relationship oriented cultures, rank speaks quite loudly in both persuasion and the demonstration of interest in the business relationship.

The single most important activity of negotiations is listening. The negotiator's primary job is collecting information with the goal of enhancing creativity. This may men assigning one team member the sole responsibility of taking careful notes and not worrying about speaking during the meetings. This may also mean that knowing the language of clients and partners will be crucial for the most complete understanding of their needs and preferences. The importance of listening skills in internal business negotiations cannot be overstated.

Bringing along a senior executive is also important because influence at headquarters is crucial to success. Many experienced international negotiators argue that half the negotiation is with headquarters. The representatives' lament goes something

like this, "The better I understand my customer, the tougher time I have with headquarters'", Of course, this misery associated with boundary-spanning roles is precisely why international negotiators and sales executives make so much money.

**Preliminaries:**

This part in concerned with the preparation for the negotiations process, which includes tuning of negotiators and groundwork of physical arrangement.    Many companies in the United States provide employees with negotiations training.    For example, through is training programs, Chester Karrass has taught more people to negotiate than any other purveyor of the service – see his ads in almost all in-flight magazines of domestic American air carriers. To the Indian context, management schools are updating their curriculum based on the contemporary business requirements. However, very few companies provide training for negotiations with managers from other countries.  Even more surprising is the lack of cultural content in the training of the government's diplomats.  Instead, in most schools of diplomacy the curricula covers language skills, social and diplomatic skills and knowledge specific to the diplomatic profession, are including diplomatic history and international relations, law, economics, politics, international organizations, and foreign policies. Cultural differences in negotiation and communication styles are seldom considered.

Things are different at Ford Motor Company. Ford does more business with Japanese companies than any other firm.  Ford owns 33 percent of Mazda, it built a successful minivan with Nissan, and it buys and sells component parts and completed cars from and to Japanese companies.  Ford has made a large investment in training its managers with Japanese responsibilities.  Over 2,000 of its executives have attended a three-day program on Japanese history and culture and the company's Japanese business strategies.  Further, more than 1,000 Ford Managers who work face-to-face with Japanese have attended a three-day program entitled"Managing Negotiation: Japan" (MNJ).  The MNJ program includes negotiation simulations with videotape feedback, lectures with cultural differences demonstrated via videotapes of Japanese/American interactions, and

rehearsals of upcoming negotiations. The company has also conducted similar programs on Korea and the People's Republic of China. In addition to MNJ the broader Japan training efforts at Ford must be credited for their successes in Japan. Certainly, MNJ alumni can be seen exercising influence across and up the ranks regarding Japanese relationships.

Any experienced business negotiator will tell you that there is never enough time to get ready. Given the time constraints of international negotiations. Preparations must be accomplished efficiently – the homework must to be done before the bargaining begins. The following checklist is recommended to ensure proper preparation and planning for internationals negotiations:

- Assessment of the situation and the people
- Facts to confirm during the negotiation
- Agenda
- Best alternative to negotiated agreement (BATNA)
- Concession strategies
- Team assignments

Preparation and planning skill is at the top of almost everyone's list of negotiator traits, yet is seems many Americans are still planning strategies during over-ocean flights when they should be trying to rest. Quick wits are important in business negotiations, and arduous travel schedules and jet lag dull even the sharpest minds. Obviously, information about the other side's goals and preferences should be sought ahead of time. Also important are clears directions from headquarters and detailed information about market conditions.

No mater how thorough the preliminary research, negotiators should always make a list of key facts to reconfirm at the negotiation table. Information gathered about foreign customers and markets almost always includes errors, and things can change during those long airline flights, next, anticipate that managers from other cultures may put less emphasis on a detailed agenda, but it still makes sense to have one to propose and help organize the meetings.

There are at lease seven aspects of the negotiation setting that should be manipulated ahead of time if possible:

(1) Location

(2) Physical arrangements

(3) Number of parties

(4) Number of participants

(5) Audiences (new media, competitors, fellow vendors, etc.)

(6) Communications channels

(7) Time limits

Physical arrangements can affect cooperativeness in subtle ways. In high-context cultures the physical arrangements of rooms can be quite a source of embarrassment and irritation of handled improperly. To the detriment of their foreign business relationships, Americans tend to be casual about such arrangements. Furthermore, views about who should attend negotiations vary across cultures. Americans tend to want to get everyone together to "hammer out an agreement" even if opinions and positions are divergent. Japanese prefer to talk to everyone separately, then, once everyone agrees, to schedule more inclusive meetings. Russians tend to ward a cumulative approach, meeting with one party and reaching an agreement, and then both parties calling on a third party, and so on. In addition, the importance of not being outnumbered in international business negotiations has already been mentioned.

Audience can have crucial influences on negotiation processes. Purchasing executives at PetroBras, the Brazilian National oil company, are well known for putting competitive bidders in rooks adjacent to one another to increase competitive pressures on both vendors, Likewise, news leaks to the press played a crucial role in pushing along the negotiations between General Motors and Toyota regarding a joint venture production agreement.

Finally, it is important to manipulate time limits, Recall the example about the Russians and Americans in Nice. The patience of the home office may be

indispensable, and major differences in the orientation should be planned for when business negotiations are conducted in most other countries.

**At the Negotiation Table:**

The most difficult aspect of international business negotiations is the actual conduct of the face-to-face meeting. Assuming that the best representatives are well prepared and that situational factors are manipulated in one's favor, things can still go sour at the negotiation table. Obviously, if these other preliminaries are not managed properly, things will go wrong during the meetings. Even with great care and attention to preliminary details, managing the dynamics of the negotiation process is almost always the greatest challenge facing Americans seeking to do business in other countries

Going into a business negotiation, most people have expectations about the "proper" or normal process of such a meeting. Based on these expectations, progress is measured and appropriate bargaining strategies are selected. That is, things may be done differently in the latter stages of a negotiation than they were in the earlier. Higher-risk strategies may be used to conclude talks- as in the final two minutes of a close soccer match, but all such decisions about strategy are made relative to perceptions of progress through an expected course of events.

**After Negotiations:**

Post-negotiation follow-up plays a crucial role in completion of negotiation process. In India negotiators tend to spend good amount of time to prepare the final draft of the negotiation. Contracts between American firms are often longer than 100 pages and include carefully worded clauses regarding every aspect of the agreement. American lawyers go to great lengths to protect their companies against all circumstances, contingencies and actions of the other party. The best contracts are ones written so tightly that the other party would not think of going to court to challenge any provision. The American adversarial system requires such contracts.

In most other countries, particularly the relationship-oriented ones, legal systems are not depended upon to settle disputes. Indeed, the term disputes do not reflect how a business relationship should consider the interests of the other. Consequently, in places like Japan written contracts are very short-two to three pages – are purposely loosely written, and primarily contain comments on principles of the relationship. From the Japanese point of view, the American emphasis on tight contracts is tantamount to planning the divorce before the wedding.

In other relationship-oriented countries, such as China, contracts are more a description of what business partners view their respective responsibilities of what business partners view their respective responsibilities to be. For complicated business relationships they may be quite long and detailed. However, their purpose is different form the American understanding. When circumstances change, then responsibilities must also be adjusted, despite the provisions of the signed contract. The notion of enforcing a contract in China makes little sense.

Informality being a way of life in the United States, even the largest contracts between companies are often sent through the mail for signature. In America, ceremony is considered a waste of time and money. But when a major agreement is reached with foreign companies, their executives may expect a formal signing ceremony involving CEO's of the respective companies. American companies are wise to accommodate such expectations.

Finally, follow-up communications are an important part of business negotiations with partners and clients from most foreign countries. Particularly in high-context cultures, where personal relationships are crucial, high-level executives must stay in touch with their counterparts. Letters, pictures, and mutual visits remain important long after contracts are signed. Indeed, warm relationships at the top often prove to be the best medicine for any problems that may in the future.

I.2 THE NEGOTIATION PROCESS

The World is full of countries that prove the precept that those that live closer to the principles of free trade do better than those who have abandoned them. The famous economist Adam Smith spent 12 years, up until 1776 writing his seminal piece 'An Inquiry into The Nature and Causes of the Wealth of Nations'. In it he remarked on the propensity to truck, barter and exchange - which he found to be common to all people on the planet and yet was not present in any other species.

Smith wrote: "Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine; that is yours, I am willing to give this for that."

If you want to trade you have to negotiate, the alternative is to accept what you are offered. There are many opportunities to negotiate better deals and terms, however these chances are often missed because neither side makes it clear that negotiating is an option. Many people wrongly assume that nothing is negotiable unless the other party indicates that this is the case - a more realistic view is that everything is negotiable, in order to be effective you will need effective negotiating skills.

The complexity of the negotiating process will vary according to the size and complexity of the proposed deal as well as the attitudes adopted by the parties involved. Nearly all negotiations are characterized by five stages, the ordering of which may vary according to the cultural norms.

1. **Preparation.**
2. **Relationship building.**
3. **Exchange of task related information.**
4. **Persuasion. And**
5. **Concessions and agreement.**

Of course, in reality these are seldom distinct stages but rather tend to overlap; negotiators may also temporarily revert to an earlier stage. With that in mind, it is useful to break down the negotiation process into stages to discuss the issues relevant to each

stage and what international managers might expect, so that they might more successfully manage this process.

**1. Preparation:**

The importance of careful preparation for cross-cultural negotiations cannot be over stated. To the extent that time permits, a distinct advantage can be gained if negotiation familiarizes themselves with the entire context and background of their counterparts (n matter where the meetings will take place) in addition to the specific subjects to be negotiated. Because most negotiation problems are caused by differences in culture, language and environment, hours or days of tactical preparation for negotiation can be wasted these factors are not carefully considered.

To understand cultural differences in negotiating styles, managers first must under stand their own styles and then determine how they differ from the norm in other countries. They can do this by comparing profiles of those perceived to be successful negotiators in different countries. Such profiles reflect the value system, attitudes, and expected behaviors inherent in a given society. Other sections of this chapter describe and compare negotiating styles around the world.

Variables in the Negotiating process

Adept negotiators do some research to develop a profile of their counterparts so that they know, in most situations, what to expect, how to prepare, and how to react. The following are the few variables to consider when preparing to negotiate.

- Basic idea about negotiation process.
- Negotiator selection
- Knowledge about the issues
- Negotiation protocol
- Risk taking propensity
- Value of time

These variables can, to great degree, help managers understand the deep – rooted cultural and national motivations and traditional process underlying negotiations with people from other countries. After developing thoughtful profiles of the other party or parties, managers can plan for the actual negotiation meetings. Prior to the meetings, they should find out as much as possible about

1. The kinds of demands that might be made,
2. The composition of the "opposing" team, and
3. The relative authority that the members possess.

After this, the managers can gear their negotiation strategy specifically to the other side's firm, allocate roles to different team members, decide on concessions, and prepare an alternative action plan in case a negotiated solution cannot be found.


**2. Relationship Building:**
Relationship building is the process of getting to know one's contacts in a host country and building mutual trust before embarking on business discussions and transactions. This process is regarded with much more significance in most parts of the world than it is in the United States. U.S. negotiators are, generally speaking, objective about the specific matter at hand and usually want to waste no time in getting down to business and making progress. This approach, well understood in the United Statesman be disastrous if the foreign negotiators want to take enough time to build trust and respect as a basis for negotiating contracts. In such cases, American efficiency interferes with the patient development of a mutually trusting relationship—the very cornerstone of an Asian business agreement.

In many countries, such as Mexico and China, personal commitments to individuals, rather than the legal system, form the basis for the enforcement of contracts. Effective negotiators allow plenty of time in their schedules for such relationship building with bargaining partners. This process usually takes the form of social events, tours, and ceremonies, along with much nontask sounding - general, polite conversation and

informal communication before meetings-while all parties get to know each another. In such cultures, one patiently waits for the other party to start actual business negotiations, aware that relationship building is, in fact, the first phase of negotiations. It is usually recommended that managers new to such scenarios use an intermediary, someone who already has the trust and respect of the foreign managers and who therefore acts as a "relationship bridge." Middle Easterners, in particular, prefer to negotiate through a trusted intermediary, and for them as well, initial meetings are only for the purpose of getting acquainted. Arabs do business with the person, not the company, and therefore mutual trust must be established.

### 3. Exchanging Task-Related Information:

In the next stage-exchanging task-related information-each side typically makes a presentation and states its position; a question-and-answer session usually ensues, and alternatives are discussed. In India, parties will do brief discussion about their position and expectations. From an American perspective, this represents a straightforward, objective, efficient, and understandable stage. Mexican negotiators are usually suspicious and indirect, presenting little substantive material and lengthier, evasive conversation. French negotiators enjoy debate and conflict and will often interrupt presentations to argue about an issue even if it has little relevance to the topic being presented. The Chinese also ask many questions of their counterparts, and they delve specifically and repeatedly into the details at hand; conversely, the Chinese presentations contain only Vague and ambiguous material. For instance, after about twenty Boeing officials spent six weeks presenting masses of literature and technical demonstrations to the Chinese, the Chinese said, "'Thank you for your introduction."

The Russians also enter negotiations well prepared and well versed in the specific details of the matter being presented. To answer their (or any other side's) questions, it is generally a good idea to bring along someone with expertise to answer any grueling technical inquiries. Russians also put a lot of emphasis on protocol and expect to deal only with top executives.

## 4. Persuasion

Typically, both parties try to persuade the other to accept more of their position and to give up some of their own. Often, some persuasion has already taken place beforehand in social settings and through mutual contacts. In the Far East, details are likely to be worked out ahead of time through the backdoor approach. For the most part, however, the majority of the persuasion takes place over one or more negotiating sessions. International managers usually find that this process of bargaining and making concessions is fraught with difficulties because of the different uses and interpretations of verbal and nonverbal behaviors. Although variations in such behaviors influence every stage of the negotiation process, they can play a particularly powerful role in persuasion, especially if they are not anticipated.

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The most subtle behaviors in the negotiation process, and often the most difficult to deal with, are usually the nonverbal messages—the use of voice intonation, facial am body expressions, eye contact, dress, and the timing of the discussions. Nonverbal behaviors are ingrained aspects of culture used by people in their daily lives; they are not specifically changed for the purposes of negotiation. In a comparative study of the nonverbal negotiating behaviors of Japanese, Americans, and Brazilians, Graham assessed the relative frequency of the use of silent periods, conversational overlaps, facial gazing (staring at people's faces), and touching. He found that the Brazilians interrupted conversation about twice as often as the Japanese and the Americans and used much more touching and facial gazing. Needless to say, they scored low on silent periods. The Japanese tended to use more silent periods and interruptions than the Americans but less

facial gazing. The Japanese and the Americans evidenced no touching whatsoever, other than handshaking during a thirty-minute period

### 5. Concessions and Agreement:

In the last stage of negotiation, concessions and agreement tactics vary greatly across cultures. Well-prepared negotiators are aware of various concession strategies and have decided ahead of time what their own concession strategy will be. Familiar with the typical initial positions that various parties are likely to take, they know that the Russians and the Chinese generally open their bargaining with extreme positions, asking for more than the1 hope to gain, whereas the Swedes usually start with what they are prepared to accept.

Research in the United States indicates that better end results are attained by starting with extreme positions. With this approach, the process of reaching an agreement involves careful timing of the disclosure information and of concessions. Most people who have stud led negotiations believe that negotiators should disclose only the information that is necessary at a given point and that they should try to obtain information piece by piece to gradually get the whole picture without giving away their goals or concession strategy These guidelines will not always work in intercultural negotiations because the American process of addressing issues one at a time, in a linear fashion, is not common in other countries or cultures. Negotiators in the Far East, for example, approach issues in a holistic manner, deciding on the whole deal at the end, rather than making incremental concessions.

Again, at the final stage of agreement and contract, cultural values determine have these agreements will be honored. Whereas Americans take contracts very seriously Russians often renege on their contracts. The Japanese, on the other hand, consider a forma contract to be somewhat of an insult and a waste of time and money in legal costs sine, they prefer to operate on the basis of understanding and social trust

## I.3  CHARACTERISTICS OF NEGOTIATION:

In business we negotiate with both suppliers and customers. We also negotiate within our organizations, for example with colleagues and team members. Think for a minute about the hundreds of deals you make every year - with your boss, your customers, your suppliers and colleagues. Starting from domestic and to global level there are an infinite variety of negotiation scenarios, most negotiations are defined by three characteristics:

1.   There is a conflict of interest between two or more parties. What one wants is not necessarily what the others want.

2.   Either there is no established set of rules for resolving the conflict, or the parties prefer to work outside of an established set of rules to develop their own solution.

3.   The parties prefer to search for an agreement rather than to fight openly, to have one side capitulate, to break off contact permanently or to take their dispute to a higher authority.

The principles of negotiation are not dependent on the identity of the parties involved, their cultures or the amounts at stake. The skill of negotiation can be applied universally - whether you are seeking a promotion, commissioning a nuclear power plant or simply buying a used car.

**Cultural Differences That Affect Negotiations:**

Several aspects require careful study when preparing for an international negotiation. Five major aspects deserve closer scrutiny, they are

## 1. Negotiation Objectives

In the United States, negotiation objectives are often obvious as the interactions follow a logical, factual approach. Obtaining lower-cost goods or services, gaining access to technology or intellectual property, extending one's influence on markets through alliances, and so on, all share a common denominator: the underlying objective is near-to-mid-term business success as defined by the bottom line. Profit and growth are the ultimate motivators, and people will be flexible and creative in finding ways to meet their objectives. Negotiators are prepared to 'slice and dice' the package of conditions being negotiated, willing to make concessions if they help advance the negotiation, given that the overall value of the package will still meet their objective. Long-term aspects of the business relationship still matter, but play a secondary role. American businessmen may not engage in an agreement if it holds long-term promise but does not offer an advantage in the near term.

Indians negotiation can look quite different in contrast. For starters, long-term aspects will weigh more heavily. Also, negotiators may have a less holistic view of the package being discussed. Let's say an Asian buyer is interested in buying equipment from an American company that requires extensive training and maintenance provisions. The initial negotiation may focus exclusively on the price of the equipment, in spite of efforts on the American side to use tradeoffs in training or maintenance cost to offset pricing concerns. The set of objectives on the Asian side may indeed include a specific price target, and they may not be willing to move on to negotiating other aspects before that target has been met. This sometimes becomes an issue of 'face', where not reaching their goal affects the self-esteem and reputation of the negotiator. Such a situation can become uncomfortably emotional for the American side.Other factors may work to the advantage of a U.S. negotiator without them even realizing. For example, entering a joint venture or other collaborative agreement with an American corporation can be quite prestigious for business leaders in some countries. They will usually be smart enough to not reveal that aspect, but with careful preparation using the help of others, you can identify this upfront and use it to your advantage.

Overall, it is important not to assume that the objectives of the foreign side will be identical with those you'd expect in a domestic negotiation. Spending the time and effort to learn more about them prior to engaging can give you a strong advantage.

## 2. The Importance of Relationships

While some form of a working relationship is required for negotiations in India, it doesn't have to be extensive and can usually be quickly established. In most cases, evidence that you are a valid business partner and an indication that you are willing to negotiate in good faith will suffice.

In most of the cultures in Europe, and Latin America, strong relationships are not only important to ensure proper execution of an agreement but are a prerequisite for entering into any formal or informal negotiations. To varying degrees, people will want to learn about your company background and capabilities, prior experiences, strategies and objectives, long-term plans, and so on. They also want to get to know you personally before they decide to trust you. In several cultures, people don't want to conduct business with you unless you convinced them that you are seeking a long-term engagement rather than just 'pursuing a deal'.

## 3. Decision Makers

A frequent source of frustration for Indians negotiating in Latin American countries is that they find it hard to get access to the decision maker, feeling they're talking to the wrong person or group. In India, identifying the key decision maker is usually easy, and getting access to them can always be arranged as long as you have something of value to offer to them.

Accordingly, inexperienced negotiators in international situations may suspect that for some reason the 'right person' simply doesn't want to talk to them, thinking they are stuck with an intermediary with limited authority. (This is comparable to car-buying in the U.S., where '*I need to get my manager's approval*' is a standard negotiation trick in almost every salesperson's repertoire.) The reality may be quite different: a 'decision maker' in the American sense, i.e., a person with the authority and willingness to make a

direct decision, may not exist at all. Decisions are made by groups in many cultures. 'The person at the top' still exists - organizations in these cultures often have powerful leaders and clear hierarchies. However, the role of that person is not so much to make decisions themselves, but rather to orchestrate and manage the process of how group decisions are being made and implemented. Since group decisions require a series of interactions between all stakeholders to form opinions and establish consensus, they cannot be made right at the negotiation table. Sufficient time will have to be allowed between negotiation rounds for the group to go through iterations of the process. Insight into the process itself is difficult to gain, making it pivotal to identify relevant members of the group making the decision in order to try to influence each of them in your favor.

In Europe and Latin America, only managers at the top or at least high up in the organization may have sufficient authority to make decisions. Except for matters of company-wide importance, they might not be available for the negotiation itself, relying on inputs from their middle management instead. That still gives you a chance to (indirectly) influence their decision.

## 4. Negotiation Techniques

People around the world are very creative when it comes to negotiating, bargaining, and haggling. Indians may be at a slight advantage in this field as people receive extensive negotiation training already as children, watching their parents bargain at the market or in a shop. Numerous negotiation techniques exist that would be considered unusual or exotic in most of the countries. Here are but a few examples.

### a. Deception, False Demands, and False Concessions

These can frequently be encountered in India as well, but people in certain foreign cultures will use them more forcefully. Pretending they are not at all interested in your business proposition is one way for an experienced negotiator to gain an advantage. A false demand, meaning the other negotiator discovered something you want that they don't value highly, serves as a strong pressure point for you to make a major concession. False concessions, like repeatedly lowering the (overly inflated) price without getting any

reciprocal concession from you, may lead you to feeling guilty and giving up something that is valuable to you without getting equivalent value in return. In all of these situations, it is important to recognize the technique. Once you do, you can either call the bluff (caution – this may disturb the relationship) or carefully outmaneuver it.

## b. Extreme Openings

Starting a negotiation with an extreme demand is common practice is some Asian and Arab countries. There are two ways to counter the technique, the efficiency of which depends on the specific culture: either counter-bid at the extreme other end of the spectrum (if they ask a ridiculously high price, offer a ridiculously low one and smile), or state firmly that if they indeed believe the value of their product or service to be that high, then there is no common ground for any further discussion. Inevitably, you will be asked what you consider a more realistic.

Note that in some cultures, people will be irritated and may even be offended by extreme openings. An example is Sweden, where people expect you to start with a close-to-final offer.

## c. Aggression and Strong Emotions

In India negotiations commonly follow a logical and factual flow. Emotions are being read as an indication of the process going astray. In many foreign countries, the use of aggression and strong emotions may be viewed a legitimate tactic. It is therefore wise not to let oneself be alarmed. If you continue to stay friendly and focused, the other side will quickly drop the tactic as ineffective.

## d. Silence

In Indian 'cultural language', silence signals a positive response. Extended silence makes the message stronger. In Germany and in numerous other countries, silence doesn't mean much. In the particular situation, the German manager may have been reflecting upon the price or thinking about something completely unrelated. Keep in

mind that if the conversation takes place in English and if English is a foreign language for the other side, translation also takes time and may occupy the minds.

Foreign negotiators who previously gained negotiation experience with Americans may attempt to use silence against you. It is best to not read anything into breaks, even extended ones, in the conversation flow.

### e. Best-Offer Pressure

'*This is my best offer*', stated in a negotiation in India usually means '*take the advantage*'. When negotiating abroad, it may not mean that. Negotiators in some Western countries are known to sometimes make '*take it or leave*'.

### f. Time Pressure

Don't share your flight arrangements with your host when negotiating overseas. The Japanese and Chinese are particularly good at this: pretending to help you 'reconfirm your travels', what they really want to know is how much time you have budgeted for the negotiation. If, say, you are on a Wednesday morning return flight, they may spend most of the time on Monday and Tuesday making introductions, presenting the history of their company, discussing insignificant details of your proposal, and so on. You may not get to negotiating central parts of the agreement before late-afternoon on Tuesday, which is when you are more likely to make concessions under time pressure. Most cultures prefer a more relaxed approach to the often-hurried U.S. style anyway, so they can use your preference for quick and effective interactions against you. It is best to always let the other sides know that you have plenty of time and will be able to change flight bookings if needed, even if that may not really be the case.

### 5. Reaching Closure

When approaching the final stages of an international negotiation, you need to carefully look for clues that the other side is ready to close. How the closure itself looks will again vary. The good old handshake, still in use in America but normally accompanied by signing a contract, works well to confirm an agreement in countries such as Brazil, most Arab countries, India, and many others. That doesn't mean that no written agreement

should be prepared, but it is advisable to consider the handshake, rather than the signature, the critical step. The paperwork becomes a mere formality. The other side might be alienated if you focus too much on the written contract, feeling that you don't trust their word. In Japan, a signed written agreement is not important. Once both sides clearly stated and spelled out their agreement orally and then put it in the meeting protocol, you can be assured that they will follow it to the letter. Generally, you don't want to bring a legal counsel to any international negotiations. Exceptions exist in a few countries if you hire a local one, but you are almost always better advised to consult legal specialists outside of the negotiation itself.

One final caveat is that closing an agreement and signing a contract may still not end the negotiation. In China and especially in South Korea, a contract is viewed a 'snapshot in time'. New demands are still likely to be brought up later, so you'll want to keep some maneuvering room.

Proper preparation for your international negotiation will require studying in-depth material about the target culture and/or engaging a coach who commands extensive knowledge of the country and its business practices. The five aspects described above deserve particular attention, but there is more you'll need to know, such as customs and manners in the other culture, levels of formality, how to present information, and so on. A successful international negotiator will never engage without careful preparation. It is a essential step towards achieving your objectives, and a very risky one to skip.

**Win-Win Negotiation: Finding a fair compromise:**

Negotiation skills help you to resolve situations where what you want conflicts with what someone else wants. The aim of negotiation is to explore the situation to find a solution that is acceptable to both parties. Depending on the scale of the disagreement, a level of preparation may be appropriate for conducting a successful negotiation.

For small disagreements, excessive preparation can be counter-productive because it takes time that is better used elsewhere. It can also be seen as manipulative because just as it strengthens your position, it can weaken the other person's.

If a major disagreement needs to be resolved, then it can be worth preparing thoroughly. Think through the following points before you start negotiating .

1. **Goals:** what do you want to get out of the negotiation? What do you expect the other person to want?

2. **Trades:** What do you and the other person have that you can trade? What do you each have that the other might want? What might you each be prepared to give away?

3. **Alternatives:** if you don't reach agreement with the other person, what alternatives do you have? Are these good or bad? How much does it matter if you do not reach agreement? Does failure to reach an agreement cut you out of future opportunities? What alternatives might the other person have?

4. **Relationships:** what is the history of the relationship? Could or should this history impact the negotiation? Will there be any hidden issues that may influence the negotiation? How will you handle these?

5. **'Expected outcomes':** what outcome will people be expecting from this negotiation? What has the outcome been in the past, and what precedents have been set?

6. **The consequences:** what are the consequences for you of winning or losing this negotiation? What are the consequences for the other person?

7. **Power:** who has what power in the relationship? Who controls resources? Who stands to lose the most if agreement isn't reached? What power does the other person have to deliver what you hope for?

8. **Possible solutions:** based on all of the considerations, what possible compromises might there be?

For a negotiation to be 'win-win', both parties should feel positive about the situation when the negotiation is concluded. This helps to maintain a good working relationship afterwards. This governs the style of the negotiation – histrionics and displays of emotion are clearly inappropriate because they undermine the rational basis of the negotiation and because they bring a manipulative aspect to them.

Despite this, emotion can be an important subject of discussion because people's emotional needs must fairly be met. If emotion is not discussed where it needs to be, then the agreement reached can be unsatisfactory and temporary. Be as detached as possible when discussing your own emotions – perhaps discuss them as if they belong to someone else.

**NEGOTIATION: Needed skills and Knowledge Base.**

Negotiator is the key person for the profitable survival of the organization in a competitive world. Negotiation as an art requires certain inherent qualities of an individual that makes the negotiator more dynamic and natural. Skillful managers must assess many factors when managing negotiation. The successful management of intercultural negotiations requires that manager go beyond a generalized understanding of the issues and variables involve. The negotiator must have the knowledge about the following things.

**1. Value:**

Business negotiators must make sure that they have an intelligent understanding of the facts that are the basis for any negotiation. Failure to gather & understand the relevant

facts that support optimal deal making will result in a failed negotiation or negotiations where value or resources are left on the table.

**2. Process:**

Any negotiation that does possess a vigorously defined negotiation process and lacks a management infrastructure runs the risk of a sub-standard outcome. A framework to operate in is necessary so that it can provide an environment where risks can be pro-actively managed. A robust negotiation process guarantees a positive momentum and offers al framework of reference that lessens unforeseen complications & risks

**3. Relationships:**

Agreement can only be completed between people or organisations that are represented by people. It goes without saying that the manner in how we interact with other people is the essential basis for a successful negotiation. Within a negotiation context, the importance of relationships is amplified when we find ourselves in an environment where ongoing partnerships and longstanding relationships results from our business interactions

**4. Vision:**

To achieve a collaborative or partnership agreement, it is necessary that all parties have a shared vision of the losses and benefits associated with the agreement. It is only when all parties have a shared vision of the agreement that we can understand their driving motivators or interests. A crucial part of negotiation competency entails the ability to create options that will serve the needs & interests of all parties

To become a good negotiator the manager must posses the following skills and qualities.

**1. KNOWLEDGE:** a good negotiator generally has high IQ and broad based knowledge covering various fields including the understanding of human nature and is well read.

**2. PERSONALITY:** It refers to the general physical appearance, which is pleasing, encouraging, associative, open, powerful, impressive an above all very friendly.

**3. CONFIDENT:** A negotiator is always calm, composed and confident under any circumstances. He is a man of strong convictions; He has clarity of thoughts and expressions. He can disagree but is not a disagreeable character.

**4. COMMUNICATIVE:** Negotiation is nothing but communication and understanding. The ability to be able to express views and make them understood n the same way that are intended to, is the foremost important requisite of a good negotiator.

**5. LEADERSHIP QUALITIES:** Across the negotiating table or over the electronic media including the written and the verbal form, in all these cases the man who leads the negotiation is the one who faces the opponent first hand. It requires specific skills to hold not only his ground but to offset the opponent from his ground.

**6. AUTHORIATIVE:** A negotiator need be a man of power especially of bureaucratic nature. His authority stems from his knowledge and skills. He exerts authority without power,

**7. ABILTY TO KEEP SECRETS:** This is perhaps one of the key character traits of negotiator. He has the ability not only to keep secret what he knows but also is ever ready to open up the minds of the opponent.

**8. PROBLEM SOLVING APPROACH:** experiences shown that a problem-solving approach is essential to cross-cultural negotiation, whether in national or at the global level.

I.4  INDIA AND EUROPE - CULTURAL CONTEXTS

Globalization is pushing Indian companies and their managers across more borders. Taking a post overseas can broaden the mind, enhance the resume, and swell the bottomline. While international experience is priceless, good preparation is imperative for the success of any cross-border business shift.

Offshoring and business outsourcing opportunities are intensifying in Europe. Indian companies have started acquiring firms overseas earnestly. Many of them, especially in the IT sector, are rushing executives to overseas postings, without adequate preparation. Forlornly, Indian managers in alien lands note that complexity and inability to adjust to a new culture increases the risk of failure.

It pays to look into the customs and cultures of a new country before relocating. Also, more and more companies in India and Europe are providing relocation services and offering cross-cultural training, covering everything from language skills to the intricacies of local etiquette, such as whether or not to tip a taxi driver — for executives and their families moving abroad. I have found that companies that carefully handpick and prepare their managers to quickly adapt to a new culture are the ones that achieve higher success rate in international business assignments.

Either you are an Indian company expanding into European markets, or your company is acquiring or, has been acquired by one. Maybe, you're courting a buyer from Europe. In any case, you want to make a good impression. From the European perspective, while Indians are highly respected for "brain power" and intellect, we are thought to be somewhat less than cultivated.

And it is a fact that Indian businesses often place more stock in talent and skills than in polish and style — Indian managers who are brilliant strategists but answer cell-phone calls rudely or type in their personal digital assistant, while having serious business

discussions. And, there are talented computer wizards from with their unkempt appearance, earn outrageous salaries and go to work in shabby clothes and untidy shoes.

**Dress, manners and demeanour:**

In Europe, dress, manners and demeanour are important. But as business becomes more global and as businesses become more competitive, even the most casual Indians are learning that there are benefits to having the more cordial manners of their European counterparts. In Europe there are differences aside from the obvious ones of language. Here are some conventions and standards of etiquette in Europe that are puzzling to Indians at first, but can spare you some tongue-tied moments..

Unlike in India, there are no "casual Fridays" in Europe. A dark-colour coat and tie with a light shirt for men; and more formal skirt and pantsuits for women are common. Anyone wearing something less formal might be seen as someone who does not take his business very seriously. In Europe, calling someone by their first name (unless invited to do so) is considered presumptuous and too familiar for business interactions. Courtesy titles and last names are the norm. Introductions are very important, and they follow the old rules of introducing the "less important" person to the more important one.

**Language:**

You will find that there are differences in structure and usage between Indian English and "European business English". The structure of sentences is a little different. The adjectives often come after the noun. Take these differences in stride, and try to adapt your style of speaking and writing to the people you're doing business with. It is much more effective to communicate in the way the majority of people are comfortable with than to try to change things to the style you may be more used to.

Europeans are very traditional and people are more obsequious toward those who have "earned their stripes". It is fine to put forth ideas if you are not the "top dog", the only difference is in the fashion of communication. It is much more effective to give suggestions than to pronounce opinions. Managers are expected to be active participants. Otherwise, they may appear to be uninterested or not knowledgeable.

**At work:**

When working in teams admitting to a fault quickly and emphatically immediately takes the antagonism out of a problem, and everyone's focus turns more quickly to solution-rather than fault-finding. Similarly, passing along credit to the team is even more effective than taking it for you. In Europe, giving compliments is a perfectly acceptable and even expected mode of interaction.

In Europe, differences of opinion are handled more graciously. If you disagree with someone, it is typically more effective to start with the points you agree on and work toward the differences. Handling differences of opinion in a more diplomatic manner will be much more effective in Europe. Indians often "multi-task"- answering cell phone calls or responding to e-mails on their digital devices or taking notes, at meetings.

**Meetings:**

Meetings in Europe are generally more relaxed. Introductions are never neglected, and meetings often start on time. Often, the initial minutes of a meeting is used to set the ground rules, determining the purpose and expected outcome of the meeting, and so forth, especially when people from several cultures are involved.
People participating in meetings in Europe are expected to be involved in the conversation, not buried in their digital device or steno pad. They demonstrate interest and attentiveness to the person speaking with their body language and by asking relevant questions.

In Europe, dining is a very relaxed event. When dining with Europeans in Europe, it is best to take your host's advice in the selection of food and wine at a restaurant they know well. If you are a vegetarian or have any food restrictions, inform the host well in advance. One does not talk about business immediately. Let your host set the tone and the

pace of the meal. Several courses and a significant amount of time may pass before business topics are brought up.

Relax and enjoy, and of course, compliment the parts of the experience you enjoy. The rule of thumb is "do not discuss business before the wine and cheese". By being aware of the differences, and making small adaptations to style, Indians relocating to Europe can accomplish objectives much more effectively and forge some richly satisfying relationships with people and businesses in Europe.

## I.5  INDIA AND US - CULTURAL CONTEXTS

The United States, a nation founded on the fundamental belief in equality, is today a multicultural mosaic of over 300 million people of varying race and cultural heritage. American culture portrays a strong sense of regional and ethnic identity, which is represented by a number of subcultures and influenced by the country's vast geographical and regional differences. America's influence on business culture across the globe is unmistakable. However, understanding the cultural concepts behind the surface appearance is just as important for your company when doing business in the US as in any other country.  Although the population is predominantly of European descent, the country has been a welcoming beacon to immigrants from virtually every country and culture in the world. English is the predominant language, although languages from many foreign countries are spoken within cultural enclaves throughout the U.S. The majority of American's (U.S.) are Christian.

The United States of America consists of 50 states governed on a federal level, as well as a state level. Laws are written at both levels, and when doing business in the United States one must make sure to meet the requirements mandated by these laws. The country is very litigious so legal resources are available and specialists can be found to assist with any transaction.

The culture and geographic location of an area will influence how business is done. Traditionally, the East Coast is more conservative and formal in their dress and manners than the West Coast. That is not to say a West Coast meeting carries any less importance. The climate and lifestyle are just more relaxed, which is reflected in the pace and informality.

## American culture – Key concepts and values

### Individualism:
The concept of individualism in the US plays a significant role in the lives of many Americans. American culture emphasises individual initiative and personal achievement. Independence and self-reliance are highly valued and also extends to the workplace where business is frequently carried out autonomously. Consequently, one's position in US society is determined by one's own achievements as oppose to status or age.

### Low context culture:
Generally speaking, those cultures described as low context tend to communicate meaning and information explicitly through words. Americans are task centred and thus the primary purpose of communication is to exchange information, facts, and opinions. In the US, conflict is dealt with directly and openly, and for this reason, Americans will not hesitate to say "no" or criticise others in public. This direct style of speech is often interpreted by foreign visitors as rude and may cause embarrassment to business people who are unaccustomed to such explicit communication. However, it is important to remember that in a business context it bears no relation to personal feelings and should not be taken as such.

### Egalitarianism:
An important element of American culture is the concept of equality. Despite the many differences within American society, there is a collective understanding of the notion of equality that underlines many social relationships in the US. Americans believe in having equal rights, equal social obligations, and equal opportunities based on the concept of

individual merit. Consequently, there is a general lack of deference in the US to people of greater wealth, age, higher social status or authority. This is evident in the way in which titles are seldom used in business environments and how Americans call each other by their first names almost immediately. Egalitarianism also contributes to the system of merit frequently referred to as the "American Dream", whereby hard work deserves success and financial prosperity. This in turn can often cause a dichotomy in the workplace and office hierarchy displaying a clear distinction between management and their subordinates.

Appearance:
- Business suit and tie are appropriate in all major cities. Wear dark colored business suits in classic colors of gray and navy. For an important formal meeting, choose a white dress shirt, for less formal a light blue shirt will still give you a conservative appearance.
- Women should wear a suit or dress with jacket in major cities. Wearing classic clothing and classic colors of navy, gray, ivory, and white will ensure you give a confident and conservative appearance.
- Rural areas and areas with extremely warm summers have more informal wardrobe requirements.
- Women may wear a business dress, or skirt and blouse, in rural areas.
- Men may conduct business without wearing a jacket and/or tie in rural areas.
- The formality of a meeting, even in rural areas, may dictate a sports jacket and tie for men. The same formality will require a woman to wear a dress, possibly with a jacket.
- Casual clothing is appropriate when not attending a work related meeting/dinner. Building a casual wardrobe using classic lines and colors (navy, gray, camel, ivory and white) will give you a look that is stylish and professional even when you are relaxing.
- Clothing, whether formal or casual, should be clean and neat in appearance.
- Men may generally wear jeans or khaki pants with a shirt for casual attire.

- Women may wear comfortably fitting slacks with a casual shirt. Wearing jeans or shorts, even in a casual setting, may be inappropriate for the city. It is better to err on the conservative side if you are not sure.

**Behavior:**
- Business conversation may take place during meals. However, many times you will find more social conversation taking place during the actual meal.
- Business meetings may be arranged as breakfast meetings, luncheon meetings, or dinner meetings depending on time schedules and necessity. Generally a dinner, even though for business purposes, is treated as a social meal and a time to build rapport.
- Gift giving is discouraged or limited by many US companies. A gracious written note is always appropriate and acceptable.
- If you do give a gift, it should not appear to be a bribe.
- An invitation for a meal or a modest gift is usually acceptable.
- If you are someplace with a line or queue, go to the end and wait your turn.
- Do not use or chew on a toothpick in public.
- Many public places and private homes do not allow smoking. In some areas laws have been passed to prevent smoking in public places.

**Communications:**
- Offer a firm handshake, lasting 3-5 seconds, upon greeting and leaving. Maintain good eye contact during your handshake. If you are meeting several people at once, maintain eye contact with the person you are shaking hands with, until you are moving on the next person.
- Good eye contact during business and social conversations shows interest, sincerity and confidence.
- Good friends may briefly embrace, although the larger the city, usually the more formal the behavior.
- Introductions include one's title if appropriate, or Mr., Ms, Mrs. and the full name.

- Business cards are generally exchanged during introductions. However, they may be exchanged when one party is leaving.

- A smile is a sign of friendliness, and in rural areas you may be greeted with a "hello" rather than a handshake.

- Ask permission to smoke before lighting a cigarette or cigar. Due to health concerns, you may or may not be given permission.

WORKING WITH AMERICANS: Cultural Challenge

As the foremost "hot spot" for America's offshoring and offshore outsourcing of technology and business services functions today, India presents an important case study of differences in business culture. Once you get past the more obvious mutual adjustment issues of time zones, logistics, work and holiday schedules, accents, names and language (American vs. Indian English), there are five elements of American business culture that pose special challenges for Indian teams interacting with their American counterparts whether in the ITO, BPO or call center environment.

### 1. Mindset about Management Hierarchy:

In American business culture, rank and title aren't as important as they are in India. Hierarchical forms of behavior are frowned upon. The expectation is that subordinates will speak up, offer suggestions, push back and take initiative rather than just do what they're told. Decisions tend to be less top-down, authority is more delegated, and managers expect team members to take responsibility and assume ownership of results.

### 2. Attitudes towards Appointments and Deadlines:

For Americans, strict adherence to time commitments is seen as a basic principle of professionalism and courteous behavior. Because everything tends to be strictly scheduled, delays in one appointment or deadline can have a serious ripple effect on a

colleague or customer's other work commitments. The more flexible and open-ended approach to time of Indian business culture can create tensions and unfavorable impressions on American counterparts.

### 3. Meaning of Agreements and Commitments:

Americans have a preference for clear, detailed agreements and are uneasy with vague expressions of general commitment. In business interactions, commitments are taken literally and seriously. Failure to follow through on them precisely is viewed as a sign that a person isn't trustworthy. Indian business culture tends to view agreements more flexibly as intentions and guidelines for future action.

### 4. Results vs. Process Orientation:

In Indian business culture, following the rules and implementing correct processes is highly valued, but in American business culture, it's all about results. There is impatience with individuals who come across as more concerned with following established processes correctly than with achieving the desired goal. Americans don't like to be told all the procedural reasons why something can't be or hasn't been done.

### 5. Directness -- Especially in Addressing Disagreements

The American style of communication is characteristically directed, candid and relatively unconcerned with face-saving or the avoidance of conflict. The expectation is that questions will get answered with a clear "yes" or "no," and that disagreements will be dealt with openly and straightforwardly, in a "tell it like it is" manner. Indians and people from other cultures that tend to avoid conflict and loss of face often find it hard to say "no" or raise problematic issues effectively with their American counterparts.

Cultural awareness and the ability to adapt effectively to another culture's way of doing things are complex skills -- whether you're a programmer in Bangalore or a project leader in Sunnyvale. Everyone tends to take their own cultural ways of doing things for granted and to assume they are self-evident to others.

In recent years, American companies offshoring or outsourcing to India have shown growing awareness of the hidden costs of cross-cultural mismatches in work-related behaviors. They have been willing to invest in general and region-specific cross-cultural training for their onshore employees and those who are asked to travel to India. They have also learned to devise process accommodations to circumvent the negative effects of certain cultural tendencies in their offshore teams.

What these companies seldom undertake to address directly is the need to seriously educate their offshore teams in the fundamentals of American business culture -- the attitudes, thought patterns and behavior norms that Americans expect. They're missing a golden opportunity to improve the productivity and experience of their onshore-offshore teams.

## II- DECISION –MAKING:  A Cross- Cultural Outlook

It is becoming quite apparent that businesses, big and small, need to understand how decision-making affects their entire operations. When making decisions, managers in organizations apply either a programmed or a non programmed decision-makings process.  Both processes are affected by the culture of the society in which the decision is being made.  For example, mangers in countries with relatively low tolerance for ambiguity, such as Japan and Germany, avoid non programmed decisions as making. Operating manuals in organizations in these cultures tend to be relatively thick.  In contrast, mangers in countries with relatively high tolerance for ambiguity, such as the United States and Norway, seek responsibility for nonprogrammer decision making.

The secrets of effective decision-making lie in the balance between rational and intuitive thought. The following strategies provide a useful framework for making effective decision.

1. Determine the problem and identify the goals to be accomplished by your decision.

2. Engage your intuition. Get in touch with your instant feeling on the situation and make note of it.

3. Collect data. Don't be too obsessed with researching every piece of available information.

4. Identify the actions needed to accomplish your established goals.

5. Develop a list of pros and cons for each possible action (each pro and con need not be weighted equally). Monitor your emotional reactions to each option.

6. Enlist the opinions of others and then make an intuitive judgment about the best action to perform.

**Programmed and Non-programmed Decision-Making:**

The programmed decision-making process, which is by far the most commonly used in organizations, entails making decisions based on precedent, custom, policies and procedures, and training and development. An advantage of this approach is that the basis for a decision can be pretested for efficiency, which reduces risk and stress for decision makers ("I followed the procedures manual", "I did it the way it is supposed to be done, or "I did it the way it has always been done"). A disadvantage of this approach is that when the organization's environment changes, the programmed bases for decision making often become obsolete and ineffective, which can lead to decision-making ineffectiveness. Of courses, some of the advantages and disadvantages are culturally determined. For example, people in some cultures do not like too much challenge; they prefer a structured environment that provides certainty and become frustrated in ambiguous, challenging situations. People in other cultures prefer challenge and become bored in an environment that provides too much structure.

The non-programmed decision-making process analyzing current data and information, obtained through a systematic investigation of the current environment, for the purpose of identifying and solving problem. Two approaches to this process are rational decision making and "satisfying".

## 1. The Rational Decision – Making Process

Rational Decision-Making" has long been thought of as the predominant method to strive for in making smart decisions. This process includes identifying objectives, gathering facts, analyzing the alternatives and mapping the most efficient course of action. In Western Culture, the steps in the rational decision-making process are as follows:

1) Define the problem.
2) Identify a set of minimum criteria on which to base the decision.
3) Identify multiple viable choices.
4) Quantitatively, evaluate each viable choice on the basis of each criterion.
5) Select the optimum choice, the one with the highest quantitative value, and
6) Implement the Choice. In Western cultures, the "ideal" decision model thus presumes an optimum choice among valuable alternatives.

## 2. The Satisfying Decision-Making Process

The satisfying approach assumes that there is in incompleteness of information; that is, decision makers do not possess the information necessary to optimize. Therefore, they satisfied; they select the first choice that meets some minimum criteria, that is, the first choice that is 'good enough." They do not identify multiple viable choices. An advantage of satisfying over the rational approach is that it is quicker and thus less expensive. A disadvantage is that you may be foregoing a better solution.

## The Impact of Culture on Non-programmed Decision Making

The validity of the non-programmed decision-making process as a prescription for decision-making behavior is affected by culture. Culture has been defined as "the interactive aggregate of common characteristics that influence a group's response to its environment" Since the characteristics vary from group to group, people in different cultures are likely to have different preferences for a certain state of affairs, for specific social processes, and for "general rules for selective attention, interpretation of environmental cues, and responses". As such, people indifferent cultures view and react to problems differently. What is rational in one culture may be irrational in another, and vice versa.

# DECISION MAKING PROCESS

Decision making is the cognitive process leading to the selection of a course of action among alternatives. Business, managers seem to make decisions and afterwards look for ways to justify the decisions. Why business is conducted this way? What is the process for decision-making?. A numbers of decision making areas currently are receiving attention in global business. The way in which decision making is carried out will be influenced by a number of factors including the culture. In general the following sequences are used to make decisions.

## 1. Problem Recognition

Managers in master-of-destiny cultures tend to perceive most situations as problems to be solved, and they seek improvement through change. On the other hand, managers in fatalistic Societies tend to accept situations as they are, and they are, and they do not seek improvement or change; they believe that fate or God's will intervene in decision making. The United States society is an example of the master-of-destiny culture.

## 2. Information Gathering

Decision makers in some cultures rely on hard facts and data as bases for a decision. The non programmed approach to decision making would therefore be applied in these cultures. In many cultures, however, decision makers do not place a high premium on factual information and data; instead, they rely more on their instincts as a basis for decision making. Since decision makers in these cultures rely on their intuition, they would not be highly receptive to the application of the non programmed decision making process.

## 3. Choice and Implementation

In some cultures such as the United Kingdom and Canada, the choice and implementation tactics are determined either by the highest ranking member of the decision making team or by a majority vote. But in collectivist cultures such as Japan and Africa, to maintain harmony and unity, decisions are made by consensus. When group consensus is required, decisions normally take a long time to make. The process of obtaining consensus is often more important that the choice itself. In contracts, choice and implementation decisions in individualistic societies are normally made quickly because decision makers tend to be autocratic and make decisions by themselves. (The ensuing sections will discuss this more thoroughly). Furthermore, decision makers in individualistic cultures are likely to select the most economically efficient choice. On the other hand, decision makers in collectivist societies are likely to select a choice that does not offend members of the group. Thus, in troubles times, an American Corporation might lay off employees as a way of dealing with the problem, whereas a Japanese corporation would not – it would seek to maintain group harmony and therefore seek other solutions.

In some cultures, decision makers are very methodical, and they carefully evaluate numerous alternative choices before making a selection; in other cultures, decision makers use an incremental approach – they discuss alternatives in a preplanned sequence, making decisions as they go along. Furthermore, as will also be discussed in the ensuing sections, individuals in some cultures take greater risks than individuals in other cultures. For instance, in deciding on a foreign market entry strategy, decision makers in the lower risk taking cultures may select the safer exporting approach; decision makers in the higher risk taking cultures may select a riskier approach, such as producing aboard.

## III- INTERNATIONAL AND GLOBAL OPERATION

The term international operations management is used in a very broad sense to include all functional aspects related to the conduct of international business. Operations

management is becoming more and more international in its scope. Even a firm, which markets the products only within the domestic market, may be conducting its business operations internationally like sourcing the inputs or finished products internationally or manufacturing the product abroad. A dynamic company will take advantage of the favorable conditions that exist anywhere in the world.

The business system involves the integration and management of diverse activities. On the one extreme, a firm may undertake all of these different activities, carrying on the whole production process and doing all the other operations encompassing the business system. On the other extreme, a firm can outsource most of these. Many firms now concentrate on its core competence/business and outsource the rest. The multinational Nike, for example, concentrates itself on the two strategic ends of the business - R&D and marketing - and gets its products manufactured by independent subcontractors located in different countries as per the design and other's specifications given by the company, with the result that while Nike directly employs about 9,000 people it indirectly employs about 7,5000 people. In fact, many products put to the market by a number of companies embody substantial outsourced parts/components.

## A.  STRATEGY FORMAULATION

 The needs, benefits, approaches, and predispositions of strategic planning serve as a point of departure for the basic steps in formulating strategy. Strategy formulation is the process of evaluation the enterprise's environment and its internal strengths.   This typically begins with consideration of the external arena since the Multinational Enterprise (MNE) will first be interested in opportunities that can be exploited.   Then attention will be directed to the internal environment and the resources the organization has available, or can develop, to take advantage of these opportunities. In international management strategy formulation can be broken in to the following steps

1. Scanning the external environment
2. Conducting an international resource analysis of company strength and weakness.
3. Formulation of goals

**1. External environmental assessment**

Business does not exist in a vacuum; it exists within an external environment consisting of the actions of other players who are outside the business. The external environment consists of:

- Competitors

- The economic system

- The social system

- The monetary system

- the political/legal system

- The environmental system.

The success of environmental assessment depends on the ability of managers to take an international perspective and to ensure that their sources of information and business intelligence are global .The analysis of the external environment involves two activities: information gathering and information assessment. These steps help to answer two key questions. What is going on in the exte5nal environment? How will theses developments affect out company?". One of the most common ways in which this is done is through competitive intelligence, which is the use of systematic techniques for obtaining and analyzing public information about competitors. These data are particularly useful in keeping MNEs alert regarding likely moves by the competition.

**a) Information gathering**

Information gathering is a critical phase of international strategic planning. Unfortunately, not all firms recognize this early enough. In the case of Harley-Davidson, the large US-based motorcycle manufacturer, it was not until the Japanese began dominating the motorcycle market that Harley realized its problem. A systematic analysis of the competition revealed that the major reason for Japanese success in the US market was the high quality of their products, a result of extremely manufacturing techniques. Today Harley is competitive again. It achieved renewed success because it rethought its basic business, reformulated company strategy, vastly improved product quality, and rededicated itself to the core business heavyweight motorcycles.

There are a number of ways that MNEs conduct an environmental scan and then forecast the future. Four of the most common methods include

(1) Asking experts in the industry to discuss industry trends and to make projections about the future.

(2) Using historical industry trends to forecast future developments.

(3) Asking knowledgeable managers to write scenarios describing what they foresee for the industry over the next two to three years, and

(4) Using computers to simulate the industry environment and to generate likely future developments. Of these, expert opinion is the most commonly used.

The Japanese and the South Koreans provide excellent example. Mitsubishi has over 700 employees in New York City whose primary objective is to gather information on American competitors and markets. All large Japanese corporations operating in the US employ similar strategies. The same is true for large South Korean trading firms, who require their branch managers to send back information on market developments. These data are then analysed and used to help formulate future strategies for the firms.

This information helps MNEs to identify competitor strengths and weakness and to target areas for attack. This approach is particularly important when a company is delivering a product or service for many market niches around the world that are too small to be individually profitable. In such situations the MNE has to identify a series of

different niches and to attempt to market successfully in each of these geographic areas. The information is also critical to those firms that will be coming under attack.

**b) Information assessment**

Having gathered information on the competition and the industry, MNEs will then evaluate the data. One of the most common approaches is to make an overall assessments based on the five forces that determine industry competitiveness – buyers, suppliers, potential new entrants to the industry, the availability of substitute goods and services, and rivalry among the competitors. The porter's 5 forces tool is a simple but powerful tool for understanding where power lies in a business situation. With a clear understanding, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of your planning toolkit

Five Competitive Forces (Porter)
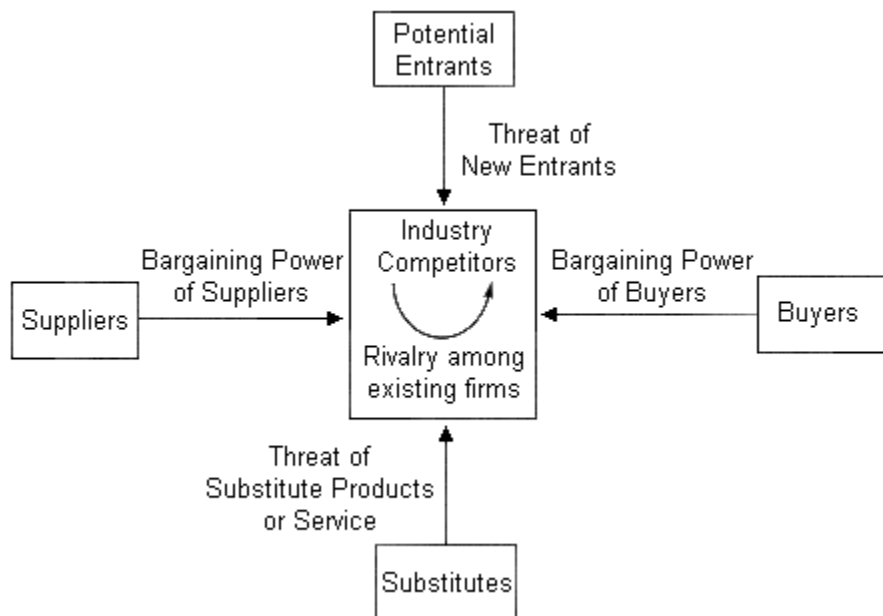


**i) Bargaining power of buyers**

MNEs will examine the power of their buyers because they will want to predict the likelihood of maintaining these customers. If the firm believes buyers may be moving

their business to competitors, the MNE will want to formulate a strategy for countering this move. For example, the company may offer a lower price or increase the amount of service it provides.

**ii) Bargaining power of supplier:**

An MNE will look at the power of the industry's suppliers to see if it can gain a competitive advantage before. For example, if there are a number of suppliers in the industry, the MNE may attempt to play them off against each other in an effort to get a lower price. Or the company may move to eliminate any threat from the suppliers by acquiring one of them, thus guaranteeing itself a ready source of inputs.

**iii) New entrants:**

The Company will examine the likelihood of new firms entering the industry and will try to determine the impact they might have on the MNE. Two typical ways that international MNEs attempt to reduce the threat of new entrants are by

(1) Keeping costs low and consumer loyalty high, and

(2) Encouraging the government to limit foreign business activity through regulation such s duties, tariffs, quotas, and other protective measures.

**iv) Threat of substitutes:**

This is affected by the ability of your customers to find a different way of doing what you do. The MNE will look at the availability of substitute goods and services and try to anticipate when such offerings will reach the market. There are a number of steps that the company will take to offset the competitive force, including

(1) lowering prices,

(2)  Offering similar products, and

(3) Increasing service to the customer.

**v) Rivalry:**

What is important here is the number and capability of your competitors – if you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation. If suppliers and buyers don't get a good deal from you, they'll go elsewhere. On the other hand, if no-one else can do what you do,

then you can often have tremendous strength. The MNE will examine the rivalry that exists between itself and the competition and seek to anticipate future changes in these arrangements. Common strategies for maintaining and/or increasing market strength include

(1) Offering new goods and services,

(2) Increasing productivity and thus reducing overall costs,

(3) Working to differentiate current goods and services from those of the competition,

(4) Increasing overall quality of goods and services, and

(5) Targeting specific niches with a well-designed market strategy.

As the MNE examines each of these five forces, it will decide the attractiveness and unattractiveness of each. This will help the company to decide how and where to make strategic changes.

## 2. Internal environmental assessment

The internal environmental assessment helps to pinpoint MNE strengths and weaknesses. There are two specific areas that a multinational will examine in this assessment:

(1) Physical resources and personnel competencies, and

(2) The way in which value chain analysis can be used to bring these resources together in the most synergistic and profitable manner.

The tool of SWOT can be used for this analysis. A SWOT analysis combines the external and internal analysis to summarise your Strengths, Weaknesses, Opportunities and Threats. You need to look for opportunities that play to your strengths. You also need to decide what to do about threats to your business and how you can overcome important weakness For example; your SWOT analysis might help you to identify the most

promising customers to target. You might decide to look at ways of using the Internet to reach customers. And you might start to investigate ways of raising additional investment to overcome your financial weakness.

## B. STRATEGY IMPLEMENTATION

Once formulated, the strategic plan must be implemented. Strategy implementation is the process of attaining goals by using the organizational structure to execute the formulated strategy properly. International strategy implementation is based on the following premises:

- The choice of international strategy influences the extent to which the activities of an international business must be linked or integrated across countries.

- International operational capabilities--defined by the level of coordination, managerial philosophy, and geographic configuration--determine an organization's ability to manage these intraorganizational linkages.

- The international operational capabilities are created and controlled through three administrative mechanisms: centralization, formalization, and integrating mechanisms. It is then posited that the match or fit achieved among international strategy, operational capabilities, and administrative mechanisms will be associated positively with business unit performance.

There are many areas of focus in this process. Three of the most important are location, ownership decisions, and functional area implementation. Strategy implementation provides goods and services in accord with a plan of action.

## 1. Location consideration:

In choosing a location, today's MNE have two primary considerations. They are:

1. The country, and
2. The specific local with in the chosen country.

Over the past decade MNEs have greatly expanded their international presence. Some of the areas in which they have begun to set up operations include China, the former Soviet Union, and Easter Europe.

Location is important for a number of reasons. Local facilities often provide a cost advantage to the producer. This is particularly true when the raw materials, parts, or labor needed to produce the product can be inexpensively obtained close to the facility. Location is also important because residents may prefer locally produced products. For example, many people in the US like to "buy American". In India people uses the mantra of "be Indian buy Indian's". Some locations may also be attractive because the local government is encouraging investment through various means such as low tax rates, free land, subsidized energy and transportation rates, and low-interest loans, while imported goods are subjected to tariffs, quotas or other governmental restrictions, making local manufacture more desirable. Finally, the MNE may already be doing so much business in a country that the local government will insist that it set up local operations and begin producing more of its goods there. This is one of the major reasons that Japanese auto manufacturers began to establish operation in the US.

Although the benefits can be great, there are a number of drawbacks associated with locating operations overseas. One is an unstable political climate that can leave an MNE vulnerable to low profits and bureaucratic red tape. In Russia, for example, the government has encouraged joint ventures, but because of political and economic uncertainty, many businesspeople currently regard such investments as high-risk ventures. A second drawback is the possibility of revolution or armed conflict. MNEs with operations in Kuwait lost just about all of their investment in the Gulf War, and MNEs with locales in Saudi Arabia and other Middle East countries affected by the Gulf War also withstood losses in the region.


## 2. Ownership consideration:

There are a number of common forms of ownership in international operations. Ownership of international operations has become an important issue in recent years. Many Americans, for example, believe that the increase in foreign-owned business in the US business there. In truth, the real issue of ownership is whether or not the company is

contributing to the overall economic good of the country where it is doing business. As one researcher noted, "Because the US-owned corporation is coming to have to no special relationship with Americans, it makes no sense for the United States to entrust its national competitiveness to it. The interests of American-owned corporations may or may not coincide with those of the American people". Countries that want to remain economically strong must be able to attract international investors who will provide jobs that allow their workers to increase their skills and build products that are demanded on the world market. In accomplishing this objective, few approaches are now in mode:

**i) Wholly owned subsidiary:**

A wholly owned subsidiary is an overseas operation that is totally owned and controlled by an MNC. The primary reason for the use of fully owned subsidiaries is a desire by the MNC for the total management and the belief that managerial efficiency will better without outside partners. Many newly developing countries prohibit fully owned subsidiaries due to the reason of that they will drive out local enterprises. As a result today many multinationals opt for a joint venture rather than a fully owned subsidiary.

**ii) International joint ventures**

An international joint venture (IJV) is an agreement between two or mores partners to own and control an overseas business. IJVs take a number of different forms and offer a myriad of opportunities, which helps to explain some of the reasons for the rise in popularity of IJVs in recent years. One of these reasons is government encouragement and legislation that the designed to make it attractive for foreign investors to bring in local partners. A second reason is the growing need for partners who know the local economy, the culture, and the political system and who can cut through red tape in getting things done, something that IJVs often do very well. A third reason is the desire by outside investors to find local partners with whom they can team up effectively.

For example, an MNE might provide a local partner with technology know-how and an infusion of capital that, in turn, will allow the local firm to expand operations, increase market share, and begin exporting. A example is Toyota and PSA Peugeot Citroen which

recently entered into an IJV to jointly develop and build a small fuel efficient car for the European market. The primary benefit for Toyota is the opportunity to expand its model line-up in Europe. The major advantage for Peugeot is that of gaining a new small car for its European product line while sharing the development costs with Toyota.

### iii) Strategic alliance

A strategic alliance or partnership is an agreement between two or more competitive MNEs for the purposes of serving a global market. In contrast to a joint venture where the partners may be from different businesses, strategic partnerships are almost always formed by firms in the same line of business. In recent years these partnerships have become increasingly popular although careful management of these agreements continues to be a critical area of concern A recent example of a strategic partnership is the of Matsushita Electric Industrial and Hitachi, Japan's' two leading electronics manufacturers. These two companies are now jointly developing state-of-the art technology in three areas; smarts cards, home network systems, and recyclable and energy-efficient consumer electronics. In the past both firms have developed their own products, but now they are turning to a strategic partnership in order to save money and to shorten development time. Another example of strategic partnership agreement, for the next decade IBM will provide outsourcing services to NTT, Japan's dominant telecommunications carrier. In turn, IBM will provide outsourcing services to NTT, Japan's dominant telecommunications carrier. In turn IBM will be able to use NTT Com ware staff in outsourcing and obtaining computer – services contracts with other customers in Japan.

v) Franchising:

Franchise is a arrangement under which one party allows another to operate an enterprise using its trade mark, logo, product line and other methods to operation in return for a fee. A franchisor provides training and the operations in the international market. Franchising provides participants new economies and many companies are examines the benefits and

risks associated with franchising in the international and expertise in the product or service.

## 3. Functional strategies:

To implement strategies MNEs must tap the primary functional ares of the organization. Functional strategies are used to coordinate operations and to ensure that the plan is carried out properly. While the specific functions that are key to the success of the MNE will vary, they typically fall into six major areas: marketing, manufacturing, finance, procurement, technology, and human resources. For purposes of analysis, they can be examined in terms of three major considerations: marketing, manufacturing, and finance.

### i) Marketing

The implementation of strategy from marketing perspective is determined on a country-by-country basis. And it is built around the well known areas of four 'Ps' .The marketing strategy is designed to identify consumer needs and to formulate a plan of action for selling the desired goods and services to these customers. Most marketing strategies are built around what is commonly known as the "four Ps" of marketing: product, price, promotion, and place. The company will identify the products that are in demand in the market niches it is pursuing. It will apprise the manufacturing department of any modifications that will be necessary to meet local needs, and it will determine the price at which the goods can be sold. Then the company's attention will be devoted to promoting the products and to selling them in the local market.

### Production:

The production strategy is designed to fit together with the marketing plan and to ensure that the right products are built and delivered in time for sale. Production will also coordinate its strategy with the procurement and technology people, so as to ensure that the desired materials are available and that the products have the necessary state-of-the art quality, If the MNE is producing goods in more than one country, it will give attention to coordinating activities where needed. For example, some firms manufacture goods in two or more countries and then assemble and sell them in other geographic

regions. Japanese auto firms send car parts to the US for assembly and then sell some of the assembled cars in Canada, Mexico, and South America, Whirlpool builds appliances worldwide with operation in Brazil, Canada, Mexico, the Netherlands, and seven other countries. Such production and assembly operations have to be coordinated carefully.

**Finance:**

Financial strategies used to be formulated and controlled out of the home office. However, in recent years MNEs have learned that this approach can be cumbersome, land because of fluctuating currency prices, costly as well. Today overseas units have more control over their finances than before, but they are guided by a carefully constructed budget that is in accord with the overall strategic plan. They are also held to account for financial performance in the form of return on investment, profit, capital budgeting, debt financing, and working capital management. The financial strategy often serves both to lead and lag the other functional strategies. In the lead position, finance limits the amounts of money that can be spent on marketing (new product development, advertising, and promotion) and manufacturing (machinery, equipment, quality control) to ensure that the desired return on investment is achieved. In the lag position, the financial strategy is used to evaluate performance and to provide insights regarding how future strategy should be changed.

IV - ALIGNING STRATEGY

Today's business climate is characterised by unprecedented changes in technology and globalizations, as well as by complex business relationships and the unrelenting drive for competitive success. In this highly stressful environment, it is essential for project managers to think and act strategically. How does an organisation formulate a strategy to achieve competitive success? Globalisation has become very expensive process, particularly where a firm must co-ordinate research and development and other functional operation. To cope- up the situation many firms seek partners to share these operations and costs. The strategies used by the organizations for the collective work can be called as aligning strategies. In the New economy Aligning strategies enable business to gain

competitive advantage through access to a partner's resources, including markets, technologies, capital and people

Aligning strategies are partnerships between two or more firms that decide they can better pursue their mutual goals by combining their resources – financial, managerial, and technological-as well as their existing distinctive competitive advantages. Alliances-often called cooperative strategies-are transition mechanisms that propel the partners' strategy forward in a turbulent environment faster than would be possible for each company alone. Alliances typically fall under one of these categories:

i) **Joint Ventures**:

Joint ventures are a popular method of expanding business. Major corporations and mid-sized companies are getting together, and small companies can, too, on a less formal basis. At the international level these practices gradually picking up. Joint ventures widely used by companies to gain entrance into foreign markets. Foreign companies form joint ventures with domestic companies already present in markets the foreign companies would like to enter. The foreign companies generally bring new technologies and business practices into the joint venture, while the domestic companies already have the relationships and requisite governmental documents within the country along with being entrenched in the domestic industry.  An example is the Nuumi Corporation, created as joint venture between Toyota and General Motors, which gave GM access to Toyota's manufacturing expertise and provided Toyota with a manufacturing base in U.S.

A joint venture may be appropriate if:
- The parties intend a long-term alliance;
- The alliance will require a significant commitment of resources by each party;
- The alliance will require significant interaction between the parties;
- The alliance will require a separate management structure; or
- If the business of the alliance may be subject to unique regulatory issues. In addition, a joint venture will be appropriate if the parties expect that the alliance

ultimately may be able to function as a separate business that could be sold or taken public.

## ii) Equity strategic alliances:

Strategic Alliance is a mutually beneficial long-term formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. It is a synergistic arrangement whereby two or more organizations agree to cooperate in the carrying out of a business activity where each brings different strengths and capabilities to the arrangement. In Equity strategic alliance two or more partners have different relative ownership shares (equity percentages) in the new venture. As with most global manufacturers, Toyota has equity alliances with suppliers, sub assemblers, and distributors; most of these are part of their network of internal family and financial links.

Strategic alliances bring enterprises the following benefits:

- Increase in capital for research and product development and yet lower risk (Innovation)
- Decrease in product lead times and life cycles (time pressures)
- Ability to bring together complementary skills and assets that neither company could easily develop on its own
- Access to knowledge and expertise beyond company borders (technology transfer)
- Rapidly achieve scale, critical mass and momentum (Economies of Scale - bigger is better)
- Expansion of channel and international market presence (enter a foreign market)
- Building credibility in the industry and brand awareness
- Providing added value to customers

- Establishing technological standards for the industry that will benefit the firm

**iii) Non equity strategic alliances:**

Non equity strategic alliances-in which agreements are carried out through contract rather ownership sharing. Such contracts are often with a firm's suppliers, distributors, or manufacturers, or they may be for purpose of marketing and information-sharing, such as with many airline partnerships.

iv) Contractual arrangement:

The simplest form of strategic alliance is a contractual arrangement. Contractual-based strategic alliances generally are short-term arrangements that are appropriate when a formal management structure is not required. While the specific provisions of the contract will depend upon the business arrangement, the contract should address:

- The duties and responsibilities of each party.
- Confidentiality and non-competition.
- Payment terms.
- Scientific or technical milestones.
- Ownership of intellectual property.
- Remedies for breach; and termination. Examples of contractual strategic alliances are license agreements, marketing, promotion, and distribution agreements, development agreements, and service agreements.

**v) Global strategic alliances:**

Global strategic alliances are working partnerships between companies (often more than two) across national boundaries and increasingly across industries. A glance at the global airline industry, for example, tells us that global alliances have become a mainstay of competitive strategy: broad agenda, others are formed for a narrow and specific function including production, marketing, research and development, and financing. More recently, these have included electronic alliances, such as Covisint, which is redefining the entire system of car production and distribution through a common electronic marketplace

**Global alliances: benefits**
1. To avoid import barriers, licensing requirements, and other protectionist legislation.
2. To share the costs and risks of the research and development of new products and process.
3. To gain access to specific markets, such as the EU, where regulations favor domestic companies.
4. To reduce political risk while making inroads into a new market.
5. To gain rapid entry into a new or consolidating industry and to take advantage of synergies.

Challenges in implementing global alliances:

Effective global alliances are usually tediously slow in the making but can be among the best mechanisms to implement strategies in global markets. In a highly competitive environment, alliances present a faster and less risky route to globalization. It a extremely complex to fashion such linkages, however, especially where many interconnecting systems are involve, forming intricate networks. Many alliances fall or end up in a takeover in which one partner swallows the other. McKinsey & Company, a consulting firm, surveyed 150 companies that had been in alliances and found that 75 percent of them had been taken over by Japanese partners. Problems with shared

ownership, the integration of vastly different structures and systems, the distribution of power between the companies involved, and conflicts in their relative locus of decision making and control are but a few of the organizational issues that must be worked out. But recent economic woes in Asia have turned the tables somewhat, with Western companies having to buy out their financially stressed allies in order to survive.

**Planning for a successful  alliance**

Before entering into a strategic alliance, enough thought is to be placed behind the structure of the relationship and the details of how it will be managed. Consider the following in your planning process:

- Define expected outcomes from the relationship for all the parties in the strategic alliance
- Define and document the elements provided by each party, and the benefits a successful alliance brings to each
- Identify the results that will cause the alliance to be most beneficial for your business and define the structure and operating issues that need to be addressed to achieve these results
- Protect your company's Intellectual rights when transferring proprietary information.
- Define the basics of how you will operate
- Be certain that the company cultures are compatible, and the parties can operate with an acceptable level of trust.

## STAGES OF ALLIANCE FORMATION:

Typical strategic alliance formation process involves four steps:

**1. Strategy Development**: Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.

**2. Partner Assessment**: Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.

**3.Contract Negotiation:** Contract negotiations involves determining whether all parties have realistic objectives, forming high calibre negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.

**4.Alliance Operation:** Alliance operations involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, and measuring and rewarding alliance performance.

## V- STRUCTURE & CULTURE IN AN ORGANIZATIONAL CONTEXT

Once an organization decides to go international, it must begin to implement the decisions. Historically, a firm reorganizes as it internationalises to accommodate new strategies. If the firm's international market continues to grow, the enterprise will need to review the strategies and decide whether to play active role in the in the global operations. One of such decision is related the structure of the organization. The structure typically continues to change over time with growth and with increasing levels of investment or diversity and as result of the types of entry strategy chosen. Internationalization is the process by which a firm gradually changes in response to international competition, domestic markets, and diversification. Perhaps the firm starts by exporting or by acting as a licensor or license, and then, over time, it continues to internationalize by engaging in joint ventures or by establishing service, production, or

assembly facilities, or alliances, abroad, moving into a global strategy. At each stage, the firm's managers redesign the organizational structure to optimize the strategy's chances to work, making changes in the firm's tasks and relationships and designation authority, responsibility, lines of communication, geographic dispersal of units, and so forth.

The typical ways in which firms organize their international activities are shown in the following list.

**1. CONVENTIONAL ORGANISATIONAL STRUCTURE**

- Domestic structure plus export department
- Domestic structure plus foreign subsidiary

**2. MODERN ORGANISATIONAL STRUCTURE**

- International division
- Global functional structure
- Global product structure

Many firms-especially smaller ones-start their international involvement by exporting. They may simply use the services of an export management company for this, or they may reorganize into a simple domestic structure plus export department.

To facilitate access to and development of specific foreign markets, the firm can take a further step toward worldwide operations by reorganizing into a domestic structure plus foreign subsidiary in one or more countries. To be effective, subsidiary managers should have a great deal of autonomy and should be able to adapt and respond quickly to serve local markets. This structure works well for companies with one or a few subsidiaries located relatively close to headquarters.

With further market expansion, the firm may then decide to specialize by creating an International division, organized along functional, products, or geographic lines. With this structure, the various foreign subsidiaries are organized under the international division, and subsidiary managers report to its head and are typically given the title Vice President, in turn, reports directly to the CEO of the corporation. The creation of an international division facilitates the beginning of a global strategy. It permits managers to allocate and coordinate resources for foreign activities under one roof, and so if enhances the firm's ability to respond, both reactively and proactively, to market opportunities. Some conflicts may arise among the division of the firm because more

resources and management attention tend to get channeled toward the international division managers. Companies such as IBM, PepsiCo, and Gillette have international divisions, called, respectively, IBM World Trade, Pepsi Cola International, and Gillette International.

**INTEGRATED GLOBAL STRUCTURES:**

To respond to increased product diversification and to maximize benefits from both domestic and foreign operation, a firm may choose to replace its international division with an integrated global structure.  This structure can be organized along functional product, geographic, or matrix lines.

The global functional structure is designed on the basis of the company's function-production, marketing, finance, and so forth.  Foreign operations are integrated into the activities and responsibilities of each department to gain functional specialization and economies of scale.  This form of organization is primarily used by small firms with highly centralized systems.  It is particularly appropriate fro product lines using similar technology and for businesses with a narrow spectrum of customers.  This structure results in plants that are highly integrated across products and that serve single or similar markets.[9]

Much of the advantage resulting from economies of scale and functional specialization may be lost if the managers and the work systems become too narrowly defined to have the necessary flexibility to respond to local environments.  And alternative structure can be based on product lines.

**1. Global products (divisional) structure:**

For firms with diversified product lines (or services) that have different technological bases and that are aimed at dissimilar or dispersed markets, a global products (divisional) structure may be more strategically advantageous than a functional structure.  In this structure, a single product (or product line) is represented by a separate division. Each division is headed by its own general manager, and each is responsible for its own general manager, and each is responsible for its own production and sales functions.  Usually, each divisions is a strategic business unit (SBU) - a self-contained

business with its own functional departments and accounting systems. The advantages of this organizational form are market concentration, innovation, and responsiveness to new opportunities in a particular environment. It also facilitates diversification and rapid growth, sometimes at the expense of scale economies and functional specialization.
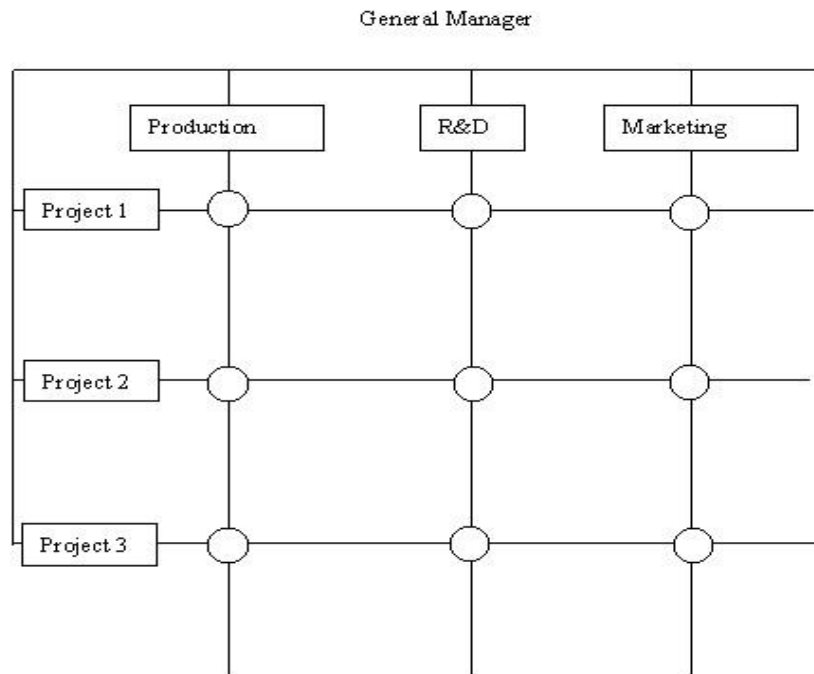
## 2. Global geographic structure

In the global geographic (area) structure – the most common form of organizing foreign operations-divisions are created to cover geographic regions Each regional manager is then responsible for the operations and performance of the countries within a given region. In this way, country and regional needs and relative market knowledge take precedence over product expertise. Local managers are familiar with the cultural environment, government regulations, and business transactions. In addition, their language skills and local contracts facilitate daily transactions. In addition, their language sills and local contacts facilitate daily transactions and responsiveness to the market and the customer. While this is a good structure for consolidating regional expertise, problems of coordination across regions may arise. With the geographic structure, the focus is on marketing-oriented companies, such as Nestle and Unilever, which produce a range of products that can be marketed through similar (or common) channels of distribution to similar customers, will usually opt for this structure.

Nestle SA, for example, uses this decentralized structure, which is more typical or European companies, because "it is not Nestlé's policy to generate most of its sales in Switzerland, supplemented by a few satellite subsidiaries abroad. Nestle strives to be an insider in every country in which it operates, not an outsider." Grouping a number of countries under a region doesn't always work out, however, as Ford experienced with its European Group. It soon discovered the tensions among the units in Germany, Britain, and France resulting from differences in their national systems and cultures, and in particular management styles. Nevertheless, it has pursued its consolidation into five regionalized global centers for the design, manufacture, and marketing of Seventy lines of cars around the world.

## 3. Matrix structure:

Sometimes an organisation needs to run according to what projects they have to do. In these situations people usually work together in a team to achieve their projects goals. A person working on a project would have two bosses, the boss of the department that they work in and the leader or manager of the particular project that they are working on at the moment. A project may cover some or all of the organisations departmental areas. A matrix structure is an organizational arrangement that blends two organizational responsibilities such as functional and product structures or regional and product structures. It is a hybrid organization of overlapping responsibilities and dual command system that emphasises both inputs (functions) and outputs (products).this facilitate development of a globally oriented management attitude.

Matrix structure

General Manager

| | Production | R&D | Marketing |
| Project 1 | ○ | ○ | ○ |
| Project 2 | ○ | ○ | ○ |
| Project 3 | ○ | ○ | ○ |

The advantages of a matrix include

- Individuals can be chosen according to the needs of the project.
- The use of a project team which is dynamic and able to view problems in a different way as specialists have been brought together in a new environment.

- Project managers are directly responsible for completing the project within a specific deadline and budget.

Whilst the **disadvantages** include

- A conflict of loyalty between line managers and project managers over the allocation of resources.
- If teams have a lot of independence can be difficult to monitor.
- Costs can be increased if more managers (ie project managers) are created through the use of project teams.

# VI- CULTURE IN AN ORGANIZATIONAL CONTEXT

Understanding Organisational Context provides a comprehensive introduction to the internal and external aspects of organisations. It examines structures, resources and functions, as well as behaviour and culture, and finishes by addressing the issues involved in the management of a changing environment. As one starts to operate internationally, an understanding of culture and its impact on behavior, particularly management behavior and practices, becomes essential. Very often people experience difficulties when they have to work in another culture because peoples' world views and mental programs are different in different cultures. Culture has been called "the collective programming of the mind which distinguishes one human group from another." As a result of having different mental Programs, people often see situations differently and have different approaches and solutions to problems. Each tends s to believe that his or her way is the right way and makes the most sense. The result can be frustration, conflict and an inability to successfully carry out strategy or plans. Understanding has two parts

1. Cultural awareness or how another person's culture affects his or her behavior, and
2. Self-awareness or understanding how others differ, if we do not understand how we also differ.

The first imperative for effectively managing cultural diversity is cultural sensitivity. The marketers of coca-cola, the world's most recognized brand, attribute their success to the ability of their people to hold and to understand the following perspectives simultaneously:

1. Their corporate culture.
2. The culture of their brand.
3. The culture of the people to whom they market the brands.

Sometimes cultural sensitivity leads to marketing one's products to a particular market segment across cultural boundaries, basically finding common subcultures within otherwise diverse cultures.

Lack of cultural awareness can be devastating to organizations competing globally. An Organization not managed according to values felt by its members is likely to experience conflict. Hidden values and beliefs must be recognized and understood in order to manage effectively.

## QUESTIONS

1. What is cross-cultural negotiation? Explain its importance.

2. Discuss the stages in the negotiation process.

3. Explain the impact of culture in decision-making.

4. Describe what you would expect in negotiation with Europeans and how
   Would you handle various situations?

5. Explain various features of US culture

6. What is strategy formulation? And explain various steps involved in it.

7. What are the major decisions to be taken in strategy implementation?

8. How might the variable of national culture affect strategic implementation?
   Use coca-cola example to highlight.

9. Explain the various approaches in international aligning strategy.

10. What is organizational structure? Explain the role of culture in organizational decisions.

11. What variables have to be considered in designing the organizational structure?

# UNIT – IV

**Global Human Resource Management - Staffing and Training for Global Operations. Developing a Global Management Cadre. Motivating and Leading; Developing the values and behaviours necessary to build high performance organization personnel [individuals and teams included]**

Global Human Resource Management

**This unit is divided into 2 lessons. First lesson contains an introduction about the nature of global human resource management, strategic human resource management, and major activities in global human resource management. It also explains the methods of staffing and training personnel for global operations. The second lesson deals with the details of developing a global management cadre. It also depicts the importance and methods of motivating and leading personals for a global management cadre. This lesson also examines the values and behaviours necessary to build high performance organization personnel.**

Lesson - 1 Global Human Resource Management: Staffing and Training for Global Operations:

**Learning Objectives:** By the end of this lesson you should be able to: 1. Understand and describe the nature of Global Human Resource management, and to effectively manage international Human Resource related tasks. 2. Understand and discuss the staffing and training of employees for global operations.

**1. Global Human Resource Management:** Human Resource Management (HRM) is the process of acquiring, training, appraising and compensating employees, and attending to their labour relations, health and safety concerns. It includes policies and practices involved in carrying out the people of a management position, including recruiting, screening training, rewarding and appraising. An organization's human resource management (HRM) function focuses on the people aspect of management. It consists of practices that an organization deals effectively with its employees during the various phases of the employment cycle: pre-selection, selection and post selection. Many firms realize that they must enter foreign markets in order to compete as part of a globally interconnected set of business markets. From an HRM perspective, such organizations must foster the development of more globally oriented managers: individuals who understand foreign languages and cultures, as well as the dynamics of foreign market places.

Globalisation is the tendency of firms to extend their sales; ownership or manufacturing to new markets abroad. The ongoing globalisation will have a strong

influence on the fortunes of nations, industries, firms, and individuals.  As part of these continuing changes, competitive opportunities and threats have increasingly come from outside of one's home country. Thus, globalization has a strong influence on some of the aspects of HRM.  As a result, it has become routine for managers at all levels, worldwide, to find ways to work with people from diverse cultural backgrounds. These firms must also deal with issues related to expatriation, such as relocation costs, selection, compensation, and training. The type of people, the willingness with which they work, and the commitments they exhibit towards the organisation determine the competitive edge of an organisation in the global market. The global firm may have the best resources at its headquarters, but the resources cannot be transferred to its foreign affiliates without making it suitable to the new environment.

**1.1 Nature of Global Human Resource Management:** International human resource management (IHRM) is the procurement, allocation, utilization, and motivation of, human resources in the international arena. International HRM is critical to the strategy and success of global operations. There are evidences that culture and people issues are the biggest roadblocks to global success. It is also found that the problem of hiring quality personnel ranked as one of the main factors inhibiting expansion of US foreign investment in Japan. These problems can be avoided by appointing people with significant experience in foreign and international operations. The distinct features of IHRM are multiculturalism and geographic dispersion as well as the need to address issues such as international taxation, relocation and foreign cultures orientation. IHRM also generates more involvement in personnel life. An international business must procure, motivate, retain, and effectively utilise services of people both at the corporate office and at its foreign plants.

IHRM is the interplay among the three dimensions: human resource activities, types of employees, and countries of operation. . The three broad activities of IHRM, namely, procurement, allocating and utilising, cover all the six activities of domestic human resources management (HRM). The six functions of domestic HRM are:  human resource planning, employee hiring, training and development, remuneration, performance management, and industrial relations. These six functions can be dovetailed with the three broad activities of IHRM. The three national categories involved in IHRM

activities are: the host-country where a subsidiary may be located, the home country where the company is headquartered, and other countries that may be source of labour or finance. The three types of employees of an international business include host-country nationals, parent-country nationals, and third-country nationals.

Changes taking place in the international arena necessitates new and more challenging requirements on present and future managers. For example, it is becoming more important for managers to have a basic understanding of the structure of the global economy in which they operate. Besides, with the greater freedom, firms now have to sell, invest, and operate around the globe requires to understand the stability and growth prospects of individual nations and their markets. To sum up, knowledge about how nations, firms, and individuals can address the issues raised by globalization have debatably become part of the indispensable tools to every manager. Awareness about how to conduct business with people from several cultural backgrounds is crucial for the success of an organisation.

**1.2 The HR Challenges of International Business:** The rapid growth of globalisation has increased the number and significance of MNCs, which, in turn has increased the mobility of human resources. The effective management of human resources is being recognised as a major determinant success or failure in international business. Underperformance or failure in international assignments proves to be quite expensive. The implementation of global strategies is being limited by the shortage of international. management talent. The shift from traditional hierarchical organisational structures towards the networked MNC organisations has been facilitated by the development of networks of personal relationships and horizontal communication channels. HR plays a significant role in network organisatons. The key global pressures affecting human resource management are deployment, knowledge and innovation dissemination, and identifying and developing talent on a global basis. Today, it is easy to get the right skills to where we need them, regardless of geographic location. Similarly, spreading the knowledge and practices throughout the organization, and identifying persons who can function effectively in a global organization and developing his or her abilities etc. are all possible.

1.3 Domestic HRM and IHRM Compared: **Several factors differentiate IHRM from domestic human resource management. In IHRM, there are more human resource activities, a broader perceptive, more involvement in employees personal lives, changes in the workforce mix of expatriates and locals, risk exposure: and more external influence. Thus, the scope of IHRM is much broader than managing domestic human resource activities. There are issues connected with international taxation, international orientation and relocation, administrative services for expatriates, host government relations, and language translation services etc. in IHRM.**

**Expatriates are subject to international taxation and are often subject to home country and host country tax liabilities. Tax equalisation policies must be designed to ensure that there is no tax incentive or disincentive associated with any particular international assignment. International relocation and orientation involves arranging for pre departure training; providing immigration and travel details, providing housing, shopping medical care recreation and schooling information; and finalising remuneration details such as designing of salary, determination of various international allowances, and taxation treatment. An international business also needs to provide administrative services for expatriates in the host country in which it operates. Ethical issues can arise where a practice that is legal and accepted in the host country may be unethical and illegal and home country. These issues add to the complexity of providing administrative services to expatriates. Provision of language translation services for internal and external correspondence is an additional activity involved in IHRM When compared to domestic human resource management, IHRM requires a much broader perspective on even the most common human resource activities. For example while dealing with pay issues the corporate human resource manager must coordinate pay systems in different countries with different currencies that may change in relative value to one another over time while handling fringe benefits too, complications tend to arise. Any activity of IHRM needs a broader perspective because human resource managers working in a global environment face the problem of designing and administrating programmes for more than one country nationals.**

A greater degree of involvement in employee's personal lives is necessary for the selection, training, and effective management of both parent-country and third-country nationals. The HR department needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of remuneration package provided for the foreign assignment. Many international business maintain an "International Human Resource Services" section that co-ordinate administration of the above programmes and provides services for parent country and third –country nationals such as handing their banking, investments, home rental while on assignment, coordinating home visits, and final repatriation.

**As international business matures, the emphasis placed on various human resource activities change. For example, as the need for parent-country and third-country nationals declines and more trained locals become available, resources previously allocated to areas such as expatriate taxation, relocation, and orientation are transferred to activities such as staff selection training and management development.**

In IHRM, there are many kinds of risks in addition to other hazards that are unique and more threatening. Depending on the countries where the MNC operates, HQ and subsidiary HR managers may have to worry about the physical safety of the employees. In too many countries, kidnapping and terrorism are common and the international HR managers must learn to live with them. Terrorism has become a great risk. The HR department may also be required to devise emergency evacuation procedures for highly volatile assignment locations. If managers do not perform well and must be recalled to the home country, their failure represents a huge financial loss for the firms. The risks associated with poor selection decisions are high. Yet another risk is that of expropriation or seizure of the MNC's assets in a foreign country. If HR policies antagonise host-country unions or important political groups, the international business may be asked to leave the country, have its assets seized, or find the local government taking majority control of its operation.

The IHRM activities are influenced by a greater number of external factors than are domestic HRM functions. Because of the visibility that the international business tend to have in host countries, HR managers may have to deal with ministers, political figures,

and a grater variety of economic and social interest groups than would normally be encountered in purely domestic HRM. A host country government can dictate hiring procedures, as is the case in Malaysia. In developed countries, labour is more expensive and better organised than in less developed countries, and governments require compliance with guidelines on issues such as labour relations, taxation, health, and safety. These factors shape the activities of the subsidiary manager considerably.

1.4 Managing International HR Activities: **Managing international HR activities are an elaborate and complex task. Human Resource Planning (HRP) is the process of forecasting an organisation's future demand for and supply of, the right type of people in the right numbers. HRP assumes greater relevance in international businesses where efficient use of human resources is necessary to realise strategic global objectives. The key issues in international HR planning are identifying top management potential early, identifying critical success factors for future international managers, providing developmental opportunities, tracking and maintaining commitments to individuals in international career paths, trying strategic business planning to HR planning and vice versa and dealing with multiple business units while attempting to achieve globally and regionally. Global HR outlook need appreciative of different cultures, understanding what motivates people from different societies, and how that is reflected in the structure of international assignments. In China, for instance, special insurance should cover emergency evacuations for serious health problems; telephone communication can be a necessity in Russia. So the challenge of conducting HR activities abroad comes also from the cultural, political, legal, and economic differences among countries and their peoples.**

**1.5 Strategic International Human Resource Management:** Strategic International Human Resource Management (SIHRM) is defined as " human resources, management issues, functions and policies and practices that result from the strategic activities of MNEs and that impact the international concerns and goals of these enterprises". Compared to strategic human resource management in a domestic context, SIHRM is more complex because it must be aligned with the multi-faceted strategic considerations of the MNE. An optimal SIHRM is capable of balancing the different forces in the firm's

environment, in particular, the tension between local responsiveness and global integration.

In the Global phase of human resource management, HRM focuses on both local responsiveness and global integration. The major issue for global human resource management is how to satisfy the requirements for global integration and national responsiveness. There exists large measure of cultural diversity and HRM focuses on offering promising managers the opportunity to grow and gain experience so that an environment for continuous learning will be created throughout the entire organization.

## 1.6 How Inter-country Differences affect HRM

Companies operating only within the borders of the United States generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. The United States is a capitalist, competitive society. And while the U.S. workforce reflects a multitude of cultural and ethnic backgrounds, shared values (such as an appreciation for democracy) help to blur potentially sharp cultural differences. Although the different states and municipalities certainly have their own laws affecting HR, a basic federal framework helps produce a fairly predictable set of legal guidelines regarding matters such as employment discrimination, labour relations, and safety and health.

A company operating multiple units abroad isn't blessed with such homogeneity. For example, minimum legally mandated holiday's range from none in the United Kingdom to 5 weeks per year in Luxembourg. And while Italy has no formal requirements for employee representatives on boards of directors, they're required in Denmark for companies with more than 30 employees. The point is that the need to adapt personnel policies and procedures to the differences among countries complicates HR management in multinational companies. For example, consider the following.

**1.6.1. Cultural Factors**: Countries differ widely in their cultures- in other words, in the basic values their citizens adhere to, and in the ways these values manifest themselves in the nation's arts, social programs, politics, and ways of doing things. Cultural differences from country to country necessitate corresponding differences in management practices

among a company's subsidiaries. For example, in a study of about 330 managers from Hong Kong, the People's Republic of China, and the United States, the U.S managers tended to be most concerned with getting the job done. Chinese managers were most concerned with maintaining a harmonious environment, and Hong Kong managers fell between these extremes.

**1.6.2 Economic systems:** Differences in economic systems also translate into differences in HR practices. For one thing, some countries are more wedded to the ideals of free enterprise than are others. For instance    France-though a capitalist society-recently imposed tight restrictions on employers' rights to discharge workers' and limited the number of hours an employee could legally work each week.

**1.6.3 Legal and industrial Relations Factors:** Legal as well as industrial relations (the relationships among the worker, the union, and the employer) factors vary from country to country. For example, the U.S. practice of employment at will does not exist in Europe, where firing and laying off workers is usually time consuming and expensive. And in many European countries, work councils replace the informal or union-based worker-management meditations typical in U.S. firms. Works councils are formal, employee-elected groups of worker representatives that meet monthly with managers to discuss topics ranging from no-smoking policies to layoffs.

**1.7  Improving  International  Assignments  through  Selection:**  International assignments are the heart of international HR, and it is therefore disconcerting to see how often such assignments fail. U.S. expatriates assignments that end early (the failure rate) range from 16% to 50%, and the direct costs of each failure can reach hundreds of thousands of dollars or more.      The exact number of failure is hard to quantify, in part because  "failure" means different things to different people. An early return rate is perhaps  the  most  obvious  indicator.  However,  some  expatriates  may  fail  less conspicuously, quietly running up the hidden costs of reduced productivity and poisoned customer and staff relations.

**1.7.1 Selecting International Managers:** The processes firms use to select managers for their  domestic  and  foreign  operations  obviously  have  many  similarities.  For  either assignment, the candidate should have the technical knowledge and skills to do the job, and the intelligence and skills to be a successful manager. However, it is seen that foreign

assignments are different. There is the need to cope with colleagues whose culture may be drastically different from one's own, and the stress that being alone in a foreign land can put on the single manager. Selecting managers for these assignments therefore sometimes means testing them for traits that predict success in adapting to new environments. The researchers identified five factors that contribute to success in such assignments: job knowledge and motivation, relational skills, flexibility/adaptability, extra cultural openness, and family situation. Among these factors, family situation was generally found to be the most important factor on international assignments and transfers. Adaptability screening is sometimes part of the expatriate screening process, which aims to assess the assignee's probable success in handling the foreign transfer. Here, experience is often the best predictor of future success. Companies like Colgate-Palmolive therefore look for overseas candidates whose work and non-work experience, education, and language skills already demonstrate a commitment to and facility for living and working with different cultures.

**1.8 Staffing for Global Operations:** Global staffing is quite a complex affair. It involves activities on a global basis, including candidate selection, assignment terms and documentation, relocation processing and vendor management, immigration processing, cultural and language orientation and training, compensation administration and payroll processing, tax administration, career planning and development, and handling of spouse and dependent matters. Multinational companies (MNCs) employ several types of international managers. Locals are citizens of the countries where they are working. Expatriates are non-citizens of the countries in which they are working. Home-country national are citizens of the country in which the multinational company has its headquarters. Third-country nationals are citizens of a country other than the parent or the host country. Expatriates still represent a minority of multinationals' managers. Yet there are also reasons for using expatriates-either home-country or third country nationals- for staffing subsidiaries. The major reason is usually technical competence. Multinational also view a successful stint abroad as a required step in developing top managers.

**1.8.1 Recruitment and Selection:** An international human resource manager must proceed with the job of hiring the right number of people of the right type. The

international human resource manager must not only select people with skills, but also employees who can cope with the organisation's culture. MNCs tries to staff its operations with local persons under the assumption that local people are better equipped to do business at their home locations. However, expatriates are needed in the system for a specific set of skills that might not exist at a particular location.

**1.8.2 Values and International Staffing Policy:** Experts sometimes classify top executives' values as ethnocentric, polycentric, or geocentric, and these values translate into corresponding corporate behaviours and policies. These values translate into three broad international staffing policies. The vital factors that affect Multinational enterprises (MNEs) staffing include strategy, organisational structure, and subsidiary – specific factors such as its duration of operations, technology, production and marketing technologies, and host country characteristics such as level of economic and technology development, political stability, regulations and culture. Thus the philosophies of staffing abroad are ethnocentric, polycentric, regiocentric, and geocentric.

**1.8.2.1 Ethnocentric Staffing:** In ethnocentric staffing, Parent Country Nationals (PCNs) are selected for key position regardless of location. Japanese, European, U.S and Korean firms utilise ethnocentric staffing. With an ethnocentric staffing policy, the firm fills key management jobs with parent country nationals. Reasons given for ethnocentric staffing policies include lack of qualified host-country senior-management talent, a desire to maintain a unified corporate culture and tighter control, and the desire to transfer the parent firm's core competencies to a foreign subsidiary more expeditiously.

**1.8.2.2 Polycentric Staffing:** The polycentric staffing policy requires host-country nationals to be hired to manage subsidiaries, while parent-country nationals occupy key positions at corporate headquarters. Although home-country personnel fill top management positions, this is not always the case. For example, many US MNCs use home-country managers to get the operations started, and then hand it over to the host-country managers. Hindustan Lever Ltd, (HLL), the Indian subsidiary of Unilever, has local as its chiefs. Preference for home-country citizens for key positions does not fit into a pattern, unless government interventions dictate selection processes. In Brazil, for example, two-thirds of the employees in any foreign subsidiary traditionally had to be Brazilians. In additions, many countries exert real and subtle pressures to staff the upper-

management ranks with nationals. In the past these pressures by host countries have led companies such as Standard Oil to change their approach to selecting managers. The polycentric approach to staffing has both merits as well as demerits. Hiring host country nationals eliminates language barriers, expensive training periods and cross-cultural adjustment problems of managers and their families. The disadvantages of the polycentric approach are equally strong. Local managers may have difficulty bridging the gap between the subsidiary and the parent company, because the experience and exposure they posses may not have prepared them to work as part of global enterprises. Language barriers, national loyalties, and a range of cultural differences may isolate the corporate headquarters staff from the various foreign subsidiaries. Finally, consideration of only home and host-country nationals may result in the exclusion of competent executives.

**1.8.2.3 Regiocentric Staffing:** Here, recruiting is conducted on a regional basis (e.g., recruit within Asia for a position in Thailand).

**1.8.2.4 Geocentric Staffing:** This staffing philosophy seeks the best people for key jobs throughout the organisation regardless of nationality. Seeking the best person for the job, irrespective of nationally is most consistent with the underline philosophy of a global corporation. Colgate, Palmolive is an example of a company that follows the geocentric approach. A geocentric policy is based on assumptions that, highly competent employees are available not only at headquarters, but also in the subsidiaries; international experience is a condition for success in top position; managers with high potential and ambition for promotion are always ready to be transferred from one country to another; competent and mobile managers have an open disposition and high adaptability to different conditions in their various assignments; and those not blessed initially with an open disposition and high adaptability can acquire these qualities as their experience abroad accumulates. The geocentric approach has merits and demerits. Among its advantages is the possibility of making the best use of its human resources and it enables the firm to build a cadre of international executives who feel at home working in a number of cultures. In addition, the multinational composition of the management team that results from geocentric staffing tends to reduce cultural myopia and to enhance local responsiveness. Thus, other things being equal, a geocentric policy seems to be the most attractive. Among the disadvantages, the restrictions imposed on staffing by host

governments that a high number of their citizens are to be employed in subsidiaries, the increased training and relocation costs and a remuneration structure with standardised international base pay are the prominent.

The three staffing approaches having been described, it may be stated that based on top management attitude, an international business can pursue one of the three philosophies.

**1.8.3 Culture and Staffing:**   Nations culture affects the staffing policy pursued by a firm. European firms more likely to adopt the geocentric approach than their US or Japanese counterparts. This approach is encourage in the EU by firms wishing to improve the mobility of workers and manages through out Europe. Japanese firms favour the ethnocentric approach, impart because employing locals in key roles in their foreign subsidiaries facilitates their consensus-oriented approach to decision-making. The cultural challenges go beyond staffing. For example, sixty percent of Citigroup's workforce lack knowledge of English, a key obstacle to the firm's effort to leverage its global reach. A formal career planning system in which people are evaluated in terms of skills, abilities, and traits that will be tested, scored, and computerized may appear to be impersonal in collective cultures. Individualistic societies use more cognitive testing because they emphasize performance, individual rights, and individual interest, whereas collective cultures emphasize loyalty and organisational compatibility that cannot be assessed via cognitive tests. Personality profiles generated in the United States may be meaningless in Japan where assertiveness is not appreciated. Finally, the MNE is expected to monitor employment conditions not only at home but also in the subsidiaries and among its subcontractors. The pre-selection phase involves planning practices. The organisation must decide what types of job openings will exist in the upcoming period and determine what qualifications are necessary to perform these jobs. Selection practices include recruiting applicants, assessing their qualifications, and ultimately selecting those who are deemed to be the most qualified. In the post selection phase, the organisation develops HRM practices for effectively managing people once they have been selected. These practices are designed to maximise the performance and satisfaction levels of a firm's employees by providing them with the necessary knowledge and skills to perform

their jobs and by creating conditions that will energize, direct and facilitate the employees' efforts toward meeting the organization's objectives.

**1.9 Training and Development:** Once selection of right persons is completed, the next step in IHRM is to train and develop new hires. In the meanwhile, it is desirable to have an understanding of the terms- training and development. Training is planned learning experiences that teach workers how to effectively perform their current jobs. Orientation training is needed to new employees, even with appropriate technical skills. It is training designed to inform new employees about their jobs, the company, and its policies and procedures. Training aims at improving current working skills and behaviour, where as development seeks to increase overall skill levels of managers through a mix of on going management a education and rotations of managers through a number of jobs with in the firm to give them varied experience. They are attempts to improve the over all productivity and quality of the firms management resources. Historically most international businesses must have been focusing more on training than on managerial development. In addition, they tend to focus their training efforts on preparing home country nationals for foreign postings. Recently however the shift towards greater global competition and rights of MNCs have changed the perspective. It is now common for firms to provide management development programmes in addition to training for particular posts. In many international businesses, the explicit purpose of management development programmes is strategic. Management development is seen as a tool to help the firm achieve its strategic goals. We will examine the type of training imparted to managers for international postings.

**1.9.1 Training for Expatriates:** An expatriate needs pre-departure training before leaving for a foreign assignment. Training is one of the ways of reducing expatriate failure rate. An expatriate needs cultural training, language training, and practical training. Cultural training seeks to foster an appreciation for the host country's culture. The belief is that understanding a host country's culture will help the manager empathize with the culture, which will enhance his or her effectiveness in interacting with host country citizens. An expatriate should receive training in the host country's culture, history, politics, economy, religion, and social and business practices. If possible, it is

also advisable to arrange for a familiarisation trip to the host country before the formal transfer, as this is likely to ease cultural shock. Often cultural training includes counseling on return to home base to prevent reverse culture shock.

A typical training programme programme consists of talks on the importance of cross-cultural training; business presentation techniques in different countries; business protocol in foreign countries; and social etiquette in different countries. There is also training on the ways of dining in different countries. These programmes are highly relevant for Indian nationals who migrate mainly to the US in search of greener postures. Majority of Indians who seek postings are software professionals who are from middle class, conservative, and religious families. Many of them are from South India, which is known for deep religious sentiments and vegetarianism. They are reserved, and almost shy with the opposite sex even after experiencing western winds of liberalism. The food, weather, and behaviour are all new to them. The idea of a friendly kiss or a hug and bikinis and frocks need to be got used to. The absence of family and friends leads to loneliness and frustration. Thus, an Indian has any number of reasons for failure in an alien culture. He or she should be trained to overcome all the obstacles.

**1.9.2 Language Training:** Language training is a seemingly obvious, desirable component of a pre-departure programme. English is the primary language of international business, and most expatriates from all countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English speaking countries like China. It may be reiterated that a willingness to communicate in the host country language will help build rapport with local employees and improve the expatriate's effectiveness. In addition to English, expatriate needs to know language of the host country. The ability to speak a foreign language can improve the expatriate's effectiveness and negotiating ability. It can also improve manager's access to information regarding the host country's economy, government and market.

**1.9.3 Practical Training:** Practical training seeks to help the expatriate manager feel 'at home', in the host country. The sooner the expatriate settles down, better are the prospects that he will adapt successfully. One important need is for a support network of friends for the expatriate. Where an expatriate community exists, firms often devote considerable

effort to ensuring that the new expatriate is quickly integrated into that group. The expatriate community can be a useful source of support and information and can be valuable in helping the family adapt to an alien culture.

**1.10 Increasing the Competence of Current Workers:** Current workers may require certain types of training or retraining, classified as remedial, change related, and development instruction. A company may soon discover that even its most qualified applicants are deficient in some skills and may thus need remedial training. It may turn out, for example, that a supervisor selected on the basis of technical skills may have trouble communicating effectively with subordinates: or a professor, hired because of an excellent publication record, may lack certain teaching skills.        Workers may need change-related training to keep up to date with various types of changes dealing with technological advances, new laws or procedures, or a change in the organization's strategic plan.  Companies also need instructional programs for developmental purposes. Developmental programs provide employees with appropriate skills needed for higher-level positions to which they may eventually be promoted.

**1.11 Training and Maintaining International Employees:** Training is a learning process directly tied to specific situational results. In the case of training, the focus is usually based on improving individual and group behavior and performance, and on results to the organization. Careful screening is just the first step in ensuring the foreign assignee's success. The employee may then require special training, and the firm will also need special international HR policies for compensating the firm's overseas employees and for maintaining healthy labour relations.

**1.12 Instructional System Design:** To insure that training is delivered effectively and efficiently, a process of instructional systems design (ISD) should be implemented. ISD starts with an assessment of the needs of the organization, which may include surveying, identifying and prioritizing mill training needs, analyzing the causes of performance problems and opportunities, and identifying possible solutions Developing training should include analyses of the characteristics of the learners, the setting in which the work will be performed, and the tasks and duties which the trainees will be expected to perform. A complete review of the subject matter is also necessary. Goals and

performance objectives must be set, and a plan to evaluate the training should be developed. Instructional materials and strategies must be acquired, prepared, and pre-tested. The implementation of training includes the preparation of mill workers and others to be trainers and subject matter experts. The training process itself must be managed and evaluated.

**1.13 Implementing Instructional Design In The Organization:** There are two approaches to implementing the training function. Most companies and instructional designers use a reactive approach. ISD is used as an intervention to solve problems involving employees, with a focus on performance and organizational results. In this sense training is often applied, like quality control, as corrections to problems. This type of training function usually operates somewhat externally to the organization's manufacturing, management and other processes. A proactive approach is taking place in some pulp and paper companies where training and ISD are part of a continuous improvement process, not viewed as interventions (3). This is more like TQM (total quality management) than QC (quality control), in that the training function is fully integrated with the regular process of organizational improvement. The processes of reactive and proactive training are very similar. The differences are of time-scale, degree of overlap of activities, and distribution of the training function throughout the organization. Performing needs assessments and new technologies, equipment, or people have usually triggered task/duty analyses.

**1.14 Orienting and Training Employees on International Assignment:** When it comes to providing the orientation and training required for success overseas, the practices of most U.S firms reflect more form than substance. There is generally no systematic selection and training for assignments overseas. In one survey, a sample of company executives agreed that international business required that employees be firmly grounded in the economics and practices of foreign countries. However, few of their companies actually provide such training to their employees. One firm specializing in such programs prescribes a for-step approach. Level 1 training focuses on the impact of cultural differences, and their impact on business outcomes. Level 2 aims at getting participants to understand how attitudes (both negative and positive) are formed and how they

influence behaviour. Level 3 training provides factual knowledge about the target country, while Level 4 provides skill building in areas like language and adjustment and adaptation skills. Beyond these special training needs, managers abroad continue to need traditional training and development. At IBM, for instance, such development includes rotating assignments that permit overseas managers to grow professionally. IBM and other firms also have management development centers around the world where executives can hone their skills. And classroom programs provide overseas executives the sorts of educational opportunities that similar stateside programs do for their U.S –based colleagues. Designed correctly, international management development activities can also have a more subtle impact on the managers and their firms. For example, rotating assignments can help managers form bonds with colleagues around the world, and they can use these contacts to get decisions made more expeditiously. And activities such as periodic seminars are also useful. They can improve control by building a unifying set of values, standards, and corporate culture.

There are several trends in expatriate training and development. First, rather than providing only pre-departure cross-cultural training, more firms are providing continuing, in-country cross-cultural training during the early stages of an overseas assignment. Second, employers are using returning managers as resources to cultivate the "global mind-sets" of their home-office staff. For example, automotive equipment producer Bosch holds regular seminars in which newly arrived returnees pass on their knowledge and experience to relocating managers and their families.

There is also increased use of software and the Internet for cross-cultural training. For example, Bridging Cultures is a self-training multimedia package for people who will be traveling or living overseas

**1.15 The Expatriate Workforce:** Among the expatriate staffing policies, ethnocentric and geocentric approaches rely on extensive use of expatriates-employees working outside their home country with a planned return to a third country. As expatriates play a major role in international business, MNCs take great care of this in their selection process. The model of the life cycle of an expatriate assignment involves, identifying and selecting candidates, pre assignment training, departure, post arrival orientation and training, crisis and adjustment (crisis and failures), reassignment or repatriation and

adjustment. A major problem connected with expatriates is their premature return to their home country, which is called expatriate failure. Expatriate failure results in considerable loss to MNCs. Several reasons have been earmarked to explain why people return home before the assignment period expires.

There are different types expatriates. The traditional expatriate, older and experienced, is selected for his/her managerial or technical skills for a period of one to five years. Some of those are international cadres, individuals who move from one foreign assignment to another, seldom returning to their home country, sometimes becoming permanent expatriates who stay in overseas assignments for extended periods of time, or even permanently. Young, inexperienced expatriates are sent for six months to five years, usually on local hire terms. Temporaries go on short assignments, up to one year.

**1.16 Using Expatriates: Pros and Cons:** MNEs use expatriates to get the business off the ground, put in the infrastructure, and, more importantly, have a plan to change the mix of expatriates versus nationals. In many developing nations, locals are not yet ready to take over top management positions. For example, management localizations in China are forecasted to be at least a decade away. In addition to contributing essential knowledge and experience, expatriates serve as a mechanism of control and as a way to transmit corporate cultural and goals. By rotating expatriates, MNEs establish and maintain informal networks that are conductive to the sharing of knowledge and coordination among units. Expatriation creates a global perspective and is essential to knowledge and technology transfer.

**1.17 Expatriate Failure:** Expatriate failure occurs when the assignee returns prematurely to the home country or when performance does not meet expectations. Failure rates range from 15 to 80 percent, with many who stay on performing inadequately. Japan and China show the highest failure rates for U.S. expatriates.

The relative success of Japanese expatriates may be attributed to the country-specific training they receive for an entire year prior to their assignment. However, Japanese expatriates are commonly evaluated on adjustment and host-country knowledge rather than on professional results. The cost of expatriate failure is substantial. It includes not only the cost of selection, training, preparation, and moving, but also the consequences of

poor performance in lower revenues, lost business opportunities, and damage to the firm's reputations, which may undermine future ventures in the host country.

There are many reasons for expatriate failure. They include a spouse's unhappiness, inability to adjust to an unfamiliar physical and cultural environment, personality or emotional immaturity, inability to cope with the responsibilities and stress posed by overseas work, and lack of technical competence. Still, more than half of the firms surveyed reported and increase in the overall number of international assignments. Despite the dramatic strides made by women up the corporate ladder, they remain underrepresented in the expatriate workforce. This is sometimes the result of an assumption that women will be ineffective in foreign cultures, especially those high on masculinity where women rarely occupy senior management positions. This view is not empirically supported, as evidence suggests expatriate women are viewed first and foremost as foreigners.

**1.18 Expatriates selection:** Among the attributes, MNEs are looking for in an expatriate cultural empathy, adaptability and flexibility, language skills, education, leadership, maturity, and motivation. Adler specifies these competencies: a global perspective, local responsiveness, synergistic learning (integrating learning from multiple culture), transition and adaptation, cross-cultural interaction, collaboration, and foreign experiences. Especially important is the ability to exercise discretion in choosing when to be locally responsive and when to engage in global integration. Successful expatriates need personal skills that facilitate mental and emotional well-being, people skills such as relational abilities, willingness to communicate, non-verbal communication, respect for others, and empathy for others and perception skills, namely the cognitive process that helps executives understand the behavior of foreigners. This includes flexible attribution and breadth as well as being open-minded and non-judgemental. Extroversion and being culturally adventurous are important for expatriate success in culturally distant countries.

**1.19 Preparing for Foreign Assignment:** Expatriates entering a foreign country must adjust to new job responsibilities and to a new environment, including a different culture. The first adjustment phase is anticipatory and takes place before departure. In-country adjustment follows. Adjustment varies by individual factors (self-efficacy, relation, and perception skills); job-related factors (role clarity, role discretion, role novelty, and role

conflict), organization culture (culture novelty, social support, and logistical help), organization socialization, and non-work factors such as culture novelty and family-spouse adjustment, Language fluency and previous assignments also influence adjustment.

The U-Curve Theory suggests that individuals exposed to a new culture go through four stages of adjustment:  In Stage 1, "honeymoon", they are fascinated by the new culture. In Stage 2, "culture shock", fascination with the new culture is replaced by disillusionment and the frustration of having to cope with it on a daily basis. In Stage 3 "adjustment", individuals gradually adapt to the new culture and learn how to behave appropriately. In Stage 4, "mastery", individuals incrementally learn how to function smoothly in the new culture.

Five determinants of cross-cultural adjustment have been identified. They are pre-departure cross-cultural training (previous overseas experience; multiple-candidate, multi-criteria selection), individual skills (including self-dimensions skills to maintain mental health, psychological well-being, self-efficacy, and effective stress management), relational skills (to interact with host national), perceptual skills (to correctly perceive and evaluate the host environment); and non-work factors (cultural distance and spouse and family adjustment).

**Summary**

Global human resource management is concerned with the management of human resources at the international level. International business is important to almost every business today, and so firms must increasingly be managed globally. This confronts managers with many new challenges, including coordinating production, sales, and financial operations on a worldwide basis. As a result, companies today have pressing international HR needs with respect to selecting, training, paying and repatriating global employees.

Inter-country differences affect a company's HR management processes. Cultural factors suggest differences in values, attitudes, and therefore behaviours and reactions of people from country to country. The relationship between the worker, the union, and the employer influence the nature of a company's specific HR policies from country to country. A global mindset, improved leadership and skill etc are needed to increase the

effectiveness of global teams to develop global business. In the Global phase of human resource management, HRM focuses on both local responsiveness and global integration. Cultural differences from country to country necessitate corresponding differences in management practices among a company's subsidiaries. International assignments are the heart of international HR, and therefore disconcerting to see how often such assignments fail.

Globalisation has affected the staffing of Multinational Enterprises. It has changed the composition of board of directors. The percentage of firms with non-national directors has increased considerably during the period of globalisation. Staffing the MNEs are affected by a large number of factors among which organisational structure, production and marketing technologies, political stability, culture etc are very important. The processes firms use to select managers for their domestic and foreign operations obviously have many similarities. However, Multinational companies (MNCs) employ several types of international managers. Home-country national are citizens of the country in which the multinational company has its headquarters. Expatriates still represent a minority of multinationals' managers. With an ethnocentric staffing policy, the firm fills key management jobs with parent country nationals. A polycentric-oriented firm would staff its foreign subsidiaries with host country nationals, and its home office with parent-country nationals.

Training is planned learning experiences that teach workers how to effectively perform their current jobs. All new employees, even those with appropriate technical skills need some sort of orientation training. Training is a learning process directly tied to specific situational results. The employee may then require special training, and the firm will also need special international HR policies for compensating the firm's overseas employees and for maintaining healthy labour relations.

At the starting level, training focuses on the cultural differences, and their impact on business outcomes. There are several trends in expatriate training and development. Many firms are providing continuing, in-country cross-cultural training during the early stages of overseas assignment. Expatriate failure occurs when the assignee returns prematurely to the home country or when performance does not meet expectations.

Expatriates entering a foreign country must adjust to new job responsibilities and to a new environment, including a different culture.

**Lesson 2 Developing a Global Management Cadre: Motivating and Leading; Developing the values and behaviours necessary to build high performance organization personnel - individuals and teams included.**

**Learning Objectives:** By the end of this lesson you should be able to: 1. Understand and describe the need for developing a global management cadre and the methods of motivation and leading. 2. Understand the need, importance and methods of developing the values and behaviours necessary to build high performance organisation.

**2.1. Developing a Global Management Cadre:** Global management of business is increasingly important to almost all business firms today as they extent their business operations globally. As the international business of a firm increases, the firms must be managed globally. This confronts managers with many new challenges, including coordinating production, sales, and financial operations on a worldwide basis. As a result, companies today have pressing international HR needs with respect to selecting, training, paying and repatriating global employees. Inter-country differences affect a company's HR management processes. Cultural factors suggest differences in values, attitudes, and therefore behaviours and reactions of people from country to country also change. Differences in economic and labour cost among countries are also important and will help to determine whether human resources emphasis should be on efficiency, commitment, or some other factors. Industrial relations between the worker, the union, and the employer influence the nature of a company's specific HR policies from country to country.

A global manager must learn how to design and implement global strategies to conduct effective cross-national interactions and to manage daily operations in foreign subsidiaries. To cope with the challenges in the 21$^{st}$ century, modern managers must be able to address actual management functions and behaviors necessary to develop global vision and management skills at both organizational and interpersonal level. New generation leaders need to understand the complexities of operating in a global business environment, and the critical success factors for the organisation and themselves as

global leaders. Developing global mindsets and improved leadership skills will increase the effectiveness of global teams and hence, high potential managers are needed to develop global business.

There is the need to identify and use critical skills for effective management of people and processes in a global context. It is necessary to understand the actual management functions and behaviors essential to develop a global vision. A global manager must understand the role of a manager across nationalities, to deal with dynamic management issues in both foreign and diverse host environments. He must be able to exercise competitive strategy in the context of global changes. The global manager must outline the ways in which companies can cross borders to do business with other countries, and the corresponding advantages and disadvantages of each. He must have an understanding of the techniques to effectively manage people and processes in a global context. Lack of understanding of the management techniques may result in the failure of managers abroad-, which is called expatriate failure. The Multinational corporations may react to this and the core reaction to expatriate failure is to use short assignments for most expatriates while downsizing long-term expatriate staff in favour of host country managers. Another reaction by international businesses is to create a separate group of managers who specialise in international assignments. These international specialists are called the international cadre.

**2.1.1 International Cadre:** The managers of international cadre will have permanent international assignments and they will give a global perspective to the company. These managers are recruited from any country and are sent to worldwide locations to develop cross- cultural skills. Their main job is to promote sharing and learning in all locations and by employees of all nationalities. The international cadre spends their carriers moving from one overseas assignment to another. They develop their own international organisational culture, differing from their firm's main culture. The use of the international cadre is more common in European firms than in US MNCs. Along with using the international cadre, many European firms also seek to give more global experience to managers at all levels and at a much earlier age.

The most effective way to reduce expatriate failure is by improving selection procedures to screen out inappropriate candidates. The first step in this direction is to

delineate selection criteria for selecting expatriates.   An individual's ability to perform a given task, Technical and management skills, cross-cultural abilities like cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability, and maturity are all important consideration for expatriate selection. Managerial or technical competence is a primary requisite for expatriate success besides effectiveness and coping skills. Effectiveness skills are defined as the ability to successfully translate the managerial or technical skills into the foreign environment, whereas coping skills enable the person to become reasonably comfortable, or at least survive, in a foreign environment.  Family requirements particularly the encouragement and cooperation from the spouse, its important for expatriate success. Some countries refuse work permits to ladies. MINE requirements are other situational considerations in the selection decision. Some firms may decide to have a certain proportion of expatriates to local staff while making a selection decision, mainly as a staffing philosophy. Language is generally a component in culture but is taken separately as a situation variable because of its importance in making the selection decision. Language skills may be regarded as of critical importance for expatriates positions. It is well known that most international business adopt a common corporate language as a way of standardising reporting systems and procedures. Knowledge of English, which is the language of business, is a factor in expatriate's selection. Moreover, US managers often choose expatriates for international assignments mainly on the basis of their technical competence and past performance. On the other hand, European firms pay more attention to culturally oriented skills such as language skills, as well as to family issues. The final step in improving selection process of expatriates is to use appropriate tests to select or reject aspirants. Generally, personality and psychological tests have been used in the selection process, but the effectiveness of such tests as predictors of success is questioned.

International businesses use a combination of selection methods to identify people with the appropriate talent for overseas posting, Some popular techniques include interviews, standardised Tests of intelligence or technical knowledge, assessment centers (testing centers where candidates solve simulated managerial problems), biographical data, work samples, and references. Impatriation - which involves the transfer of subsidiary managers to headquarters for a specified period of time, is an alternative to

expatriation. Impatriation also has the advantage of exposing parent company managers to an international perspective.

**2.1.2 Management Development and Strategy:** The international businesses use management development as a strategic tool in firms pursuing a multinational strategy. These firms require unifying corporate culture and informal management networks to assist in coordination and control. Besides, MNCs need to be able to notice pressures for local sensitivity, which require knowledge about host country culture. Management development programmes help build unifying corporate culture by socialising new managers into the values and norms of the firm. Domestic training programmes and intense interaction during off-site training can foster a spirit of shared experiences, informal networks and develop competencies. These training courses often include songs, picnics, and sporting events that promote feelings of togetherness. These activities aim to strengthen a manager's identification with the company. Bringing managers together in one location for extended periods and rotating them through different jobs in several countries help the firm build an informal management network.

The volatility of the international environment the fall of Communist rule, the formation of a single European Market, marketisation of Chinese economy, handover of Hong Kong by British to the People's Republic of China, economic reforms in India, and the current economic downturn in the economies of the so-called Asian Tigers etc had profound implications for the global and local strategies of multinationals operating in these countries. Lastly, the physical distance involved, time-zone differences, and the frequency of contact between the corporate head-office staff and subsidiary management, and the cost of the reporting system complicate the assessment of a subsidiary's performance.

**2.2 Expatriate Performance Management:** The performance of an expatriate is to be assessed to effect promotions, assess training and development needs, and introduce pay rises. Generally, two groups evaluate the performance of expatriate managers, host-nation and home-country managers, and both are subject to biases. There are many difficulties in evaluating the expatriate performances there are many variables that influence expatriate performance. The factors which influence success or failure in a foreign assignment include: the compensation package, the task, headquarters' support, the

environment in which performance takes place, and the cultural adjustment of the individual. Compensation Package like financial benefits, career prospects etc. motivate an individual to accept a foreign assignment. If these expectations are not met during the assignment, motivation declines and performance suffers. whatsoever the assignment, task influences performance considerably. Of these, cultural adjustment is the most vital factor determining the success or failure of an expatriate.

**2.2.1 Cultural Adjustment:** The ability of the expatriate to adjust to the culture of the host country is an important variable affecting expatriate performance. An expatriate's cultural adjustment typically comprises three. According to the U-shaped curve, it starts with a high suggesting that the expatriate enjoys a great deal of excitement as he or she discovers the new culture. This stage is called the tourist stage. This early phase is followed by a period of disillusionment (second stage), in which the expatriate's mood descends as the difficulties with the new culture become clear. These difficulties typically include inability to converse well in the local language, problems in obtaining certain products and food supplies of personal preference, homesickness, and so on. In this stage, the curve hits the bottom and is characterised by what is called culture shock**.** Culture shock is explained in terms of disruption in established routines of behaviour. Culture shock is a critical phase, and how the individual copes with the psychological adjustment required has an important bearing on success or failure. If culture shock is handled successfully, the expatriate enters the third stage, which may be called the adapting or adjustment phase. He or she begins to feel more positive, works more effectively, and lives a more satisfying life. If culture shock is not handled successfully, the expatriate's work-related performance deteriorates, and he or she may eventually return home having not really done the job well or enjoyed the time spent abroad.

**2.2.2 Paying Expatriates:** An IHR manager is to design an attractive remuneration package to the expatriates. The major objectives of expatriate remuneration package are to attract employees who are qualified and interested in international assignments; facilitate the movement of expatriates from one subsidiary to another, provide a consistent and reasonable relationship between the pay levels of employees at headquarters domestic affiliates, and foreign subsidiaries; and cost effectiveness by reducing unnecessary expenses. However, there may emerge problems while designing

an international remuneration package like discrepancies in pay between parent, host, and third-country nationals, the need to vary expatriate compensation, depending on the 'lifecycle' of the expatriate's family (e.g., young children, children in college, etc.), remuneration issues related to re-entry into the parent country organisation. using remuneration programmes that had not changed sufficiently over time to deal adequately with the new international business environment.

**2.3 Factors Influencing International Compensation:** Several internal and external factors influence international compensation. Among the internal factors is the goal orientation of the MNC. Broadly, the goal may be pursuit of economic or non-economic benefits. A non-government organization, which seeks to realise cultural goals, will obviously have less attractive compensation package than a firm, which produces and sells goods and services for profit. The competitive strategy of the MNC will most likely influence the nature of international compensation. If, for example, the MNC desires to be a market leader in employee compensation in order to attract the most competitive candidates, then the compensations might be higher. Attitudes, values, and beliefs about the relative value of employee contributions and international compensation elements such as cash compensation, benefits, perquisites, and employee ownership plans across the MNC are inherent in the organisational culture. In designing an expatriate's remuneration, firms generally follow a number of approaches. The most common is the balance sheet approach*,* which involves ensuring that the expatriates is "made whole" and does not lose money by taking assignment. The basic objective is to maintain home-country living standards, plus some financial inducement. A second approach is called localisation (going rate approach*)* and involves paying the expatriates a salary that is comparable to those of local citizens.

**2.3.1 Repatriation:** Any discussion on expatriates should include their repatriation—the activity of bringing the expatriate back to the home country. It has been the knowledge of practitioners and academics that re-entry into the home country presents new challenges as the repatriate (returning person) copes with what has been termed re-entry shock (reverse culture shock). While people frequently expect life in a new country to be different, they may be less prepared for homecoming to cause problems of adjustment. An MNC may think that repatriation is the final phase in the expatriation process, but its

ability to attract future expatriates depends on how well the firm handles its repatriation. International business responds to repatriation problem in several ways. Many firms have a formal repatriation programme.

**2.4 Motivation:** Motivation is the willingness to exert high levels of effort to reach organisational goals, conditioned by the effort's ability to satisfy some individual need. Three key elements of motivation are effort, organisational goals, and needs. The effort element is a measure of intensity or drive. A motivated person tries hard. An effort that is directed toward, and consistent with, organisational goals is the kind of effort that we should be seeking. Motivation is considered as need satisfying process. Since motivation influences productivity, supervisors need to understand what motivates employees to reach peak performance. It is not an easy task to increase employee motivation because employees respond in different ways to their jobs and their organization's practices. Motivation is the set of processes that moves a person toward a goal. Since motivation influences productivity, supervisors need to understand what motivates employees to reach peak performance. It is not an easy task to increase employee motivation because employees respond in different ways to their jobs and their organization's practices. Thus, motivated behaviors are voluntary choices controlled by the individual employee. The supervisor (motivator) wants to influence the factors that motivate employees to higher levels of productivity. Factors that affect work motivation include individual differences, job characteristics, and organizational practices. Individual differences are the personal needs, values, and attitudes, interests and abilities that people bring to their jobs. Job characteristics are the aspects of the position that determine its limitations and challenges. Organizational practices are the rules, human resources policies, managerial practices, and rewards systems of an organization. Supervisors must consider how these factors interact to affect employee job performance.

Factors that affect work motivation include individual differences, job characteristics, and organizational practices. Individual differences are the personal needs, values, and attitudes, interests and abilities that people bring to their jobs. Job characteristics are the aspects of the position that determine its limitations and challenges. Organizational practices are the rules, human resources policies, managerial practices, and rewards systems of an organization. Supervisors must consider how these factors

interact to affect employee job performance. Achievement motivated people thrive on pursuing and attaining goals. They like to be able to control the situations in which they are involved. They take moderate risks. They like to get immediate feedback on how they have done. They tend to be preoccupied with a task-orientation towards the job to be done. Power motivated individuals see almost every situation as an opportunity to seize control or dominate others. They love to influence others. They like to change situations whether or not it is needed. They are willing to assert themselves when a decision needs to be made. Affiliation motivated people are usually friendly and like to socialize with others. This may distract them from their performance requirements. They will usually respond to an appeal for cooperation. The purpose of behavior is to satisfy needs. A need is anything that is required, desired, or useful. A want is a conscious recognition of a need. A need arises when there is a difference in self-concept (the way I see myself) and perception (the way I see the world around me). The presence of an active need is expressed as an inner state of tension from which the individual seeks relief.

**2.4.1 Theories of Motivation:** Many methods of employee motivation have been developed. The study of work motivation has focused on the motivator (supervisor) as well as the motivate (employee). Motivation theories are important to supervisors attempting to be effective leaders.

**2.4.1.a Maslow's Hierarchy of Needs**: Abraham Maslow first presented the five-tier hierarchy in 1942 to a psychoanalytic society. Maslow's hierarchy of needs identifies five levels of needs, which are best seen as a hierarchy with the most basic need emerging first and the most sophisticated need last. People move up the hierarchy one level at a time. Gratified needs lose their strength and the next level of needs is activated. As basic or lower-level needs are satisfied, higher-level needs become operative. A satisfied need is not a motivator. The most powerful employee need is the one that has not been satisfied.

**Level I – Physiological Needs** are a persons needs for food, drink, shelter, sexual satisfaction, and other physical needs.

**Level II - Safety needs** are the desires for security and stability, to feel safe from harm. The organization helps to satisfy employees' safety needs by benefits. **Level III - Social needs** are the desires for affiliation. They include friendship and belonging. The organization helps to satisfy employees' social needs through sports teams, parties, and celebrations. The supervisor can help fulfill social needs by showing direct care and concern for employees.

**Level IV - Esteem needs** are the desires for self-respect and respect or recognition from others. The organization helps to satisfy employees' esteem needs by matching the skills and abilities of the employee to the job. The supervisor can help fulfill esteem needs by showing workers that their work is appreciated. **Level V - Self-actualization needs** are the desires for self-fulfillment and the realization of the individual's full potential. The supervisor can help fulfill self-actualization needs by assigning tasks that challenge employees' minds while drawing on their aptitude and training.

**2.4.1.b. Theory X and Theory Y:** Theory X presents an essentially negative view of people and theory Y offers a positive view. Theory X assumed that lower order needs dominated individuals and theory Y assumed that higher order needs dominated. The assumptions of theory Y were more valid than those of Theory X. Therefore, he proposed that participation in decision making, responsible and challenging jobs, and good group relations would maximise employee motivation.

**2.4.1.c. Motivation Hygiene Theory:** This theory proposes that intrinsic factors are related to job satisfaction and motivation, where as extrinsic factors are associated with job dissatisfaction.

**2.4.1.d. The Three needs Theory:** According to this theory there are three needs that are major motives in work. They are achievement, power, and affiliation.

**2.4.1.e. Goal Setting Theory:** This theory is based on the proposition that specific goals increase performance and that difficult goals when accepted, result in higher performance than do easy goals.

**2.4.1.f. Reinforcement Theory:** The Reinforcement Theory states that behaviour is a function of its consequences. It emphasises the pattern in which rewards are administered and states that only positive and not negative, reinforcement be used, and then only to reward desired behaviour.

**2.4.1.g. Equity Theory:** This theory says that an employee compares his or her job's inputs-outcomes ratio with that of relevant others and then corrects any inequity.

**2.4.1.h. Expectancy Theory:** Expectancy theory states that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual.

The current motivating Issues facing managers include motivating a diverse workforce, designing appropriate pay-for-performance programs, using open-book management, and motivating the new workforce.

Management Practices that are likely to lead to more motivated employees include recognizing individual differences, matching people to jobs, using goals, ensuring that employees perceive goals as attainable, individualizing rewards, linking rewards to performance, checking the reward system for equity, and realising that money is an important incentive.

**2.5 Leading:** A leader is someone who can influence others and who has managerial authority. Leadership is the process of influencing a group toward the achievement of goals. Leaders can influence others to perform beyond the actions dictated by formal authority. There are various theories of leadership. The trait theory of leadership focused on identifying those traits that might be used to differentiate leaders from non-leaders. Behavioural leadership theories focused on the preferred behavioural styles that leaders demonstrated. According to the behavioural theories of leadership, there are autocratic, democratic and laissez-faire styles of leadership. In autocratic style, a leader tends to centralise authority, dictate work methods, make unilateral decisions, and limit employee participation. In democratic style, a leader tends to involve employees in decision making, delegate authority, and encourage participation in deciding work methods and

goals, and use feedback as an opportunity for coaching employees. According to the laissez-faire style, a leader generally gave the group complete freedom to make decisions and complete the work in whatever way it saw fit. Contingency model of leadership proposed that effective group performance depended on the proper match between a leader's style of interacting with his or her followers and the degree to which the situation allowed the leader to control and influence. Situational leadership theory is a contingency theory that focuses on follower's readiness. Readiness refers to the extent to which people have the ability and willingness to accomplish a specific leader participation model is another contingency model of leadership theory that related leadership behaviour and participation in decision-making. The path goal theory of leadership says that it is the leader's job to assist his or her followers in attaining their goals and to provide the direction or support needed to ensure that their goals are compatible with the overall objectives of the group or organisation. Transactional leaders are leaders who guide or motivate their followers in the direction of established goals by clarifying role and task requirements. Transformational leaders provide individualized consideration, intellectual stimulation, and possess charisma. A charismatic leader is an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways. Visionary leadership is the ability to create and articulate a realistic, credible, and attractive vision of the future that improves upon the present situation. In its essence, leadership is a lifestyle, not a position. Today's leaders need a model of life that fits all of their spheres of influence. Leading in your job, marriage, family and community are all important and all require you to be at your best.  John Hawkins guides participants to see that long-term, effective leadership is built upon character, competence and commitment that are drawn from one's core beliefs and virtues.

**2.5.1 Team Leadership**: Leadership is increasingly taking place within a team context. As more organisatisations use work teams, the role of the leader in guiding team members becomes increasingly important. The challenge for most managers is learning how to become an effective team leader. They have to learn skills such as having the patience to share information, being able to trust others and to give up authority, and understanding when to intervene. Effective team leaders have mastered the difficult

balancing act of knowing when to leave their teams alone and when to get involved. There are four specific leadership roles to a team leader. First, team leaders are liaisons with external constituencies, are troubleshooters, conflict managers and coaches.

**2.5.2 Leading through Empowerment:** Managers are increasingly leading by empowering their employees. Empowerment involves increasing the decision-making discretion of workers. Millions of individual employees and employee teams are making the key operating decisions that directly affect their work.

## 2.6 Developing the values and behaviours necessary to build high performance organization personnel- individuals and teams included

## 2.6.1 Developing the Values and Behaviours - Values and International Staffing Policy

The values of top executives are classified in to ethnocentric, polycentric, or geocentric, and these values translate into corresponding corporate behaviours and policies. In an ethnocentrically run corporation, the prevailing attitude is that home country attitudes, management style, knowledge, evaluation criteria, and managers are superior to anything the host country might have to offer. In the polycentric corporation, there is a conscious belief that only host country managers can ever really understand the culture and behaviour of the host country market; therefore, local people should manage the foreign subsidiary. Geocentric executives believe they must scour the firm's whole management staff on a global basis, on the assumption that the best manager of a specific position anywhere may be in any of the countries in which they operates.

These values translate into three broad international staffing policies. With an ethnocentric staffing policy, the firm fills key management jobs with parent country nationals. At Royal Dutch Shell, for instance, most financial officers around the world are Dutch nationals. Reasons given for ethnocentric staffing policies include lack of qualified host-country senior-management talent, a desire to maintain a unified corporate culture and tighter control, and the desire to transfer the parent firm's core competencies to a foreign subsidiary more expeditiously. A polycentric-oriented firm would staff its foreign subsidiaries with host country nationals, and its home office with parent-country nationals. This may reduce the local cultural misunderstandings that might occur if it

used expatriate mangers. It will also almost undoubtedly be less expensive. One expert estimates that an expatriate executive can cost a firm up to three times as much as a domestic executive because of relocation expenses and other expenses such as schooling for children, annual home leave, and the need to pay income taxes in two countries.

A geocentric staffing policy "seeks the best people for key jobs throughout the organization, regardless of nationally"- similar to what Ford Motor Company does. This may let the global firm use its human resources more efficiently by transferring the best person to the open job, wherever he or she may be. It can also help build a stronger and more consistent culture and set of values among the entire global management team. Values like these translate into other behaviours. For example, the ethnocentric (we are the best) behaviours of host-country employees had a negative effect on worker's abilities to adjust in one study of 250 international assignees.

It would be nice to believe that all strategies are products of an entirely objective thought process, but that's not usually the case. People always base their actions in part on the assumptions they make and the values they hold, and that certainly applies to management strategizing. For example, an ethnocentric manager may view an opportunity to expand abroad with some skepticism, while a geocentric manager seizes the same opportunity. The same applies to how managers approach their HR-related responsibilities. Decisions about the people you hire, the training you provide, the procedures you institutionalize, and your leadership style would not just reflect the objective demands of the situation. Instead, they will be influenced by the basic assumptions you make about people. Your decisions will reflect your basic people philosophy.

**2.6.2 Values and Behaviours necessary to Build High Performance Organization**

**Personnel:** Values, once they are made visible, enable the leadership team to compare employee values with the behaviours they feel are needed to implement strategy. Where gaps are found, steps can be taken to carefully develop the shared set of values that align with strategy. Focusing on values is a necessary building block of high performance and strategic success. In an age of increasing global and local competition, the ability of an organization to develop a corporate culture that attracts and retains talented people is rapidly emerging as the most important criterion for sustainable success. Values are the

foundation upon which an organization's vision, strategy, brand and culture are based. Currently, values systems remain an undeveloped capability in the majority of organizations. Recognizing the diversity of values in an organization and fostering alignment by leveraging the shared values will better the performance.

High Performance Work Organisations (HPWOs) represent a unique combination of the two facets of management. The practices, which constitute high performance working, are sometimes referred to as high involvement or flexible working practices. The term high performance working practices is most widely used and reflects the fact that these practices can produce higher levels of performance. Another approach argue that there is one best internal fit in that the more practices a company has, the higher the level of performance, as indicated by labour turnover, productivity and financial performance. More recently, an extensive UK survey concluded that an underlying management orientation is important to the use of high involvement practices. Another approach assumes that there are a series of practices that produce improvements in different aspects of organizational performance. The empirical task is then to identify the precise nature of these bundles and their constituent elements and then to establish how they produce the desired impact on the various indices of performance. This raises the possibility that different bundles may be effective in producing different performance outcomes. Thus, some bundles may produce better human relations outputs, for example employee commitment and low labour turnover, but not necessarily better financial performance. Thus, we are now aware of the fact that we need to differentiate the various types or bundles of practices and the range of indices we use to measure performance.

**2.6.3 Individual Practices for High Performance:** Individual practices such as contingent pay are linked to improvements in company or organizational performance. Selection and training practices deliver the appropriate skills and employee involvement and performance-related activities provide motivation. Together these facilitate high levels of individual performance, which in turn produce the high performance outcomes, in the form of productivity. The key feature linking HR practices and worker outcomes such as job satisfaction, perceived job security and motivation are the psychological contract between employer and employees, in which employees provide the high commitment in return for job security and satisfying work

**2.6.4 Team Work for High Performance:** Managing projects, setting goals, clarifying roles, and solving problems in teams are skills that must be developed. New organizational skills must be developed if teams are to operate effectively and efficiently. Teamwork as a form of organizing work will vary in its manifestation between societies. Nevertheless teamwork is a recognizable approach to the organization of work. Thus, teamwork forms one of the underlying dimensions of work organization and employee involvement that we use to characterize high performance work organisations (HPWOs). At a broader range we may include employee satisfaction, employee stress, labour turnover rates, customer satisfaction, client retention and so on in HPWP. Practices like developing higher levels of commitment to the organization, higher levels of motivation and using employees knowledge to introduce continuous improvements, etc. will increase the productivity and other organizational outcomes.

Companies may make considerable efforts to ensure that all the staff shares the same company values. Job rotation, multi-skilling and team working are central organizing principles when it comes to work design, with each team being a focus for workplace learning centered around the continuous improvement of the product. Performance measures have been established across a range of areas, which are closely linked to the reward system. As with any set of management practices, they can clearly be applied to sections of the labour force. However, for the employees to gain the maximum benefit, it is important that they are applied to all employees, both full-time and part-time. However, it is more difficult to apply them in the case of temporary staff.

**2.6.5 High Performance Work Teams:** We have heard much about the benefits with implementing team approaches to improve organizational effectiveness and to empower individuals and teams with the information and authority to make decisions on the front lines. Business success today mandates the use of these high performance work teams throughout the organizations. But making the transition to teams is not easy. Training can be useful in many ways to help people function more effectively in team environments, including communication. People must learn how to communicate effectively in teams and between teams across the entire organization. Employees must use communication to resolve and manage conflicts, and to air and resolve grievances and complaints.

Team leaders and upper management need to learn how to act as role models for team operation, and how to promote the active building, leadership and management of teams. Employees need help in overcoming fears about the loss of job security and independence, and to learn how to continue to make individual contributions within team structures. Interpersonal skills need to be developed, especially with respect to group problem solving. Today, it is the preparation of the workforce for optimum performance that gives the competitive advantage. A more relevant, business-focused training function distributed and integrated appropriately throughout the organization will not only be more in line with organizational performance and profitability, but will help to bring the rest of the organization along towards reaching the goal of using effective, efficient, and performing teams. The training function itself is a good place to start implementing high performance work teams. By reorganizing the ISD process into cross-organizational teams to improve the success of the business, trainers and instructional designers will become valuable resources to transfer their experiences, knowledge and skills of high performance work teams to others throughout the rest of the organization.

It should also be noted that microbehaviours (tiny behaviours) like the style of greeting, the tone of voice, the choice of words, the time devoted to listening as opposed to speaking and the responses given to the person the other end all will influence the performance of a team. In other words a major factor in the success of any business is the millions of micro-behaviours adopted by its managers and employees. The examination of micro-behaviours will become a critical area of study for the HR profession as companies dig deeper and deeper to discover the elusive connection between people and performance.

There are two dimensions to any business: the impersonal and the personal. The first is founded on systems and the second on psychology. Under the auspices of scientific management there has been much attention focused over the last few decades on the first - but at the expense of the latter. Managers around the globe along with their professional HR advisers have been seeking a 'system for success' by which they can apply 'tools' to spark the motivation that brings high performance. These 'tools' come in the form of policies, procedures and personnel systems such as 'objective setting',

'performance appraisal' 'team briefings' and 'empowerment programmes'. There is a strongly held belief that the application of these 'tools' will lead to high performance.

Thus strategic HR policies are adopted by which line managers are trained and 'tasked' to use these 'tools' to enhance the performance of their teams. Despite assertions to the contrary the role of the manager in many companies is seen as one of managing tasks in order to achieve quantified results. Managers assign people tasks and then expect them to achieve the necessary results.

All this can be very impersonal for the simple reason that it is 'system' (or policy) driven. Much neglected are the psychology of this process and especially an in-depth understanding of the role of behaviours and micro-behaviours in the execution of these tasks. It is truism to state that successful businesses are built on relationships - personal relationships managers have with employees as well as with customers, suppliers, shareholders and the community at large. The better the relationships an organisation (as represented by its managers) has with these various groups the greater the probability of success. Conversely a company that suffers poor relationships is likely to lose business by losing its customers, employees and eventually shareholders. A key factor in any relationship is the behaviours adopted between the various parties involved. Behaviour determines the effectiveness of the relationship, which in turn determines the effectiveness of the business.

Behaviour is very personal and is a product of the inner soul of each individual employee. When managers command people to behave in a certain way they are effectively attempting to command the souls of employees. When managers command people to behave in a certain way they are effectively attempting to command the souls of employees Thus a manager can instruct an employee to undertake a task. Behaviour is at the core of high performance expressed another way; behaviour is at the core of high performance.

The organizations can identify and get the most out of "high-potential people" by developing and promoting them to key positions. It will help you design career plans that boost employee morale, as well as create and sustain excellence in your organisation. It is

full of simple, efficient, easy-to-follow methods for assessing, planning, and developing high-value people to meet your organization's current and future needs. It will also help you combine your organization's diverse human resources activities into a single, coherent system.

**Summary**

This lesson was about developing a global management cadre incorporating the importance of motivating and leading. It was also aimed to understand the need, importance and methods of developing the values and behaviours necessary to build high performance organisation. Global management of business is increasingly important to almost all business firms today as they extent their business operations globally. Inter-country differences affect a company's HR management processes. Cultural factors suggest differences in values, attitudes, and therefore behaviours and reactions of people from country to country. Developing global mindsets and improved leadership skills will increase the effectiveness of global teams and hence, high potential managers are needed to develop global business.

The managers of international cadre will have permanent international assignments and they will give a global perspective to the company. The performance of an expatriate is to be assessed to effect promotions, assess training and development needs, and introduce pay rises. Whatsoever the assignment, task influences performance considerably. The ability of the expatriate to adjust to the culture of the host country is an important variable affecting expatriate performance. Several internal and external factors influence international compensation. Since motivation influences productivity, supervisors need to understand what motivates employees to reach peak performance. Factors that affect work motivation include individual differences, job characteristics, and organizational practices. Individual differences are the personal needs, values, and attitudes, interests and abilities that people bring to their jobs. Supervisors must consider how these factors interact to affect employee job performance. Supervisors must consider how these factors interact to affect employee job performance. Many methods of

employee motivation have been developed. Leadership is increasingly taking place within a team context.

In global human resource management there is the need for developing the values and behaviours necessary to build high performance. With an ethnocentric staffing policy, the firm fills key management jobs with parent country nationals. Values enable the leadership team to compare employee values with the behaviours they feel are needed to implement strategy. High Performance Work Organisatios (HPWOs) represent a unique combination of the two facets of management. The term high performance working practices is most widely used and reflects the fact that these practices can produce higher levels of performance. Individual practices such as contingent pay are linked to the organizational performance. Selection and training practices deliver the appropriate skills and employee involvement and performance-related activities provide motivation. Together these facilitate high levels of individual performance, which in turn produce the high performance outcomes, in the form of productivity.

Team Work is required for high performance in an organisation. Business success today demands the use of high performance work teams. The training is a start to implement high performance work teams. Behaviour is at the core of high performance.

**Review Questions**
1. Define global human resource management? How does it differ from domestic human resource management?
2. What are possible reasons for assigning expatriates to foreign MNE subsidiaries and branches? Are most expatriates successful in meeting stated corporate goals?
3. What are the basic issues involved in recruiting and selecting managers for foreign assignments? What special training do overseas candidates need?
4. Outline the main characteristics of the ethnocentric, polycentric, and geocentric approaches to global staffing?
5. Explain the major activities in IHRM?
6. What are the repatriates problems faced by international firms?
7. Why do expatriates return early? What can MNCs do to prevent this from happening?

8. Briefly summarize the major theories of motivation and list some practical suggestions for motivating employees?

8. What are the major theories of leadership? How is empowerment related to leadership?

9. What are some of the specific international activities an international HR manager typically engages in?

10. What are the measures for reducing the failure of international assignments?

11. How will you develop values and behaviours necessary for high performance in an organization?

12. What are the ingredients of developing a global management cadre?

13. What inter-country differences affect HRM? Give several Examples of how each may specifically affect HRM?

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# UNIT –V

**CHAPTERS:**

I. Corporate Culture

II. Diagnosing Organizational Cultures

III. Designing the Strategy for a Culture Change

IV. Successful Implementation of Culture Change

V. Measurement of ongoing Improvement

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## UNIT-V

## CHAPTER I – CORPORATE CULTURE

**Objective**

The objective of this chapter is to understand:

- The meaning of corporate culture
- The elements of corporate culture
- Classification of organizational culture

**Introduction**

The recent years have seen a lot of interest being shown towards culture in organizations. Organizations are now trying to build a cultural climate unique to the organization. They are fighting for a cultural space in the mind of its customers.

According to the dictionary, culture is "the act of developing intellectual and moral faculties, especially through education".

In the context of an organization "Culture" refers to the values, beliefs, practices and behaviors in an organization. Since the 1980s, 'Corporate Culture' has become popular within management, university departments and the business community. Corporate culture attempts to bring values and meanings to the workplace.

Organizational culture is a specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each others and with stakeholders outside the organization. Organizational values are beliefs and ideas about what kinds of goals, members of an organization should pursue and ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals. From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behavior by employees in particular situations and control the behavior of organizational members towards one another.

**Strong culture** is said to exist where staff respond to stimulus because of their alignment to organizational values.

Conversely, there is **Weak Culture** where there is little alignment with organizational values and control must be exercised through extensive procedures and bureaucracy.

Most of the organizations operate with a diversity of cultures. This is mainly because of the increasing worldwide mobility of people and cultures and values. Every organization develops its own unique culture or value set. No conscious attempt is made to create a certain culture. The culture of the organization is typically created unconsciously, based on the values of the top management or the founders of an organization.

An example to this would be Hewlett-Packard. It has always been conscious of its culture (The HP Way) and has worked hard to maintain it over the years. Hewlett-Packard's corporate culture is based on
- I. Respect for others,
- II. A sense of community, and
- III. Plain hard work (Fortune Magazine, May 15, 1995).

This has happened due to the extensive training of its managers and employees. Culture of HP has greatly contributed to its growth and success over the years.

Certain recent developments have led to the growth of the importance of corporate culture. The companies are bringing in concepts of strategic business units to encourage employees to be more responsible and act and think like owners. There has been shift towards more flexible work schedules leading to employees being "on-call". With the demise of more traditional communities (e.g. neighborhoods, etc.), companies are filling employees' need to belong to a community. At the same time companies are encouraging teamwork and the formation of teams.

Importance of corporate culture has led to reengineering of, which involves an attempt to change their culture, usually to a team orientation. As reported in the ACA News (September 1995), studies indicate that the following are necessary for a company to change to a "team culture":

- Common and consistent goals
- Organizational commitment
- Role clarity among team members
- Team leadership
- Mutual accountability with the team
- Complementary knowledge and skills
- Reinforcement of required behavioral competencies
- Power (real and perceived)
- Shared rewards

After understanding the importance of corporate culture, it is clear that changing the 'culture' of an organization is an effective way of improving its performance.

'Corporate Culture' can be established through:

- Proper training of all its members
- Induction Programmes aimed at introducing employees into an organization. In-house newsletters, notice-boards and employee hand books also are forums of sharing organizational information
- Employee assessments based on potential and new virtues of innovation, flexibility and risk-taking
- Rewarding good performance and initiative
- Strive for stability and avoid ambiguity in communication
- Counseling and guidance procedures followed by Managers to develop subordinates

**Elements of culture**

According to Johnson (1988) a number of elements can be used to describe or influence Organizational Culture:

- **The Paradigm**: It denotes the purpose of an organization, its goals, mission and values.
- **Control Systems**: The processes in place to monitor what is going on. It can be different across organizational cultures. Role cultures would have vast rulebooks. There would be more reliance on individualism in a power culture.
- **Organizational Structures**: This includes the reporting systems, hierarchies, and the work flows through the business.
- **Power Structures**: This element deals with who is the decision maker, how widely spread is power, and on what is power based.
- **Symbols**: These include organizational logos and designs, but also extend to symbols of power such as parking spaces and executive washrooms.
- **Rituals and Routines**: Management meetings, board reports and so on may become more habitual than necessary.
- **Stories and Myths**: These are data about people and events, and convey a message about what is valued within the organization.

None of these elements are independent of each other and may overlap.

In general the elements of culture include:

- **Basic assumptions**: These describe what an organization is, what it stands for, and what it is all about. It determines what organizational members perceive, think, feel, and behave. It explains what the core ideology of an organization is.

  Some examples of basic assumptions underlying organizational culture are:
  - Market-oriented communication systems (AT & T)
  - Customer orientation (Citibank)
  - Risk-taking and innovation (Hewlett Packard)
  - Employee participation, open communication, and security (Sony, Toyota)
  - Entrepreneurism, self-discipline, and control (Asea Brown Boveri)

- **Artifact**: It is the visible manifestation of culture is seen in the physical and social environment of the organization. These include:
  - Organizational structure, systems and subsystems, symbols, logos
  - Media reports and news articles about the organization
  - Organizational norms, rules, and procedures
  - The behavior pattern of its members

An example of a cultural artifact is the 24-hour hotline for customers that both Citibank and HDFC provide.

- **Values**:  These are the social principles, goals, or standards held by the members of an organization, individually and collectively. Values may not be observed directly but could be inferred from behavior and the stated reasons for the behavior. Sam Walton captured the core value of Wal-Mart in the statement that Wal-Mart puts the customers ahead of everything else. Core values are always limited to a few in numbers which are the essential and enduring feature of an organization. An organization's goals, policies, and practices may be altered if they do not go along with its core values. A 360-degree evaluation system could be a useful tool to help develop a genuine link between values and behavior.

- **Norms**: Norms are the unwritten rules of an organizational behavior. IBM norms dictate that employees should actively listen and respond to customer's demands and complaints. Norms are generally passed on to new employees by word of mouth and enforced by the social approval or disapproval of one's behavior with prevalent norms.

**Classification of cultural diversity**

There have been some models created to attempt to study and classify cultural diversity. One model, the Hofstede Cultural Orientation Model has been reported in the spring 1995

issue of the ACA Journal. This model classifies cultures based on where they fall on five continuums.

## 1. Individual versus Collective Orientation

This indicates whether behavior is regulated at the individual level or a collective level.

## 2. Power-Distance Orientation

This speaks about orientation of less powerful members to the existing distribution of power and the degree to which adherence to formal channels is maintained.

## 3. Uncertainty-Avoidance Orientation

This deals with the relative importance to employees of rules, long-term employment and steady progression through well defined career ladders and the degree to which employees are threatened by ambiguity.

## 4. Dominant-Values Orientation

The nature of the dominant values - e.g., assertiveness, monetary focus, well-defined gender roles, formal structure - vs. concern for others, focus on quality of relationships and job satisfaction, and flexibility

## 5. Short-Term versus Long-Term Orientation

Short-term orientation involves more inclination toward consumption, saving face by keeping up and long-term orientation involving preserving status-based relationships, thrift and deferred gratifications.

**Classifying organizational culture**

Several methods have been used to classify organizational culture. Some are described below:

1. **Hofstede**

Hofstede demonstrated that the behavior of the organizations affected by national and regional cultural groupings.

Hofstede identified five characteristics of culture in his study of national influences:

- **Power distance** – This speaks about the degree to which a society expects there to be differences in the levels of power. A high score suggests that there is an expectation that some individuals wield larger amounts of power than others. A low score reflects the view that all people should have equal rights.
- **Uncertainty avoidance**- This reflects the extent to which a society accepts uncertainty and risk.
- **Individualism vs. collectivism** – It refers to the extent to which people are expected to stand up for themselves, or alternatively act predominantly as a member of the group or organization.
- **Masculinity vs. femininity** – It refers to the value placed on traditionally male or female values. Male values for example include competitiveness, assertiveness, ambition, and the accumulation of wealth and material possessions.
- **Long vs. short term orientation** – It describes a society's importance attached to the future versus the past and present. In long term oriented societies, thrift and perseverance are valued more; in short term oriented societies, respect for tradition and reciprocation of gifts and favors are valued more.

2. **Deal and Kennedy**

Deal and Kennedy defined organizational culture as the way things get done around an organization. They measured organizations in respect of:

- **Feedback** – The instant response received in any aspect of an organization function.
- **Risk** – This represents the degree of uncertainty in the organization's activities.

These parameters were then used to suggest four classifications of organizational culture:

1. **The Tough-Guy Macho Culture**: This can be a very stressful culture to operate in. Risks are high, but feedback is quick and the rewards are high. Ex.: Fast moving financial activities such as brokerage

2. **The Work Hard/Play Hard**: Risks are few but feedback is rapid. This is typical in large organizations, which strive for high quality customer service. It is often characterized by team meetings, jargon and buzzwords.

3. **The Bet your Company Culture**: Risks are high but feedback of results is very slow. Typically, these might involve development or exploration projects, which take years to come to fruition, such as oil prospecting or military aviation.

4. **The Process Culture:** Risk taking is low and feedback is little or nil. People become bogged down with how things are done not with what is to be achieved. This is commonly seen in bureaucratic organizations. Though these organizations are overly cautious or bogged down in red tape, they do produce consistent results, which are ideal in, for example, public services.

**3. Charles Handy**

Handy (1985) popularized a method of looking at culture which some scholars have used to link organizational structure to Organizational Culture. He describes:

- **Power Culture**: The concentration of power is among a few. Few key members are involved in decision making. Hence, they have few rules and little bureaucracy. Decision making is swift.
- **Role Culture**: The roles are defined as per hierarchy and people have clearly delegated authorities. There is hierarchical bureaucracy and little scope exists for expert power.

- **Task Culture**: Teams are formed based on expertise and to solve particular problem. Power derives from expertise and these cultures often feature the multiple reporting lines of a matrix structure.
- **Person Culture**: This exists where all individuals believe themselves superior to the organization. Survival can become difficult for such organizations.

4. **Edgar Schein**

Edgar Schein, a MIT Sloan School of Management professor, defines organizational culture as "the residue of success" within an organization.

He has mentioned that culture is the most difficult organizational attribute to change, outlasting even organizational products, services, founders and leadership and all other physical attributes of the organization. His organizational model illuminates culture from the standpoint of the observer, described by three cognitive levels of organizational culture.

- **First level - Organizational attributes**: These can be seen, felt and heard by the uninitiated observer. These include facilities, offices, furnishings, visible awards and recognition, the way that its members dress, and how each person visibly interacts with each other and with organizational outsiders.
- **Second level - Culture of an organization's members**: These include, company slogans, mission statements and other operational creeds are often expressed, and local and personal values are widely expressed within the organization. Organizational behavior at this level usually can be studied by interviewing the organization's membership and using questionnaires to gather attitudes about organizational membership.
- **Third level - Organization's tacit assumptions**: These are the elements of culture that are unseen and not cognitively identified in everyday interactions between organizational members.

This model helps in understanding paradoxical organizational behaviors.

Complex organizations might have many cultures, and that such sub-cultures might overlap and contradict each other. In general, corporate culture is concerned with beliefs and values on the basis of which people interpret experiences and behave, individually and in groups. Over a period of time these statements become internalized and the employees articulate and display these value systems which speak about an organizational culture. They get recognized for their value systems and are recognized for this in the business environment. Good culture attracts business and people would want to be associated with such organizations. And hence, firms with strong cultures achieve higher results because employees sustain focus both on *what* to do and *how* to do it.

The essence of Corporate Culture is harmony, consensus and unity within the organization. The biggest driving force towards establishing a healthy culture is the Top Management. Their commitment helps in the growth of a stimulating climate for organizational growth.

**Summary**
Organizational culture is a specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each others and with stakeholders outside the organization.

Strong culture is said to exist where staff respond to stimulus because of their alignment to organizational values.

Conversely, there is Weak Culture where there is little alignment with organizational values and control must be exercised through extensive procedures and bureaucracy.

'Corporate Culture' can be established through:
- Proper training of all its members

- Induction Programmes aimed at introducing employees into an organization. In-house newsletters, notice-boards and employee hand books also are forums of sharing organizational information

- Employee assessments based on potential and new virtues of innovation, flexibility and risk-taking

- Rewarding good performance and initiative

- Strive for stability and avoid ambiguity in communication

- Counseling and guidance procedures followed by managers to develop subordinates

**Questions**

1. What is culture?
2. How can corporate culture be established?
3. What are the elements of culture?
4. How are cultures classified?
5. Why is culture important for an organization?
6. Give an example of a culture of an organization known to you.
7. It is difficult to measure culture. Explain.

## CHAPTER II - DIAGNOSING ORGANIZATIONAL CULTURE

**Objective**

The objective of this chapter is to understand:

- The importance of diagnosing organizational culture
- Culture change methods
- Subcultures of an organization
- Difficulties in diagnosing organizational culture

A healthy Organizational culture helps to improve its effectiveness and hence the business performance also improves. This has been discussed in the earlier chapter.

A strong, unique, and appropriate corporate culture has the ability to:

- Reduce ambiguity and uncertainty by creating a common way to interpret events and issues,
- Create proper expectations from its member,
- Create a sense of continuity,
- Provide a common identity and commitment and
- Provide a vision of the future around which the company can build

Organizational culture is definitely an asset that should be managed and that can be leveraged in support of company goals. The first step in using this resource wisely is to understand the current position of the company or diagnosing the current cultural condition.

**Importance of diagnosing organizational culture**

If the companies are relatively satisfied with their corporate culture, diagnosing organizational culture is important from a futuristic perspective. The future activities can go with, rather than against, the current flow. Corporate facilities renovations, moves, and additions are obvious examples of where this alignment is important. Architecture, interiors, and furniture can support both how an organization functions as well as how it expresses itself—to its members and to the world.

On the other hand, the companies who desire cultural change and have a strong vision of where they want to be, think in terms of moving away from their present culture. They might not care much about diagnosing their present culture because they want to move away from it. Knowing the starting point in a process of change, is indeed very important. Cultural change programs fail because they demand too much in a short period of time. Attention should be on understanding the current culture so that the change agents get on with the process without alienating the employees.

Diagnosis might also point out that some departments are already aligned to the organizational thinking process. These departments might be used as benchmarks for the development of other parts of the organization.

Cultural change can occur in three forms:
1. **Evolutionary**: This evolves over the years and aims at company-wide transformation.
2. **Drastic**: This concentrates only on certain elements and subcultures. Here the approached is focused and the time depends upon the element to be changed.
3. **Revolutionary**: This change forces the entire organization to drastically change course. Programs of this variety tend to be turbulent and come at a large cost to the organization, like employee turnover, morale problems, and general chaos. Such measures at times are critical to ensure the survival of a company.

**Subcultures**

Identifying the subcultures is one key issue in diagnosing organizational culture. It is observed that different departments might have at times different cultures. Hence, a company might have a dominant cultural type, but every group or department in the company might not be the same.

Subcultures are a natural result of the evolution of any organization. Hence it becomes important to diagnose all departments or workgroups. Even though subcultures vary significantly from the overall company culture, research has shown that along with a subculture's unique elements, core components of the company always exist. Subcultures are never truly independent.

Understanding the cultural distinctions of individual workgroups is important because different cultures seem to require different work environments. A culture of teamwork, interaction, and flexibility would not particularly thrive in a space comprised of high-paneled, inward-facing cubicles with little communal space and few accoutrements like guest chairs and shared work surfaces. However, for a highly competitive group that thrives on rivalry and individual performance, this might be most appropriate. The critical effort of workspace design lies in aligning the various and sometimes competing needs of the group with the physical environment. The advantage of knowing the company culture is that it provides an overarching structure that helps organize the sub cultural elements.

**The Cultural Assessment**

It is difficult to observe and understand elements of organizational culture such as values, attitudes, assumptions, beliefs, and behaviors. These are difficult for an organization to articulate as many are taken for granted, unwritten and unspoken.

Organizational culture is inherently slippery in nature. Researchers have worked on this and provided frameworks and approaches to understanding that have a track record of being both valid and reliable.

One such instrument which has been tested is the **Organizational Culture Assessment Instrument** developed by Kim S. Cameron and Robert E. Quinn. In addition to its wide acceptance in the academic world, it has been embraced by practitioners and cultural change agents across the globe.

This instrument assesses six critical aspects of organizational culture and is taken by individuals from across the company. From the data collected, the company culture and departmental or workgroup cultures may be classified as one of four organizational cultural types:

1. Hierarchy
2. Clan
3. Adhocracy
4. Market

From these different cultures, specific associations to the physical environment can be made.

This organizational cultural assessment is being used by planners and designers to build an environment to begin the crucial work of synthesizing complex, competing issues to arrive at an optimal solution in support of the way a company works and wants to be seen and understood.

**Identifying and diagnosing organization culture**

The following Nine Factors Model suggested by some researchers can be used to measure culture

| Factor | Positive value | Negative value |
|---|---|---|
| Identification with vision and values | Loyalty | Alienation |
| Equity – balance between expectations and actions | Fairness | Injustice |

| Treating others equally | Respect | Prejudice |
|---|---|---|
| Consensus among staff | Understanding | Discord |
| Commitment to achieving goals | Confidence | Failure |
| Rational approach to problem-solving | Honesty | Deception |
| Process of mutual development | Growth | Regression |
| Group dynamic | Harmony | Conflict |
| Internal alignment with organization's beliefs | Trust | Suspicion |

Diagnosing corporate culture requires uncovering and understanding the basic assumptions, values, norms, and artifacts as perceived and felt by organizational members.

Some techniques that assist in identifying/diagnosing an organization's culture include

- Employee Interviews: This is the best method of diagnosing an organizational culture. Employees at different levels of an organization like workers, supervisors and line managers can be interviewed to get a good idea.
- Attitudinal and Morale surveys: These can be conducting to identifying cliques and sub-cultures within the organization.
- Process analysis: Organizational policies, decisions, procedures, rules and regulations, resource procurement and management are certain indicators of organizational culture.
- External relations analysis: This gives an idea about how customers, clients and vendors perceive and evaluate the organization.

However, diagnosing the cultural elements could be difficult for the following reasons:

- Cultural assumptions are the generally accepted norms and beliefs which are taken for granted and lest talked about.

- Culture is implicit rather than explicit and can only be inferred from cultural artifacts and creations.

- There may be a difference in what one believes in and what one may follow. The former arising from social desirability characterizes most of the behavior in an organization.

- Informal groups in the organization may hold assumptions that are different from the corporate culture.

- Customers and clients may perceive the culture as an outcome of their personnel experiences that may be positive or negative and may not exactly reflect the true state.

**Summary**

Organizational culture is definitely an asset that should be managed and that can be leveraged in support of company goals. The first step in using this resource wisely is to understand the current position of the company or diagnosing the current cultural condition.

Identifying the subcultures is one key issue in diagnosing organizational culture. It is observed that different departments might have at times different cultures. Hence, a company might have a dominant cultural type, but every group or department in the company might not be the same.

Diagnosing corporate culture requires uncovering and understanding the basic assumptions, values, norms, and artifacts as perceived and felt by organizational members.

**Questions**

1. What is the importance of diagnosing organizational culture? Should it be diagnosed?

2. When should organizational cultures be diagnosed?

3. Write a note on the various culture change methods.

4. What are the subcultures of an organization?

5. Why are difficulties encountered in diagnosing organizational culture?

6. How is an organizational culture assessment carried out?

7. Diagnosing culture is a prerequisite for organizational change. Explain.

**CHAPTER III - DESIGNING THE STRATEGY FOR A CULTURE CHANGE**

**Objective**

The objective of this chapter is to understand:
- Predictors of change
- Dealing with change
- Resistance for change
- Change Equation
- The role of a change agent

**Introduction**

Organizations, in order to cope with global competition and the changing business environment, plan for the future. They visualize the future with a new purpose and goals to be achieved and try to move to that 'state' in terms of a planned strategy. This strategy could entail redesigning, reorganizing or innovating current work activities and the organizational structure or processes in order to retain/improve the organization's current competitive position, customer focus, and customer satisfaction. Changes are brought about in work, structure, or process and these changes need to take place in the overall context of the organization's culture.

When small or incremental changes are made in the organization, they need to be tuned to its overall culture. However, when an organization plans to bring in radical, transformational, or fundamental changes its current culture, without which such deep and significant changes are not possible.

Organizational change has failed due to many factors. The most critical of these are the employees' attitudes towards the change event. Schein (1987, 1988, and 1999) has addressed the failure of organizational change programmes by arguing that the reason so many change efforts run into resistance or outright failure is traceable to the

organization's inability to effectively unfreeze and create readiness for change before attempting a change induction.

Before moving directly into the change implementation, the individual or the group to be changed should be psychologically prepared. This has led to researchers directing their attention to a range of variables that may foster change readiness among employees, as well as examining the extent to which readiness for change leads to change implementation success.

Readiness for change can be defined as the extent to which employees hold positive views about the need for organizational change, as well as the extent to which employees believe that such changes are likely to have positive implications for themselves and the wider organization (Armenakis et al., 1993; Holt, 2002; Miller et al., 1994).

**Predictors of Readiness for Change**

Several studies exist within the organizational change literature that have investigated employee resistance factors to organizational change (e.g. Armenakis et al., 1993, 1999; Martinko et al., 1996; Miller et al., 1994; Ogbonna and Wilkinson, 2003; Wanberg and Banas, 2000). Typically, these studies have focused on characteristics associated with the individual.

Some of these predictors are:
- Personality attributes (e.g. openness to change)
- Cognitive processes (e.g. self-efficacy beliefs)

Similarly, Wanberg and Banas found that pre-implementation measures of several change-specific variables (which included self-efficacy, information provision, and active participation) were predictive of readiness for change.

Preliminary empirical evidence in support of the potential role of broader contextual variables in developing positive change attitudes was provided by Eby et al. (2000). They found that employees who rated their division as having flexible policies and procedures were more likely to evaluate their organization and the people working there as being more responsive to change. In light of research of this nature, the first aim of present study was to test the role of organizational culture in the prediction of employees' levels of readiness for change.

In addition, Beckard and Harris (1987) believe that readiness for change should be examined in relation to organizational capabilities, proposing a matrix to examine the relationship between existing organizational capabilities and levels of readiness for change. They state that an assessment of organizational capabilities will assist organizations to focus on specific areas that need to be addressed in order to create the critical energy for change to occur. In light of this idea, a second aim of the present study was to test the extent to which employees who rate their workplace as having adequate organizational capabilities relevant to the management of change (i.e. reshaping capabilities) also will report higher levels of personal change readiness.

Dealing with change

**Organizational change can be hindered by the existing organizational culture. On the one hand, it provides power for action while on the other hand, it filters information, exercises control over decision-making, and retrains action options.**

**The following aspects should be kept in mind while dealing with change:**

- Prevailing culture**: Strategy-culture incongruence at times prevents process of change. The prevailing bureaucratic culture may not enable an organization to respond quickly to rapidly changing business opportunities and threats. It may also be a liability in implementing a new business strategy successfully. Lack of openness and trust, and interdepartmental rivalries might inhibit a department from rectifying certain problems.**

- Proposed Business Strategy**: In any change attempt, the proposed business strategy should fit in with the change proposed. A strategy to produce a quality product or service cannot be implemented unless a quality-oriented corporate culture is already present.**
- Weaving the strategy around the existing corporate culture**: A change strategy should be wound around or built into the existing value and belief system of the organization and translated into visible and measurable goals to be effective.**

Resistance to change

**According to Kotler and Schlesinger (1979) there are four reasons that people resist change and six approaches to deal with resistance to change.**

Reasons for resistance to change:

1. **Parochial self-interest: Many a time, change may disturb the current advantages being enjoyed by an individual in power. Such a person may resistant change, as self-interest is considered important than the success of the business.**
2. **Misunderstanding: People may misunderstand change due to inadequate information and communication problem.**
3. **Low tolerance to change: This may be due to feeling of security and stability.**
4. **Different assessment of the situation: Some may disagree with the advantages and disadvantages of the change process.**

Six approaches to deal with resistance to change:

1. **Education and communication: Inform people about the change and communicate the change process.**
2. **Participation and involvement: involve and let people participate in the change process.**
3. **Facilitation and support: Support people during the change process.**

4. **Negotiation and agreement: If resistance continues from people to change, then offer incentives, buyouts and retirements if necessary.**

5. **Manipulation and co-option: People who resist change may be made strategically to participate in the change. They may be included in the decision making but least importance may be given to them.**

6. **Explicit and implicit coercion: People may be cajoled, coerced into changing as per expectations.**

Change Equation

**The change model formula suggested by Beckard, Harris and Gleicher suggests the following:**

**D X V X F > R**

**D = Dissatisfaction with the present situation**

**V = Vision of what is possible in the future**

**F = First step achievable towards reaching this vision**

**R = Resistance to change**

**The three components (D, V & F) must all be present to overcome the resistance to change in an organization.**

**If any of the three is zero or near zero, the product will also be zero or near zero and the resistance to change will dominate.**

The change management strategy

**This consists of three phases:**

1. <u>The unfreezing phase</u>**: This is the phase when a vision for the future is determined by the top management.**

2. The organizational development phase: **The necessity for change is accepted, people are educated about the change and approaches are developed.**

3. The implementation phase: **This phase consists of performance feedback, critical outcomes management and maintaining an inventory of performance.**

The Role of a Change Agent in Organizational Change

**Change is inevitable and change projects have become major milestones in many organizations' history. Due to the dynamics in the external environment, many organizations find themselves in nearly continuous change. The scope reaches from smaller change projects in particular sub business units up to corporation-wide transformation processes as seen in the earlier chapters.**

**Always, not every change process leads to the expected results. There are multiple reasons for potential failure: Typical barriers to change are unexpected changes in the external conditions, a lack of commitment in implementation, resistance of people involved, or a lack of resources. Any failure in change projects may lead to de-motivation of people involved. People within the team may become dissatisfied with their own performance or with the lack of support they received. This may lead to the fact that many of them may never again commit themselves to change initiatives. They might also perceive future change projects as "another fancy idea from management", which brings a lot of work and few benefits.**

**In the light of the many problems and risks associated with change projects, the change agent has a very important function. The change agent's or change leader's capabilities have a major impact on success or failure of the project, and on the extent of potential unwanted side-effects. Hence he is a catalyst who drives change in the entire change process.**

A change agent or agent of change is someone who engages either deliberately or whose behavior results in social, cultural or behavioral change.

The management stages involved in change is:

1.    **Determining the Need for Change**

2.    **Preparing a Tentative Plan**

3.    **Analyzing Probable Reactions**

4.    **Making Final Decisions**

5.    **Establishing Timetable**

6.    **Implementing the Change**

This also is followed by Employee stages:

1.    **Denial**

2.    **Anger and Resistance**

3.    **Exploration and Acceptance**

4.    **Commitment**

Hence to bridge both and ensure that the change process is smooth, a change agents capabilities count a lot.

Depending on these factors, change agents either may need good project management capabilities in order to guarantee timely progress, or they should be good leaders with the ability to motivate people.

Jim Canterucci defines change leaders on five levels. He has mainly focused on leadership capabilities and qualifications, but his system can easily be transferred to change projects with varying importance. The leader of an organization-wide restructuring project will need different capabilities than the one who is responsible for clearly defined project on departmental level.

Level I**: Accepts the need for change, communicates and defends the need for change throughout the organization, creates an open and receptive environment**

Level II**: Defines and initiates change, identifies leverage points for change in processes and work habits**

Level III**: Leads change, translate the vision of the organization into the context of a specific change initiative and bring this message to the entire organization, redirects approaches in the face of new opportunities**

Level IV**: Manages complex change, understands the cultural dynamics of the current state of an organization, creates a strategic practical course, balancing the current reality with the need for rapid adoption of the desired future reality**

Level V**: Champions change, challenges the status quo by comparing it to an ideal or a vision of change, causes crisis in order to support dramatic actions and change efforts, transforms the organization**

Competencies of Change Agents

Objectives

**1. They should be sensitive to changes in key personnel, top management perceptions and market conditions, and to the way in which these impact the goals of the project.**
**2. They should evaluate the situation form all angles, and set clearly defined, realistic goals.**
**3. They should be flexible in responding to changes without the control of the project manager, perhaps requiring major shifts in project goals and management style.**

Roles

**4. They should provide an atmosphere for cohesiveness and should possess team-building abilities, to bring together key stakeholders and establish effective working groups, and to define and delegate respective responsibilities clearly.**

**5. They should have excellent networking skills in establishing and maintaining appropriate contacts within and outside the organization.**

**6. They should be tolerant, be able to function comfortably, patiently and effectively in an uncertain environment.**

Communication

**7. They should have excellent communication skills to transmit effectively to colleagues and subordinates the need for changes in the project goals and in individual tasks and responsibilities.**

**8. They should have good interpersonal skills, including selection, listening, collecting appropriate information, identifying the concerns of others, and managing meetings.**

**9. Unless a change agent is enthused about his plans and ideas, he cannot communicate the same to other around him.**

**10. They should be able to stimulate motivation and commitment in others involved.**

Negotiation

**11. They should have good negotiation skills and sell plans and ideas to others by creating a desirable and challenging vision of the future.**

**12. They should negotiate with key players for resources, for changes in procedures, and to resolve conflict.**

Managing up

**13. They should possess political awareness in identifying potential coalitions, and in balancing conflicting goals and perceptions.**

**14. They should have influencing skills, to gain commitment to project plans and ideas from potential skeptics and resisters.**

**15. They should also have an ability to stand back from the immediate project and take a broader view of priorities.**

**Change agents should realize that there is more than one right solution. The change agent has to be able to evaluate facts from different points of view, e.g. from the customer's or competitor's perspective. Change agents should identify and involve opinion leaders, decision makers on resources, functional experts and other important persons as early as possible in the project-planning phase. Members of the change team and other employees affected by the change initiative must not feel like as if they are just the tools for change or the subject of change.**

**Real commitment can only be gained by giving people the chance to become actively involved, to contribute their own experiences. Every employee needs to know that his contribution to the project is important and is valued. Thus, people will develop a sense of ownership for the project, which, in turn may serve as a major source of motivation when it comes to the inevitable problems and barriers.**

Summary

**Organizational change has failed due to many factors. The most critical of these are the employees' attitudes towards the change event.**

**Organizational change can be hindered by the existing organizational culture. On the one hand, it provides power for action while on the other hand, it filters information, exercises control over decision-making, and retrains action options.**

**The management stages involved in change is:**
1. **Determining the Need for Change**
2. **Preparing a Tentative Plan**
3. **Analyzing Probable Reactions**
4. **Making Final Decisions**
5. **Establishing Timetable**

**6.     Implementing the Change**

Questions

1. What are the predictors of change?
2. How do you deal with change?
3. What is the resistance encountered for change?
4. Explain Change Equation. What does it imply?
5. Who is a change agent? What is the role of a change agent?
6. Mention the desired qualities of a change agent.
7. A change agent acts as a catalyst in the change process. Evaluate this statement.
8. How do you overcome resistance to change?

# CHAPTER IV - SUCCESSFUL IMPLEMENTATION OF CULTURE CHANGE

**Objective**

The objective of this chapter is to understand:
- Implementation of culture change
- Pitfalls of organizational change
- Factors determining successful organizational change
- The organizational change management process

Culture is deep-seated in an organization. Any attempt to change the corporate culture requires an understanding of the cultural dimensions (artifacts, norms, values and beliefs). While the outward layers of organizational culture such as the artifacts and norms are relatively easier to change, it's hard to bring about change in the deeper layers constituting values and basic assumptions, as the latter are crystallized organizational experiences accumulated over years of dealing with threats and opportunities.

Changes that occur in the outer layers of organizational culture are deceptive, as the change may not trickle down to the deeper layers (values and basic assumptions). In fact, resistance to change attempts may arise from the value base. Cultural change is not something that occurs overnight. It is long drawn process that requires process commitment, involvement, and persistence efforts of all the levels of an organization.

Cultural change may involve certain issues of ethical and legal sensitivity. Conflicts of interest between individuals and organization are likely to occur when changes are implemented. Realistic values should be set to govern cultural change involving employees in the process of both setting the values and developing guidelines to such issues.

There is no doubt that change is necessary in corporate culture when the business environments are characterized by fundamental changes due to rapid technological, economic, and political changes. The industry becomes more competitive and forces an organization to grow as a means of survival. With a lot of mergers taking place, two cultures are to be merged which poses a challenge.

**Implementing Culture Change**

Three different strategies for implementing culture change have been suggested by some researchers. These are:

1. **Top-Down Strategy**

This is the most conventional way of driving a cultural change. A CEO or plant manager perceives a problem in the culture of an organization and calls for change.

The General Motors initiative to make safety matter is a perfect example. They achieved this through:
- Focus on the Culture : Identified what is to be solved or changed

- Enlist Leadership to Shape Culture: Identified who will do it
- Create an Infrastructure to Drive the Change Effort: Determined how it is to be done

## 2. Bottom-Up Strategy

Here, culture change is driven from the grassroots level. This cannot be however achieved without support from management. The momentum of change spreads through the organization from the bottom up.

The critical difference between a bottom-up change process and the more conventional top-down approach is lodged in the sharing of responsibility and power between management and grassroots leaders.

## 3. Driven by Process Champion – Change Agent

Lot of companies is bringing in change agents – external or internal who work with the organizational members at different levels and implement the required change. He may be technically competent or may be a person with management background who drives change.

**Nine Pitfalls of Organizational Change**

There are several significant causes to an organization's change efforts to stumble or stagnate. They are:

1. **Need-technique mismatch:** This is the mismatch that occurs on a larger scale. The technique selected may not be suitable for solving that particular problem.
2. **Not making systemic changes:** To fully implement change, satisfy its customers, and promote teamwork in the entire organization, often some systemic changes must be made: Profit sharing may be introduced; individual performance

appraisals may be radically changed or eliminated; organizational structure may be realigned away from functions (production, quality, engineering) to a customer-, process- or geographic-based structure; information may be given to employees formerly reserved for senior management; and significantly more authority may be given to line employees. If management does not align these systems, the result will be much struggle and confusion, but little success.

3. **Overuse of process teams:** Some teams may be overused and their success may not be measured properly. This may lead to stagnation of organizational effort.

4. **Not making decisions up front:** Many organizations need to design the architecture of their quality effort. If they do not, they risk pouring time and dollars into an effort that will eventually collapse. Among the decisions that should be made up-front, before implementing a quality efforts are: the measures of success; the degree of employee involvement; the depth and breadth of implementation; and the techniques to be used.

5. **Canned implementation and reinventing the wheel:** Many organizations buy canned implementation efforts that describe for them, step by step, what to do. This approach is often not appropriate for the round hole of the organization. Some consultants insist in reinventing the wheel when it isn't necessary to do so. The secret to implementation is not to choose between one and the other, but to decide what aspects of implementation can be bought, and what aspects need unique solutions agreed upon by management and employees.

6. **Mass training:** If training is to be used by the employees, organizations must train them in skills specific to their needs just in time to use them. Too many organizations have spent lot of money on training employees on concepts they may never need. If they do need these concepts, they will need refresher courses because their training was long ago. Mass training puts such a burden on organizational resources, not all members of work teams are trained at once. As a result, some know what to do but others do not, which causes more confusion.

7. **The no top management support excuse:** Supervisors and line employees have often complained that they do not receive management support for their efforts. This is generally caused by unclear or unknown expectations.

8. **Labelitis:** An interesting problem in organizational change is hero worship. To properly implement organizational change, organizations must look beyond the label, and ask serious questions about what changes are needed and what they should do about them.

9. **Not measuring results:** No only do organizations not measure results; they often desperately try to figure out if they were successful after organizational change has already taken place. This is the messiest way to determine if change happened, because sometimes 1) the data should have been gathered before the organizational change happened and can't be collected afterwards; 2) politics play their role as those asking if the change was successful may have hidden agendas seeking to either justify what has already been done or destroy what is taking shape.

**Major Factors Determining Successful Organizational Change**

Successful organizational change involves many variables. Research in this area and experience at implementing change into organizations suggest that the following are significant factors which influence success at organizational change.

1. **Top management Commitment to "Change":** A necessary condition for the successful implementation of organizational change is the perceived, active and symbolic support and commitment by the leadership of the organization. Perceived weaknesses or in this commitment frequently destroys the implementation as it throws confusion into the organization.

2. **Perception and Quality of the "Change" Plan and development of the same:** An obvious influence on the successful implementation of change is the quality and appropriateness of the "plan" which is to be implemented. A poorly developed plan is less likely to be implemented than a well thought out one. As well, the way in which the plan was developed may influence implementation. Some plans may require the input and advice of others (if only to get them to "buy

in" to the plan) while others may be unilaterally developed and implemented. The perception of the "plan" by those implementing it or affected by it is also a strong influence over the success of the implementation. For example, changes frequently resisted by employees are those which:

- Reduce the skill required in jobs due to automation
- Reduce status of people
- Disrupt established social relationships
- Threaten psychological or job security
- Not fully understood
- Violate norms of behavior
- Affect accepted ways of doing things
- Forced upon people
- Reduce the information flow
- Reduce social-interaction opportunities
- Make people feel ineffective or incompetent
- Reduce the power and influence of people
- Reduce personal privacy
- Reduce personal authority
- Expose personal weaknesses
- Cost employees more than benefit

3. **The Organization's Receptivity to "Change"**: This is a major factor influencing the success of organizational change. Sometimes organizations, or parts of organizations, are simply not receptive or willing to making changes in the status quo. Unless this inertia can be overcome, the task of implementing change becomes a long struggle and usually a failure. Action plans have to be developed to overcome this inertia.

4. **Individual Personalities**: Individual personalities of employees can have a direct impact upon the organization's willingness to change. There will be some personality types that are severely threatened by change and yet others who cannot function in a static environment.

5. **Perceived Need to Change**: Members of an organization are usually more willing to change if they perceive a real need to change. These needs can arise from poor morale, the work environment, low productivity, stress and confusion. A need can be perceived because of a potential benefit to the individuals if a change is made, or because of a potential cost or danger if some change isn't made.

6. **Culture**: The culture of an organization can inhibit change from happening. Some organizations seem to relish change and excitement while others fervently protect the status quo and bureaucratize everything to maintain stability and consistency.

7. **Trust in Management and in the Organization**: Trust is one of the most important factors influencing success at organizational change. Many aspects of organizational life are threatened when change is being implemented which includes employees' power bases, social patterns, economic security, job satisfaction and more. If employees don't have a high enough level of trust and confidence in the judgment, motives and values of management, they will tend to protect or defend themselves by resisting the change.

8. **History of Change**: Successes or failures to implement change in the past will influence an organization's belief whether or not it is able to change in the future. Success usually breeds success, while a history of failed attempts to change and improve the organization leave employees with a low expectation of future successes.

9. **Management's Ability to Implement Change**: A key element determining whether an organization will be successful at organizational change is whether management has the management ability to implement change. Plans that are excellent on paper are of little use if management cannot get those plans followed consistently by everyone involved.

10. **Management Control**: Ability to implement organizational change and management control are directly related. A change cannot be implemented without a control over what is to be changed.

11. **Structural Rigidity**: Structural rigidity relates to an organization's capacity to reshuffle employees and departments, and to change reporting procedures,

communication patterns and reward systems. This is much easier in smaller organizations and difficult in some organizations because of physical or geographic size, labor contract limitations or management indecision.

12. **Clear Direction and Authority**: Management's control is determined by the degree to which direction to the organization is clearly received and understood as intended. Usually, there will be a gap between policy enunciated at the executive level and what actually happens throughout the rest of the organization. Filters such as fears, perceptions, organization levels and political motives remove or distort information going to and from the executive suite.

13. **Accurate Feedback**: Management control not only means ensuring that clear direction takes place from the policy maker through to all the members of the organization, but also that accurate feedback flows from the bottom to the top so that senior management know what is actually happening in the organization and whether or not a change effort is on track.

14. **Enforced Standards**: Standards, levels of performance and other forms of direction are by definition to be followed. Unless standards are universally enforced, employees are confused, demoralized and management control disappears. Procedures ought to be in place to ensure that standards are enforced throughout the organization

15. **Directed Motivation**: A systematic procedure has to be put in place to ensure that all the employees are motivated to do what is expected of them.

16. **Equity**: Directed motivation is only possible through ensuring consistency in management practices throughout the organization. Feelings of inequity or the perception of double standards seriously erode motivation and management control.

17. **Appropriate Consequences**: Directed motivation also means accountability for performance by everyone so that good work really counts. When implementing change, some process needs to be in place to guarantee that employee performance related to the change pays off.

18. **Expectation of Success**: A critical element of employee motivation is the expectation of all employees that the change effort, as well as their own

performance, will be successful. Individual self confidence, self esteem and confidence in the future of the organization are related issues.

19. **Expectation of Recognition**: Expectation of Recognition is the measure of employee belief and trust that management and the organization will keep promises and will recognize good employee performance. Without this expectation, employees resist the risk associated with organizational change.

**How to Change Successfully**

Organizational change of any type will typically create temporary reductions in productivity, as people absorb and adjust to the change. Therefore, two important criteria for a successful change implementation are the amount of productivity lost as a result of the change, and how long it takes for the organization to regain its original productivity levels.

As organizations seek to implement new technology and take other actions to keep themselves competitive in their chosen markets, they must ensure that the changes they implement achieve the full scope of their technical, financial, and human objectives.

This is the ultimate objective of the organizational change management process: to ensure that tactics for addressing human reactions to change are fully integrated with other aspects of the implementation in order to achieve the full scope of objectives intended by the initiative.

The outcomes of effective organizational change management can have positive, bottom-line impacts, as illustrated in the table below.

**Outcomes of Effective Organizational Change Management**

| Organizational Change | Bottom-Line Impact |
| --- | --- |

| Management Outcome | |
|---|---|
| Visible, consistent support for the change (less resistance) from Top Management | Reduced project contingencies |
| Implementation plans that accurately and proactively identify and address change-related disruption | Closer adherence to project timeframes and budgets |
| Greater implementation speed because of reduced resistance from end-users, and increased capabilities for successfully interacting with technical solutions | Momentum necessary for selling and implementing follow-on versions of technology solutions |
| Alignment of change with existing organizational structures and systems | Greater customer satisfaction and an increase in customer referrals leading to a competitive advantage |

**The Organizational Change Management Process**

**Increasing Readiness for Change**

Individuals and organizations increase their general readiness for change by increasing their overall adaptability to change. This is accomplished by implementing a formal organizational change management process. This process consists of four critical components:

- Resilience: It is the ability to absorb significant disruptive change while displaying minimal behaviors that detract from quality and productivity.
- Change knowledge: A practical understanding of how people and organizations respond to change.
- Decisions and implementation: The alignment of an organization's current and planned changes with the resources available for implementing the initiatives.

- Architecture: The structured plan for achieving the desired goals through implementation of the perceived change solution.

Each component of the process is associated with key actions that can facilitate the timely implementation of a technical solution and speed the recovery time. Weaknesses associated with any of the four components of the process create areas of risk that can inhibit the successful implementation of a change initiative.

**Improving Resilience**

Resilient individuals are able to stay calm in unpredictable environments and are able to recover quickly from the stress of change. They also demonstrate an ability to prosper in rapidly changing environments.

The higher the level of resilience within an organization facing major change, the better it will be able to avoid or manage such unproductive or dysfunctional behaviors as the spreading of misinformation, employee turnover, or deliberate sabotage, all of which can result in significant delays and costly overruns.

Individuals who are highly resilient are:
•**Positive:** They view life as complex but filled with opportunity.
•**Focused:** They have a clear vision of what they want to achieve.
•**Flexible:** They are pliable in responding to uncertainty.
•**Organized:** They develop structured approaches to managing ambiguity.
•**Proactive:** They engage change rather than defend against it.

Selecting highly resilient individuals to participate directly in the implementation as a way to facilitate a rapid adoption of the solution among team members is a good strategy for change.

**Implementing Change Knowledge**

Understanding how change unfolds helps reduce the amount of unproductive behavior that may accompany the implementation of a new technical solution by reducing the amount of uncertainty involved in change. Reduced uncertainty alleviates surprises and better equips people to focus time and energy on the technical solution.

The manner in which change unfolds can be broadly grouped into seven key concept areas. These areas are:

•**Nature:** The impact of change on the individual

•**Process:** The typical flow of change

•**Roles:** The positions which are central to change

•**Resistance:** The reactions that accompany change

•**Commitment:** The process by which individuals and organizations align with change

•**Culture:** The organization's past and present ways of doing things and the influence of these behaviors on the change

•**Synergy:** The impact of teamwork on the change

A sufficient level of change knowledge can have a substantial impact on the success of change implementation. Change knowledge can either be applied to specific organizational change projects or for general education in advance of specific projects.

**Making Good Decisions**

For an organization to be successful in implementing change, it must ensure that the demands created by its change initiatives do not exceed the organization's capacity for executing the changes. When change demands exceed the organization's capacity for change, key resources become overwhelmed by the number of changes competing for their time. The result is an increase in dysfunctional behavior that detracts energy from the implementation effort and, in many cases, impedes its process.

Ensuring adequate capacity for existing and planned change demands generally involves these steps:

•Inventory current and planned changes and evaluate them to determine their potential value, impact, and resource requirements.

•Prioritize changes according to this evaluation.

•Determine current capacity to implement changes.

•Trim current and planned changes as necessary according to capacity limits.

•Develop and implement strategies to increase overall change capacity to expand organizational adaptability.

**Implementing Architecture**

Following a structured, yet flexible, implementation framework reduces errors and oversights, and allows a team to proactively address issues that are routinely associated with the failure of organizational changes. Such a structured framework consists of seven phases which, when applied as a system, facilitate successful implementation of an initiative.

The seven phases are:

•**Clarification:** Development of a comprehensive vision and measurable outcomes which are wholly shared by key leaders.

•**Announcement:** Development and execution of a detailed communication plan.

•**Diagnosis:** Assessment of critical risks and key levers associated with the change.

•**Planning:** Development of comprehensive strategies to mitigate risks and utilize levers identified in the diagnosis phase.

•**Execution:** Implementation of developed strategies.

•**Monitoring:** Continuous assessment and augmentation of an implementation sequence.

•**Evaluation:** Assessment of a complete implementation sequence, and documentation and transfer of key learnings.

**Summary**

Organizational change of any type will typically create temporary reductions in productivity, as people absorb and adjust to the change. Therefore, two important criteria

for a successful change implementation are the amount of productivity lost as a result of the change, and how long it takes for the organization to regain its original productivity levels.

**Questions**

1. How do you implement culture change in an organization?
2. What are the common pitfalls of organizational change?
3. Enumerate the factors determining successful organizational change.
4. Write a note on the organizational change management process.
5. The most difficult process in change is implementation. Explain.
6. Implementation is crucial for success of an organization change process. Explain.
7. Study an organizational change process and list out the factors that have helped the process succeed.

## CHAPTER V - MEASUREMENT OF ONGOING IMPROVEMENT

**Objective**

The objective of this chapter is to understand:
- The importance of measurement

- The role of top management and middle management in change process
- Choice of metrics for measurement

Companies most often invest time, money and resources in estimating the effect of a change plan before even implementing it properly. They do not follow it up with a comprehensive measurement system that can track the process as it is being rolled out.

A good system of measurement assists in tracking the progress, understanding the reasons for any failure take corrective action and helps to build employee confidence in the change programme. Measurement is a critical tool that translates change into results and results into specific culture.

It is crucial that for measurement, all the measures for each of the areas of the change process have to be clearly defined. The measures are then examined for their significance and then revised as the time progresses if necessary.

It was seen that good measurement was essential to good management. It is observed that companies with a 'high measurement orientation' fare better than those with a 'low orientation'. A 'high orientation' to measurement benefits a company in many ways. It
- Contributes to goal specificity when the company mission is translated into goals and objectives.
- Aligns performance measures across units as well as in aligning the overall strategic measures.
- Facilitates linking employee performance to compensation and rewards and motivates employees to achieve more.
- Develops an organizational culture of objectivity, co-operative team work and the willingness to take risks to accomplish objectives.

Generally, what is measured is what is easy like salaries, costs, etc. Some outputs like quality, customer satisfaction are difficult to measure. The inputs that can be easily measured are the tangibles and those that are difficult to measure are the intangibles. Measures that are easy to formulate make measurement less valuable.

**The role of the top management in the change process**

The following are the roles of the top management in the change process:

- Communicate the vision clearly and regularly: The CEOs should document the same and store it in a place which can be accessed by all the employees. The vision should be translated into well defined short-term and long-term goals and objectives. These goals serve as benchmarks for measuring progress and achievement.
- Generate commitment to goals and objectives among employees at all levels.
- Communicate to the employees on the change and how the organization will be benefited by the change.
- Meet with important members of the change group and seek feedback on the process.
- Monitor change implementation and update strategies in relevant ways.
- Create a stimulating environment for employee competence development.

**The role of the middle management in the change process**

The role of the middle management is to:

- Provide feedback on top management's thinking and make it actionable.
- Communicate down the line.
- Set achievable goals for each of the unit in line with the strategy.
- Prioritize the work with respect to corporate objectives.
- Monitor and ensure change implementation at lower levels to achieve corporate objectives and strategy.

Although organizational change is often about changes in structures, hierarchy, reward systems, communication, technology and so forth, all change and every form of learning starts with individual change and individual learning. Organizational change is always mediated through individual changes. As Schneider, Brief & Guzzo (1996: 7) put it: "…

if the people do not change, there is no organizational change." One of the fundamental reasons why organizational change is so difficult to achieve is this individual, psychological nature of organizational change. It explains also why organizational change efforts often are misconceived.

**Choice of metrics for measurement**

Measurement is essential to driving change in the right direction and then sustaining that change. The choice of metrics is critical because what gets measured is what gets attended to or looked into. Performance measurement must go beyond that: it must enable change agents to diagnose the drivers of weak performance. And as changes are made, measurement must continue to determine which of the changes lead to improvement.

The most critical aspect of measurement is the development and implementation of appropriate metrics that span the full process and reflect key customer values.

Metrics are the main inputs by which all the stakeholders in a process communicate with one another about the goals and status of their improvement efforts. It is advisable to use multiple metrics to guide improvement on all dimensions of process performance - time, quality, and cost. And because improvement aims to reduce the variability in process performance, metrics as a rule should measure median performance and variance, not only average performance.

Data sources to support the metrics must be identified and evaluated. The benefit of using data to support process improvement is that the quality of the data improves very quickly. People who are trying to use the data uncover previously unnoticed data quality problems, and those who are responsible for inputting and maintaining the data are alerted to the importance of its accuracy, completeness, and timeliness. These data improvements, in turn, often benefit process performance by increasing the rate of successful transactions.

Since trends in performance are more interesting and useful than single snapshots, data must be archived and continually reanalyzed. Analysis is important not only for determining the sources of performance deficits, but also for monitoring and evaluating the effects of improvement efforts. Establishing baseline performance is essential for gauging improvement accurately.

It is best to combine short feedback cycles with longer-term trend data to maximize the use of the data available. Prompt feedback permits a focus on controlling variability and implementing changes as intended, while the trend data help to identify opportunities for improvement and provide the historical perspective to track improvement.

Measurement includes reporting, another activity critical to sustaining continuous improvement. Measurement reporting helps to build support and maintain momentum over a long period.

Measurement offers maximum benefit when the results are widely shared among stakeholders in the process. Customers need to know the level of service they are getting from the different sources they use, and providers need to understand the process-wide effects of their improvement efforts. Improvement is difficult to guide and sustain unless performance feedback is consistent and rapid.

**Sustaining improvement**

Direct observation of change process and its measurement leads to detailed knowledge needed to develop innovative alternatives to current ways of doing business and to identify sites where these alternatives can be implemented.

Finalizing on the metrics enable the improvement teams to measure whether performance improves at these sites after the implementation of process changes. By comparing performance trends at these implementation sites to those at similar sites, they are able to create quasi-experimental demonstrations of the beneficial effects of a given intervention.

When this data is demonstrated to other participating sites, a compelling motivation is created to join the process improvement initiative.

Interventions that succeed should be quickly propagated across the organization. Speed is important to process improvement for several reasons.

- End the measurement as quickly as possible.
- Keep the organization from perpetuating two or more competing ways of doing business that are inconsistent.
- Prepare the entire organization for the next wave of innovation, which may come quickly.
- Keep the organization's change capabilities exercised, so that the improvement of process performance is understood as a continuous goal, not a one-time transition to a new target state.

**Components of successful change**

There are two components to successful change:
1. To begin
2. To persist

It is relatively easy for an organization to begin change if a powerful initial stimulus is provided. A list of ongoing initiatives can be used to demonstrate responsiveness and to promise quick results. However, most improvement initiatives that are undertaken without sufficient preparation either end inconclusively or quietly fail once the initial enthusiasm passes.

**Summary**

A good system of measurement assists in tracking the progress, understanding the reasons for any failure take corrective action and helps to build employee confidence in

the change programme. Measurement is a critical tool that translates change into results and results into specific culture.

Measurement is essential to driving change in the right direction and then sustaining that change. The choice of metrics is critical because what gets measured is what gets attended to or looked into. Performance measurement must go beyond that: it must enable change agents to diagnose the drivers of weak performance. And as changes are made, measurement must continue to determine which of the changes lead to improvement.

**Questions**

1. Why is measurement of change important?
2. What is the role of top management and middle management in change process?
3. What do you measure in a change process?
4. What are the metrics chosen for measurement? Why?
5. What inputs are to be measured during a change process?
6. Measurement of change is important for course correction during a change process. Explain.