CHAPTER

1

Thriving in the New Global Marketplace

When you lose a customer you lose in two ways; first, you don't get the money; second, your competitor does.

—Bill Gates[1]

Success and survival are the key goals in the fierce competition of today's global marketplace. Companies are in constant competition for customers, who in turn are increasingly demanding and discriminating. Losing customers means more than simply losing revenues; it means losing market share to competitors in a global fight to be a major player. The toughest question facing American business in the complex global playing field is how to secure a competitive advantage.

A good example of just how tough things are out there was the competition in 1995 among Boeing Company, McDonnell Douglas, and Airbus to sell 35 airplanes to Scandinavian Airlines System. Boeing finally got the contract, but in order to do so it had to discount its airplanes by almost 50 percent—from \$35 million to about \$20 million per plane.[2] One high-placed aerospace executive commented that it was a strategic necessity for Boeing to keep SAS as a customer. But when SAS placed another major order in 1998, the order went to Airbus. Then in 1999 Airbus started pursuing airliner sales in the Japanese market—one of Boeing's major strongholds and one of the largest markets for aircraft in the world.[3]

The companies that thrive in the new international marketplace do so by taking a global view. "The growth markets of the world are clearly overseas," says General Motors chairman and chief executive officer John F. Smith Jr. "I think we have to look at GM as a global enterprise," adds GM's vice chairman.[4] Most of CEO Smith's efforts since taking over at GM have been devoted to opening up new markets in China and Eastern Europe. Smith remains optimistic about the future.

This competitive environment has changed the way business is done overseas. When I worked for General Electric in the 1980s, the only difference between going to Boston and going to Beijing was that you packed a voltage converter and a passport for Beijing. People did business by trial and error. There was much more leeway to learn from one's mistakes. Nowadays, with all the downsizing and rightsizing, there are fewer resources and there is less time. Although there are more foreign deals and more foreign trips, the duration of these trips has gotten steadily shorter. With tight schedules and low budgets, executives don't need the extra pressure of doing business by trial and error. If you want to have a competitive advantage in today's global market, you must be cross-culturally competent so that you can hit the ground running and make the most of the time and resources available to you.

Developing a Global Mind-Set

In a survey of transnational CEOs published in 1997, The Conference Board found that culture and people issues are the biggest roadblocks to success in overseas business ventures.[5] In an article about the merger of Daimler-Benz and Chrysler Corporation, the *Los Angeles Times* noted that "cultural frictions have been identified as the primary pitfalls in unsuccessful cross-border joint ventures, of which there have been many. More than 70% of such mergers are given up as failures within three years, according to Daimler's own extensive premerger research."[6]

According to *Fortune* Magazine, when CEOs and senior executives are asked "about strengthening their organizations' competitiveness, on virtually everyone's wish list is having a much stronger cadre of globally minded leaders."[7] But most companies are still poor at actually cultivating internationally minded leaders. In a study, 1,500 executives from global corporations were asked to rate their performance in 34 areas essential for sustaining competitiveness. "The respondents rated their ability to cultivate a global mind-set in their organizations dead last—34th out of 34 dimensions."[8]

Why do companies rate themselves so low if they realize that thinking globally is such a critical issue? The truth is, when it comes to producing a globally oriented workforce, many managers feel completely lost. The idea of doing business in China is as intimidating as trying to learn Chinese.

At the heart of these fears lies the problem of getting a handle on culture. Managers often feel that " 'cultural factors' is a vague and fuzzy concept that does not easily translate into practical applications."[9] People feel that culture is something one learns by intuition, and therefore it can't be reduced to numbers or a clear program for action. For many executives, this means that the best thing to do is simply dismiss it altogether.

Although it cannot be reduced to a cookbook approach, cross-cultural competence is a skill that can be mastered with an open mind and attention to how others' beliefs and values differ from ours. These differences become visible when we examine our own cultural attitudes and values. Learning these basic skills can greatly enhance the success of cross-border business ventures by assuring smooth lines of communication and facilitating the people-to-people interactions that are at the heart of any business transaction.

The Human Factor

Global markets are inherently dependent on the human element. The judgments people make about the market, the kinds of moves they make, the strategic alliances and the mutual chemistry they create can make or break a deal. Is it strategically wise to discount to get your foot in the door, or is that market a quagmire better given to your competition? What kinds of concessions on financing or supplies might swing the deal in your favor? What long-term considerations are most important to the other side? These are questions that—in the final analysis—can only be answered at the people level.

Until recently, however, Americans working abroad largely ignored the way culture influenced this people factor. American products and managerial methods dominated the world marketplace. For U.S. companies operating abroad, there was only one way to do business: the American way. As far as business was concerned, people from other countries were simply "underdeveloped Americans." They might have their own cultural practices, but when it came to doing business they would naturally use the efficient and successful techniques developed by U.S. business.

A retired vice president from a major U.S. corporation comments:

"We have the technology and we know the business but we are not prepared as a country to deal with cultural differences."[10] If anything, the problem has become more acute as global competition increases and the United States does business on an equal footing with many countries around the world.

Americans, especially students, don't know much about other cultures: They're stuck within the borders of their own country. I was in a restaurant speaking with a friend in Portuguese, the national language of Brazil, when a man came up and asked us where we were from. I told him we were from Brazil, and he asked us to show him on a world map drawn on his bag. When I showed him, he said to us: "You stupid Brazilians are destroying the rain forest." I didn't get mad because I knew he really didn't know anything about my country. He didn't even know where it was. Many Americans, in fact, think that Buenos Aires is the capital of Brazil. In their minds, there are Indians on every street corner doing strange rituals. They have no idea that you have to journey into the heart of the rain forest to see primitive Indian tribes. And they have no idea that São Paolo, the city I live in, is one of the biggest and most expensive cities in the world.

—Denys Martins

Technology Cannot Replace People's Insight

A friend of mine who teaches English recently had a disagreement with one of his students who came in to see him during office hours to go over an essay she was writing for his class. After spending half an hour going over the ideas the student was trying to work out, my friend pointed out that it would be easier to follow the argument if she corrected the paper's numerous grammatical errors. "But I ran the grammar-check on my computer," the student protested with a perfectly straight face. "In her mind," my friend said, "she was responsible for having good ideas. It was the computer's job to write the paper."

Many people have the same attitude toward international business. The modern office is full of fancy gadgets—computers and Internet, uplinks and downlinks, videoconferencing and online databases. Why not let all that fancy technology handle the messy task of interfacing with businesses overseas?

The reality of global competition means that companies need to look for any advantage they can get. A fax can never tell you what is going on in the heads of managers in another country. Logging on to the Internet won't let you understand the way decisions are made on the other side of the world. Only understanding people will help you to do that. And in order to understand people you need to understand the cultural context in which they are operating.

Proximity Doesn't Lead to Understanding

We don't learn about others through osmosis. The enormous number of conflicts in the world shows us that proximity doesn't necessarily lead to better communication or understanding. Nor does a plentiful supply of common sense and goodwill take the place of deliberate education.

I know immigrants who have been in the United States for 30 years and still don't understand American culture. Similarly, Americans living as expatriates in other cultures often spend most of their time with other Americans. When this happens, you'll learn little about the country's culture beyond a few superficial customs.

To develop cultural literacy you need to take deliberate steps to learn about the other country's cultural practices and values. This doesn't mean you have to "go native" and live in another culture for 20 years before you can do business there. But you do have to make an effort to learn about the deep values that motivate people and provide the context for their actions.

We See the World through Culturally Tinted Glasses

People of every culture think their way of doing things makes the most sense. Our own rules and values are the ones we know best; therefore, we judge other people's behavior based on our own understanding. This translates into deeply ingrained habits for dealing with other people. In the business world, these habits often take the form of expectations that the other side will behave in a certain way in a given situation, or that others will see a particular problem in the same way we do. These expectations and understandings of the world are often unconscious, and so we have a hard time trying to identify them in others.

Since business is essentially a social activity, it is influenced by these differing perspectives of the people involved. When your counterparts are motivated by a different set of rules—when they see the situation through differently tinted glasses—you have to pay specific attention to what is going on inside their heads. In order to be successful you need to understand what motivates the decisions they make. The business executive who understands this process is usually the winner in business—whether it's domestic or international.

Koreans like to have time to think about their response and they gain time by nodding or simply saying "yes." In Korea, if someone says "yes," it often means "I hear you" rather than agreement. This can often lead to confusion for Westerners. I remember a business meeting in Seoul with a sales respresentative from a French perfume company. I was a buyer for a Korean department store. At the beginning of the meeting, the French salesman asked me if his company's perfume was selling well and whether it was competitive in the Korean market. I answered "yes" to indicate that I had understood his questions. But he thought I had answered "yes" to his questions and started to make proposals to increase the price and decrease consumer incentives. The fact was, however, that his product was not at all competitive and I needed the time to decide how to present this negative information to him.

—Byoung G. Kim

A Presidential Faux Pas

During a state visit to Mexico in 1977, President Jimmy Carter used a good old American strategy for starting on a positive note. Departing from his prepared speech, he began with an impromptu story:

> President López Portillo and I have, in the short time together on this visit, found that we have many things in common. We both represent great nations; we both have found an interest in archaeology . . . we both have beautiful and interesting wives; and we both run several kilometers every day. As a matter of fact, I told President López Portillo that I acquired my habit of running here in Mexico City. My first running course was from the Palace of Fine Arts to the Majestic Hotel, where my family and I were staying. In the midst of the Folklórico performance, I discovered that I was afflicted with Montezuma's revenge.[10]

Carter's attempt at cross-cultural humor ended in disaster. Montezuma is a revered cultural symbol in Mexico. To have the president of the United States apparently making fun of this important symbol of Mexican identity was viewed as an affront to the nation's dignity. Mexican newspapers were ordered to ignore Carter's lame attempt at humor, but the incident certainly did nothing to improve the climate between the leaders of these two countries.

Carter's unfortunate remark illustrates one of the most important issues in this book. We are all willing to overlook minor lapses in etiquette—how one bows or shakes hands. These are surface features of a culture, and everyone recognizes that there are differences and takes them into account. Carter's remarks, however, were not concerned with the surface of Mexican culture but with deep cultural values. These deep-seated values and beliefs are often unconscious, and this is where real misunderstandings usually take place. To be successful in international business (or politics!), we have to understand these deep cultural values and how they motivate people to behave the way they do. Without this basic understanding, international business deals will be plagued with costly mistakes and avoidable inefficiencies.

PASSION VERSUS BUSINESS

In Brazil, the major sport is soccer. Most men play the game, and everyone has a favorite team. Sometimes one's soccer team is more important than religion and the family, especially if the Brazilian team is playing in the World Cup. The country stops, nobody works, and there is only one topic of conversation—soccer.

If you are lucky enough to go to a big Brazilian soccer match, it could be one of the most exciting experiences of your life. Of course there are problems. Schedules change without notice. You'll have to stand in big lines; you'll have to pay somebody to take care of your car (which will certainly be vandalized without paying this protection money); and when you get to the arena there will probably be no place to sit. But that doesn't matter, because the important thing is that you are there. The game is incredible and the audience is also a show: fireworks, big flags, people screaming and singing during the game. Fights are common between fans of different teams. There's no need for cheerleaders in Brazil; people there can cheer on their own!

In the United States, sports are much more organized. There are four seasons with a sport for each. The teams are like companies. You know the calendar in advance, and if you want you can buy tickets by phone or over the Internet. The arenas are very comfortable; there are no problems parking your car; and you can buy all kinds of food—hot dogs, french fries, pizza. Sometimes there is even a waitress! I remember during the World Cup in the United States in 1994, a player from a European team was interviewed after the game and asked if it was difficult to play against the United States on its home turf because of all the cheers. The answer: "The problem was not the cheers but the smell of 70,000 hot dogs."

—Andre Farkas Kok