CHAPTER 3

International Management and Globalization

MANAGERIAL CHALLENGES FROM THE FRONT LINE:
Chetan Chadhury: Manager, Strategy & Operations, Deloitte

Chetan Chadhury began working for Deloitte as an intern while getting his MBA and continued full-time after graduation. He years to start his own company in India, then returned to head Deloitte's strategy and operations unit in Canada. Working on projects around the world, Chetan realized that one of the most challenging problems of international management is understanding and working through cultural differences.

Suggested Questions:
1. Can you give an example of a cultural difference that could cause a problem for international managers?
2. As a student, have you worked with team project members who come from a different cultural background than yourself? What kinds of differences were there between you?
3. What qualities do you think Deloitte, or other companies, look for in international managers?

Check it out! http://www.deloitte.com/view/en_CA/ca/index.htm This is Deloitte's Canadian website.

GLOBALIZATION
1. *Globalization* refers to the flow of goods and services, capital (money) and knowledge across county borders.
2. *The Three Stages of Globalization*
    a. The first stage – the internationalization of countries
    b. The second stage: The internationalization of companies
    c. The third (current) stage: Individuals can compete and collaborate on a global basis.
3. The increasing interdependency at all levels is reducing the effects a country can have on its own economy
4. Increases in globalization have change the world
    a. Competitive landscapes are changing as small companies and individuals can compete with big companies.
    b. Many companies are off-shoring not only manufacturing but also services.
    c. India and China are expected to be major global players in the next 3-4 decades.

ENHANCEMENT: Pros and Cons of Globalization

A couple of years ago, I searched out several articles concerning the advantages and disadvantages of globalization and put together this list. I find it interesting how many examples one can find to justify each side!

Advantages and Disadvantages of Globalization

Some Advantages

- Increased free trade between nations
- Increased liquidity of capital allowing investors in developed nations to invest in developing nations
- Corporations have greater flexibility to operate across borders
- Global mass media ties the world together
- Increased flow of communications allows vital information to be shared between individuals and corporations around the world
- Greater ease and speed of transportation for goods and people
- Reduction of cultural barriers increases the global village effect
- Spread of democratic ideals to developed nations
- Greater interdependence of nation-states
- Reduction of likelihood of war between developed nations
- Increases in environmental protection in developed nations

Some Disadvantages

- Increased flow of skilled and non-skilled jobs from developed to developing nations as corporations seek out the cheapest labor
- Increased likelihood of economic disruptions in one nation effecting all nations
- Corporate influence of nation-states far exceeds that of civil society organizations and average individuals
- Threat that control of world media by a handful of corporations will limit cultural expression
- Greater chance of reactions for globalization being violent in an attempt to preserve cultural heritage
- Greater risk of diseases being transported unintentionally between nations
- Spread of a materialistic lifestyle and attitude that sees consumption as the path to prosperity
- International bodies like the World Trade Organization infringe on national and individual sovereignty
- Increase in the chances of civil war within developing countries and open war between developing countries as they vie for resources
- Decreases in environmental integrity as polluting corporations take advantage of weak regulatory rules in developing countries

A MANAGER'S CHALLENGE:
Small Business: Going Global

International markets provide an important opportunity for small businesses. It can enable them to survive economic downturns at home by balancing those losses against gains from international sales. Examples of such companies include Orb Audio and Air Tractor. Other small companies have worked with larger companies on international projects. Gale International, a real estate developer, works with Cisco, 3M, and United Technologies to design and build new cities in Asia. The increasing ability of small companies to work in the international marketplace provides increased opportunities for growth, but also makes managing these companies increasingly challenging.

Suggested Questions:
1. What areas of management become more challenging when entering the international arena?
2. How much influence do you think small companies can actually have when partnering with large international companies? What kinds of influence can they have?
3. What are the qualities needed in managers in small companies when those companies first start being involved globally?

Check it out!

http://borderbuster.blogspot.com/ A blog for small business in the global arena

http://www.scribd.com/doc/217684/The-World-Is-Your-Market-Small-Businesses-Gear-Up-For-Globalization Advice on going global.

UNDERSTANDING A COUNTRY'S ENVIRONMENT

1. In order for companies to continue to grow on a global basis, they must carefully choose the countries in which to do business.
2. A country's institutional environment is composed of the country's rules, policies, and enforcement processes, and the made of three segments:
    a. The Economic Development Dimension
        - Economic development is important in that as it improves, it contributes to a higher standard of living.
        - The more economically developed a country is, the more market opportunities are available in it.
        - Economies are classified as:
            1. Developing: Sudan, El Salvador.
                a. Weakest economies
            2. Emerging: China, India, Eastern Europe
                a. Not yet highly developed, but growing rapidly
                b. Capital markets are young and underdeveloped.
            3. Developed: Western Europe
                a. Larger than less-developed or emerging economies
                b. More effective capital markets

        4. Highly developed: United States, Japan
    b. The Political-Legal Dimension
        - Made up of a country's political risks, regulations, laws, and the enforcement of them.
            1. Laws and regulations govern the behavior of individuals and organizations operating within the country.
            2. Regulations on foreign businesses are frequently intended to protect local businesses that would otherwise be unable to compete.
            3. Laws regulating the behavior of foreign firms include:
                a. Tariffs
                b. Quotas on foreign imports.
                c. Treatment of employees
                d. The behavior of publicly-traded firms listed on major exchanges.
            4. Laws concerning intellectual property rights
                a. Lax laws in this area discourage foreign investment
                    - Those with valuable technologies are reluctant to bring them into the country.
                    - Increase barriers to shared knowledge
                    - Decrease advantages of strategic alliances such as joint ventures.
    c. The Physical Infrastructure Dimension
        - Includes the amount and quality of roads, telephone lines, and airports and harbors.
        - The availability and quality of infrastructure is a major determinant in whether or not a company will choose to enter a given international market.
        - The physical infrastructure assists in the distribution of goods to customers
        - Poor physical infrastructure results in
            1. Smaller markets.
            2. Costlier methods of distribution.
3. Importance of the Institutional Environment
    a. Economic growth contributes increases in the standards of living, health, and welfare in a country.
    b. Higher rates of economic growth suggest greater market opportunities.
    c. High economic growth attracts new business development and foreign investment.

CULTURE

1. Culture is a learned set of assumptions, values, and beliefs that members of a group have accepted and that affect human behavior.
2. Culture can dramatically influence how people observe and interpret the business world. It helps managers answer questions such as:
    a. Is something and opportunity or a threat?
    b. What is the right style of managerial behavior?
3. Cultural Dimension (see Table 3.2 for scores of individual countries on these dimensions)
    a. Power Distance: the extent to which people accept power and authority differentials among people.

        i. This is not a measure of how much differential exists in a country, just how much differential is seen as acceptable.
        ii. High Power distance countries include the Philipp9ines, Venezuela, and Mexico
        iii. Low power distance countries include Austria, Israel, and Denmark.
    b. Uncertainty Avoidance: The extent to which things need to be clear instead of ambiguous.
        i. Cultures with high uncertainty avoidance prefer clear rules and create structures that limit ambiguity. (China, the Netherlands)
        ii. Cultures with low uncertainty avoidance prefer fewer rules and are more comfortable with ambiguity (Russia, Poland, and Brazil).

    c. Individualism/ Collectivism
        i. Individualism is the extent to which people's identities are self-oriented and people expect to take care of themselves and their immediate families.
            1. Individualistic cultures demonstrate high levels of independence from organization and institutions.
            2. Individual achievement is rewarded
            3. Individual decisions are valued
            4. France and Brazil demonstrate high levels of individualism
        ii. Collectivism is the extent to which a person's identity is a function of the group(s) to which he or she belongs (family, firm, community, etc.) and the extent to which group members are expected to look after each other.
            1. High levels of emotional dependence on organizations and institutions to which one belongs are demonstrated in cultures with high levels of collectivism.
            2. There is an emphasis on group membership.
            3. Collective decision making is valued.
            4. Japan and China demonstrate high levels of collectivism.

ENHANCEMENT: Individualism vs. Collectivism

I have a favorite movie that I recommend to my students to demonstrate the culture clash between individualistic and collectivistic cultures – Gung Ho. This movie, directed by Ron Howard and starring Michael Keaton, Gedde Watanabe, and George Wendt, was released in 1986, just as many American workers were worried about the introduction of Japanese management techniques in the United States. The movie tells the story of the culture clash that ensues when a Japanese firm takes over a defunct American car manufacturing plant. The individualistic American workers resent the attempts of the Japanese managers to instill Japanese cultural values at the company. Naturally, since this is Hollywood, there is a happy ending and lots of laughs along the way. However, the film does a good job of reflecting culture conflict, resistance to change, and the importance of understanding other's culture.

d. Gender Focus
    i. The extent to which people in a country value masculine or feminine traits.
        1. Masculine focused cultures value activities that result in cusses, money, and possessions.
            a. India, China, Japan, and the United States demonstrate a masculine focus.
        2. Feminine focused cultures value traits that demonstrate care for others and which behaviors that enhance the quality of life.
            a. Poland, Canada and England demonstrate a feminine focus.

4. The importance of understanding culture.
    a. Cultural characteristics can predict how managers will respond to socially responsible actions,
    b. Globalization has resulted in cultural diversity playing an enhanced role in business. Managers must interact with members of diverse cultures.
    c. Understanding other cultures can help managers make good strategic decisions about which countries in which to do business.

ENHANCEMENT: The Dimensions of Culture – Hofstede and Trompenaars

For many years the work of Geert Hofstede has provided the basis for organizational culture analysis. In the last decade, his work has been supplemented by that of Fons Trompenaars.

Hofstede, The IBM Survey, and Culture's Consequences

1. From 1967-1973, Hofstede administered approximately 117,000 surveys to employees in 71 countries. Due to the strong corporate culture at IBM at the time, any differences in values and attitudes among the employees could be attributed to national rather than organizational culture.
2. Hofstede's analysis identified four key dimensions along which national cultures can be differentiated: Power Distance, Uncertainty Avoidance, Individualism/Collectivism, and Masculinity/Femininity.
    a. Power Distance
        - This dimension measures the extent to which less powerful members of a society expect and accept that others will have more power that they, and that power will not be distributed evenly within the culture. The findings suggest that the existence of power inequality is accepted by the lower powered members of a society as well as the higher powered members.
    b. Uncertainty Avoidance
        - This dimension measures the extent to which the members of a given culture are socialized to be comfortable or uncomfortable in uncertain, ambiguous situations. Cultures with high levels of uncertainty avoidance tend to limit ambiguity through laws, rules, religious and philosophical tenets, and a belief in determinate reality. Members of cultures with lower levels of uncertainty avoidance tend to be more accepting of opinions different from their won and more flexible in dealing with new situations.
    c. Individualism/Collectivism

- This dimension measures the strength of ties individuals have to the groups they belong to. Members of individualistic cultures have very loose ties to others, with their main focus on themselves and their immediate family. Members of collectivistic societies, on the other hand, are socialized from birth to have strong ties to the groups to which they belong.

d. Masculinity/Femininity

- This dimension measures the level of assertiveness in a culture. Assertive behavior has been termed masculine, and the more caring behaviors are feminine. The study found that women's attitudes and values differed less across cultures than did men's. Whereas a woman in a masculine culture might be slightly more assertive than a woman in a feminine culture, males in a masculine culture were much more assertive that the males in a feminine culture.

<u>Trompenaars: Added dimensions in culture research. Riding the Waves of Culture (1994)</u>

1. Over 12 years, Trompenaars surveyed of 15,000 workers in 50 countries and published his results in 1994.
2. Trompenaars added two important dimensions to our understanding of national cultural differences/
   a. Universalism/Particularism
      - This dimension measures how uniformly individuals are treated within a society. Members of universalistic cultures believe that everyone should be treated alike regardless of their relationships. Favoritism, cronyism, and nepotism are all frowned upon.
      - More particularistic cultures accept that individuals should receive preferential treatment based on who they are, who they know, and who they are related to.
   b. Specific/Diffuse
      - Specific cultures separate out business relationships from personal and social relationships. No consideration of the individual's situation is taken into account when making business decisions.
      - Diffuse cultures take relationships into account. The entire situation as well as personal needs and constraints are taken into account in business decisions.

INTERNATIONAL MARKET ENTRY STRATEGIES

1. Foreign markets have many attractions (location advantages).
   a. They increase the size of a firm's potential markets and thus their sales volumes and revenues.
   b. Firms can gain greater economies of scale by adding foreign sales.
   c. Firms can gain access to specialized labor and material resources.
2. Foreign markets vary in attractiveness
   a. New firms tend to prefer markets with similar institutional environments to that of their home country.
   b. Firms frequently cluster their international operations in one or a few geographic regions.

c. Cultural and institutional environments influence how firms enter new international markets.
d. Differing risk levels and resource requirements affect the choice of market entry strategy.

3. Major types of market entry strategies include:
    a. Exporting
        i. The most common method for entering international markets
        ii. The most common entry method for smaller companies and those just starting out in foreign markets.
        iii. Exporting is manufacturing at home and selling in a foreign market.
        iv. Low risk, low capital requirements.
        v. May require a strategic alliance for distribution in the foreign market. This may reduce profits due to transportation and partnership costs.
        vi. Exports are sensitive to currency exchange fluctuations.
    b. Licensing
        i. Involves permitting a local firm in the new market to manufacture and distribute a firm's product of service.
        ii. Specifies the quality and quantity of merchandise to be produced.
        iii. Specifies royalty payments on the sales.
        iv. Licensing has low costs and few risks.
        v. High returns are only possible if the market is very large.
        vi. The licensing firm is at a disadvantage in that it has little control over its product and brand in the new market.
    c. Strategic Alliances
        i. The most popular strategy for international expansion.
        ii. Strategic alliances are cooperative arrangement between two firms in which they agree to share resources to accomplish a mutually desirable goal.
            1. The firms share risks and costs and have access to resources they might otherwise not have.
            2. The firms can learn new capabilities from their partners.
            3. Enables firms to outsource functions.
        iii. Differences in culture and language can impede performance.
        iv. While many strategic alliances fail, equity based alliances such as joint ventures, where risk and costs are shared, are more successful.
        v. Trust is important to the success of a strategic alliance.
        vi. In uncertain institutional environments, firms look for short-term partners. In more stable environments, firms look for longer-term partners.

A MANAGER'S CHALLENGE:
Small business: Outsourcing and offshoring

Outsourcing and offshoring are two strategic methods for managing businesses. Many point to the reduced costs and increased specialization associated with each. India and the Philippines are the current leaders as recipients of outsourcing. China is attempting to bypass both. This box touches on the difference between outsourcing and offshoring. This can be a confusing differentiation to make. I have included an interesting discussion of the differences in the enhancement below.

Suggested Questions:
What are the main reasons for outsourcing?
Does outsourcing only occur when jobs are sent overseas?
What do you think? Should companies outsource? Why or why not?

Check it out!
Lewin, A. Y., Massine, S. and C. Peeters (2009) Why are companies offshoring innovation? The emerging global race for talent. Journal of International Business Studies. 40: 901-925 .

ENHANCEMENT: The Differences between outsourcing and offshoring

Although the following was published in Medical Products Outsourcing Online (http://www.mpo-mag.com/articles/2009/03/industry-qa-outsourcing-vs-offshoring), I found it to be a good example of the different opinions, definitions, and approaches to these two activities.

Industry Q&A: Outsourcing vs. Offshoring

A group of industry insiders shares thoughts on the definition of outsourcing, where the overlaps are, misperceptions and ways medical device companies distinguish between the two.

Christopher Delporte
It may seem odd to have to define the word “outsourcing” to this magazine’s audience, but perhaps a quick back-to-basics is in order. Added to the Merriam-Webster dictionary in 1979, the term outsource is defined as: to procure (as some goods or services needed by a business or organization) under contract with an outside supplier.

The understanding of outsourcing isn’t as straightforward as this simple definition would lead you to believe. Very often—even within the medical device industry—the practice of outsourcing is misunderstood. The confusion is compounded when offshore manufacturing is thrown into the mix. The term commonly is used by mainstream media to describe the transfer of U.S. jobs to low-cost markets (think call centers in India or manufacturing automotive parts in Asia). During the 1992 presidential election, independent candidate and businessman Ross Perot colorfully described U.S. job losses to low-cost countries in Latin America as the “giant sucking sound.” And in every election since, candidates have discussed the “evil” of outsourcing and the negative implications for U.S. industry. The medical device industry conducts most of its outsourcing here in the United States, but even medtech professionals sometimes seem to lose sight of that fact. With such cross references swirling around such a simple word, it’s no wonder that confusion ensues and the lines between outsourcing and offshoring often become blurred.

To seek some clarity and gain perspective, Medical Product Outsourcing recently spoke to industry experts from various points along the medical device outsourcing spectrum. Excerpts of

those conversations follow.
Participants included:

•Tim Bowe, co-CEO and co-founder of Foliage in Burlington, Mass. Foliage provides custom software development services and product strategy consulting for the aerospace, financial services, medical and industrial equipment industries.

•Chris Coghlin, president and CEO of Cogmedix in West Boylston, Mass. Cogmedix focuses on the production of Class I and Class II medical and clinical devices.

•Walter Gilde is business development manager for Merrimack, N.H.-based-KMC Systems, a supplier of contract design, manufacture and maintenance for medical devices and instrumentation

•Edward J. Goldman is senior vice president with Waltham, Mass.-based Foster Miller, a product design and development firm founded in 1956.

•Andrew Kinross, an associate director in the Burlington, Mass., office of Chicago, Ill.-based Navigant Consulting. Navigant provides business services in a variety of industries, including healthcare and life sciences.

•Falguni Sen, PhD, professor of management, Graduate School of Business at Fordham University in New York, N.Y. Dr. Sen is an internationally recognized expert on medtech and pharmaceutical outsourcing issues.

•Bryan Szweda, director of OEM and Transfer for Boston Scientific Corp. Mr. Szweda is based in the Minneapolis, Minn., area.

•Marc Tanowitz, principal, with Pace Harmon, an outsourcing advisory, strategic sourcing and technology consulting firm based in Tysons Corner, Va. Tanowitz was named among "Provider Pros to Know" in 2008 by Supply & Demand Chain Executive magazine.

MPO: Though it may seem like a basic question, how do you define outsourcing? And why does it seem that people often fail to differentiate outsourcing and offshoring?

Marc Tanowitz: Outsourcing is a higher-level strategic relationship that is managed through a series of service level agreements, which are designed to align the interests of the buyer and vendor.
If you're talking to the head of manufacturing for a medical device manufacturer, they may look at all of their third-party providers of finished goods and subassemblies that they resell as direct-material vendors rather than outsourcing providers. And they may be right, because they're issuing a purchase order and they're buying some goods. There's no extended commitment, and they're really just paying for that finished good and service to be completed by a certain day.

But there are other vendors that have said, "let me take this whole component or device and give someone the specs and they will own all of the raw material procurement and they're going to be registered by the manufacturers and approved by the FDA." That's when you start moving into outsourcing relationships where the outsourced vendor is able to add value through capabilities such as an understanding of the regulatory environment in the country of manufacture as well as the country of sale, to the extent that the product will be sold in multiple countries.

Outsourcing is like a joint venture. If you want to make it successful, it's incumbent upon you as the buyer to really invest in that relationship from a tactical and strategic executive level to collaborate to optimize that relationship.

A couple of different offshore concepts come to mind. A domestic company here in the United States could decide that they want to manufacture in Asia, for example, to take advantage of low-cost labor, or to be closer to their customers or to leverage a specific manufacturing capability. They may decide they have enough of a presence there, they understand the regulatory environment and they understand the labor force, so they're able to set up a facility to handle all the start-up activities required, such as designing and engineering the facility, obtaining all of the zoning, permitting, and regulatory approvals, etc. They have the scale to make the business case work so they decide it makes sense to build and own that facility. They've created their own division, in essence, off shore, to take advantage of labor arbitrage and potentially some supply chain efficiencies on the logistics side resulting from a closer proximity to their end customers.

Then there's the scenario where you have a company that perhaps may not have the skill or expertise to do this or the ability to dedicate resources halfway around the world. Therefore, offshoring becomes a potential option. Because they're not just buying the capability to perform the manufacturing, they're also buying the expertise to set up the facility or leverage someone's facility that's already set up to offset some of that capital investment.

Edward Goldman: It's simple. If I am not manufacturing it in my shop and I am having it manufactured somewhere else, it's outsourced. Offshoring is a subset of outsourcing. I always assumed that people knew what the difference was, and I never got the impression that they didn't. Once you decide to [outsource], you have to decide what the best way to do it is. For some—though it wouldn't be my first choice—it means going to China or India. There are too many quality concerns, in my opinion. Outsourcing is about choosing someone who has the skills to do the job better than we can. It doesn't have to be about going overseas. We're in Massachusetts and outsource to companies in Connecticut, New York and New Hampshire.

Andrew Kinross: Outsourcing is a catchall term for not only contract manufacturing, but outsourced design engineering and supply chain management. Contract manufacturing is narrower. It refers to manufacturing to specifications from your customer. Outsourcing is more general. Offshore manufacturing can fall under the outsourcing umbrella, but they're certainly not interchangeable, though some people use them that way. I've had people tell me "we're 'outsourcing' to China"—as in J&J has a facility of its own in China. That's not outsourcing as we normally define it in the medical device industry. In the political realm, however, politicians define it differently—they use the term outsourcing to discuss loss of U.S. jobs to India or China or elsewhere. It depends on how people label things. But you'd think people in the device industry would understand the difference. Companies often have their own taxonomy. While most people in the medical device industry seem to understand that outsourcing purely means contracting with a third party (where ever that happens to be in the world), there's some companies where it means “going overseas.”

Falguni Sen: It’s a very interesting question. I have wondered the same thing myself. If you look at total outsourcing in the United States, over 60 percent is done in the U.S.—and this is not just in medical devices, but overall. These figures are about three years old, but I believe still accurate. About 30-40 percent is done offshore. And even in offshore, there’s this notion of nearshore versus farshore, so there are really three varieties. What has happened, in my view, is that there is a perception that outsourcing meant China. And organized labor found that they were losing jobs—this is going back 15 years—and I think that has somehow stuck in people’s minds. It means loss of jobs and loss of jobs because of cost issues and therefore people see outsourcing and offshoring as one in the same thing. Many companies started outsourcing within the U.S., but as they got their processes under control found that they could look at cost-based options. Initially, they were reducing their risk levels by keeping the outsource groups nearby and also looking at value propositions. But, as product deigns became more standard companies began looking for cost improvement. And that’s what has slowly started to happen in the medical device space as well. People who are outsourcing locally are looking at Mexico and Ireland, for example, to find new cost propositions—China definitely, India as well. So even if a company starts out locally, perhaps people feel that a switch to offshore is inevitable.

Chris Coghlin: I don’t run into it too frequently with people within the industry. I do run into it, however, when I try to explain what we do to people not familiar with medical devices. When I explain that we’re an outsource resource for medical device OEMs that bring new medical technologies to market, they say: “I didn’t realize you had any offshore facilities.” Well, we don’t. So, clearly, there may be a general misperception, but I think the industry probably understands.

Walter Gilde: It gets complicated because companies may be looking to outsource offshore all in the same breath. And it’s understandable why, perhaps, there is some confusion even within the industry. The majority of people I talk to in the IVD (in-vitro diagnostic) industry have a clear understanding that outsourcing isn’t necessarily an international proposition. It depends on the nature of the company—an established OEM versus a startup or an emerging company, for example. They’ll have different perspectives on it. Established OEMs will look at what their core competencies are and what their platforms are for their success and they’ll want to maintain a high level of control over those elements of their business. Products that are peripheral to those core competencies or platforms, they’re probably willing to consider outsourcing those things. The next step is if we’re going to outsource, do we go domestic or international? So it’s a progressive leap that companies take.
Tim Bowe: Contract manufacturing, offshoring, etc. It’s really all outsourcing. The problem is that a distinction has arisen over the past four or five years and the connotations of each are fundamentally different. Outsourcing is almost always considered to be nearshore or all domestic, as opposed to the offshore model. And, obviously, the drivers for each are fundamentally different, too. If you’re outsourcing domestically or nearshoring, you’re focusing on hiring expertise. If you’re outsourcing offshore, you’re looking for cost. As a general rule, that’s how I see most people making the distinction.

MPO: Manufacturing offshore—and outsourcing, indirectly, lumped together—often carries a negative connotation. Where does that come from?

Goldman: I think it's a quality issue. Sometimes it's justified and sometimes it isn't. The question becomes how you ensure that your quality is what it needs to be. Respect of your proprietary rights is another huge factor. You don't want to put your device into a Chinese plant and then see it coming at you from six different competitors. I think customers are very cautious when it comes to considering an offshore option, and getting more cautions given some of the catastrophic quality problems we've seen coming out of China recently. The last thing you need as a medical device company is a recall. They're giving away their crown jewels. It's like sending your kids to day care. You just don't pull up to the first place you see and drop them off. You do your homework.

Kinross: Medical devices have bucked the trend in terms of most manufacturing is still done in the United States. International manufacturing is still an unknown. Every other manufacturing industry has gone outside the U.S., but [medical] devices have been slow to follow. And politicians have picked up the word outsourcing to mean job losses, companies leaving the U.S., etc. I think that's the problem. Though the medical device industry still does the majority of its manufacturing here, so many other industries have gone offshore. And medtech gets painted with the same brush.

Sen: Why does it get a bad reputation? Because it's linked to a loss of domestic jobs—it just seems like people are making those associations. People also perceive that it isn't a level playing field. In China's case for example, the working conditions, the environmental conditions … the perception now is that you're not getting good quality and that you have all these things going wrong from lead paint in toys to tainted heparin. These certainly don't help.

Bryan Szweda: Well, as you consider taking a project offshore it's natural to worry about the unknowns. But if you manage the process, it can work. People really start to focus in on logistics, culture, that type of stuff. It's a harder sell for offshoring than for outsourcing. There are more logistical complexities—but the key is to set the business process between the two companies. If that's set up right, it's just the same as doing business in the United States. If you don't spend the time and set up the right infrastructure to begin with then it becomes a very complex business to run, and that could be what scares people. Asia has a little bit of a stigma. There are many unknowns for device companies, and it hasn't been a real focus of many medical device manufacturers, but it will be. We'll be learning more and more. And knowledge is power. Once a few companies have been over there and learn the tricks of the trade, it will grow—and relatively fast. Cost reduction will be a big driver, as well as markets opening up. Right now, the process is easier closer to home, domestically or someplace like Mexico or Costa Rica.

Tanowitz: I think, to some extent, the challenge is that some of it is a cultural difference, and many people aren't familiar with how business is conducted from a cultural perspective. It's far away. It's a different culture. When you hear people say that offshoring is dangerous or risky, they typically can't get past those differences to take advantage of the available efficiencies. I also think that there are some infrastructure concerns as well. If your sales market is the United States, when you look at the working capital involved to move some of these products, the number of days of inventory required to support production in Asia given the lead-time between Asia and the U.S., it becomes a difficult business case to justify. Unless your products are small, light and cheap to transport, you end up with longer lead times, which has an immediate working capital impact. The difficult logistics often aren't worth it. Specifically in the medical products field, the added regulatory challenges also play a huge role and can present more risk that some companies can or are willing to absorb.

MPO: Whether domestic or international, do you find that medical device OEMs truly understand the outsourcing process?

Szweda: I think understanding differs at different levels of the organization. I'd say people who are responsible for using outsourcing or using suppliers, partners and vendors to supply materials have a really good understanding. But I think if you get to levels that don't work with the outside vendors and are purely focused internally, I believe they do assume that outsourcing means offshoring or a loss of jobs of some sort. No I don't think they see vendors and suppliers as outsourcing. They focus pretty quickly once you explain the intricacies of the process. There's a lot of education that needs to happen. Some people believe that if they have someone outside making it, it's just "throw it over the fence" and that's it. But you really have to have solid systems and support structures to make sure that you're continually evolving and supporting the products and the process. There is a future for outsourcing and it will continue to grow. Outsourcing firms will need to continue to demonstrate their value. A medical device manufacturer cannot afford to be good at everything. There are the three buckets: sales and marketing, R&D and operations. You can't afford to spend money to be great at all three of those. Good partnerships make all the difference.

Coghlin: The medical device industry has been slower to adopt outsourcing than other industries, and I think it's because there really haven't been that many partners to choose from. But now that has changed. Companies were very concerned with the possible risks of contract manufacturing and turning over a lot of what they do—but outsource providers like us and others have proven that we offer a safe, high-quality solution. In many cases, for example, we have more knowledge of compliance requirements than many of our customers. Many venture-backed, burgeoning companies have great intellectual property or great ideas that will solve medical challenges in the market; investors are not investing in these companies so that the company can build infrastructure. We provide the infrastructure they need, the opportunity to grow, save lives and cut costs in healthcare and drive more innovation. That means good things for outsourcing partnerships.

Goldman: I believe so. We almost never have to explain it. We don't go through a lot of explanation. Companies know they need help and they know they need to outsource. Of course, we define the particulars in a business discussion, but I find companies understand what they're getting into. The idea that they don't have the capabilities we do—that's no mystery. Clearly, this makes the most sense with startups. But, in general, people understand. Differences in the size of firms can be huge. A startup for example may not have any understanding of what things are going to cost—they don't have an idea of what the real challenges are. We sort of have to "father" them through. You have to explain what the manufacturing steps are and what the regulatory steps are. You need a lot of stuff at the beginning to do the job right. We don't just build a part or a device. We bring more to the table than that. A big company knows most of this, so the education is a lot less. A midsize company can be anywhere in between.

Kinross: I think a medical device company executive knows what his or her options are in terms of manufacturing in China or not, or manufacturing with a third party here at home or not. I really don't think the use of different terms handicaps the industry. Because, at the end of the day, the medtech executive is making a business decision that's best for his company, shareholders and product.

Sen: I don't feel that they understand what it means. How many of them fully work out their manufacturing processes to see whether there are core activities that they can keep in house while outsourcing non-core activities? The whole idea of core and non-core activities I don't think has reached that level of understanding in the medical devices area as it is beginning to reach in pharma. It has been changing slowly and has room to grow. I think there is a lack of familiarity. Many companies haven't visited outsource providers in the United States or abroad to see how things are done and see how privacy and IP (intellectual property) can be preserved. There is a strong belief in the individual skills and craftsmanship needed for devices, particularly with more detailed products. First-time outsourcing is a very difficult task, unless you have a champion within the firm who really believes in outsourcing. Very often, it starts at conferences or meetings where professionals come together, and someone will extend an invitation to visit a plant. Companies that have outsourced a small component are an easier sell usually when it comes to outsourcing more pieces of the puzzle. Companies that have operated in little niches or in small batches don't really feel the need.

Bowe: No, I don't. Part of the reason is that other industries have been dealing with the offshore model for many years—the financial world started in the late 1970s. Some of the capital equipment manufacturers started in the '90s. Only over the last four or five years has it been something that's been talked about in the medical space with any sort of consistency.

First and foremost, it's a very profitable industry so it hasn't been driven to reduce costs. Additionally, it's an industry with a high degree of regulatory and technical complexities. So, it is often felt that it is easier to hold your IP internally, even though you may not be as efficient in developing new products as you could be if you were working with partners that focus on the various elements of the product lifecycle. Now that the industry is driven to reduce cost, there is the desire at the executive level to talk about doing things differently, which isn't how it's been for the last four or five years.

Working with any kind of partner is an incremental process. It is important to remember, however, that to work with an outside company, your internal processes have to be very good. Even though the medical device space is highly regulated, many companies don't have very effective development processes. This can also contribute to initially making it difficult for them to work with outside organizations. However, improving your product development efforts in conjunction with an outside partner will result in a faster and more effective product development effort.

d. Acquisitions
   i. Cross-border acquisitions occur when an organization buys a foreign firm in order to have an entry into that foreign market.
      1. The number of such acquisitions has been increasing
      2. Cross border acquisitions are becoming more common among non-US firms as well.
      3. Advantages:
         a. They provide a fast way to enter a market.
         b. You gain the good will and customer base and relationships of the acquired firm.
      4. Disadvantages
         a. It can be difficult to merge the two previously independent companies into one.
         b. There may be difficult cross-cultural issue to deal with.
         c. Costs may be high. The acquiring company frequently pays a premium price for the target company. This is particularly true in countries know for high levels or corruption.

e. New, wholly owned subsidiaries
   i. A firm makes a direct investment to establish a business that it own and controls totally with no local involvement.
   ii. This type of investment is commonly known as a Greenfield venture.
      1. These ventures work well for companies with a strong brand identity.
      2. Greenfield ventures can be expensive and complex due to the need to build supplier and distributor networks as well as the manufacturing plant or service provider start up costs.
      3. The company must deal with cultural differences on its own without the local guidance available in a strategic alliance.
      4. This type of venture has a high level of failure risk.

MANAGING INTERNATIONAL OPERATION

There are three main methods to choose from when deciding how to manage international operations:

1. Taking a Global Focus
   a. Advantages:
      i. Major strategic decisions are made in the home office
      ii. International subsidiaries follow the same or similar strategies.
      iii. Products and services are usually standardized making economies of scale available.
      iv. Especially advantageous in price-sensitive industries.
      v. Resources are shared internationally allowing efficient use of all resources
   b. Disadvantages
      i. Little flexibility in how to compete
      ii. Inability to take advantage of shifting market opportunities.
2. Taking a Region-country Focus
   a. Advantages

        i. Strategies can be tailored to fit the local market
        ii. Products can be customized for the local market
        iii. Flexibility is greater than with the global focus
    b. Disadvantages
        i. This method is most effective when the company operated in regions with widely divergent tastes and needs.
        ii. This approach is more expensive as it cannot contribute to economies of scale.
        iii. The wide variety of strategies can make it difficult for home office managers to evaluate the relative performance of specific regional or country strategies.
3. Taking a Transnational Focus
    a. A transnational focus strives to simultaneously centralized and decentralized. The goal is to achieve glo0bal efficiency along with local market responsiveness.
    b. Strategic decision making is decentralized.
    c. Subsidiaries do share resources.
    d. This type of organization can outperform the other two types if well managed.

ISSUES IN MANAGING ACROSS CULTURES

1. Cultural Context – High and low context cultures
    a. High context cultures are those in which situational cues direct behavior and communication
        i. Japan, Korea, China, and Vietnam are examples of high context cultures.
        ii. Subordinates will respond differently to questions depending on who is asking them or who is present at the meeting.
    b. Low context cultures are those in which differences in the situation do not cause managers or subordinates to change the content of their communication.
        i. The United states and Australia are low context cultures.
        ii. The aphorism "say what you mean and mean what you say" describes attitudes towards communication in these cultures.
    c. Neither culture is better, they are just different.
    d. Managers from one culture may be frustrated or confused by the communication style o managers or subordinates from the other type of culture.
2. Managing Multicultural Teams (Geographically Dispersed Teams)
    a. These teams have members living and working in different countries with different cultures
    b. They do focus on normal business tasks such as product development and marketing programs.
    c. Interaction is most frequently technologically-mediated.
    d. These teams are often terms "virtual teams" because they do not meet face-to-face.
    e. Communication misunderstandings caused by the different cultures can create serious problems.
        i. There can be disruption of the team's ability to complete the task.
        ii. If the problems occur early on, the team may not develop the trust necessary for its success—trust is extremely important in dispersed teams.
        iii. Team manager effectiveness is especially important in dispersed teams

1. Managers must build “swift trust” – early and quick development of interpersonal trust within the team.
2. Managers must set up positive and reciprocal communications.
3. Managers must be quite savvy about the various cultures represented on the team.

DEVELOPING A GLOBAL MINSET

1. A global mindset is a set of cognitive attributes that allows an individual to influence individuals, groups, and organizations from diverse socio-cultural and institutional environments.
2. Top management team compositions (i.e.; having members from different cultures) can assist in the development of a global mindset among its members.

A MANAGER’S CHALLENGE:
Multicultural Organizations in a Globalized Economy
Toyota may be a multinational organization, but, as this box demonstrates, it is not a multi-cultural one. Toyota’s insular culture is contrasted with that of Nippon Sheet Glass Company which has an American CEO, four foreign Board members, and several foreign managers. This managerial challenge also discusses the idea of cultural intelligence and its contribution to the global mindset of international organizations.

Suggested Questions:

1. What benefits might Toyota receive by restructuring their board and management to be more multicultural? What disadvantages might they incur?
2. Is it always better to have a more diverse top management team?
3. What is cultural intelligence, why is it important in today’s organizations?
4. Do you need to be an international firm in order to benefit from cultural intelligence?

MANAGERIAL CHALLENGE FROM THE FRONT LINE:
The Rest of the Story

Chetan Chadhury was able to adapt to his clients by learning more about the client’s culture.

Closing Case:
Trying to Change the Corporate Culture of a Multinational Enterprise: General Semiconductor

When Ronald Ostertag took over as CEO of General Semi-Conductor, he attempted to turn around the company7’s corporate culture. He started by replacing g almost the entire top management team. He wanted a culture based on teamwork, mutual respect, cooperation and innovation. He had the top management team bond while developing the new list of values for the company. These values were then disseminated to all the workers in the company. Unfortunately, despite all his efforts, Ostertag could not fend off a takeover by the Pennsylvania-based firm, Vishay International.

Vishay International has grown. It now has manufacturing plants in 6 countries and sales offices in many more countries. They have combined General Semiconductor's abilities with those of researchers in holdings in other companies resulting in to recent patents

1. In your opinion, what actions taken by Ostertag stood the most chance of changing General Semiconductor's culture?

    The development of the new vision, mission, and set of core values as well as the dissemination of these values throughout the company are good ideas. It is not that easy to change a company's values. Upper management must live those values as well as proclaim them.

2. Do you think requiring everyone in a multinational firm to carry around a card with the firm's core values on it can change a company's culture? Why or why not?

    Students frequently answer no to this question seeing this as coercive and likely to make employees, especially those from other countries, resentful. However, this idea does make sense in that it helps to emphasize how seriously the new management is taking the new core values.

3. In your opinion, was Ostertag managing the cross-cultural operations effectively in the process of trying to change the firm's culture? Explain.

    Honestly? I don't think there is really enough information in the case as presented to answer this question. However, he seems to be trying. But from the case, we see him concentrating mostly on the top management team and not on the workers in the various countries.

4. Did Ostertag appear to have a global mindset? Why or why not?

    Students will really have to make some assumptions to answer this question. Did Ostertag replace the previous top management team members with new members more representative of the international makeup of the company? If they make this assumption, then they could argue that Ostertag was trying to develop a global mindset. We really don't know much about Ostertag's cognitive abilities in terms of cross-cultural knowledge. Although, again one could make the assumption that to be brought in as CEO of such a widely internationalized company, he must have had some cultural facility. I would you this question to explain the difference between assumptions and facts and their contributions to case analysis.

SUGGESTED DISCUSSION QUESTIONS

1. Is the increasing globalization of business good or bad for the United States? If you are from a different country, what effect do you think globalization is having or will have on your country? Is globalization resulting in unequal gains for different countries?

2. Which element(s) in a country's institutional environment do you feel is the most critical for managers to pay attention to when they are considering entering that country's market?

3. Can country cultures really be classified as masculine and feminine today? Are the concepts valid but the terminology outdated?

4. What are the pros and cons of the various market entry strategies discussed in the chapter?

5. Do you think you have what it takes to one day run a multinational firm? What characteristics do you think are the most important for the position?

ADDITIONAL EXERCISES

How open are you to international work?

In our age of globalization, it is important for you to understand your feelings regarding international teams and assignments. Use the following exercise to assess your specific attitudes and behaviors associated with openness for international teamwork or an international assignment. Please carefully read each of the following statements and rate how it applies to you. Be Honest!

		Never				Often
1.	A year-long overseas assignment would be a fantastic opportunity for me and/or my family	1	2	3	4	5
2.	I have spent time overseas.	1	2	3	4	5
3.	My friends' ethnic backgrounds are diverse`.	1	2	3	4	5
4.	Traveling the world is a priority in my life.	1	2	3	4	5
5.	I visit art galleries and museums.	1	2	3	4	5
6.	I was overseas before the age of 18.	1	2	3	4	5
7.	My friends' religious affiliations are diverse.	1	2	3	4	5
8.	I hope the company I work for will send me on an overseas assignment.	1	2	3	4	5
9.	I attend the theater, concerts, ballet, etc.	1	2	3	4	5
10.	Other cultures fascinate me.	1	2	3	4	5
11.	I attend foreign films.	1	2	3	4	5
12.	I am fluent in another language.	1	2	3	4	5
13.	I travel within my own country.	1	2	3	4	5
14.	I would host a foreign exchange student for one year.	1	2	3	4	5
15.	I have moved or relocated substantial distances (i.e., state-to-state, overseas).	1	2	3	4	5
16.	I eat at a variety of ethnic restaurants.	1	2	3	4	5
17.	Foreign language skills should be taught in elementary school or earlier.	1	2	3	4	5
18.	I attend ethnic festivals.	1	2	3	4	5
19.	I have studied a foreign language.	1	2	3	4	5
20.	I read magazines that address world events.	1	2	3	4	5
21.	My friends' career goals, interests, and education are diverse.	1	2	3	4	5
22.	If you took a vacation in Europe, you would stay in a locally owned hotel instead of a global chain.	1	2	3	4	5
23.	My friends' first languages are diverse.	1	2	3	4	5
24.	I watch the major networks' world news.	1	2	3	4	5

Scoring Key
Attitude
Total your scores for questions 1, 4, 8, 10, 14, 17 & 22.
A score of 28 and above may be considered high; 14 or below is considered low.
Past International Experiences
Total your scores for questions 2, 6, 12, 15, & 19. 20 and above is considered high; 10 and below is low.
Comfort with Differences
Total your scores for questions 3, 7, 21 & 23. 16 and above is considered high; 8 and below is considered low.
Participation in Cultural Activities
Total your scores for questions 5, 9, 11, 13, 16, 18, 20, & 24. 32 and above is considered high; 16 or below is considered low.

Interpretation: If you scored high on two or more of the above and do not have any low scores you may have a strong interest in and aptitude for international work.

ADDITIONAL PERSONAL DEVELOPMENT INVENTORIES

These are available in Prentice Hall's Self-Assessment Library

- What do I value?
- What are my attitudes towards workplace diversity?
- What is the right organizational culture for me?
- Am I well suited for a career as a global manager?

SUGGESTED ADDITIONAL READINGS

What's wrong with globalization**?**: Contra 'flow speak' - towards an existential turn in the theory of globalization. By: Bude, Heinz; Dürrschmidt, Jörg. European Journal of Social Theory, 11/01/2010, Vol. 13 Issue 4, p481-500, 20p; Abstract: The article attempts a reformulation of globalization theory. We identify 'flow speak' and the flattened ontology of the social that goes with it as a major limitation in contemporary globalization theory. Contrary to the prevailing overemphasis on mobility and deterritorialization, we suggest an existential turn that orients future globalization thinking more towards issues of belonging, choice and commitment, and the rhythmicity of social relations. To highlight the processual character of this shift of perspective, we shall draw on the paradigmatic figure of the 'homecomer'. S/he, in our understanding, embodies the ambivalence between the lure of global options and the need for commitment to lasting bonds. Thus, we do not argue for a post-mortem on globalization theory, but maintain that a deeper understanding of globalization as a 'way of being in the world' would require a phenomenologically inclined repositioning of the concept.

Does Globalization Breed Ethnic Discontent? By: Olzak, Susan. Journal of Conflict Resolution, Feb2011, Vol. 55 Issue 1, p3-32, 30p; Abstract: This article examines how different components of globalization affect the death toll from internal armed conflict. Conventional wisdom once held that the severity of internal conflict would gradually decline with the spread of globalization, but fatalities still remain high. Moreover, leading theories of civil war sharply disagree about how different aspects of globalization might affect the severity of ethnic and nonethnic armed conflicts. Using arguments from a variety of social science perspectives on globalization, civil war, and ethnic conflict to guide the analysis, this article finds that (1) economic globalization and cultural globalization significantly increase fatalities from ethnic conflicts, supporting arguments from ethnic competition and world-polity perspectives, (2) sociotechnical aspects of globalization increase deaths from ethnic conflict but decrease deaths from nonethnic conflict, and (3) regime corruption increases fatalities from nonethnic conflict, which supports explanations suggesting that the severity of civil war is greater in weak and corrupt states.

The Historiography of Globalization and the Globalization of Regionalism. By: Hopkins, A. G. Journal of the Economic & Social History of the Orient, Mar2010, Vol. 53 Issue 1/2, p19-36, 18p; Abstract (English): This article offers one view of the evolving historiography that shapes, or might shape, specialist research on regions and periods covered by the conference. It argues that recent trends have given fresh impetus to an old subject, empires, and presented possibilities for studying a new one, globalization. It explores the reasons for the "material turn" and the "totalizing return" in historical studies, and illustrates the stages through which these developments have passed by citing examples from the author's own varied fortunes in exploring both subjects. The article concludes by suggesting how some of the main themes discussed at the conference might be connected to the new historiography

EFFECTIVE STRATEGIES TO CATCH UP IN THE ERA OF GLOBALIZATION: EXPERIENCES OF LOCAL CHINESE TELECOM EQUIPMENT FIRMS. By: Xudong Gao. Research Technology Management, Jan/Feb2011, Vol. 54 Issue 1, p42-49, 8p; Abstract: OVERVIEW: Firms in emerging markets have traditionally followed one of two strategies to catch up with multinational enterprises (MNEs): developing customized products, services, or innovative business models or buying and absorbing technology from MNEs. In the era of globalization, these strategies are no longer effective. The new strategy to succeed is innovation-based differentiation, developing core technologies and advanced product offerings that are delivered at a low, cost and with excellent customer service. Using this strategy, leading local firms are quickly catching up with MNEs in market development, technology development, or both.

Is It Too Late to Enter China? By: Tse, Edward. Harvard Business Review, Apr2010, Vol. 88 Issue 4, p96-101, 6p, 1 Color Photograph, 2 Graphs; Abstract: The article reports on competition in China's markets, foreign investment in China, and a market entry strategy. A business strategy that the author refers to as a one-world strategy with China at its center is mentioned. The strategy's framework is based on the factors of customers, competitors, and the corporation which continually change and impact the context of China's business conditions. Economic liberalization in China, state-owned enterprises, government censorship of Google Inc., and the economic development that led to the formation of a Chinese middle class are mentioned. Five questions that companies should ask before making an investment in China are discussed. Two types of foreign business models are noted. Relocation of the value chain is mentioned. INSET: 5 Questions to Ask Before Investing in China.

MODULAR APPROACH TO CHAPTER CONTENTS

Three 50 minute modules:

First Module:

- Globalization & the Institutional Environment
- Discuss the qualities that make Chetan Chadhury a successful global manager
- Market entry strategies

Second Module:

- The importance of culture and understanding the differences between cultures
- Issues in managing international operations and managing across cultures
- Discuss "Multi cultural organizations in a globalized economy"
- Discuss "General Semiconductor" closing case

Third Module

- Assign and lead a class discussion on one or more of the exercises at the end of the chapter.

80 minute section:

If you can only afford one 80 minute section emphasize the institutional environment, the importance of understanding other cultures, and market entry strategies.

If you have two 80 minute sections, break them up as above for the 50 minute sections, but add in discussion of the students' openness to and needed preparation for international managerial work, and or assign and debrief the Evaluating your global skills exercise at the end of the chapter. If your students can be broken into groups with each group having at least one computer, you could try the Team Exercise at the end of the chapter.