

International Management

Ninth Edition

Culture, Strategy, and Behavior



Fred Luthans | Jonathan P. Doh

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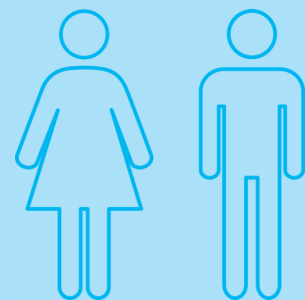
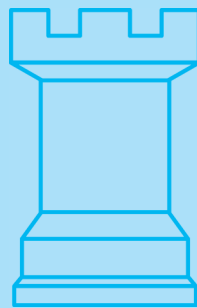
Ninth Edition

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INTERNATIONAL MANAGEMENT: CULTURE, STRATEGY, AND BEHAVIOR, NINTH EDITION

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Dedicated in Memory of

Richard M. Hodgetts

A Pioneer in International Management Education

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Preface

Changes in the global business environment continue at a rapid and often unpredictable pace. The global financial crisis and economic recession of 2008–2010 have given way to destabilizing political changes in many regions of the world, especially North Africa and the Middle East (see Chapter 2 opening article). In addition, rapid advances in social media have not only accelerated globalization but also provided a means for those who seek political and economic changes to organize and influence their leaders for more responsible governance (see Chapter 1 opening article). In addition, concerns about the exhaustion of finite resources and the need to pursue more sustainable growth have prompted governments, companies, and NGOs to consider alternate approaches to business and governance (see Chapter 3 opening article).

Some of these developments have challenged assumptions about globalization and economic integration, but they also underscore the inexorably interconnected nature of global economies. Although many countries and regions around the world are closely and inextricably linked, important differences in institutional and cultural environments persist, and some of these differences have become even starker in recent years. The challenges for international management reflect this dynamism and the increasing unpredictability of global economic and political events. Continued growth of the emerging markets is reshaping the global balance of economic power, even though differences exist between and among regions and countries. Although many emerging markets continued to experience growth during a period when developed countries' economies stagnated or declined, some developed economies bucked this trend and some developing countries did not share in what was otherwise a dynamic period for the emerging world.

The global political and security environment remains unpredictable and volatile, with ongoing conflicts in the Middle East and Africa and continuing tensions in Iran, North Korea, Iraq, and Afghanistan. On the economic front, although little progress was made in the efforts to conclude a global multilateral agreement under the World Trade Organization (WTO), regional and bilateral agreements have proliferated, including the Trans-Pacific Partnership (TPP), a proposed free-trade agreement that would involve more than a dozen countries in the Americas and Asia. In addition, the tragic fire, building collapse, and other industrial accidents in India, Bangladesh, and China have renewed calls for corporations to do more to protect workers and for governments to get tougher with companies in terms of oversight and accountability. (See Chapter 3 for additional discussion.)

As noted above, the advent of social networking has transformed the way citizens interact, how businesses market, promote, and distribute their products globally, and how civil society expresses its concerns that governments provide greater freedoms and accountability. Concurrently, companies, individuals, and even students can now engage in broad “mass” collaboration through digital, online technology for the development of new and innovative systems, products, and ideas. Both social networking and mass collaboration bring new power and influence to individuals across borders and transform the nature of their relationships with global organizations. Although globalization and technology continue to link nations, businesses, and individuals, these connections also highlight the importance of understanding different cultures, national systems, and corporate management practices around the world. The world is now interconnected geographically, but also electronically and psychologically; as such, nearly all businesses have been touched in some way by globalization. Yet, as cultural, political, and economic differences persist, astute international managers must be in a position to adapt and adjust to the vagaries of different contexts and environments.

In this new ninth edition of *International Management*, we have retained the strong and effective foundations gained from research and practice over the past decades while incorporating the important latest research and contemporary insights that have changed the context and environment for international management. Several trends have emerged that pose both challenges and opportunities for international managers.

First, emerging markets continue to rise in importance, with dynamic growth and development in many emerging regions and countries. This includes the emergence of multinationals from emerging markets that are becoming globally competitive. Second, pressure for greater social and environmental responsibility among multinational organizations has increased, especially in light of rising pollution and the exposure of poor working conditions in many factories around the world. Third, the importance of cultural differences continues to be an omnipresent reality for international managers. And social media and other forms of electronic connectivity continue to facilitate international business of all sorts.

Although we have extensive new, evidence-based material in this edition, we continue to strive to make the book even more user-friendly and applicable to practice. We continue to take a balanced approach in the ninth edition of *International Management: Culture, Strategy, and Behavior*. Whereas other texts stress culture, strategy, or behavior, our emphasis on all three critical dimensions—and the interactions among them—has been a primary reason why the previous editions have been the market-leading international management text. Specifically, this edition has the following chapter distribution: environment (three chapters), culture (four chapters), strategy (four chapters), and organizational behavior/human resource management (three chapters). Because the context of international management changes rapidly, all the chapters have been updated and improved. New real-world examples and research results are integrated throughout the book, accentuating the experiential relevance of the straightforward content. As always, we emphasize a balance of research and application.

For the new ninth edition we have incorporated important new content in the areas of sustainability and sustainable management practices, the emergence and role of social media as a means of transacting business around the world, the rise of emerging market multinationals and the challenges they pose for developed country MNCs, and other important developments in the international management field. Many of these topics—such as social media—are integrated throughout the book, as they touch on—and influence—many aspects of international management. We have incorporated the latest research and practical insights on pressure for MNCs to adopt more sustainable practices, and the strategies many companies are using to differentiate their products through such “green” management practices. We have updated discussion of a range of contemporary topics, including continued exploration of the role of the comprehensive GLOBE study on cross-cultural leadership.

A continuing and relevant end-of-chapter feature in this edition is the “Internet Exercise.” The purpose of each exercise is to encourage students to use the Internet to find information from the websites of prominent MNCs to answer relevant questions about the chapter topic. An end-of-book feature is a series of Skill-Building and Experiential Exercises for aspiring international managers. These in-class exercises represent the various parts of the text (culture, strategy, and behavior) and provide hands-on experience.

We have extended from the eighth edition of *International Management* the chapter-opening discussions called “The World of International Management” (WIM) based on very recent, relevant news stories to grab readers’ interest and attention. Many of these opening articles are new to this edition and all have been updated. These timely opening discussions transition the reader into the chapter topic. At the end of each chapter, there is a pedagogical feature that recapitulates the chapter’s subject matter: “The World of International Management—Revisited.” Here we pose several discussion questions based on the topic of the opening feature in light of the student’s entire reading of the chapter. Answering these questions requires readers to reconsider and to draw from the chapter material. Suggested answers to these “WIM—Revisited” discussion questions appear in

the completely updated Instructor's Manual, where we also provide some multiple-choice and true-false questions that draw directly from the chapters' World of International Management topic matter for instructors who want to include this material in their tests.

The use and application of cases is further enhanced in this edition. All cases have been updated and several new ones have been added. The short within-chapter country case illustrations—"In the International Spotlight"—can be read and discussed in class. These have all been revised and two have been added—Turkey and Indonesia. The revised or newly added "Integrative Cases" positioned at the end of each main part of the text were created exclusively for this edition and provide opportunities for reading and analysis outside of class. Review questions provided for each case are intended to facilitate lively and productive written analysis or in-class discussion. Our "Brief Integrative Cases" typically explore a specific situation or challenge facing an individual or team. Our longer and more detailed "In-Depth Integrative Cases" provide a broader discussion of the challenges facing a company. These two formats allow maximum flexibility so that instructors can use the cases in a tailored and customized fashion. Accompanying many of the in-depth cases are short exercises that can be used in class to reinforce both the substantive topic and students' skills in negotiation, presentation, and analysis. The cases have been extensively updated and several are new to this edition. Cases concerning the global AIDS epidemic, Dansko, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, HSBC, Nike, Walmart, Tata, AirAsia, Sony, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition. Of course, instructors also have access to Create (www.mcgraw-hillcreate.com), McGraw-Hill's extensive content database, which includes thousands of cases from major sources such as Harvard Business School, Ivey, Darden, and NACRA case databases.

Along with the new or updated "International Management in Action" boxed application examples within each chapter and other pedagogical features at the end of each chapter (i.e., "Key Terms," "Review and Discussion Questions," "The World of International Management—Revisited," and "Internet Exercise"), the end-of-part brief and in-depth cases and the end-of-book skill-building exercises and simulations on the Online Learning Center complete the package.

To help instructors teach international management, this text is accompanied by a revised and expanded Instructor's Resource Manual, Test Bank, and PowerPoint Slides, all of which are available password protected on the Online Learning Center at www.mhhe.com/luthans9e.

Another important innovation is carried over and updated from the 8th edition: we have provided instructors with a guide to online publicly available videos, many available on YouTube, that link directly to chapter themes. These short clips give instructors an opportunity to use online visual media in conjunction with traditional lecture, discussion, and PowerPoint presentations. Our guide includes the name, short description, and link for the videos, which we will keep updated on the book website.

International Management is generally recognized to be the first "mainstream" text of its kind. Strategy casebooks and specialized books in organizational behavior, human resources, and, of course, international business, finance, marketing, and economics preceded it, but there were no international management texts before this one, and it remains the market leader. We have had sustainability because of the effort and care put into the revisions. We hope you agree that this ninth edition continues the tradition and remains the "world-class" text for the study of international management.

Acknowledgments

We would like to acknowledge those who have helped to make this book a reality. We will never forget the legacy of international management education in general and for this text in particular provided by our departed colleague Richard M. Hodgetts. Special thanks also go to our growing number of colleagues throughout the world who have given us many ideas and inspired us to think internationally. Closer to home, Fred Luthans would

like to give special recognition to two international management scholars: Henry H. Albers, former Chair of the Management Department at the University of Nebraska and former Dean at the University of Petroleum and Minerals, Saudi Arabia, to whom previous editions of this book were dedicated; and Sang M. Lee, former Chair of the Management Department at Nebraska, founding and current President of the Pan Pacific Business Association, and close colleague on many ventures around the world over the past 30 years. Jonathan Doh would like to thank the Villanova School of Business and its leadership, especially Dean Pat Maggitti, Vice Dean Daniel Wright, and Herb Rammrath who generously endowed the Chair in International Business Jonathan now holds. Also, for this new ninth edition we would like to thank Ben Littell, who did much of the research and drafting of the chapter opening World of International Management features and provided extensive research assistance for other revisions to the book.

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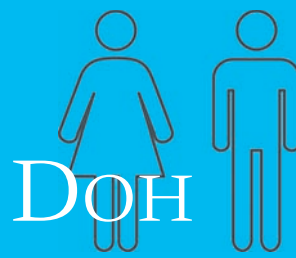
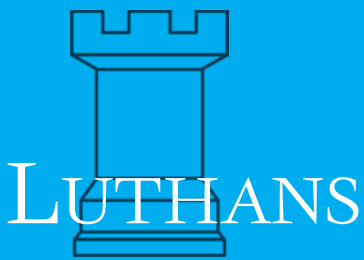
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Fred Luthans and Jonathan P. Doh



The ninth edition of *International Management: Culture, Strategy, and Behavior* is still setting the standard. Current authors Fred Luthans and Jonathan P. Doh have taken care to retain the effective foundation gained from research and practice over the past decades. At the same time, they have fully incorporated important new and emerging developments that have changed what international managers are currently facing and likely to face in the coming years.

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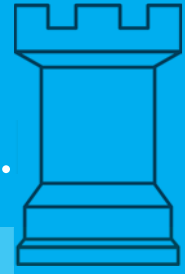
New and Enhanced Themes

- Thoroughly revised and updated chapters to reflect the most critical issues for international managers.
- Greater attention to and focus on global sustainability and sustainable management practices and their impact on international management.
- New or revised opening World of International Management features written by the authors on current international management challenges; these mini-cases were prepared expressly for this edition and are not available elsewhere.
- Discussions of the impact of the global economic recession on international management in the opening chapter and throughout the book, and the aftermath and ongoing challenges associated with the “Arab Spring” (in Chapter 2).
- New and updated discussions of project GLOBE and its importance for international management.
- Greater emphasis on emerging markets and developing countries, and the increasing influence of emerging markets multinationals on global competition.

Thoroughly Revised and Updated Chapter Content

- New or revised opening WIM discussions on topics including the global influences of social media, the role of social networking in the Arab Spring, sustainability as a global competitive advantage, Apple vs. Samsung, Amazon vs. Alibaba, global trends in the automotive and pharmaceutical industries, managing global teams, offshoring and culture, and many other subjects. These features were written expressly for this edition and are not available elsewhere.
- Updated and strengthened emphasis on ethics, social responsibility, and sustainability.
- Extensive coverage of Project GLOBE, its relationship to other cultural frameworks, and its application to international management practice (Chapters 4, 13).
- Revised or new “In the International Spotlight” inserts which profile the key economic and political issues relevant to managers in specific countries, including new spotlights on Turkey and Indonesia.
- Greater coverage of the challenges and opportunities for international strategy targeted to the developing “base of the pyramid” economies (Chapter 8, and Tata cases).

CONTINUES TO SET THE STANDARD. . .



Thoroughly Updated and/or New Cases, Inserts, and Exercises

- New and/or updated country spotlights, “International Management in Action” features.
- Thoroughly updated cases (not available elsewhere): *Pharmaceutical Companies, Intellectual Property, and the Global AIDS Epidemic; Advertising or Free Speech? The Case of Nike and Human Rights; Beyond Tokyo: Disney’s Expansion In Asia; HSBC in China; Coca Cola in India; Walmart’s Global Strategies; Can Sony Regain its Innovative Edge? The OLED Project; Tata “Nano”: The People’s Car; The Ascendance of AirAsia: Building a Successful Budget Airline; and Chiquita’s Global Turnaround.*
- Brand new end-of-part cases developed exclusively for this edition (not available elsewhere): *Dansko puts its Right Foot Forward, Google in China: Protecting Property and Rights; IKEA’s Global Renovations.*

Totally Revised Instructor and Student Support

The following instructor and student support materials can be found on the Online Learning Center (OLC) for the Ninth Edition. You can access the OLC at www.mhhe.com/luthans9e.

- The Instructor’s Manual offers a summary of Learning Objectives and teaching outline with lecture notes and teaching tips, as well as suggested answers to questions found throughout and at the conclusion of each chapter. Suggested answers are also provided for all the cases found in the book.
- The TestBank is offered in both Word and EZ Test formats and offers over 1,000 test items consisting of true/false, multiple choice, and essay. Answers are provided for all testbank questions.
- PowerPoint Presentations consisting of 30 slides per chapter give instructors talking points, feature exhibits from the text, and are summarized with a review and discussion slide.
- Student Quizzes are provided for each chapter and give students feedback to help them understand where additional study is required.
- A guide to videos available online, with title, short description, and url.
- **Create:** Instructors can now tailor their teaching resources to match the way they teach! With McGraw-Hill Create, www.mcgrawhillcreate.com, instructors can easily rearrange chapters, combine material from other content sources, and quickly upload and integrate their own content, like course syllabi or teaching notes. Find the right content in Create by searching through thousands of leading McGraw-Hill textbooks. Arrange the material to fit your teaching style. Order a Create book and receive a complimentary print review copy in 3–5 business



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Many educational institutions today focus on the notion of *assurance of learning*, an important element of some accreditation standards. *International Business* is designed specifically to support instructors' assurance of learning initiatives with a simple yet powerful solution. Each test bank question for *International Business* maps to a specific chapter learning objective listed in the text. Instructors can use our test bank software, EZ Test and EZ Test Online, to easily query for learning objectives that directly relate to the learning outcomes for their course. Instructors can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.



AACSB Tagging

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About the Authors

FRED LUTHANS is University and the George Holmes Distinguished Professor of Management at the University of Nebraska–Lincoln. He is also Chair of the Master Research Council for HUMANeX, Inc. He received his BA, MBA, and PhD from the University of Iowa, where he received the Distinguished Alumni Award in 2002. While serving as an officer in the U.S. Army from 1965–1967, he taught leadership at the U.S. Military Academy at West Point. He has been a visiting scholar at a number of colleges and universities and has lectured in most European and Pacific Rim countries. He has taught international management as a visiting faculty member at the universities of Bangkok, Hawaii, Henley in England, Norwegian Management School, Monash in Australia, Macau, Chemnitz in the former East Germany, and Tirana in Albania. A past president of the Academy of Management, in 1997 he received the Academy’s Distinguished Educator Award. In 2000 he became an inaugural member of the Academy’s Hall of Fame for being one of the “Top Five” all-time published authors in the prestigious Academy journals. Currently, he is co-editor-in-chief of the *Journal of World Business*, editor of *Organizational Dynamics*, co-editor of *Journal of Leadership and Organization Studies*, and the author of numerous books. His book *Organizational Behavior* (Irwin/McGraw-Hill) is now in its 12th edition and the groundbreaking book *Psychological Capital* (Oxford University Press) with Carolyn Youssef and Bruce Avolio will be out in its second edition in 2014. He is one of very few management scholars who is a Fellow of the Academy of Management, the Decision Sciences Institute, and the Pan Pacific Business Association, and he has been a member of the Executive Committee for the Pan Pacific Conference since its beginning 30 years ago. This committee helps to organize the annual meeting held in Pacific Rim countries. He has been involved with some of the first empirical studies on motivation and behavioral management techniques and the analysis of managerial activities in Russia; these articles have been published in the *Academy of Management Journal*, *Journal of International Business Studies*, *Journal of World Business*, and *European Management Journal*. Since the very beginning of the transition to market economies after the fall of communism in Eastern Europe, he has been actively involved in management education programs sponsored by the U.S. Agency for International Development in Albania and Macedonia, and in U.S. Information Agency programs involving the Central Asian countries of Kazakhstan, Kyrgyzstan, and Tajikistan. For example, Professor Luthans’ recent international research involves his construct of positive psychological capital (PsyCap). He and colleagues have published their research demonstrating the impact of Chinese workers’ PsyCap on their performance in the *International Journal of Human Resource Management* and *Management and Organization Review*. He is applying his positive approach to positive organizational behavior (POB), PsyCap, and authentic leadership to effective global management and has recently been the keynote at programs in China (several times), Malaysia, Korea, Indonesia, England, Norway, Finland, South Africa, and soon Italy.



JONATHAN P. DOH is the Herbert G. Rammrath Chair in International Business, founding Director of the Center for Global Leadership, and Professor of Management at the Villanova School of Business. Jonathan teaches, does research, and serves as an executive instructor and consultant in the areas of international strategy and corporate responsibility and serves as an occasional executive educator for the Aresty Institute of Executive Education at the Wharton Business School. Previously, he was on the faculty of American and Georgetown Universities and a senior trade official with the U.S. government. Jonathan is author or co-author of more than 75 refereed articles published in the top international



business and management journals, 30 chapters in scholarly edited volumes, and more than 75 conference papers. Recent articles have appeared in journals such as *Academy of Management Review*, *California Management Review*, *Journal of International Business Studies*, *Journal of World Business*, *Organization Science*, *Sloan Management Review*, and *Strategic Management Journal*. He is co-editor and contributing author of *Globalization and NGOs* (Praeger, 2003) and *Handbook on Responsible Leadership and Governance in Global Business* (Elgar, 2005) and co-author of the previous edition of *International Management: Culture, Strategy, and Behavior* (8th ed., McGraw-Hill/Irwin, 2012), the best-selling international management text. His current research focus is on strategy for emerging markets, global corporate responsibility, and offshore outsourcing of services. His most recent scholarly books are *Multinationals and Development* (with Alan Rugman, Yale University Press, 2008), *NGOs and Corporations: Conflict and Collaboration* (with Michael Yaziji, Cambridge University Press, 2009) and *Aligning for Advantage: Competitive Strategy for the Social and Political Arenas* (with Tom Lawton and Tazeeb Rajwani, Oxford University Press, 2014). He is co-Editor-in-Chief of *MRN International Environment of Global Business* (SSRN Journal), Senior Editor of *Journal of World Business*, Associate Editor of *Business & Society*, and *Consulting Editor of Long Range Planning*. Beginning in January of 2015 he will assume the position of Editor-in-Chief of *Journal of World Business*. Jonathan has also developed more than a dozen original cases and simulations published in books, journals, and case databases and used at many leading global universities. He has been a consultant or executive instructor for ABB, Anglo American, Bodycote, Bosch, China Minsheng Bank, Hana Financial, HSBC, Ingersoll Rand, Medtronic, Shanghai Municipal Government, Siam Cement, the World Economic Forum, and Deloitte Touche, where he served as senior external adviser to the Global Energy Resource Group. Jonathan is part of the Executive Committee of the Academy of Management Organizations and Natural Environment Division with increasing responsibilities culminating in the chair of the division in 2016. He was ranked among the top 15 most prolific international business scholars in the world for the period 2001–2009 (Lahiri and Kumar, 2012). He holds a PhD in strategic and international management from George Washington University.

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In-Class Simulations (available on the Online Learning Center at www.mhhe.com/luthans9e)

1. “Frankenfoods” or Rice Bowl for the World: The U.S.–EU Dispute over Trade in Genetically Modified Organisms
2. Cross-Cultural Conflicts in the Corning–Vitro Joint Venture

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PART ONE

ENVIRONMENTAL
FOUNDATION



Chapter 1

GLOBALIZATION AND INTERNATIONAL LINKAGES

OBJECTIVES OF THE CHAPTER

Globalization is one of the most profound forces in our contemporary economic environment. And its practical impact on international management is substantial. In nearly every country, increasing numbers of large, medium, and even small corporations are going international, and a growing percentage of company revenue is derived from overseas markets. This is even true for U.S.-based companies that historically have relied on the large domestic market. Yet, the reverberations of the financial crisis and global economic recession, and continued economic and political uncertainties in many world regions present challenges for governments, corporations, and communities around the world, causing some to question the current system for regulating and overseeing international trade, investments, and global financial flows. Nonetheless, international management—the process of applying management concepts and techniques in a multinational environment—continues to retain importance.

Although globalization and international linkages have been part of history for centuries (see the International Management in Action box later in the chapter, “Tracing the Roots of Modern Globalization”), the principal focus of this opening chapter is to examine the process of globalization in the contemporary world. The rapid integration of countries, advances in information technology, and the explosion in electronic communication have created a new, more integrated world and true global competition. Yet, the complexities of doing business in distinct markets persist. These developments both create and influence the opportunities, challenges, and problems that managers in the international arena will face during the years ahead. Since the environment of international management is all-encompassing, this chapter is mostly concerned with the economic dimensions, while the following two chapters are focused on the political, legal, and technological dimensions and ethical and social dimensions, respectively. The specific objectives of this chapter are:

- 1. ASSESS** the implications of globalization for countries, industries, firms, and communities.
- 2. REVIEW** the major trends in global and regional integration.
- 3. EXAMINE** the changing balance of global economic power and trade and investment flows among countries.
- 4. ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

2

The World of *International Management*

An Interconnected World

May 18, 2012, marked one of the most highly-anticipated initial public offerings (IPOs) in history. Facebook, which had grown from a college dorm room to a 900-million-member social network in just eight years, was set to offer shares to the public for the first time. As May 18 approached, founder Mark Zuckerberg, wearing his characteristic “hoodie” sweatshirt, embarked on a roadshow to promote the company. Facebook programmers celebrated with all-night “hackathons,” and huge demand for the IPO prompted Facebook to release 25 percent more shares than initially planned. The IPO price was set to \$38 per share, valuing Facebook at \$104 billion. Many analysts predicted the price would soar as high as \$60 on the first day alone. On the morning of May 18, Mark Zuckerberg ceremoniously rang a bell from Facebook’s California campus to celebrate the opening of the market at 9:30 A.M. As Wall Street’s closing bell rang just a few hours later, however, the original optimism that started the day had all but faded. The shares were trading only \$0.23 above the IPO price—and down \$3.82 from the opening bell price. In the following weeks, Facebook’s stock continued its downward trajectory. By mid-August, Facebook stock had decreased to nearly half its original offering price, leaving many to wonder, “Is social networking really here to stay?”

Social Media Has Changed How We Connect

Though some have second-guessed the longevity of online networks, one thing is certain: We currently live in a world interconnected by social media. Through online networking, the way we connect with others has drastically changed. Virtually anyone on the globe is only a few clicks away. In fact, the average number of links separating any two random people on Facebook is now only 4.74.¹ Facebook’s statistics underscore how