

ECONOMICS COLLECTION

Philip J. Romero and Jeffrey A. Edwards, *Editors*

Leveraging Cultural Diversity in Emerging Markets

Marcus Goncalves
Finn Majlergaard



BUSINESS EXPERT PRESS

Leveraging Cultural Diversity in Emerging Markets

Leveraging Cultural Diversity in Emerging Markets

Marcus Goncalves and Finn Majlergaard



BUSINESS EXPERT PRESS

Leveraging Cultural Diversity in Emerging Markets

Copyright © Business Expert Press, LLC, 2016.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopy, recording, or any other except for brief quotations, not to exceed 400 words, without the prior permission of the publisher.

First published in 2016 by
Business Expert Press, LLC
222 East 46th Street, New York, NY 10017
www.businessexpertpress.com

ISBN-13: 978-1-63157-313-2 (paperback)
ISBN-13: 978-1-63157-314-9 (e-book)

Business Expert Press Economics Collection

Collection ISSN: 2163-761X (print)
Collection ISSN: 2163-7628 (electronic)

Cover and interior design by Exeter Premedia Services Private Ltd.,
Chennai, India

First edition: 2016

10 9 8 7 6 5 4 3 2 1

Printed in the United States of America.

*As always, to my forever-beautiful wife, Carla, and my son Samir,
both living here on earth, and to my children Andrea and Joshua,
who are now living in Heaven. I can't wait to see you!*

To God be the glory!

Marcus Goncalves, Boston, U.S., Summer 2015

*To my lovely, beautiful, and very wise wife, Edyta, and my two great
grown-up sons Anders and Frederik.*

Finn Majlergaard, Nice, France, Summer 2015

Abstract

Leveraging cultural diversity is an important element for competing in the global market. Understanding the overall macroeconomic landscape of emerging and frontier markets is also very important in enabling corporation and international business professionals to fully realize the potential for strategic globalization, which empowers them to compete globally. Most transnational and multinational corporations have made substantial progress in their globalization efforts by establishing operations in several countries and offshoring certain processes or functions to countries with capabilities and growth potential. However, while these recent globalization efforts have their roots in cost arbitrage, today, successful companies must understand that globalization can be a means for shoring up competitive advantage not only to lower labor costs but more importantly to diversify intellectual capabilities and growth, and improve quality enhancement opportunities, in addition to enhancing the ability to get products to market more quickly. This book looks at how one can move forward from the current situation. Most people still see cultural differences as a barrier to success. This book demonstrates how one can, instead, leverage from the cultural diversity and create better, more competitive companies, better leaders, and hopefully a safer and more sustainable world.

Keywords

Cultural Diversity, Emerging Markets, Global Individualism, Multiculturalism

Contents

<i>Preface</i>	xi
<i>Acknowledgments</i>	xiii
Chapter 1 Understanding Emerging Markets	1
Chapter 2 Economic and Cultural Transformations at Emerging and Frontier Markets	27
Chapter 3 Coping with Differences and Promoting Interactions	55
Chapter 4 Clash of Civilizations or Cultural Synergies?	79
Chapter 5 Global Individualism	93
Chapter 6 Western or Christian and Muslim or Arab Heading Towards Inevitable Conflicts: Really?	109
Chapter 7 Benefiting from Cultural Synergies	127
Chapter 8 Commonalities in Cultures: Fruitful Reconciliations	161
Chapter 9 Emerging Markets Do Not Want to Be Like the West.....	177
Chapter 10 The Lesser Importance of National Cultural Identities ..	189
<i>About the Authors</i>	201
<i>Advance Quotes for Leveraging Cultural Diversity in Emerging Markets</i> ...	203
<i>References</i>	205
<i>Bibliography</i>	207
<i>Index</i>	219

Preface

Fifty years ago, we could avoid contact with other cultures if we did not move outside our cultural comfort zone, and, at that time, only very few people had to do that. So we all lived peacefully in our cultural enclaves where we were safe and comfortable. Then the immigration started. In Western Europe, people came from Eastern Europe and Turkey and, in the United States, people came up from Mexico. Then the Cold War ended and people could move around more freely both for work and leisure. Many people wanted to pursue their idea of happiness outside their cultural comfort zone and many left while many other new people arrived.

Technological evolution, regional deregulation, and trade agreements opened up the world for all. The Western world outsourced production and later services in order to remain competitive. Suddenly, the countries the Western world had outsourced to wanted to have their independency. And they could because they did well unlike most of the countries in the Western world.

As a result of these integrations, or attempts to, through these past 50 years, there has been a tremendous pressure on the cultures in both the Western world and in the new emerging markets. The Western world is challenged to learn to navigate in a globalized world they had created themselves, but where they are no longer in control. The countries in the emerging, and later on frontier, markets are now beginning to figure out how to deal with the rapid economic growth without falling apart culturally and socially. Many different strategies have been chosen—some successful while others disastrous.

As international business and global trade, from products, services, labor, and capital are increasingly being integrated worldwide, international business professionals, and students from these disciplines, are therefore, witnessing an increasing economic, cultural, demographic, political, and environmental interdependence of different market locations and culture across the globe. As corporations are compelled to

compete globally, business professionals must be empowered to collaborate freely and compete globally.

Leveraging cultural diversity, which is the main objective of this book, is an important element in competing in global market. Understanding the overall macroeconomic landscape of emerging and frontier markets, the second objective of this book, is also very important in enabling corporation and international business professionals to a full realization of the potential for strategic globalization, which will empower them to compete globally.

Most transnational and multinational corporations have made substantial progress in their globalization efforts. They have established operations in several countries and offshored certain processes or functions to countries with the capabilities and growth potential. However, while these recent globalization efforts have their roots in cost arbitrage, today, successful companies must understand that globalization can be a means for shoring up competitive advantage not only to lower labor costs but more importantly to diversify intellectual capabilities and growth, and improve quality enhancement opportunities, in addition to enhancing the ability to get products to market more quickly. Notwithstanding, a greater understanding of culture and multiculturalism, and how to leverage it, becomes paramount.

This book looks at how one can move forward from the current situation. Most people still see cultural differences as a barrier to success. This book demonstrates how one can, instead, leverage from the cultural diversity and create better, more competitive companies, better leaders, and hopefully a safer and more sustainable world.

Acknowledgments

There were many people who helped us during the process of writing this book. It would be impossible to keep track of them all. Therefore, to all whom we have forgotten to list, please don't hold it against us!

We would like to thank Dr. Jose Alves and Dr. Harry Xia, from the University of Saint Joseph, in Macau, China, for graciously allowing us to use a few of the microeconomic data from emerging and frontier markets, which they had developed for another book with BEP, titled *Advanced Economies and Emerging Markets: Perspective for Globalization*.

We would also like to express our appreciation to many corporate leaders who shared their views and experiences with us about emerging and frontier markets, as well as leveraging culture for business advantage. Our special thanks go to the following leaders: Russ Dunn, from PPL Montana; James Willey, of Pearl Energy of the Philippines; Mark Payne, of International Paper in U.S.; and Dr. Yeung Chi Bor, from the Chinese Institute of Belo Horizonte, MG, in Brazil.

CHAPTER 1

Understanding Emerging Markets

Economy and Culture

An Overview of Emerging Markets

As economic globalization has brought down trade and investment barriers and has connected far-reaching countries in an integrated global supply chain—and emerging markets seem to be converging with the world’s “rich industrial countries”—distinguishing these economies from developed markets may seem to matter less than before.

Well, we disagree. One fundamental premise of this book is that businesses still need to distinguish emerging markets—collectively from developed markets and individually from each other. In addition, international business professionals need to understand the cultural aspects of each of these countries and regions, so that they are able to leverage the cultural diversity of these markets.

It is important, therefore, that we stabilize the term emerging market. What is it, or better yet, what is it not? Economists at the International Finance Corporation, within the World Bank, coined the term, emerging markets, in 1981, when the group was promoting the first mutual fund investments in developing countries. Since then, references to emerging markets have become ubiquitous in the media, foreign policy and trade debates, investment fund prospectuses, and multinationals’ annual reports.

Defining Emerging Markets

These groups of emerging economies are not easy to define. Although the World Bank coined the term *emerging countries* more than a quarter of a century ago, it only started to become a household term in the mid-1990s.¹ After the debt crises of the 1980s, several of these rapidly developing economies gained access to international financial markets, while they had liberalized their financial systems, at least far enough to enable foreign investors broad access into their markets.² From a small group of nations in East Asia, these groups of emerging economies have gradually grown to include several countries in Latin America, Central and Eastern Europe, the Middle East, as well as a few countries in Africa. The leading groups today are the ASEAN (Association of South East Asian Nations); the BRICS (Brazil, Russia, India, China, and South Africa); the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa); and the MENA (Middle East and North Africa) groups, in addition to what Jim O’Neil calls the N-11, or next-eleven emerging economies, a focus of much discussion in this book.

The definitions of the term, however, still vary widely, often reduced to the unhelpful tautology that emerging markets are “emerging” because they have not “emerged.” To understand emerging markets, we need to consider carefully the ways in which they are emerging and the extent to which they are genuine markets. Although this is not the objective of this book,³ we provide here an overview of such markets and also a subset of them, known as frontier markets, before we can endeavor into the real aim of the book: leveraging its cultural diversity for business advantage.

Emerging markets are not distinctly different from other markets; rather, they are simply starting from a lower base and rapidly catching up.

¹ The term was coined in 1981 by Antoine W. van Agtmael of the International Finance Corporation of the World Bank, <http://www.investopedia.com/articles/03/073003.asp> (accessed October 29, 2013).

² According to the International Monetary Fund’s glossary at <http://www.imf.org/external/np/exr/glossary/index.asp> (accessed on October 29, 2013).

³ We recommend that you check Goncalves et al.’s book *Advanced Economies and Emerging Markets: Perspective for Globalization*, 2014, from the same publisher, for a comprehensive discussion of this theme.

Indicators such as the growing numbers of emerging market-based companies listed on the New York Stock Exchange or the growing ranks of billionaires from emerging markets listed annually by the *Forbes Magazine* can well illustrate this trend.

A good general acceptable definition we would propose is that emerging markets are countries in which their economies are progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.

Emerging markets generally do not have the level of market efficiency and strict standards in accounting and securities regulation to be on par with advanced economies, as we would find in the United States, Europe, and Japan, but emerging markets will typically have a physical financial infrastructure including banks, a stock exchange, and a unified currency.

Such criteria are important features of many emerging markets, but they do not delineate the underlying characteristics that predispose an economy to be emerging, nor are they particularly helpful for businesses that seek to address the consequences of emerging market conditions. We see these features of emerging markets as symptoms of underlying market structures that share common, important, and persistent differences from those in developed economies.

Emerging Markets' Economic Dynamics

Emerging markets, without a doubt, have been on a tear over the past decade. BRICS countries powered the high growth rate in those economies, despite volatility. However, that growth has slowed down in recent years, coming to a screeching halt in 2013, mainly due to fears of an economic slowdown in China and that the Federal Reserve would taper its bond-buyback program, limiting investments in emerging markets.

These markets have been the source of global economic growth for quite some time now, with far-reaching effects on the rest of the world, in particular on advanced economies. It is not news that emerging markets have become the sweethearts of the financial press and a favorite talking point of governments, foreign trade advisers, and corporations worldwide. Although these markets were best known in the past as a commodity

paradise, or the place to go for natural resources, cheap labor, or low manufacturing costs, emerging markets today are positioned for growth. Its rapid population development, growing middle class, and sustained economic development are making many international investors and corporations look to emerging markets with new lenses.

In the past decade, the emerging markets have been growing at a much faster pace than the advanced economies. Consequently, its participation in the global gross domestic product (GDP), global trade, and foreign direct investment (FDI), particularly in the global financial markets, has significantly increased as well. Such trends, according to a study conducted by the Banco de España's analysts Orgaz, Molina, and Carrasco (2011), are expected to continue for the next few years. The global economic crises have actually fostered relevant changes to the governance of the global economy, particularly with the substitution of the G8 with the G20 group as a leading international forum in the development of global economic policies.

Economic theorists corroborate this point by arguing that free FDI across national borders is beneficial to all countries, as it leads to an efficient allocation of resources, which raises productivity and economic growth everywhere. Although in principle this is often the case, at this time, for emerging markets, the situation is a bit different, as it is much more apparent now when we look at country indicators from sources such as the International Monetary Fund (IMF) or World Bank that large capital inflows can create substantial challenges for policy makers in those market economies.

After the global financial crisis of 2008 to 2009, net private capital flows to emerging markets surged and have been volatile since then, raising a number of concerns in those recipient economies. As advanced economies issued robust monetary stimuli to revive their sluggish economies, emerging markets faced an overabundance of foreign investments amid strong recoveries. Hence, policy tensions rapidly ensued between these two groups of economies. As strong FDI, mainly private net capital, was injected into emerging markets' economies, both in pre- and post-global financial crisis periods, policy makers in those emerging economies reacted by actually reversing the flow of capital back into advanced market economies, often in an effort to control local currency appreciation,

and fend off the export of inflation from advanced economies into these markets.

Therefore, we are all witnessing a rapid development in the global trade landscape, one that hitherto was dominated by advanced economies, with trading policies developed typically by members of the G8 group of nations. Meanwhile, some members of the G8 group are beginning to lose its influence to emerging economies, as a result of profound changes that the global markets are undergoing. One of the most important changes, henceforth, the consequences of which still remain to be understood fully, is the growing role of the G20 countries as new policy makers for international trade and fast-developing emerging markets.

When studying emerging markets today, it is important to understand how the global economy is changing, an attempt to understand what the world will look like tomorrow, five years from now, a decade from now, and how it will impact each of us. The weight of the emerging markets is already significant and being felt throughout the advanced economies and it is likely to expand further. Governance of the global economy organizations as discussed later in this chapter, cannot disregard the implications of the rise of the emerging markets on the world economy, some of which are already evident.

The ASEAN Bloc Influence

Many emerging market countries that had previously posed no competitive threat to advanced economies do so now. The financial crisis that started in mid-1997 in Southeast Asia, which resulted in massive currency depreciations in a number of emerging markets in that region, also spilled over to many other emerging nations as far as Latin America and Africa. However, such crisis since then has subsided, as these same regions were the first to recover from the latest crisis of 2008. The intense currency depreciation in Asia during the late 1990s has positioned the region in a more competitive landscape across global markets.

According to an OECD (Organization for Economic Cooperation and Development) report,⁴ although these emerging market economies in

⁴ <http://www.oecd.org/eco/outlook/2088912.pdf>

Table 1.1 Changes in Asian emerging market economies' exchange rates since mid-1997*

	Percentage		
	vis-à-vis U.S. dollar	vis-à-vis Japanese Yen	vis-à-vis Deutsehemark
China	0	13	5
Chinese Taipei	-15	-3	-10
Hong Kong, China	0	13	5
Indonesia	-76	-73	-75
Korea	-10	-32	-37
Malaysia	-32	-22	-28
Philippines	-32	-24	-29
Singapore	-11	1	-7
Thailand	-40	-32	-37

* Changes between 1 July 1997 and 18 March 1998.

Asia have experienced massive exchange rate depreciations, as depicted in Table 1.1,⁵ they have also reinforced their absolute cost advantages, given the increasing importance of these economies in world trade. Countries such as Thailand, Indonesia, and South Korea, which were impacted the most during the 1990s are now emerging market leaders, representing a major shift in the global competitive landscape, which we believe is a trend that will only continue to strengthen as these countries grow in size, establish dominance, and seek new opportunities beyond their traditional domestic and near-shore markets.

Meanwhile, advanced economies in the G7 group are still struggling with indebtedness. The United States continues to deal with debt ceiling adjustments to cope with its ever-increasing government debt while the eurozone is far from solving its own economic problems. Conversely, despite inevitable risks and uncertainties, Southeast Asia registered solid economic growth in 2012 and continues to be on an upward trajectory for the foreseeable future, as China's economy stabilizes and higher levels of FDI are pouring in.

⁵ Source: <http://www.oecd.org/eco/outlook/2088912.pdf>

The ASEAN is an organization of countries located in the Southeast Asian region that aims to accelerate economic growth, social progress, and cultural development among its members and to promote regional peace. The region has undergone a period of substantial resurgence after the 1997 to 1998 Asian financial crisis, and has been playing second fiddle to more industrialized economies in Asia-Pacific, which manage to attract the majority of capital inflows. What we have seen since the financial crisis, however, is that ASEAN has been showcasing its ability to recover and advance its position within global markets.

As of 2012, the ASEAN bloc comprises 10 member states including Brunei Darussalam, Cambodia, Indonesia, Laos People Democratic Republic (PDR), Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam, as depicted in Figure 1.1.

Studies carried out by the Asian Development Bank Institute (Cheewatrakoolpong, Sabhasri, and Bunditwattanawong 2013) suggest that the emergence of international production networks in East Asia results from market-driven forces such as vertical specialization and higher production costs in the home countries and institutional-led initiatives, such as free trade agreements. For instance, the region has

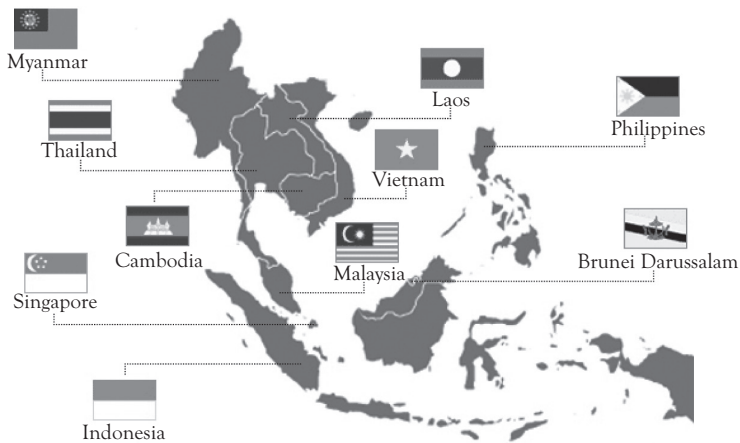


Figure 1.1 List of ASEAN member countries as of 2012

Source: ASEAN.⁶

⁶ <http://www.asean.org/asean/asean-member-states>

experienced significant growth in the trade of parts and components since the 1990s, especially with China, one of the important major assembly bases. In addition, the decline in the share of parts and components trade in several members of the ASEAN bloc, such as Indonesia and Thailand, indicates the increasing importance of the bloc countries as assembly bases for advanced economies such as Japan, and its multinational enterprises. China and Thailand are becoming important auto parts assembly bases for Japan and other advanced economies, attracting foreign investments into those countries, raising their GDP and contributing more to the emergence of international production networks than just free trade agreements. Figure 1.2 provides a list of ASEAN members and their respective GDP, as well as a comparison with major G7 member states, with the exception of China, also included for comparison.

Of course, the ASEAN region has had its fair share of risks and challenges, which unfortunately are not going away as its politicians, like politicians everywhere, occasionally cave in to populist measures—as a matter of fact, since the crisis of 2008, these populist measures have been present in both the advanced economies and emerging markets, with only the level of intensity as the single variant. However, ASEAN's deep
















Rank †	Country ‡	Population in millions †	GDP Nominal millions of USD †	GDP Nominal per capita USD †	GDP (PPP) millions of USD †	GDP (PPP) per capita †
—	World	7,013.42	71,707,302	10,200	83,140,055	11,850
—	 European Union	502.56	16,584,007	32,518	16,092,525	32,021
—	 United States	314.18	15,684,750	49,922	15,684,750	49,922
—	 China	1,354.04	8,227,037	6,076	12,405,670	9,162
—	 Japan	127.61	5,963,969	46,736	4,627,891	36,266
—	ASEAN	615.60	2,305,542	3,745	3,605,602	5,857
—	 South Korea	50.01	1,155,872	23,113	1,613,921	32,272
1	 Indonesia	244.47	878,198	3,592	1,216,738	4,977
2	 Thailand	64.38	365,564	5,678	651,856	10,126
3	 Malaysia	29.46	303,527	10,304	498,477	16,922
4	 Singapore	5.41	276,520	51,162	326,506	60,410
5	 Philippines	95.80	250,436	2,614	424,355	4,430
6	 Vietnam	90.39	138,071	1,528	320,677	3,548
7	 Myanmar	63.67	53,140	835	89,461	1,405
8	 Brunei	0.40	16,628	41,703	21,687	54,389
9	 Cambodia	15.25	14,241	934	36,645	2,402
10	 Laos	6.38	9,217	1,446	19,200	3,011

Figure 1.2 List of ASEAN countries' GDP

Source: IMF Global Outlook 2012 estimates.

commitment to macroeconomic stability, open trade, business-friendly policies, and regional cooperation has created the foundation for steady growth in those regions.

This is also true for many emerging market nations around the globe and in particular the BRICS. Nonetheless, the ASEAN region remains among the most attractive destinations for foreign investors who are running out of options in other emerging markets due to its relative political and macroeconomic stability, low levels of debt, and integration in East Asian production networks. In addition, open trade and investment policies are giving the region a distinct advantage over other emerging markets around the world. As depicted in Figure 1.3, these countries have been growing at an average rate above 6 percent (in 2012) a year, with Indonesia and the Philippines exceeding GDP forecasts. Thailand, hit with devastating floods in 2011, has now recovered and is in full swing to achieve higher than expected GDP growth. The same goes for Malaysia, which has enjoyed the benefits of an expansionary election budget.

According to Arno Maierbrugger, from Investvine,⁷ the ASEAN economy will more than double by 2020, with the nominal GDP of the regional bloc increasing from US\$2 trillion in 2012 to US\$4.7 trillion. The global research firm, IHS,⁸ argues that Vietnam and Myanmar are expected to reach a nominal GDP of US\$290 billion and US\$103 billion, respectively, by 2020, while Indonesia is expected to reach a projected nominal GDP of about US\$1.9 trillion. The report also says that, overall, emerging markets in Asia are expected to be the fastest growing in the world and will continue to expand. It is estimated that GDP growth of emerging markets would exceed that of developed countries in 2020, continuing to expand thereafter.

Internal macroeconomic policies and structural reforms in the ASEAN region will continue to drive growth in the foreseeable future. The Philippines and Myanmar should see higher GDP growth as a result of earnest

⁷ <http://investvine.com/aseans-gdp-to-double-by-2020/> (accessed October 29, 2013).

⁸ <http://www.ihs.com/products/Global-Insight/industry-economic-report.aspx?ID=106594726>

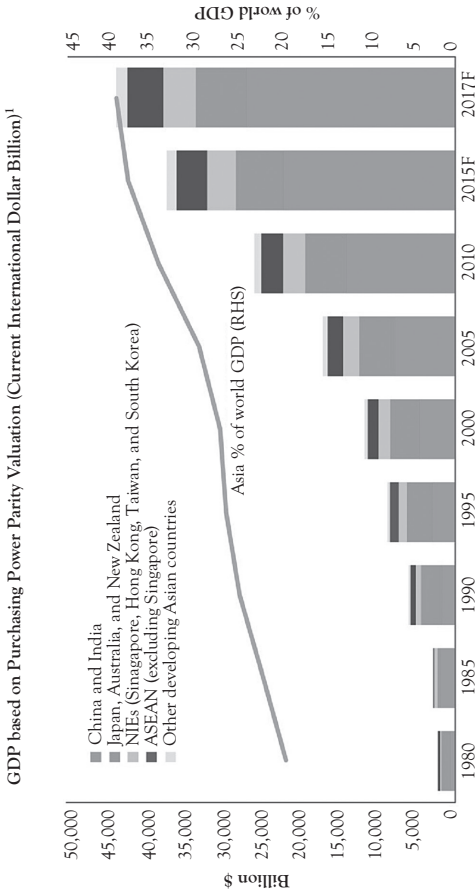


Figure 1.3 Asian economic GDP growth based on purchasing power parity (PPP)

Source: International Monetary Fund, World Economic Outlook, October 2012; Austrade.

¹An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States.

government efforts to improve economic governance. Myanmar, after 50 years of self-imposed isolation, fear, and poverty, has now rejoined the international community, attracting fresh foreign investments, which should yield significant growth dividends.

In 2013, two parallel efforts toward trade integration, the ASEAN-driven Regional Comprehensive Economic Partnership (RCEP) and the U.S.-driven Trans-Pacific Partnership (TPP), began vying for traction beyond the ASEAN bloc. Currently, the TPP is certainly more advanced but faces important challenges before it can come to closure. Discussions on the RCEP have only just begun and also face significant obstacles, but progress could accelerate if agreement on the basic parameters is reached soon. Although both of these trade agreements should be able to coexist, they not only include a set of advanced economies to the mix, which can be very beneficial to those countries, but also represent different philosophies as to how economic integration should be achieved.

The risk to emerging markets in the ASEAN bloc and the advanced economies' partnership in trade, as in TPP, are the mounting tensions in the South China Sea, with China facing off against Vietnam and the Philippines. ASEAN's diplomatic attempts to defuse the conflict have only succeeded in raising them even further. It is important now that under a new chair in Brunei, ASEAN countries find ways to settle their internal differences, agree quickly on a code of conduct for the South China Sea, and engage China early in the process so that it becomes an important stakeholder in its implementation, and most importantly, international trade.

Despite geopolitical risks in the region, one of the major catalysts for ASEAN's accelerated growth is its relative low specialized labor costs. While estimates of absolute cost levels in the manufacturing sector are not fully available, data from OECD and the IMF suggest that over the 1975 to 1996 period, China (including Taipei) and South Korea, in particular, were able to maintain significantly lower levels of specialized labor costs than any other industrialized countries for which data exist. It is important to note, as argued by Durand, Madaschi, and Terribile (1998), the fact that while in the past, these potential competitive advantages deriving from nominal exchange rate depreciations often tended to be eroded by rising inflation, there is a widespread sentiment that recent

global economic and in-country financial policy developments might have reinforced the absolute cost advantage that emerging markets might have already compared to OECD countries, which makes these markets even more competitive internationally.

Such arguments are reinforced by the fact that, in principle, competitiveness is normally correlated with companies, which can gain and lose market shares, and eventually even go out of business; the same cannot be said for countries. As P. Krugman (1996) argues,⁹ countries cannot go out of business and therefore we should not care about competing countries. Nonetheless, in our opinion, countries still need to be concerned with shifts in market shares, since such shifts may indicate changes in the composition of country output and in the living standards of that nation. Hence, it is likely that labor cost levels in most other emerging market economies in the ASEAN bloc are also lower, and we would emphasize much lower, than in other nations, particularly advanced economies, as depicted in Table 1.2.

We believe that leading emerging markets will continue to drive global growth. Estimates show that 70 percent of world growth over the next decade, well into 2020 and beyond, will come from emerging markets, with China and India accounting for 40 percent of that growth. Such growth is even more significant if we look at it from the PPP perspective, which, adjusted for variation, the IMF forecasts that the total GDP of emerging markets could overtake that of advanced economies as early as 2014. Such forecasts also suggest that FDI will continue to find its way into emerging markets, particularly the ASEAN bloc for the time being, and also into the fast-developing MENA bloc, as well as Africa as a whole, followed by the BRIC and CIVETS. In all, however, the emerging markets already attract almost 50 percent of FDI global inflows and account for 25 percent of FDI outflows.

Between now and 2050, the world's population is expected to grow by 2.3 billion people, eventually reaching 9.1 billion. The combined purchasing power of the global middle classes is estimated to more than double by 2030 to US\$56 trillion. Over 80 percent of this demand will

⁹ Krugman, P. 1996. *Pop Internationalism*. Cambridge, MA: The MIT Press.

Table 1.2 *Relative levels of unit labor costs in manufacturing*

	1985	1990	1996
United States	100	100	100
Japan	74	116	169
Germany ^a	71	144	166
France	96	154	163
Italy	60	114	101
United Kingdom	100	158	148
Canada	84	118	102
Australia	98	118	145
Belgium	75	135	156
Denmark	97	205	218
Korea	29	51	58
Netherlands	65	122	120
Spain	49	108	100
Sweden	82	158	160
Chinese Taipei	41	70	70

^a West Germany.

Source: OECD calculations based on 1990 PPPs. For details on the methodological aspect, see OECD (1993).

come from Asia. Most of the world's new middle class will live in the emerging world, and almost all will live in cities, often in smaller cities not yet built. This surge of urbanization will stimulate business but put huge strains on infrastructure.

The BRICS Bloc Influence

The BRIC countries are composed of Brazil, Russia, India, and China. Jim O'Neill, a retired former asset manager at Goldman and Sachs, coined the acronym back in 2001 in his paper entitled *Building Better Global Economic BRICs*.¹⁰ The acronym has come into widespread use as

¹⁰ Kowitz, B. June 17, 2009. "For Mr. BRIC, Nations Meeting a Milestone." CNNMoney.com (accessed October 26, 2013).

a symbol of the apparent shift in global economic power away from the developed G7 economies toward the emerging markets. When we look at the size of its economies in GDP terms, however, the order of the letters in the acronym changes, with China leading the way (second in the world), followed by Brazil (sixth), India (ninth), and Russia (10th).¹¹ Since 2010, however, despite the lack of support from leading economists participating at the Reuters 2011 Investment Outlook Summit,¹² South Africa (28th) joined the BRIC bloc, forming a new acronym dubbed BRICS.¹³

It has been difficult to project future influences of the BRICS on the global economy. While some research suggests that this bloc might overtake the G7 economies by 2027,¹⁴ other more modest forecasts, such as Goldman Sachs, argue that, while the BRICS are developing rapidly, their combined economies could eclipse the combined economies of the current richest countries of the world only by 2050.¹⁵ In his recent book titled *The Growth Map: Economic Opportunity in the BRICs and Beyond*,¹⁶ O'Neil corrects his earlier forecast by arguing that the BRICS may overtake the G7 by 2035. Such forecast represents an amazing accomplishment considering how disparate some of these countries are from each other geographically and how different their culture and political and religious systems are. Figure 1.4 illustrates the BRICS geographical locations on the globe.

Notwithstanding these uncertain economic forecasts, researchers seem to agree that the BRICS are having a major impact on their regional trading partners, more distant resource-rich countries, and in particular advanced economies. The ascent of these formerly impoverished countries is gaining momentum, and their confidence is evident not only in

¹¹ According to United Nations 2011 ranking.

¹² Reuters 2011 Investment Outlook Summit, London and New York, December 6–7, 2010.

¹³ According to an article on South Africa Info titled “New era as South Africa joins BRICS.” SouthAfrica.info, June 19, 2012.

¹⁴ Foroohar, R. 2009. “BRICs Overtake G7 By 2027.” *Newsweek*, March 20. <http://www.newsweek.com/brics-overtake-g7-2027-76001> (accessed March 17, 2013).

¹⁵ “Brazil, Russia, India, and China (BRIC).” Investopedia. Archived from the original on May 21, 2008. <http://www.investopedia.com/terms/b/bric.asp> (accessed April 12, 2008).

¹⁶ Published by Penguin Group, December 2011.

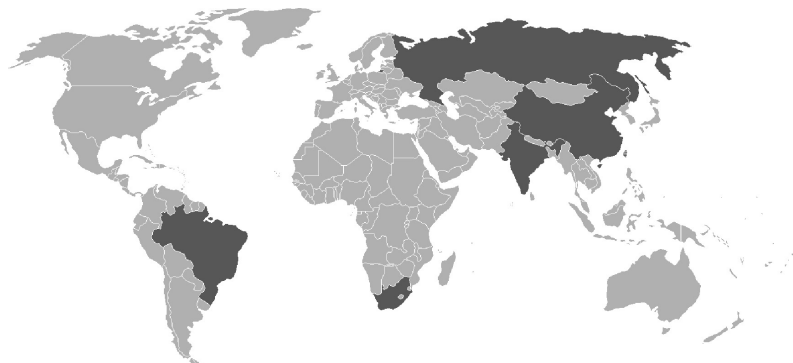


Figure 1.4 The BRICS countries: Brazil, Russia, India, China, and South Africa

utterances such as those of former Chinese premier Wen Jiabao when he stated in 2009 that China had “loaned huge amounts of money,” to the United States, warning the United States to “honor its word” and “ensure the safety of Chinese assets,” but of other leaders as well. Vladimir Putin, as the fourth president of Russia, scorns “the irresponsibility of the system that claims leadership,” while Luiz Inácio Lula da Silva, former president of Brazil, in an interview with *Newsweek* magazine during the G20 Summit in London, said that the United States bears the brunt of responsibility for the crisis, and for fixing it.¹⁷

No doubt, there is a lot of global macroeconomics synergy behind the BRICS, and the performance indicators are backing it up. As of 2012, these countries accounted for over a quarter of the world’s land mass and more than 46 percent of the world’s population,¹⁸ as depicted in Figure 1.5, although still only accounting for 25 percent of the world GDP.¹⁹ Nonetheless, by 2020, this bloc of countries is expected to account for nearly 50 percent of all global GDP growth.

¹⁷ Foroohar, R. 2009. “BRICs Overtake G7 By 2027.” *Newsweek*, March. <http://www.newsweek.com/brics-overtake-g7-2027-76001> (accessed April 12, 2009).

¹⁸ Young, V. 2006. “Macquarie Launches Australia’s First BRIC Funds.” *Investor Daily*, November. <http://www.investordaily.com.au/25542-macquarie-launches-australias-first-bric-funds> (accessed May 23, 2007).

¹⁹ Haub, C. April 2012. “The BRIC Countries.” Population Reference Bureau. <http://www.prb.org/Publications/Articles/2012/brazil-russia-india-china.aspx> (accessed December 5, 2012).

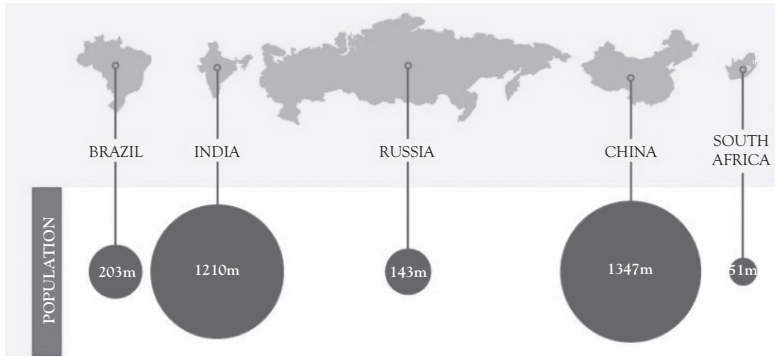


Figure 1.5 BRICS account for almost 50 percent of the world population

Source: Population Reference Bureau.

Since its formation, it is clear that the BRICS have been seeking to form a *political club*. According to a Reuter article, the BRIC bloc has strong interest in converting “their growing economic power into greater geopolitical clout.”²⁰ Granted, the BRICS bloc does not represent a political coalition currently capable of playing a leading geopolitical role on the global stage, over the last decade, the BRICS has come to symbolize the growing power of the world’s largest emerging economies and their potential impact on the global economic and, increasingly, political order.

All BRICS countries are current members of the United Nations (UN) Security Council. Russia and China are permanent members with veto power, while Brazil, India, and South Africa are nonpermanent members currently serving on the council. Furthermore, the BRICS, combined, hold less than 15 percent of voting rights in both the World Bank and the IMF, yet, their economies are predicted to surpass the G7 economies in size by 2032, which can only strengthen their position at the UN, IMF, and the World Bank.

As depicted in Figure 1.6, BRICS have stepped up their participation at the UN by donating large sums of money to its regular and peacekeeping budgets. Russia has gone ahead and led the bloc by holding the first

²⁰ Faulconbridge, G. June 8, 2008. “BRICs Helped by Western Finance Crisis: Goldman.” Reuters. St. Petersburg, Russia. <http://www.reuters.com/article/2008/06/08/us-russia-forum-bric-idUSL071126420080608> (accessed July 12, 2012).

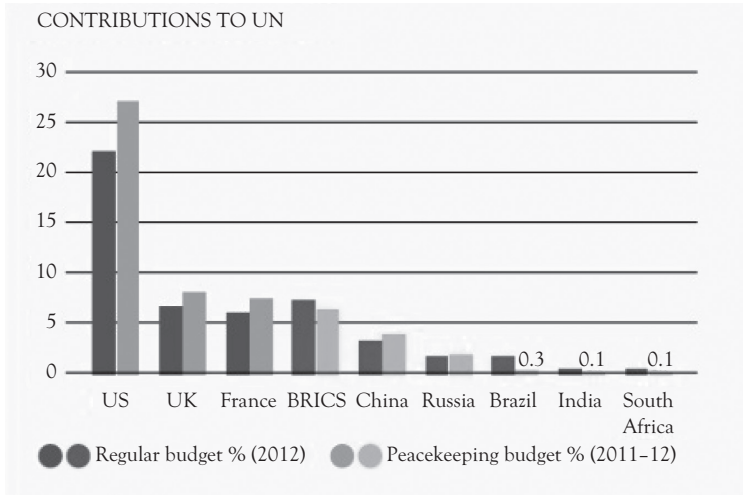


Figure 1.6 BRICS have increased their participation and contribution to UN budgets

BRIC summit back in June 2009 in Yekaterinburg, issuing a declaration calling for the establishment of an equitable, democratic, and multipolar world order.²¹ Since then, according to the *Times*,²² the BRICS have met in Brasília (Brazil) in 2010, in Sanya (China) in 2011, and in New Delhi (India) in 2012.

In recent years, the BRICS have received increasing scholarly attention. Brazilian political economist Marcos Troyjo and French investment banker Christian Déséglise founded the BRIC Lab at Columbia University, a forum examining the strategic, political, and economic consequences of the rise of BRIC countries, especially by analyzing their projects for power, prosperity, and prestige through graduate courses, special sessions with guest speakers, Executive Education programs, and annual conferences for policy makers, business and academic leaders, and students.²³

²¹ Mortished, C. 2008. "Russia Shows Its Political Clout by Hosting BRIC summit." *The Times* (London). <http://www.thetimes.co.uk/tto/business/markets/russia/article2143017.ece> (accessed May 12, 2012).

²² Halpin, T. 2009. "Brazil, Russia, India and China Form Bloc to Challenge U.S. Dominance." http://www.timesonline.co.uk/tol/news/world/us_and_americas/article6514737.ece (accessed March 23, 2011).

²³ http://www.sipa.columbia.edu/news_events/announcements/BRICLab04132011.html

The CIVETS Bloc Influence

The CIVETS acronym, which includes Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa countries, as illustrated in Figure 1.7, was coined by Robert Ward, global director of the Global Forecasting Team of the Economist Intelligence Unit in late 2009.²⁴ It was then further circulated by Michael Geoghegan, president of the Anglo-Chinese HSBC bank, in a speech to the Hong Kong Chamber of Commerce in April 2010. These groups of countries are predicted to be among the next emerging markets to quickly rise in economic prominence over the coming decades for their relative political stability, young populations that focus on education, and overall growing economic trends. Geoghegan compared these countries to the civet, a carnivorous mammal that eats and partially digests coffee cherries, passing a transformed coffee bean that fetches high prices.

The CIVETS bloc is about 10 years younger than the BRICS with similar characteristics. All of these bloc countries are growing very quickly and have relatively diverse economies, which offer a greater advantage over the BRICS for not depending so heavily on foreign demands. They also have reasonably sophisticated financial systems, controlled inflation, and soaring young populations with fast-rising domestic consumption.²⁵

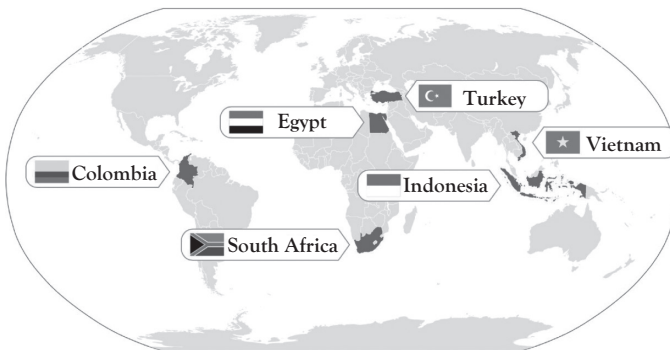


Figure 1.7 The CIVETS bloc

²⁴ According to an article titled “BRICS and BICIS.” 2009. *The Economist Magazine*, November 26. http://www.economist.com/blogs/theworldin2010/2009/11/acronyms_4

²⁵ According to an article titled “BRICS and BICIS.” 2009. *The Economist Magazine*, November 26. http://www.economist.com/blogs/theworldin2010/2009/11/acronyms_4

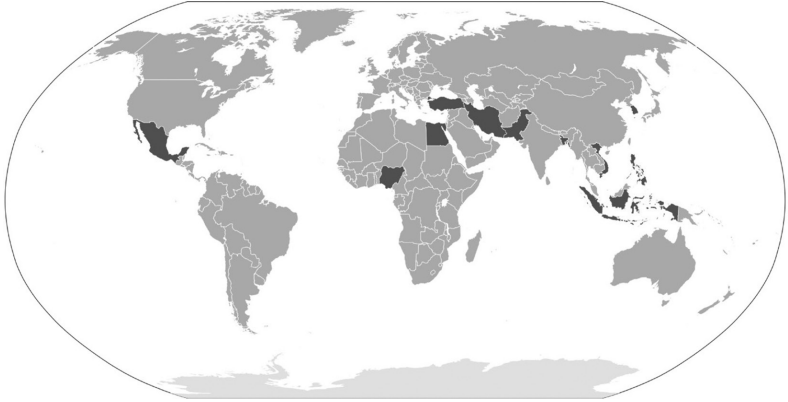


Figure 1.8 *The Next-Eleven (N-11) countries*

Geoghegan argued in 2010 that emerging markets would grow three times as fast as developed countries that year, suggesting that the center of gravity of the world growth and economic development was moving toward Asia and Latin America.²⁶ All the CIVETS countries except Colombia and South Africa are also part of O’Neil’s *Next Eleven* (N-11) countries, as depicted in Figure 1.8: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam. These countries are believed to have a high chance of becoming, along with the BRICS, the world’s largest economies in the 21st century.²⁷

Some critics argue that the CIVETS countries have nothing in common beyond their youth populations. What does Egypt have in common with Vietnam? Data also suggest that, on the negative side, liquidity and corporate governance are patchy, while political risk remains a factor, as seen with Egypt in the past few years.

²⁶ According to an article titled “BRICS and BICIS.” 2009. *The Economist Magazine*, November 26. http://www.economist.com/blogs/theworldin2010/2009/11/acronyms_4

²⁷ O’Neil, J. December 1, 2005. “How Solid Are the BRICS.” Goldman Sachs’ Global Economics Paper No. 134. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/how-solid.pdf> (accessed November 14, 2012).

The MENA Countries

According to the World Bank,²⁸ the bloc, commonly known as MENA countries, covers an extensive region, extending from Morocco to Iran and including the majority of both the Middle Eastern and Maghreb countries. The World Bank argues that due to the geographic ambiguity and Eurocentric nature of the term *Middle East*, people often prefer to use the term WANA (West Asia and North Africa)²⁹ or the less common NAWA (North Africa–West Asia), as argued by Paz, Tourre, and Planton.³⁰ As depicted in Figure 1.9, MENA countries include Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, North and South Sudan, Syria, Tunisia, United Arab Emirates (UAE), Yemen, West Bank, and Gaza.



Figure 1.9 The MENA countries (dark shade) and other countries often considered as part of the bloc (lighter shade)

Source: GreenProfit.

²⁸ According to the World Bank definition of MENA countries. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0,,menuPK:247619~pagePK:146748~piPK:146812~theSitePK:256299,00.html> (accessed November 1, 2013).

²⁹ <http://www.worldbank.org/html/cgiar/newsletter/april97/8beltagy.html>

³⁰ Paz, S., M. Tourre, and S. Planton. October 10, 2003. "North Africa–West Asia (NAWA) Sea-Level Pressure Patterns and Their Linkages with the Eastern Mediterranean (EM) Climate." Wiley Online Library. <http://onlinelibrary.wiley.com/doi/10.1029/2003GL017862/abstract> (accessed November 1, 2013).

The MENA bloc, known as WANA or NAWA (we will be using MENA throughout this book), is an economically diverse region that includes both the oil-rich economies in the Gulf and countries that are resource scarce in relation to population, such as Egypt, Morocco, and Yemen. According to the Middle East Strategy at Harvard (MESH) project at the John Olin Institute for Strategic Study at Harvard University, the population of the MENA region, as depicted in Table 1.3, at its least extent, is roughly 381 million people, about 6 percent of the total world population. At its greatest extent, its population is roughly 523 million.

Two years after the *Arab Spring* commenced, many nations in the MENA region are still undergoing complex political, social, and economic transitions. Economic performance indicators were mixed in 2012, while most of the oil-exporting countries grew at healthy rates; the same is not true for oil importer ones, which have been growing at a sluggish pace. These differences did narrow in 2013, however, due to the scaling back of hydrocarbon production among oil exporters and a mild economic recovery among oil importers. In all, many of these countries are confronted with the immediate challenge of re-establishing or sustaining macroeconomic stability amid political uncertainty and social unrest, but the region must not lose sight of the medium-term challenge of diversifying its economies, creating jobs, and generating more inclusive growth.

The region's economic wealth over much of the past quarter century has been heavily influenced by two factors: the price of oil and the legacy of economic policies and structures that had emphasized a leading role for the state. With about 23 percent of the 300 million people in the MENA living on less than US\$2 a day, however, empowering poor people constitutes an important strategy for fighting poverty.

Modest growth is anticipated, however, across the region. According to the IMF (IMF Reports 2013), subdued growth in MENA oil importers is expected to improve in 2013, although such growth is not expected to be sufficient to even begin making sizable inroads into the region's large unemployment problem. The external environment continues to be a challenge and to exert pressure on international reserves in many oil-importing countries among the MENA bloc. In addition, sluggish economic activity with trading partners, mostly advanced economies,

Table 1.3 MENA's population size and growth: 1950, 2007, and 2050

Country and region	Population in thousands			Ratio of population	
	1950	2007	2050 ^a	2007/1950	2050/2007
Middle East and North Africa (MENA)	103,836	431,587	692,299	4.2	1.6
MENA–West-ern Asia	51,452	215,976	332,081	4.2	1.5
Iran	16,913	71,208	100,174	4.2	1.4
Iraq	5,340	28,993	61,942	5.4	2.1
Israel	1,258	6,928	10,527	5.5	1.5
Jordan	472	5,924	10,121	12.5	1.7
Lebanon	1,443	4,099	5,221	2.8	1.3
Palestinian Territory	1,005	4,017	10,265	4.0	2.6
Syria	3,536	19,929	34,887	5.6	1.8
Turkey	21,484	74,877	98,946	3.5	1.3
Arabian Peninsula	8336	58,544	123,946	7.0	2.1
Bahrain	116	753	1,173	6.5	1.6
Kuwait	152	2,851	5,240	18.7	1.8
Oman	456	2,595	4,639	5.7	1.8
Qatar	25	841	1,333	33.6	1.6
Saudi Arabia	3,201	24,735	45,030	7.7	1.8
United Arab Emirates	70	4,380	8,521	62.9	1.9
Yemen	4,316	22,389	58,009	5.2	2.6
Northern Africa	44,099	157,068	236,272	3.6	1.5
Algeria	8,753	33,858	49,610	3.9	1.5
Egypt	21,834	75,498	121,219	3.5	1.6
Morocco	8,953	31,224	42,583	3.5	1.4
Libya	1,029	6,160	9,683	6.0	1.6
Tunisia	3,530	10,327	13,178	2.9	1.3

^a Projected.

Source: UN Population Division, *World Population Prospects: The 2006 Revision* (2007; <http://esa.un.org/>, accessed April 10, 2007): table A.2.

in particular the eurozone area, is holding back a quicker recovery of exports, while elevated commodity prices continue to weigh on external balances in countries that depend on food and energy imports. Tourist arrivals, which have decreased significantly since the terrorist attacks on the United States in 2001, are gradually rebounding, but remain well below pre-2011 levels, before the global recession set in.

According to a new study reported in the Dubai-based *Khaleej Times*,³¹ however, the sunny region and its associated countries could solar power the world three times over. If such projections ever become reality, poverty may have a chance to be eradicated in the region. Countries that move fast, the study suggests, could have the competitive advantage. MENA countries, especially ones located on the Arabian Peninsula, as well as others like Jordan, Lebanon, and Israel, are well positioned to take the lead in this industry. These countries are no strangers to the notion of solar energy. As the *Khaleej Times* article points out, the countries in the MENA region have the “greatest potential for solar regeneration” supplying 45 percent of the world’s energy sources possible through renewable energy. Renewable energy sources of interest in this region include Abu Dhabi’s Masdar City as well as its hosting of the World Renewable Energy Agency headquarters.

Funding for these projects may pose an issue. FDI, according to the IMF, (IMF Reports 2013) is expected to remain restrained, lower than that in other emerging markets and advanced economies. Moreover, growing regional economic and social spillovers from the conflict in Syria are expected to add to the complexity of MENA’s economic environment. While oil-exporting countries, mainly in the Gulf Cooperation Council (GCC), face a more positive outlook, there is still the risk of a worsening of the global economic outlook, particularly with advanced economies, which are major consumers of oil. Should this occur, oil exporter nations within MENA will likely face serious economic pressures. A prolonged

³¹ Saseendran, S. 2013. “Shaikh Mohammed Inaugurates Solar Power Park Phase-1.” *Khaleej Times* (Dubai-based), October 23. http://www.khaleejtimes.com/kt-article-display-1.asp?xfile=data/nationgeneral/2013/October/nationgeneral_October299.xml§ion=nationgeneral (accessed November 4, 2013).

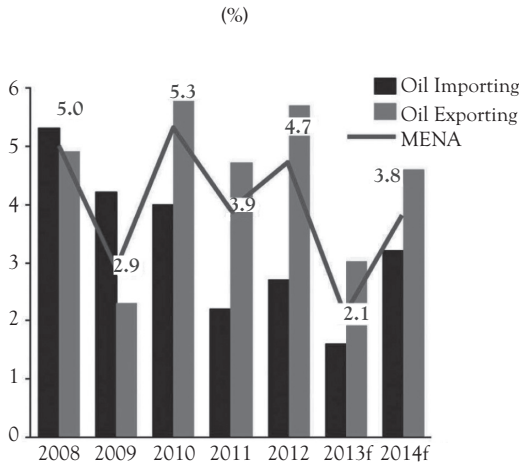


Figure 1.10 MENA's real GDP growth rates

Source: IMF data and QNB group forecasts.

decline in oil prices, rooted in persistently low global economic activity, for instance, could run down reserve buffers and result in fiscal deficits for the region.

Notwithstanding, the latest IMF's World Economic Outlook³² projections suggest that economic performance in the MENA bloc will remain mixed. According to Qatar National Bank Group (QNB Group),³³ this dual speed development should continue over the next few years, with the GCC countries as the driving force for growth in the MENA region and the main source of investment and financing. As shown in Figure 1.10, the group forecasts MENA's economy to grow 2.1 percent in 2013 and 3.8 percent in 2014. Note in Figure 1.10 that the overall forecast disguises a significant difference in performance between oil exporters, including the GCC countries, and oil importers. The 2012 restrained growth of 2.7 percent in MENA oil importers is expected to fall to 1.6 percent in 2013 and recover to 3.2 percent in 2014, which will not suffice in creating

³² <http://www.imf.org/external/pubs/ft/weo/2013/01/> (accessed November 2, 2013).

³³ QNB Group. October 14, 2012. "Economic and International Affairs." http://www.qnb.com.qa/cs/Satellite/QNBFrance/en_FR/AboutQNB/CorporateSocial-Responsibility/enEconomicandnationalAff (accessed November 2, 2013).

enough jobs to reduce these countries' large unemployment rates. Meanwhile, oil exporters' healthy growth rates are projected to moderate this year to 3.0 percent as they scale back increases in oil production amid modest global energy demand. Continued large infrastructure investment is expected to lead to a rise in economic growth to 4.5 percent in 2014.

In addition, the MENA countries in transition continue to face political uncertainty with the challenge of delivering on the expectations for jobs and fostering economic cohesion, which also deters growth. In particular, the Syrian crisis has had a strong negative impact on growth in the Mashreq region—the region of Arab countries to the east of Egypt and north of the Arabian Peninsula, such as Iraq, Palestine–Israel, Jordan, Kuwait, Lebanon, and Syria—which has a large size of refugees straining the fiscal resources of countries like Iraq, Jordan, Lebanon, and Turkey to a lesser extent. A notable example we cite is that more than 800,000 Syrian refugees who have already entered Lebanon, about 19 percent of the population, have had a substantial impact on the already weak fiscal position of the Lebanese budget. Equally damaging have been the setbacks of the political transitions as well as the escalation of violence in Libya, Egypt, and Tunisia, which have further deterred much-needed economic reforms and deterred FDI.

Looking ahead, MENA countries will continue on their path of economic transition owing primarily to the benign GCC outlook, which will continue to act as the locomotive for regional growth. That said, caution must be given to the external environment in oil-importing countries, which remains volatile, with spillovers from the Syria conflict. Finally, as important as it is now to focus on maintaining economic stability, it is critical for MENA governments not to lose sight of the fundamental medium-term challenge of modernizing and diversifying the region's economies, creating more jobs, and providing fair and equitable opportunities for all.

CHAPTER 2

Economic and Cultural Transformations at Emerging and Frontier Markets

Emerging and Frontier Markets' Economic and Cultural Influences Across the Globe

The impact and influence of emerging markets on advanced economies and global trade are impressive. Today, these countries constitute over half of the world's population, with China and India accounting for over one-third of it. Many of these emerging economies are facing rapid urbanization and industrialization, as a result of intense economic transformations. As of 2013, as shown in Figure 2.1, 9 of the 10 largest metropolitan areas in the world are located in emerging markets.

By 2050, the world's population is expected to grow by 2.3 billion people, reaching about 9.1 billion. By then, most of the world's new middle class will be living in the emerging economies of the world, and most of them in cities. Many of these cities have not yet been built, unless you

Emerging to Advanced	Population
10. Cairo, Egypt	19.6m
9. Sao Paulo, Brazil	19.8m
8. Shanghai, China	20.8m
7. Mexico City, Mexico	21.2m
6. Manila, Philippines	21.9m
5. New Delhi, India	22.2m
4. Seoul, South Korea	25.2m
3. Jakarta, Indonesia	28.0m
2. Chongqing, China	28.8m
1. Tokyo, Japan	35.1m

Figure 2.1 Top 10 largest cities in the world, 2013

Source: IMF world outlook, 2013.

count the plethora of ghost cities in China, already built with the entire necessary infrastructure. However, physical infrastructure, such as water supply, sanitation and electricity systems, and soft infrastructure, such as recruitment agencies and intermediaries to deal with customer credit checks, will need to be built or upgraded to cope with the growing urban middle class.

As far as purchasing power is concerned, by 2030, the combined purchasing power of the global middle classes is estimated to more than double, to US\$59 trillion. Most impressively, over 80 percent of this demand will come from Asia alone. That will come at a price though, as it will require an estimated US\$7.9 trillion in investments by 2020. Meeting these needs will likely entail public–private partnerships, new approaches to equity funding, and the development of capital markets.

Also impressive is the increasing size of these economies. The growth of economic strength of the BRICS countries (Brazil, Russia, India, China, and South Africa) alone is leading to greater power to influence world economic policy. Just recently, in October 2010, emerging economies gained a greater voice under a breakthrough agreement that gave 6 percent of voting shares in the International Monetary Fund (IMF) to dynamic emerging countries such as China, which, as a result, will become the IMF’s third-largest member. According to the IMF, and as depicted in Figure 2.2, by 2014, emerging markets are poised to overtake

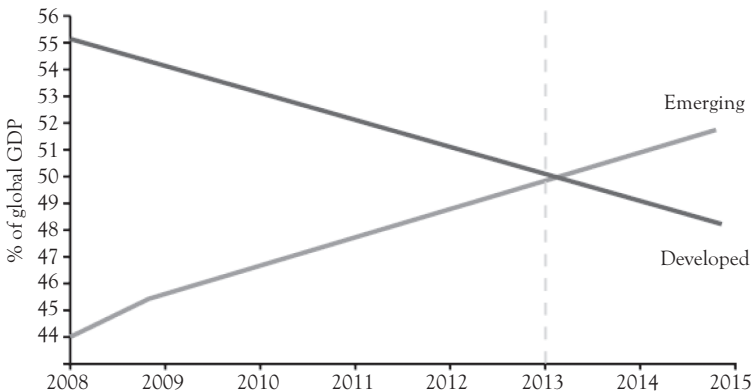


Figure 2.2 *Advanced economies and emerging markets’ share of global GDP*

Source: World economic outlook database, IMF, October 2010.

advanced economies in terms of share of global gross domestic product (GDP).

As of 2014, as Figure 2.2 shows, emerging markets already account for about 50 percent of world's GDP and, going forward, its contribution is expected to be higher than that of the advanced economies. Not only are these economies enormous, but also they are growing exponentially. As Figure 2.2 also illustrates, the divergence between the economic growth of emerging markets and advanced economies is projected to continue in the years to come. Figure 2.3 shows that, since 2000, emerging markets have driven global GDP growth.

The data indicate that emerging markets are now one of the main engines of world growth. As a result, emerging countries' citizens have reaped the benefits of such rapid development with higher standards of living, fostering the growth of a huge middle class, with discretionary income to spend on goods and services, thus impacting advanced economies in a very positive way.

These billions of new middle-class consumers in the emerging markets represent new markets for advanced economies' exports and multinational corporations based in developed countries. Ford Motor Company, for example, draws almost 47 percent of its revenues from foreign markets, mainly from emerging markets. Furthermore, strong growth in emerging markets increases the demand for those goods and tradable services where the advanced economies have comparative advantages.

According to the Economist Intelligence Unit (EIU), as of 2013, the change in real GDP per capita in emerging markets has significantly surpassed that of advanced economies. Figure 2.4 shows a striking contrast. Per capita GDP, as of 2011, has risen substantially faster in many emerging market countries as compared to advanced economies. The top 10 are all emerging markets in Asia, South America, and Eastern Europe. China topped the world with nearly a 35 percent change in real GDP per person, followed by India, which had a change rate of more than 20 percent. Argentina and Brazil also grew significantly, as did Poland, Turkey, and Russia. Advanced economies, however, are debt burdened and have detracted. Ireland and Greece have declined more than 10 percent. During the same period, the United States had the seventh worst change in real GDP per capita.

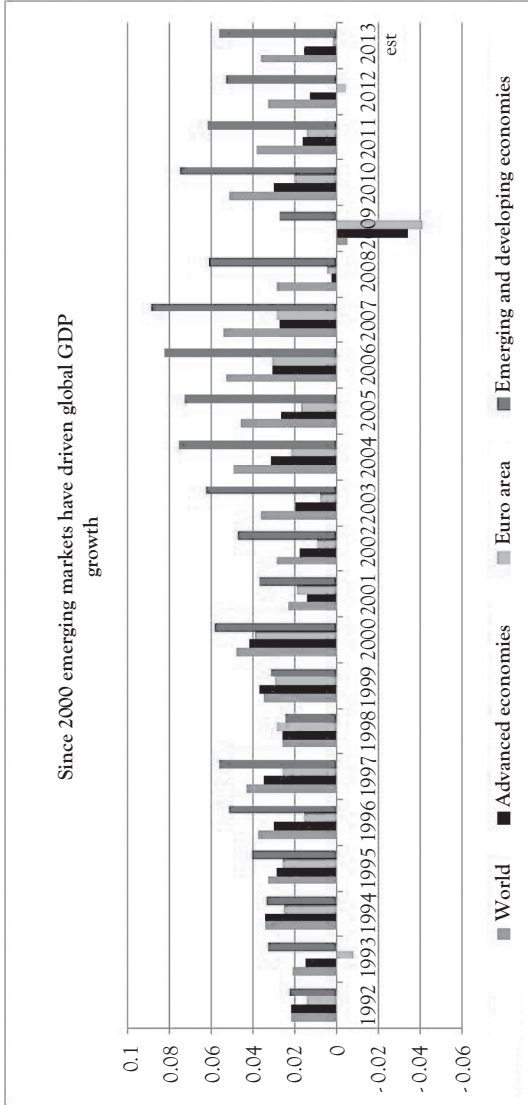


Figure 2.3 Emerging markets are driving global GDP growth for more than a decade now

Source: IMF, <http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/c4.pdf>

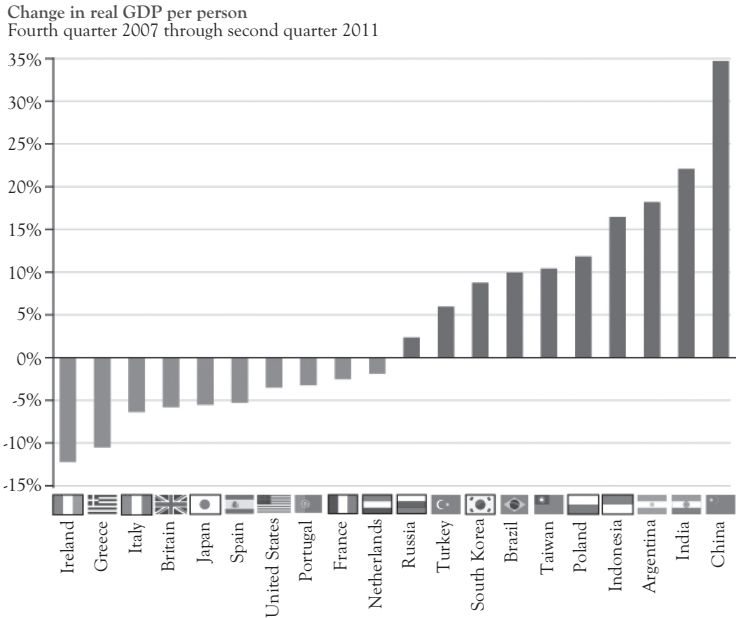


Figure 2.4 *The change in real GDP per capita in emerging markets has surpassed advanced economies by far*

Source: EIU; Haver Analytics, IMF; JP Morgan; The Economist. <http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/c4.pdf>

Mainly, these are fairly known macroeconomic facts. Perhaps, even more striking is the microeconomic evidence of the economic success of emerging markets in the last decade and beyond. For instance, according to Forbes' Global 2000 ranking, 4 out of the 20 largest companies in the world, in terms of market value, are from emerging markets.¹ From these four companies, two oil and gas firms, one Russian (Gazprom) and one Chinese (PetroChina), rank among the top 10. Furthermore, according to Forbes,² 7 of the 24 richest individuals in the world are from the emerging markets, including Carlos Slim Helu (3rd) from Mexico; Li Ka-shing

¹ Forbes' Global 2000. http://www.forbes.com/lists/2007/18/biz_07forbes2000_The-Global-2000_Rank.html

² Forbes' billionaires. http://www.forbes.com/lists/2007/10/07billionaires_The-Worlds-Billionaires_Rank.html

(9th) from Hong Kong; Prince Alwaleed Bin Talal Al Saud (13th) from Saudi Arabia; Mukesh Ambani (14th) from India; Anil Ambani (18th) also from India; Azim Premji (21st) from India; and Lee Shau Kee (22nd) from Hong Kong.

Of course, political instabilities need to be accounted for, especially in the short term for some of these countries facing political turmoil. Nonetheless, a number of studies offer startling data regarding the growth prospects of emerging markets. According to one such study, by Wilson and Purushothaman (2003), by 2025, the BRIC countries could account for over half the size of today's six largest economies; in less than 40 years, they could be even larger. Other studies, such as Hawksworth³ as well as Poncet,⁴ convey similar messages, notwithstanding some nominal differences.

Emerging market leaders are expected to become a disruptive force in the global competitive landscape. As emerging market countries gain in stature, new multinational companies (MNCs) will continue to take the center stage in global markets. The rise of these emerging MNCs as market leaders will constitute one of the fastest-growing global trends of this decade and beyond. These MNCs will continue to be critical competitors in their home markets while increasingly making outbound investments into other emerging and advanced economies.

Many emerging market leaders have grown up in markets with *institutional voids*, where support systems such as retail distribution channels, reliable transportation and telecommunications systems, and adequate water supply simply do not exist. Physical infrastructure, such as water supply, sanitation, and electricity systems, and soft infrastructure, such as recruitment agencies and intermediaries to deal with customer credit checks, are still being developed, if they exist at all, in order to cope with the growing urban middle class.

³ Hawksworth, J. March 2008. "The World in 2050: How Big Will the Major Emerging Market Economies Get and How Can the OECD Compete." Price Waterhouse Coopers. http://www.pwc.com/en_GX/gx/psrc/pdf/world_in_2050_carbon_emissions_psrc.pdf (accessed January 2, 2011).

⁴ Poncet, S. October 16, 2006. "The long-Term Growth Prospects of the World Economy: Horizon 2050." CEPII Working Paper, No. 2006.

Addressing such concerns will require several trillions of dollars in investments by 2020, which could be very good news for advanced economies and professionals with an eye on and expertise with international businesses. Meeting these needs will likely entail public–private partnerships, new approaches to equity funding, and the development of capital markets.

Having learned to overcome the challenges of serving customers of limited means in their own domestic markets, these emerging MNC market leaders are already developing and producing innovative designs, while reducing manufacturing costs and often disrupting entire industries around the world. As a result, these companies possess a more innovative, entrepreneurial culture and have developed greater flexibility to meet the demands of their local and *bottom-of-the-pyramid* customers.

Therefore, the developments we observe today, with the rapid rise of emerging markets outpacing advanced economies, are likely to be the precursor of a profound rebalancing in the distribution of world output in the very near future. Of course, it cannot be excluded that this process might well be “nonlinear,” with episodes of discontinuity, perhaps also including financial crises somewhere down the line.

The Impact of Emerging and Frontier Markets’ Rise on the Global Economy

The integration of a massive pool of low-cost, skilled workers from emerging markets into the global economy has tended to exert downward pressure on import prices of manufactured goods and wages in advanced economies.⁵ Emerging markets have significantly contributed to the increase of the labor force and the reduction of labor costs around the world. The available labor force in the global economy has actually doubled from 1.5 to 3 billion, mainly as a reflection of the opening up

⁵ Papademos, L. May 25, 2006. “Globalization, Inflation, Imbalances and Monetary Policy.” Bank for International Settlement, St. Louis, U.S. <http://www.bis.org/review/r060607d.pdf> (accessed November 9, 2013).

of Chinese, India's, and Russian economies.⁶ Hence, the price of a wide range of manufactured goods has declined over the years. Furthermore, through numerous channels, this process of wage restraints and reduced inflationary pressure on the manufacturing sector has also affected wage dynamics and distribution in the services sector, mainly due to outsourcing. Consequently, these effects have contributed to the dampening of inflationary pressures.

When considering emerging and frontier markets we must also consider some important and opposing dynamics between this bloc and advanced economies. Some resources, such as energy and food, have become relatively scarcer over time due to the increased demand from emerging economies, such as China and India. We believe that this may have been a source of increased inflationary pressure over the past few years, although we acknowledge that it is difficult to make an exact assessment of this contribution, as commodity prices are also affected by supply conditions and geopolitical factors. Nonetheless, according to Pain, Koske, and Sollie's study,⁷ the rapid growth in emerging countries and their increasing share in world trade and GDP may have contributed to an increase in oil prices by as much as 40 percent, and real metal prices by as much as 10 percent in the first five years of the new millennium.

Overall, it is difficult to measure accurately the total impact of emerging markets on inflation. For instance, the IMF has estimated that globalization, through its direct effects on non-oil import prices, has reduced inflation by 0.25 percent per year, on average, in advanced economies.⁸ The overall impact, however, is more difficult to estimate and extricate

⁶ Freeman, R. August 12, 2006. "The Great Doubling: The Challenge of the New Global Labor Market." The European Central Bank. <http://www.ecb.europa.eu/press/key/date/2007/html/sp070601.en.html> (accessed November 2, 2013).

⁷ Pain, N., I. Koske, and M. Sollie. November 2006. "Globalization and Inflation in the OECD Economies." Economics Department Working Paper No. 524, OECD. Paris. <http://www.oecd.org/eco/42503918.pdf> (accessed November 12, 2013).

⁸ IMF Report. April 2006. "Globalization and Inflation." World Economic Outlook. Washington DC. <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/weo0406.pdf> (accessed November 8, 2013).

from other factors that could reduce inflation, for example, the increases in productivity growth and the stronger credibility of monetary policy.

The Case of China: A New Form of Capitalism

Recently, I (Dr. Goncalves) returned from China, and during my return flight, I came to the realization that, although I teach on the subject of China in my international business program at Nichols College, I had missed the point when it came to that country's profile. I kept thinking about how Taipei, a democracy in Taiwan, with all of its tall gray buildings seemed more like a communist country than China. In contrast, Hong Kong's Time Square, the World Trade "Center," Causeway Bay, and its SoHo⁹ seemed more like Manhattan on steroids. Despite the plethora of books and articles I have read on the subject, I came to realize that Chinese communism today is not anything like my antiquated vision of it, which was shaped by the Soviet Union (now Russia), and living in the United States.

The communism I witnessed in Hong Kong and Macau—although we must note that these two countries are China's Special Administrative Regions—is a true examples of capitalism at its core. In contrast to the West and most advanced economies today, unemployment rates in Hong Kong and Macau are only four and two percent, respectively. Hong Kong hosts the most skyscrapers in the world, with New York City a distant second, with only half the number. Hong Kong is also the city that holds the most Rolls Royces in the world. Macau's per capita income is US\$68,000, in contrast to US\$48,000 in the United States.

What impacted me the most during my 21 days there was its people's optimism, in contrast to the cynicism I hear constantly in the West,

⁹ SoHo, sometimes capitalized Soho, is a neighborhood in Lower Manhattan, New York City, which in recent history came to the public's attention for being the location of many artists' lofts and art galleries, but is now better known for its variety of shops ranging from trendy upscale boutiques to national and international chain store outlets. The area's history is an archetypal example of inner-city regeneration and gentrification, encompassing socioeconomic, cultural, political, and architectural developments. The same is true in Hong Kong.

where people seem to have lost their excitement about the future. There, people, young and old, yearn and strive for more than what they have. I agree with Goldman Sachs' Jim O'Neill, who coined the "BRIC countries" back in 2000, in his assertion that "China is the greatest story of our generation."¹⁰ China's general macroeconomics is very promising. It scores well for its stable inflation, external financial position, government debt, investment levels, and openness to foreign trade. At the microlevel, it falls just below average on corruption and use of technology. But the latter is changing rapidly.

There is simply no overstating China's importance to us all, particularly the West, notwithstanding the 1.3 billion Chinese. Like it or not, we must realize that the entire planet, all 6.5 billion of us, is and must be invested in China's success. Doubts? In 1995, China's economy was worth roughly US\$500 billion. In just 16 years, it has grown more than 10-fold. By 2001, its GDP was \$1.5 trillion, at the time smaller than those of the United Kingdom and France. Today, China is the second largest economy in the world.

Undeniably, it will be a hard road for China to maintain its consistent 9 to 10 percent annual growth moving forward. Its growth rates will most certainly decelerate. The question is by how much and how smoothly. In March 2014, the government announced a 7.5 percent growth target for its 13th five-year plan. This is best for its economy and people so that policy makers can better focus on the quality of the growth, instead of sheer quantity. After all, no country can sustain growth by building ghost cities as China has been doing. The good news is that China does not have to maintain the 10 percent GDP growth pace in order to continue to grow and actually surpass the United States to become the largest economy in the world. For now, China is still only about one-third of the U.S. economy (in compatible dollar terms).

It appears that China's Communist Party, with its 80 million members, is not just the world's largest political party but also its biggest chamber of commerce. That can be worrisome, as China's influence and impact

¹⁰ O'Neill, J. 2012. *The Growth Map: Economic Opportunity in the BRICs and Beyond*, 125. New York, NY: Portfolio/Penguin Group.

on all advanced and emerging markets around the world loom large. The eurozone crisis has many of us in the United States concerned. As it deteriorates, it will definitely impact Wall Street and the U.S. economy. However, anything that happens in China is far more important and impactful to the fate of the world economy than the eurozone crisis.

China's Challenges

As the BRICS countries advance full steam ahead, Jim O'Neil's decade-old prediction for this group of only four countries remains prescient. BRICS is developing into an economy that will surpass the combined size of the great G7 economies by 2035.¹¹ Very little is said, however, about China's shattering stories of the hordes of small business owners committing suicide, leaving China, or flat out emigrating to the West. It makes me wonder how much vested interest Goldman Sachs has in such predictions.

Do not get us wrong. We are avid proponents of the rise and formidable influence the BRICS countries are having on the global economy. In my (Dr. Goncalves) Advanced Economies and Emerging Market course, my students are exposed to detailed characteristics of the engine propelling the BRICS, its impact on the G7, and how to position themselves professionally to capitalize on it. But we cannot ignore the public outcry of Chinese entrepreneurs facing the deterioration of business conditions in that country.

The somewhat positive step taken by the People's Bank of China in December 2012 and again in 2014, to alleviate China's alleged liquidity crisis, should cause us to reassess the sustainability of its economy at current rates. China is far from a liquidity crisis, however, possessing an M2 (the amount of money in circulation)¹² that has surpassed the United

¹¹ O'Neil, J. 2012. *The Growth Map: Economic Opportunity in the BRICs and Beyond*, 201. New York, NY: Portfolio/Penguin Group.

¹² A category within the money supply that includes M1 in addition to all time-related deposits, savings deposits, and noninstitutional money-market funds. M2 is a broader classification of money than M1. Economists use M2 when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions. *Investopedia*, <http://www.investopedia.com/terms/m/m2.asp>

States, reaching nearly US\$11.55 trillion. This was achieved, in part, by reducing the reserve requirement ratio,¹³ to 21 percent from its record high of 21.5 percent.

It is not clear to us whether China is on a sustainable economic path, at least until it slows down its equity investments and begins to pay more attention to, and empower, its middle class. The Chinese people will not be willing to spend if they do not have a decent health or retirement system, which impels them to save, on average, 30 percent of their income. China's obsession with extreme growth, sustained now for over a decade, has become the huge white elephant for global markets. Unless the Chinese government begins to deal diligently with this issue, it may not be able to prevent an epic hard landing of its economy.

At the time writing, August 2015, China devalued the yuan twice in a single week, jolting global markets, hitting stocks and commodities, and boosting government bonds. While the devaluation was condemned by U.S. lawmakers from both parties as a grab for an unfair export advantage, it is important to note that both the United States and the European Union (EU) have been debasing the currencies for a decade or so, via quantitative easing and the like. Economists disagreed over the significance of a devaluation that reversed a previous strong-yuan policy, which had aimed to boost domestic consumption and outward investment.

The devaluation of the yuan did impact the Australian and New Zealand dollars and the Korean won, fanning talks of a round of currency devaluations from other major exporters. By the same token, many of Asia's most interventionist central banks continued to hold their impulses on the currency policy. While, in our opinion, a weaker yuan cannot cure all the ills of China's exporters, which suffer from rising labor costs, it will likely help relieve deflationary pressure, a far bigger concern in the view

¹³ The portion (expressed as a percentage) of depositors' balances banks must have on hand as cash. This is a requirement determined by the country's central bank, which in the United States is the Federal Reserve. The reserve ratio affects the money supply in a country. This is also referred to as the *cash reserve ratio* (CRR). *Investopedia*, <http://www.investopedia.com/terms/r/reserveratio.asp>

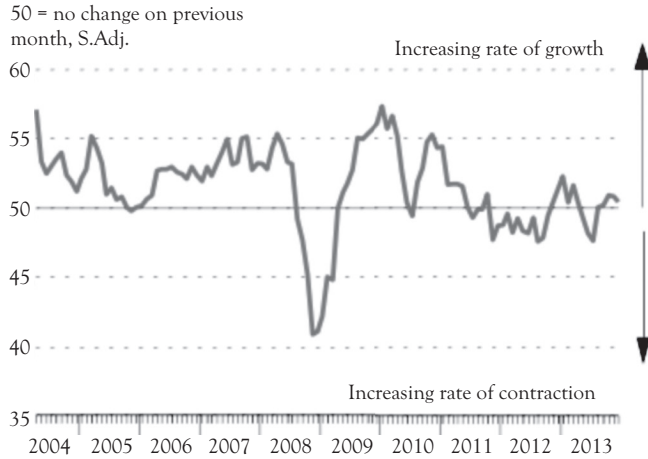


Figure 2.5 China manufacturing PMI as of December 2013

Source: Markit Economics, HSBC.¹⁵

of some economists. By the time this book goes to press we will be able to assess if we were right or not.

Nonetheless, much like Western economies, China blames the tightening of monetary policy as the feeder of its ever-growing white elephant. Again, much like the West, it looks more like a systemic issue, since its main markets, the United States and Europe, are both battling a probable imminent double recession, which is squeezing their buying power. In addition, ahead of the West, inflation is rising, especially wage inflation, causing the hungry elephant to erode China's main competitive advantage in the manufacturing industry. The tightening of monetary policy is anathema to this, but the transformative systemic change in the Chinese economy is not. Just look at the Purchasing Manager Index (PMI),¹⁴ which dropped to 49 in December, much lower than market expectations, to realize that the manufacturing sector is bleeding. In early 2013, the PMI climbed to 53, but manufacturing of goods

¹⁴ A monthly index of manufacturing, considered one of the most reliable leading indicators available to assess the near-term direction of an economy. An index reading above 50 percent indicates that the manufacturing sector is generally expanding, while a reading below 50 percent indicates contraction. The further the index is away from 50 percent, the greater the rate of change.

in China has been declining. As depicted in Figure 2.5, in October 2013, China's PMI fell to 52.6, and even further, to 50.2 in February 2014.

Such declines in PMI produce a ripple effect of stocks piling up, thereby driving the cost of doing business higher, to the extent that it has become cheaper for China to transfer its manufacturing to the United States, primarily to South Carolina. Certainly, labor costs, even in the south of the United States, are higher than those in China. However, the cost of energy is a lot cheaper, as is the cost of real estate, infrastructure, and shipping across the Pacific.

What makes China's white elephant so pale is the fact that small and medium businesses (SMBs), the driving force of China's manufacturing, do not have easy access to credit. China's four major banks, Bank of China, the China Construction Bank, the Industrial and Commercial Bank of China, and the Agricultural Bank of China, control more than 70 percent of its banking market. These are state-owned banks that favor state-owned companies, and, rarely, some fortunate private corporations. This resource misallocation is feeding the pallid pachyderm at the expense of SMBs, left with their only option of costly business financing.

We do not profess to be economists, but looking at the sheer size of China's white elephant, it is clear to us that monetary policy alone cannot fix the systemic insufficiencies of China's economy. As long as the economy remains vastly dependent on U.S. and European consumerism—countries currently dealing with their own herd of white elephants, and unable to consume as before—China's exports will remain massively strained. Consequently, the country is being burdened with a severe excess capacity problem, pushing down the marginal returns of investment and GDP, while fostering an uptick of inflation, unemployment, and possibly more bubbles.

As the United States and Europe deal with their own economic crisis, they are being forced to place their deficit-fueled consumption economies on a stringent diet. To deal with their own white elephant, they

¹⁵ <http://www.businessinsider.com/july-pmi-global-roundup-2012-8#ixzz2l1PH9OmV> (accessed November 15, 2013).

will have to shop and consume less, to give room for increasing saving rates, chronically low at the moment, and higher productivity. Such an unavoidable consumer diet could be disastrous for China, as data from the EIU and the U.S. Department of Commerce's Bureau of Economic Analysis suggest that China will remain dependent on an export-led economy until at least late 2030. If true, China must find new markets and reduce its dependence on the West's economies.

Could the BRIC countries be the ace up China's sleeves? After all, as O'Neil predicted, these four countries alone, will, in the next two decades, account for half of the population of the entire world (i.e., huge middle class), and their economies will be larger than those of the G7 countries combined. Europe today has 35 cities with a population over one million, but by 2030, India alone will have 68 cities with over one million consumers and China itself will have over one billion consumers living in cities. This staggering fact alone could mark the slow death of China's white elephant, by letting go of its dependence on the West, and the return of a progressive flame-thrower dragon, ready to sizzle its middle-class economy and that of the BRIC with sales aplenty of manufactured goods.

The question remains: Which will have more weight, the shortsighted state-capitalist elephant or the farsighted free-market driven dragon?

The Case of Brazil: An Economy of Extremes

I (Dr. Goncalves) recently returned from Brazil, and while observing the hustle and bustle of Rio's international airport, busier than ever, it dawned on me that Brazil has much to be proud of. I am Brazilian, and therefore, admit to being a tad biased, but the fact remains that a decade of accelerated growth and progressive social policies have brought the country prosperity that is ever more widely shared. The unemployment rate as of September 2013 was 5.4 percent, from 5.30 percent in August 2013.¹⁶ Credit is flourishing, however, particularly to the swelling numbers who

¹⁶ From 2001 until 2013, Brazil's unemployment rate averaged 8.8 percent reaching an all-time high of 13.1 percent in April 2004 and a record low of 4.6 percent in December 2012.

have moved out of poverty status and into the ranks of the middle class. Income inequality, though still high, has fallen sharply.

For most Brazilians, life has never been as hopeful, and to some extent we see plenty of paradigm shifts. Women's salaries are growing twice as fast as those of men, even though they only occupy a mere 21.4 percent of executive positions, despite the fact that they hold most of the doctoral degrees in the country (51.5 percent) and dominate the area of research (58.6 percent). They also own more companies in the Latin American region (11 percent) than any other emerging country. The new shifts in the Brazilian economy also benefit the black communities, which have seen their salaries increase four times faster than their white counterparts, bringing the population of the middle-class blacks from 39.3 percent to 50.9 percent. According to research conducted by the Federal University of Rio de Janeiro, of 20.6 million people who entered the workplace, only 7.7 million were white. Overall, the country is enjoying the boom brought by commodities, in particular oil and gas, despite the global economic slowdown. Are advanced economies' entrepreneurs taking advantage of this?

If not, they should, but with a caveat: We believe that what worked for the Brazilian economy 10 or even 20 years ago, such as a focus on commodities, low labor costs, and excessive focus on exports, will not work moving forward. Today, Brazil is a new country, with new habits and customs, and believe it or not, a population that possesses an extremely elevated self-esteem. That is, the fledgling and rapidly growing Brazilian middle class, 52 percent of the population since 2008, is in love with itself and ready to spend. According to Goldman Sachs, more than two billion people around the world will belong to the middle class by 2030, but the majority of Brazilians are already there.

In 2010, the United Nations Development Program's report, ranked Brazil among the 10 worst countries in the world in terms of income inequality, with a Gini¹⁷ Index of 0.56 (1 being ideal and 0 being the worst), tied with Ecuador and only better than Bolivia and Haiti. Brazil

¹⁷ The Gini Index is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. It was developed by the Italian statistician and sociologist Corrado Gini.

is home to 31 percent of all Latin American millionaires, about 5,000 people with a net worth superior to US\$30 million. More than 100,000 Brazilians own financial investments of at least one million reais, or about US\$500,000. But what this report fails to include is that, in 2008, the Gini Index was far worse (0.515). Since then, unemployment fell from 12.3 percent to 6.7 percent (2010 data) and, as mentioned earlier, it is now at 4.9 percent. In 2003, there were 49 million Brazilians living in poverty. Six years later, that number plummeted to 29 million as a result of government-sponsored social programs.

Brazil's primary challenge is in regard to education. In our view, the global economy has essentially become a knowledge economy. However, Brazil has not adequately invested in education, despite the commodities boon. Recently, the federal government launched several promising educational programs, such as "science without barriers," sending and financing several thousand higher education students to be educated abroad in the STEM (science, technology, engineering, and math) disciplines. Sadly though, the reality today is that approximately 80 percent of all corporate professionals in Brazil do not have a college degree—one of the lowest rates in the world.

According to a United Nations Educational, Scientific and Cultural Organization (UNESCO) report, only 35 percent of Brazilians between the ages of 25 and 34 years have high school diplomas, which is three times higher than those between the ages of 55 and 64 years (11 percent). The new generation of professionals is not being educated quickly enough. Compare this data to South Korea, which planned for its economic growth by increasing the number of high school graduates from 35 to 97 percent. In the United States, as of March 2013, the U.S. number was 75 percent. Still, in the past five years, there have never been as many Brazilians studying—with tangible results. In the past 10 years, 435 vocational schools were opened, and the number of universities jumped from 1,800 to almost 3,000 institutions (the United States has 4,495 Title IV-eligible institutions), while the number of college students jumped 46 percent, reaching 6.5 million (the United States has about 20.3 million). As we look toward the future, despite all its shortcomings, we are looking at a much more educated workforce in Brazil.

Hitherto, Brazilians did not believe in their country's potential and suffered from a certain inferiority complex. Now, they have several reasons to take pride in being Brazilian: the impressive economic boom of late; greater access to education and to information (Brazil is fifth in the world in Internet access, behind only China, United States, India, and Japan); democratization of culture; and the recognition of Brazil as an emerging country abroad.

While there are a variety of different methodologies being used to study the relatively new field of Happiness Economics, or the efficiency with which countries convert the earth's finite resources into well-being experienced by their citizens, the think-tank company Global Finance has ranked 151 countries across the globe on the basis of how many long, happy, and sustainable lives they provide for the people who live in them per unit of environmental output, the Happy Planet Index¹⁸ (HPI). The Global HPI incorporates three separate indicators, including ecological footprint (or the amount of land needed to provide for all their resource requirements plus the amount of vegetated land needed to absorb all their CO₂ emissions and the CO₂ emissions embodied in the products they consume); life satisfaction, or health as well as "subjective well-being" components such as a sense of individual vitality, opportunities to undertake meaningful, engaging activities, inner resources that help one cope when things go wrong, close relationships with friends and family, and belonging to a wider community; and life expectancy. According to the report results, Brazil ranks 21 (Costa Rica leads the way and Vietnam is second), while the United States ranks 105. Need we say more?

A New Frontier Within the Emerging Markets

A very important breed of countries, often called "frontier" markets due to their small, unpopular, and illiquid economies have been making the headlines for their propensity of fast growth. Although these countries

¹⁸ <http://www.happyplanetindex.org> (accessed November 10, 2013).

have not yet joined the global investment community, they have already joined the global economic community. Many have improved their economic and trading policies, strengthened their institutions, and, in many cases, hoarded substantial foreign exchange reserves.

Take Bangladesh, a country the size of Iowa. It is a moderate, secular, and democratic society, and the world's seventh most populous nation, with 160 million people. Bangladesh has a big potential market for foreign investors, with a growing garment sector that provides steady, export-led economic growth, and a rapidly developing market-based economy. It is on the cusp of attaining lower-middle income status, thanks to a consistent average annual growth rate of 6 percent since the 1990s.

Egypt is another overlooked economy. Although it has lately been politically unstable as a result of the political unrest that spread through the Middle East, it is the third largest economy in Africa, and remains an important emerging market in that region since it controls and draws significant revenue from the Suez Canal. But for Egypt's economy to pick up, much will depend on how the political process evolves.

The Philippines has shown economic progress in the past few years, and posted the highest growth rates in Asia for most of 2013. It weathered the global economic crises very well, thanks to significant progress in recent years on fiscal consolidation and financial sector reforms, which contributed to a marked turnaround in investor sentiment, fostering significant FDI. However, its economy still has a large agricultural sector, though that is beginning to change.

Other frontier markets include Turkey and Vietnam. There are significant opportunities in frontier markets, especially considering their solid capital bases, young labor pool, and improving productivity, particularly in Africa, where the sub-Saharan region will, eventually, overtake China and India. It is plausible to assume that Africa's economy will grow more than 14 times by 2050, when it could exceed the current economic output of both the United States and the Eurozone.

We must consider, however, the frontier markets' deepening economic ties to China, which makes it vulnerable to a slowing Chinese economy. Also, frontier markets are not without risks, as local politics

are complex, and there are still several pockets of corruption and instability. Furthermore, liquidity is scarce, transaction costs can be steep, and currency risk is real. There is also the risk of nationalization of industries. Emerging markets are not in “crisis”; in fact, their growth outpaces that of the United States, Europe, and Japan. But there are many other emerging markets—such as the “frontier” states—that deserve attention.

Highlights of Some Key Frontier Markets

Although there are significant opportunities in frontier markets, we must consider the risks associated with these markets’ deepening economic ties to China, which makes them vulnerable to a slowing Chinese economy. Also, frontier markets are not without risks, as local politics are complex, and there are still several pockets of corruption and instability. Furthermore, liquidity is scarce, transaction costs can be steep, and currency risk is real. There is also the risk of nationalization of industries.

However, progress has not been made across the board, as monetary and fiscal policies, imbalances in foreign direct investment (FDI), and stock vulnerabilities vary widely. This situation is aggravated by the fact that the media tend to emphasize news of conflicts, violence, drought, flood, and human suffering in frontier markets, shifting public opinion against them. Behaviors such as that of Robert Mugabe, president of Zimbabwe, who allowed inflation to reach an absurd 231,000,000 percent in 2008 is an example of news that fosters a general prejudice. But each country should be judged on its own merits.

Bangladesh

Bangladesh, a country the size of the state of Iowa (the United States), is situated in the northeastern corner of the Indian subcontinent and bordered by India and Burma. Although geographically small, in reality, Bangladesh is a moderate, secular, and democratic country with a population of 160 million, making it the seventh most populous country

in the world (larger than Russia). Bangladesh is a big potential market for foreign investors, with a growing garment industry that supports steady export-led economic growth. The country is densely populated, with a rapidly developing market-based economy. Bangladesh is a major exporter of textiles and seafood, with the United States as the largest trading partner. Its financial markets are still in their infancy, and thus present a major challenge for growth.

Bangladesh will soon attain lower-middle income status of over US\$1,036 GDP per capita, thanks to consistent annual GDP average growth of six percent since the 1990s. Much of this growth continues to be driven by the US\$20 billion garment industry, second only to China, and continued remittance inflows, topping US\$16 billion in 2013. In 2012, Bangladesh's GDP reached US\$123 billion, complemented by sound fiscal policy and low inflation, which measured less than 10 percent in 2012.

Bangladesh offers promising opportunities for investment, especially in the energy, pharmaceutical, and information technology sectors as well as in labor-intensive industries. The government of Bangladesh actively seeks foreign investment, particularly in energy and infrastructure projects, and offers a range of investment incentives under its industrial policy and export-oriented growth strategy, with few formal distinctions between foreign and domestic private investors. Bangladesh has among the lowest wage rates in the world, which has fueled an expanding industrial base led by its ready-made garment industry. The country is well positioned to expand on its success in ready-made garments, diversify its exports, and move up the value chain.

Egypt

As discussed in the Chapter 1, Egypt has been politically unstable as a result of the Arab Spring that spread through the Middle East. This political uncertainty has caused massive damage to the economy. Egypt, the third largest economy in Africa, however remains an important emerging market in the region, and the substantial revenue from the Suez Canal, which it controls, makes it even more significant.

Furthermore, Egypt's ability to withstand the financial burden of the revolution, for now at least, was helped by the remarkable growth it posted until December 2011. A financial reform program that began in 2003 had also helped create a well-capitalized and well-managed banking system. For Egypt's economy to revitalize, however, much will depend on how the political process evolves over the coming months. Private-sector investment, which is important for meeting the job creation needs of the country, is currently on hold.

Indonesia

Indonesia is the fourth-largest country in the world by population. Not only is it a G-20 economy, but also has a significant and growing middle class with a society that is transitioning to a democracy. The country has relatively low inflation and government debt, and is rich in natural resources including oil, gas, metals, and minerals. Recently, with the fall of its currency, the rupiah, exports received a boost.

While advanced economies were slowing down and many emerging countries were experiencing slowdowns and *exported*¹⁹ financial crisis, Indonesia, with a large domestic market and being less reliant on international trade, grew through the global financial crisis. Domestic demand constituted the bulk of output in Indonesia, about 90 percent of real GDP in 2007.

Many other emerging markets that also either grew through the crisis or experienced relatively small adverse impacts had large domestic markets, such as in China, Egypt, and India. Indonesia also benefited from increased spending associated with national elections in 2009. Hence, Indonesia is recovering faster than many other emerging countries, in part due to a well-timed stimulus. From the first through the last quarters of 2009, output grew 4.5 percent, well above the emerging market's average of 3 percent for the same period. The fiscal stimulus was a step ahead of the curve. As the global economic crisis struck, the government topped up the existing fiscal loosening with cash transfers and other social

¹⁹ Exported financial crisis from advanced economies, and devaluation of those currencies caused inflation in these countries due to hot money inflows.

spending to protect the poor and support domestic demand. The monetary policy response and liquidity management by Bank Indonesia also supported the recovery.

Iran

Although one of the largest oil exporters in the world, Iran's economy is unique as 30 percent of the government spending goes to religious organizations, which is a major challenge for achieving sustainable growth. The other challenges include administrative controls and widespread corruption and these outweigh positive factors such as a younger, better-educated population and rapid industrialization. Yet another challenge is the constant risk of economic sanctions and military conflicts. As long as Iran remains committed to supporting terrorism and its nuclear weapons program, any FDI opportunity will continue to remain unrealistic.

The U.S. and EU sanctions targeting Iran's oil exports have hit the country harder than earlier measures, as these financial sanctions have seriously disrupted Iran's trade, for which government authorities were ill prepared. As of fall 2013, Iran was still trying to figure out how to cope with a currency crisis and higher inflation.

Since sanctions were imposed, the rial has fallen to record lows against the U.S. dollar with some reports suggesting it had lost more than 80 percent of its value. The sanctions have slashed Iran's oil exports to around one million barrels a day (b/d). As tensions have increased over Iran's controversial nuclear program, with the United States leading a campaign to undermine the country's economy for coercing the leadership to rescind its policies, the authorities in Tehran have become more secretive over economic data.

Nigeria

As the largest African nation by population, Nigeria is projected to experience a high GDP growth rate in the next few years and perhaps for the next several decades. Oil and agriculture account for more than 50 percent of the country's GDP, while petroleum products account for 95 percent of exports. The industrial and the service sectors are also growing. This economic growth potential spurs significant FDI initiatives,

mostly from China, the United States, and India. The challenge, however, is with its legal framework and financial market regulations, which leave much to be desired.

Pakistan

As another frontier market, we believe Pakistan has great potential for growth based on its growing population and middle class, rapid urbanization and industrialization, and ongoing, albeit slow, economic reforms. Pakistan has experienced significant growth for several decades. From 1952 until 2013, Pakistan's GDP growth rate has averaged 4.9 percent, reaching an all-time high of 10.2 percent in June 1954 and a record low of -1.8 percent in June 1952. Since 2005, the GDP has been growing at an average of 5 percent a year, although such growth is not enough to keep up with its fast population growth. Its GDP expanded 3.59 percent from 2012 to 2013.²⁰ According to the World Bank,²¹ the Pakistani government has made substantial economic reforms since 2000, and medium-term prospects for job creation and poverty reduction are at their best in nearly a decade.

Pakistan's hard currency reserves have grown rapidly. Improved fiscal management, greater transparency, and other governance reforms have led to upgrading of Pakistan's credit rating. Together with the prevailing lower global interest rates, these factors have enabled Pakistan to prepay, refinance, and reschedule its debts to its advantage. Despite the country's current account surplus and increased exports in recent years, Pakistan still has a large merchandise-trade deficit. The budget deficit in fiscal year 1996 to 1997 was 6.4 percent of GDP. The budget deficit in fiscal year 2013 to 2014 is expected to be around 4 percent of GDP.

In the late 1990s, Pakistan received roughly US\$2.5 billion per year in loan or grant assistance from international financial institutions such

²⁰ <http://www.tradingeconomics.com/pakistan/gdp-growth> (accessed March 23, 2012).

²¹ World Bank. 2012. "Doing Business 2014: Ease of Doing Business in Pakistan." World Bank. <http://www.doingbusiness.org/data/exploreconomies/pakistan> (accessed November 10, 2012).

as the IMF, the World Bank, and the Asian Development Bank (ADB).²² Increasingly, however, the composition of assistance to Pakistan shifted away from grants toward loans repayable in foreign exchange. All new U.S. economic assistance to Pakistan was suspended after October 1990, and additional sanctions were imposed after Pakistan's May 1998 nuclear weapons tests. The sanctions were lifted by President George W. Bush after Pakistani president Musharraf allied Pakistan with the United States in its war on terror. Having improved its finances, the government refused further IMF assistance, and consequently ended the IMF program.²³

Despite such positive GDP growth, Pakistan is still one of the poorest and least developed countries in Asia, with a growing semi-industrialized economy that relies on manufacturing, agriculture, and remittances. To make things worse, political instability, widespread corruption, and lack of law enforcement hamper private investment and foreign aid.

Ahmed Rashid, an investigative journalist with the *Daily Telegraph* in Lahore,²⁴ exposes many facets of Pakistan's political instability in his book titled *Pakistan on the Brink* (Rashid 2012), where he argues that the bets the U.S. administration has made on trusting Pakistan to support its war efforts in destroying Al Qaeda were not working. Pakistani Taliban, for instance, while pursuing terrorism within Pakistan, have killed more than 1,000 traditional tribal leaders friendly to the Pakistan state, and view the state as an enemy due to its tacit support to U.S. drone attacks on them.

²² Cheema, F. May 2004. "Macroeconomic Stability of Pakistan: The Role of the IMF and World Bank (1997–2003)." Programme in Arms Control, Disarmament, and International Security (ACDIS), University of Illinois at Urbana-Champaign. <http://acdis.illinois.edu/assets/docs/250/Macroeconomic-StabilityofPakistanTheRoleoftheIMFandWorldBank19972003.pdf> (accessed December 14, 2013).

²³ Hoti, I. September 4, 2004. "Pakistan Ends Ties with IMF Tomorrow." Pakistani Defence.com <http://forum.pakistanidefence.com/index.php?showtopic=36120> (accessed October 12, 2013).

²⁴ Lahore is the capital of the Pakistani province of Punjab and the second largest and metropolitan city in Pakistan.

Their aim, according to Rashid, was, and still is, to establish an Islamic caliphate²⁵ ignoring political borders (Rashid 2012).

Pakistan's political framework, Rashid contends, continues to be dominated by its army. Hence, civil government is weak, corrupt, and powerless. Apart from the Pakistan Peoples Party²⁶ (PPP) there is no other national party, as all other parties are either ethnic or regional, making democracy difficult in a society where the 60 percent Punjab population dominates civil service and the army; others feel underprivileged. Pakistan's political elite has failed to create a national identity that unifies the country. The army's anti-India security paradigm has filled the void to define national identity, making the army the most important component of the country.

According to the ADB (2013), the new government that took office in June 2013, however, quickly signaled restoring economic sustainability and rapid growth as high priorities for its five-year term. It emphasized focus on the energy crisis, boosting investment and trade, upgrading infrastructure, and ceding most economic functions to the private sector. To address low foreign exchange reserves, fiscal and external imbalances, and low growth, the government agreed on a wide-ranging economic reform program with the IMF, supported by a three-year loan worth US\$6.7 billion.

The program aims to eliminate power subsidies in fiscal consolidation that include strengthening the country's notorious weak revenue base and ending the drain from debt-producing public enterprises. Other structural reforms hope to strengthen the financial system and improve the business climate. ADB (2013) contends that fiscal consolidation would limit GDP growth in 2014 to 3.0 percent. The current account deficit forecast remains at 0.8 percent of GDP, as the foreign reserve position strengthens. The monetary program is likely to limit average inflation to 8.0 percent for 2014.

²⁵ A caliphate is an Islamic state led by a supreme religious as well as political leader known as a caliph (meaning literally a successor, i.e., a successor to Islamic prophet Muhammad) and all the Prophets of Islam.

²⁶ Pakistan Peoples Party is a center-left, progressive, and social democratic political party in Pakistan.

The Philippines

The Philippines has shown strong economic progress in the past few years, as shown in Figure 2.6, posting the highest GDP growth rates in Asia during the first two consecutive quarters in 2013. The country weathered the global economic crisis very well owing to significant progress made in recent years on fiscal consolidation and financial sector reforms, which contributed to a marked turnaround in investor sentiment, fostering significant FDI inflows.

The government used this opportunity of increased FDI inflows to build reserve buffers while keeping exchange rate flexible. Hence, the Philippines entered the global financial crisis on the back of significant improvements in external exposures, which afforded them a smaller output.

The challenges, as a newly industrialized country, are that the Philippines is still an economy with a large agricultural sector, although services are beginning to dominate the economy. Much of the industrial sector is based on processing and assembly operations in the manufacturing of electronics and other high-tech components, usually from foreign multinational corporations. As with many emerging markets, the United States remains the Philippines' largest trading partner.

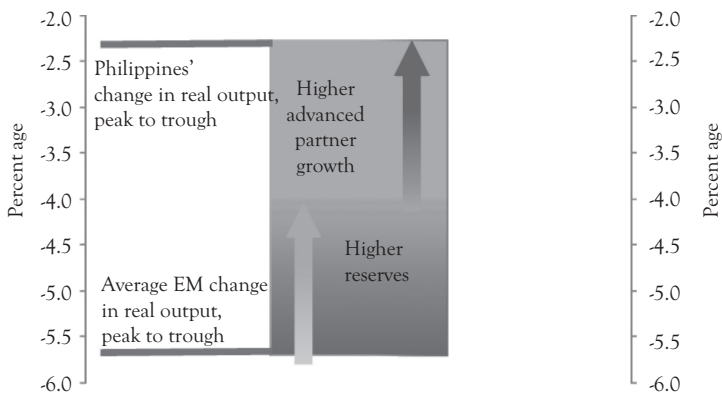


Figure 2.6 *The Philippines' contributions to growth performance relative to average emerging market growth*

Source: Haver; Bloomberg; IMF (Moghadam 2010).

Turkey

Turkey's economy, much like that of the Philippines, has been growing at a fast pace, and for much of the same reasons. Rapid industrialization coupled with steady economic reforms has made Turkey an attractive emerging market. In 2013, however, Turkish economy suffered from civil unrest in the summer and the U.S. taper talk. Turkey's economy remains prone to FDI inflows, but it draws its strength from the country's political stability, unique geographical location on the border of Europe and Asia, market maturity, and economic growth potential.

Vietnam

Although agriculture still accounts for 20 percent of Vietnam's GDP (rice and coffee remain the most important crops), its industry and service sectors continue to grow. The major challenge is still its authoritarian regime, which causes its economy to be split between state-planned and free-market sections. In addition, its economy is still volatile, despite much progress, due to relatively high inflation, lack of transparency in government policy, and a dearth of large enterprises.

CHAPTER 3

Coping with Differences and Promoting Interactions

Overview

Entering emerging and frontier markets is not easy. In our experience in teaching this topic, consulting for several multinational corporations around the world, and being a practitioner ourselves, we find that emerging and frontier markets can be tough to enter. The cultural aspects, discussed in more detail in later chapters, can be a major issue if one is not prepared to adapt or integrate. Government interference, backward infrastructure, and a lack of skilled workers can also be a major challenge, as it requires a lot of patience, perseverance, and specialized assistance, which actually keeps Dr. Majlergaard very busy at Gugin.¹

Opportunities in emerging and frontier markets come, therefore, with their own set of challenges. For instance, often the lack of education of the workforce translates into thwarted growth being curbed lack of a skilled workforce. Other challenges that arise are legal frameworks with regard to trade policies, which may be absent or underdeveloped, or tendencies for political paternalism or blatant interferences, which we see in India and Latin America.

Compare the aforementioned to the advanced economies, which, despite the fact that growth has been flat to negative since 2008, continues to supersede emerging markets. When looking at the European Union (EU), the 27-member countries allow for labor mobility and a free flow of goods without tariff or nontariff restrictions. Furthermore, the workers in many EU countries are highly educated and have conferred great reputations for their economies. While “German engineering” is

¹ www.gugin.com

well known around the world for its high level of quality, the same cannot be said for Indian or Russian engineering.

If we look at India, for example, it has been making progress in opening its economy, but its political response to a much-needed foreign investment is troubling. Large foreign retailers such as IKEA are willing to employ thousands of Indians, but politicians continue to fret about mom-and-pop stores and other small businesses that may be displaced. In 2012, politicians forbade IKEA from selling half its product line in India. In 2012, the deputy chief minister for Punjab went as far as to declare that there was no need for foreign-owned discount retail chains because there are already a multitude of stores selling cheap goods.²

Foreign investors become confused and frustrated with these types of patriarchal decisions. Although many nations have transitioned from autocratic rule to democracies with free markets, some continue to dabble in market interference.

Take Argentina as another example, where President Cristina Fernández de Kirchner, to prevent a run on the peso by Argentines, has put strict currency controls in place. It is no wonder that in an annual World Bank study titled *Doing Business* (2013), New Zealand, Singapore, and Hong Kong ranked first, second, and third, respectively, in protecting investors, while Argentina ranked 98.³

Emerging markets such as India and China have huge and growing populations and thus demand a rapid growth rate if they are to make any headway in social development. If India's economic growth falls below 6 percent, the nation would be in crisis, whereas in most advanced economies, such as the United States, if the economy grew at that rate it would risk overheating.

India can barely keep up with educating its rising populations. It needs as many as 1,000 new universities and 35,000 new colleges if it is to

² Mitchell, J. July 23, 2013. "Why Emerging Markets Are Tough to Enter." HSBC Global Connections. <https://globalconnections.hsbc.com/canada/en/articles/why-emerging-markets-are-tough-enter> (accessed December 16, 2013).

³ The World Bank. 2013. *Doing Business: Measuring Business Regulations*. <http://www.doingbusiness.org/rankings> (accessed September 22, 2012).

achieve its stated goal of raising postsecondary enrollment from 12 percent today to 30 percent by 2020. Meanwhile, Mexico is turning out more engineers and engineering technicians a year than Germany, and it must scramble to ensure they all get jobs. To fail would be to spawn social unrest.

Another key factor when considering entering emerging markets is the distance between emerging markets, which can hamper trade. One study found that a 10 percent increase in distance between north-to-north traders reduces trade by 10 percent; the same distance between south-to-south traders reduces trade by 17 percent.⁴

An improved policy would make an important difference in resolving such problems but emerging markets have yet to demonstrate serious desire for true bilateral cooperation. Although the Association of South East Asian Nations (ASEAN) countries have a trade agreement, it has yet to yield much economic improvement, as the bloc has yet to turn its loose organization into a trading bloc, even though economic integration has been touted as a central pillar. Public administration in emerging markets leaves much to be desired. The 2013 *Doing Business*⁵ study by the World Bank ranks Brazil, Russia, India, China, and South Africa (BRICS) as 116th, 92nd, 134th, 96th, and 41th, respectively, out of 189 countries.

Infrastructure remains a significant problem in most emerging markets. China continues to invest heavily in roads, railways, and ports, but elsewhere the progress is weak. India has called for US\$1 trillion in infrastructure modernization but it lacks the funds to do so independently and its politicians remain suspicious of external sources of capital. The situation is no different in Latin America; in fact, it is arguably worse, as 80 percent of Latin Americans live in cities, compared to fewer than half of Asians, and so the need for modern urban infrastructure is urgent.

⁴ Mitchell, J. July 23, 2013. "Why Emerging Markets Are Tough to Enter." HSBC Global Connections. <https://globalconnections.hsbc.com/canada/en/articles/why-emerging-markets-are-tough-enter> (accessed December 16, 2013).

⁵ The World Bank. 2013. *Doing Business: Measuring Business Regulations*. <http://www.doingbusiness.org/rankings> (accessed September 22, 2012).

Brazil, for instance, wants to improve its infrastructure, which is a bottleneck for the outflow of many of its export products, but it is moving glacially. It has been so slow that Sao Paulo's underground rapid transit system covers only one-tenth of the distance of the one in Seoul, South Korea.⁶

Does all this mean that foreign investors should avoid trading with or investing in emerging and frontier markets? On the contrary, however, any organized program of opening up to emerging markets must include specialized expertise, on-the-ground knowledge, local partnerships, and, most of all, patience.

Understanding Why Multinationals Often Fail in Emerging and Frontier Markets

Pacek and Thorniley (2007) identified an exhaustive range of factors contributing to the failure of companies from advanced economies into emerging markets. These factors may be divided into external and internal factors and almost all are related to strategic and leadership issues.

- Country managers are appointed senior managers without any familiarity with the local market, culture, and language in emerging and frontier markets.
- The upper management fails to realize that emerging and frontier markets operate under distinct business models and structures, and consequently often merely transfer practices tested in advanced economies without considering adaptation.
- Head managers are not appointed for emerging and frontier markets, and this responsibility is typically assigned to an international manager who is responsible for markets in both advanced and emerging or frontier markets. The problem with this is that operational approaches are distinct in each of these markets.

⁶ The World Bank. 2013. *Doing Business: Measuring Business Regulations*. <http://www.doingbusiness.org/rankings> (accessed September 22, 2012).

- Companies fail to empower regional and country managers and delegate decision-making power to local managers.
- Companies fail to recognize that entering the market early is fundamental in establishing networks, developing brands, and learning the larger context from which it will operate.
- Companies fail to understand that business is driven by heads of regions and business units rather than by heads of functional areas. While the former have a focus and appreciation for the emerging markets, the latter tend also to be interested in developed markets.
- Companies get alarmed by short-term slippages and cut costs to attain favorable temporary results; yet this is likely to have a structural impact on strategy implementation and long-term results.
- Companies set unrealistic targets to achieve, which leave managers with limited maneuvering space and short-lived careers.
- Economic and political crises also exist in emerging markets and have a significant impact on business performance. Top managers need to understand this and be prepared to adapt and introduce new tactics rather than changing strategy, which despite having short-term success, tends to be the wrong approach in the long term.
- Foreign companies fail to recognize that emerging markets are more price sensitive and often stick to their pricing structures instead of adapting to local sensitivities.
- Foreign companies underestimate the competition from local companies in emergent markets, which gradually move up from lower to upper segments. Local companies understand better than anyone about local markets, sometimes employ dubious practices, and often have the support of local governments.
- International firms fail to recognize that their product portfolio is not tailored to the lower and middle segments of emergent markets and do not develop innovations that are context-oriented.

- Leaders fail to consider emerging markets as an integral part of strategy and acknowledge that such markets need to be approached with a distinct set of criteria for judging progress and success.
- Multinationals that focus too much on the larger emerging markets, such as BRICS, may neglect smaller markets and miss better-suited opportunities.
- Multinationals underestimate the potential and often early competition from smaller international and domestic companies, thus never accepting that they may be destined as a follower in emerging markets.
- One of the largest obstacles that foreign companies face may be the unwillingness to change long-standing business practices.
- Senior leaders fail to recognize that developing a network of reliable contacts often requires establishing friendships with locals, which requires time and visibility in emerging markets.
- The board members of many companies have limited diversity in terms of culture and ethnic background and do not develop sufficient appreciation for the peculiarities of emerging markets.
- The fact that demand is volatile and unpredictable in emergent markets may discourage multinationals, which often expect reliable market information.
- Top leaders fail to commit sufficient resources to get businesses established and growing in emerging markets, or acknowledge that it is never a short-term affair.

The failure factors are numerous and diverse but as Pacek and Thorniley noted it all boils down to a lack of adequate market entry preparation. Preparation requires companies to continuously research the external environment and know how to use internal resources to take advantage of opportunities. Hence, a preliminary audit that focuses on external and internal factors is essential. The external factors may be examined by posing questions concerning the market, the political environment,

the economic environment, and the business environment, as depicted in Table 3.1.

Table 3.1 *External factors and sample questions*

<i>Understanding the market</i>	
Market potential	<ul style="list-style-type: none"> • How large and wealthy is the market? • Is there unsatisfied demand for the product or service?
Understanding local consumers or customers	<ul style="list-style-type: none"> • Who are the consumers or customers? What are their characteristics? • How do consumers make their decisions?
Reaching the consumer or customer	<ul style="list-style-type: none"> • How difficult or easy is it to reach potential consumers or customers? • How do competitors and noncompetitors reach their customers?
Competition	<ul style="list-style-type: none"> • Which competitors are already operating in the market? • How strong are these competitors?
Lessons learned by noncompetitors	<ul style="list-style-type: none"> • What do noncompetitors say about the business environment in the country? • What have been the largest obstacles to successful operations?
Local culture	<ul style="list-style-type: none"> • What aspects of local culture are relevant to running a successful local business?
<i>Understanding the political and economic environment</i>	
Economic outlook	<ul style="list-style-type: none"> • How sustainable is economic growth? • What is driving economic growth?
Political outlook	<ul style="list-style-type: none"> • What is the level of political risk and how it will or might affect the business?
Government policies	<ul style="list-style-type: none"> • Does the government allow a level playing field? • Is the government in the hands of local lobbies?
<i>Understanding the business environment</i>	
Finance	<ul style="list-style-type: none"> • Is it possible to finance operations locally? • What access do customers or consumers have to finance?

(Continued)

Table 3.1 External factors and sample questions (Continued)

<i>Understanding the business environment</i>	
Labor market	<ul style="list-style-type: none"> • What are the wage or salary rates for the employees who will be needed? • What are the most effective ways of recruiting local employees?
Taxation	<ul style="list-style-type: none"> • What are the current levels of taxation? • What is the outlook for tax incentives?
Legal environment	<ul style="list-style-type: none"> • How effective and efficient is the local judiciary? • Is there any hope that the legal system will improve?
Bureaucratic obstacles to business	<ul style="list-style-type: none"> • What are the most common bureaucratic obstacles for business? • How easy or difficult it is to set up business in the country?
Crime and corruption	<ul style="list-style-type: none"> • Is crime a problem for business? • What is the level of corruption?
Infrastructure	<ul style="list-style-type: none"> • What is the quality of local transport infrastructure? • And telecommunications?
Foreign trade environment	<ul style="list-style-type: none"> • Is the country a WTO member? • Does it belong to any trading blocs or regional free-trade areas?
Cost of building a business and brand	<ul style="list-style-type: none"> • How expensive is it to build a brand? • How much time will it take to do what is necessary to get the business off the ground?

WTO, World Trade Organization.

By the same token, the internal factors must inquire about resources, products, organization, and risks, as depicted in Table 3.2.

Having done a preliminary external and internal audit, managers need to prepare a business proposal describing what to do, how to do it, by when, and what resources are required. The business must then ask itself whether there are similar or better opportunities available in other emerging markets. How then can we compare the potentials of different emerging markets?

Table 3.2 Internal factors and sample questions

Resources	<ul style="list-style-type: none"> • How much time and money will be required? • Is the CEO committed to support business development and provide necessary resources? And the senior managers? • What human resources are needed?
Products	<ul style="list-style-type: none"> • Is the product portfolio right for the market? • Will investment be available for developing new products?
Organization	<ul style="list-style-type: none"> • Will existing internal processes and operational practices help or hinder what is planned? • What existing capabilities can be drawn?
Risks	<ul style="list-style-type: none"> • Can the risks that have been identified be managed? • How would entry be financed?

CEO, chief executive officer.

Ranking Emerging and Frontier Markets

According to the GlobalEdge⁷ team at the International Business Center at the Eli Broad Graduate School of Management, Michigan State University, there are three main reasons why emerging markets are attractive. They are target markets, manufacturing bases, and sourcing destinations.

As target markets they present a growing middle class with substantial demand for consumer products and services. They are also excellent targets for electronics, automobiles, and health care services. The textile (machinery) industry in India is huge, oil and gas exploration plays a vital role in Russia, agriculture is a major sector in China, and airplanes are almost everywhere.

As manufacturing bases they present advantages such as low wages and high-quality labor for manufacturing and assembly operations. South Africa is a key source for industrial diamonds; Thailand has become an important manufacturing location for Japanese multinational enterprises (MNEs) such as Sony, Sharp, and Mitsubishi; Malaysia and Taiwan are home to manufacturing of semiconductors by MNEs such as Motorola, Intel, and Philips; and in Mexico and China we find platforms for consumer electronics and auto assembly.

⁷ Based on GlobalEdge. <http://globaledge.msu.edu/mpi>

As sourcing destinations, the emerging markets are also using their advantages to attract MNEs: MNEs have established call centers in Eastern Europe, India, and the Philippines; Dell and IBM outsource certain technological functions to knowledge workers in India; and Brazil is a leading raw material supplier, namely in oil and agriculture.

The Emerging Market Potential Index (EMPI) was based on the Cavusgil⁸ indexing approach and developed by the GlobalEdge team to assess the market potential of emerging markets. As shown in Table 3.3, EMPI is based on eight dimensions: market size, market growth rate, market intensity, market consumption capacity, commercial infrastructure, economic freedom, market receptivity, and country risk. Each dimension is measured using various indicators and is weighed in determining the overall index. The result is a score on a scale from 1 to 100.

Table 3.3, based on the Cavugil, Kiyak, and Yenyurt⁹ indicator, is useful in that it provides the relative position of each country but lacks analysis, as it does not explain what the data actually mean and what managers can do with these data.

From Indicators to Institutions

It is common wisdom that size and growth potential are the two best criteria to select an emerging market. However, this is not so for Khanna and Palepu (2010), who argue that lack of institutions, such as distribution systems, credit card systems, or data research firms, is the primary factor to consider when entering into an emerging market. For them, the fact that emerging markets have poor institutions, thus, inefficient business operations, presents the best business opportunities for companies operating in such dynamic markets. However, the way businesses enter

⁸ Cavusgil, S.T. January–February, 1997. “Measuring the Potential of Emerging Markets: An Indexing Approach.” *Business Horizons* 40, no. 1, pp. 87–91.

⁹ Cavusgil, S.T., T. Kiyak, and S. Yenyurt. October 2004. “Complementary Approaches to Preliminary Foreign Market Opportunity Assessment: Country Clustering and Country Ranking.” *Industrial Marketing Management* 33, no. 7, pp. 607–17.

Table 3.3 Market potential index (MPI for emerging markets, 2014)

Overall Rank	Country	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Economic Freedom	Market Receptivity	Country Risk	Overall Score
1	Singapore	1	86	74	66	80	83	97	100	100
2	Hong Kong	1	44	100	58	100	90	100	92	98
3	China	100	100	1	70	39	8	4	54	85
4	South Korea	9	40	56	100	87	82	18	65	67
5	Israel	1	39	65	79	70	78	22	66	54
6	Czech Republic	1	11	45	95	88	88	16	71	52
7	Poland	3	33	55	82	72	81	8	63	49
8	Turkey	6	73	65	79	52	53	5	49	48
9	India	37	74	28	78	22	52	3	42	48
10	Chile	1	40	48	35	60	100	15	79	40
11	Hungary	1	1	58	88	77	78	20	37	39

(Continued)

Table 3.3 Market potential index (MPI for emerging markets, 2014) (Continued)

Overall Rank	Country	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Economic Freedom	Market Receptivity	Country Risk	Overall Score
12	Malaysia	3	60	29	58	63	52	21	61	37
13	Russia	19	45	36	68	73	17	4	43	34
14	Peru	2	76	40	56	40	70	6	50	33
15	Mexico	9	31	53	49	47	63	21	53	33
16	Indonesia	10	68	28	77	32	54	3	39	31
17	Brazil	18	36	42	37	56	60	1	55	30
18	Argentina	4	68	49	67	60	45	4	11	29
19	Saudi Arabia	4	68	15		56	15	14	67	27
20	Thailand	3	19	31	66	47	49	17	48	20
21	Egypt	4	33	58	83	47	27	4	10	19
22	Colombia	3	44	42	31	45	62	4	52	18
23	Philippines	4	24	52	58	31	51	5	37	15
24	Pakistan	5	37	66	83	1	32	1	1	9
25	Venezuela	3	40	36	67	44	1	8	10	5
26	South Africa	5	29	40	1	25	66	5	50	1

Comm Infrac, Communication Infrastructure & Market; Cons Capacity, Market Consumption Capacity.

Source: <http://globalede.msu.edu/content/gbr/gbr8-4.pdf>

into emerging markets is different, and is contingent upon variations presented by the institutions and the abilities of the firms.

Khanna and Palepu point out that the use of composite indexes to assess the potential of emerging markets, as executives often do, has limited application because these indicators do not capture the soft infrastructures and institutions. These composite indexes are useful in ranking market potential of countries when and only these countries have similar institutional environments. When soft infrastructures differ we must then look at the institutional context in each market. In fact, when comparing the composite indexes of the BRICS countries we find that they are similar in terms of competitiveness, governance, and corruption. Yet, the key success factors for companies in the BRICS differ significantly from country to country. Take for example the retail chain industry.

In China and Russia, retail chain operators, both multinationals and local companies, converge in urban and semi-urban areas. In contrast, in Brazil, only very few multinational retail chains are located in urban centers, and, in India, we find even fewer international retail chains due to government restrictions that, until 2005, did not allow foreign direct investment in this industry. Thus, when looking at the economic indicators of the BRICS countries we find that increased consumption provides opportunities for retail operators.

Filling in Institutional and Cultural Voids

From an institutional and cultural viewpoint, the market is a transactional place embedded in information and property rights, and emerging markets are a place where one or both of these features are underdeveloped (Khanna and Palepu 2010). Most definitions of emerging markets are descriptive based on poverty and growth indicators. In contrast, a structural definition as proposed by Khanna and Palepu points to issues that are problematic, therefore allowing an immediate identification of solutions. Moreover, a structural definition allows us not only to understand commonalities among emerging markets but also to understand what differentiates each of these markets. Finally,

a structural approach provides a more precise understanding of the market dynamics that genuinely differentiates emerging markets from advanced economies.

To illustrate this, let us contrast the equity capital markets of South Korea and Chile. According to the International Finance Corporation (IFC) definition, Korea is not an emerging market because it is an Organization for Economic Cooperation and Development (OECD) member; however, when we look at its equity capital market, we notice that until recently it was not functioning well; in other words, it has an institutional void. Chile on the other hand is considered an emerging market in Latin America but it has an efficient capital market; thus, no institutional void appears in this sector. However, Chile has institutional voids in other markets such as the products market.

Strategy formulation in emerging markets must begin with a map of institutional voids. What works in the headquarters of a multinational company does not per se work in new locations with different institutional environments. The most common mistake companies commit when entering emerging markets is to overestimate the importance of past experience. This common error reflects a recency bias: A person assumes that recent successful experiences may be transferred to other places. A manager may incorrectly assume that the way people are motivated in one country would be the same in the new country (context). It may be assumed that everyone likes to be appreciated, but the way of expressing appreciation depends on the institutional environment. Khanna points out that the human element is the cornerstone of operating in new contexts. Ultimately, human beings, who provide a mix of history, culture, and interactions, create institutions.

In short, based on Khanna and Palepu's institutional approach to emerging markets it is necessary to answer several questions. Which institutions are working and missing? Which parts of our business model (in the home country) would be affected by these voids? How can we build competitive advantage based on our ability to navigate institutional voids? How can we profit from the structural reality of emerging markets by identifying opportunities to fill voids, serving as market intermediaries?

Strategies for Emerging Markets

The work of Khanna and Palepu indicates that there are four generic strategic choices for companies operating in emerging markets.

- Replicate or adapt?
- Compete alone or collaborate?
- Accept or attempt to change market context?
- Enter, wait, or exit?

Emerging, and to some extent frontier, markets attract two competing types of firms, the developed market-based multinationals and the emerging market-based companies. Both bring different advantages to fill institutional voids. MNEs bring brands, capital talent, and resources, whereas local companies contribute with local contacts and context knowledge. Because they have different strengths and resources, foreign and domestic firms will compete differently and must develop strategies accordingly.

Table 3.4 summarizes the strategies and options for both multinational firms and local companies.

An example of how companies fill institutional voids is provided by Anand P. Arkalgud (2011). Road infrastructure in India is still underdeveloped in terms of quality and connectivity. Traditionally, Tata Motors has been the dominant player in the auto industry; but when it started to receive competition from Volvo in the truck segment and by Japanese auto makers in the car segment, Tata responded. It created a mini-truck that not only provided more capacity and safety than the two- and three-wheeled pollutant vehicles used to access market areas but also an environmentally sound vehicle, one that could easily maneuver U-turns in such narrow streets.

Another case in India involved Coca Cola, which discovered that its beverages were being sold “warm.” Coca Cola realized that it needed a solution to sell its product “chilled.” The reason for the warm bottles was that electricity supply in these remote locations was unstable especially in summer periods. Thus, the company developed a solar-powered cooler and partnered with a local refrigeration company.

Table 3.4 Responding to institutional voids

Strategic choice	Options for multinationals from developed countries	Options for emerging market-based companies
Replicate or adapt?	<ul style="list-style-type: none"> • Replicate business model, exploiting relative advantage of global brand, credibility, know-how, talent, finance, and other factor inputs. • Adapt business models, products, or organizations to institutional voids. 	<ul style="list-style-type: none"> • Copy business model from developed countries. • Exploit local knowledge, capabilities, and ability to navigate institutional voids to build tailored business models.
Compete alone or collaborate?	<ul style="list-style-type: none"> • Compete alone. • Acquire capabilities to navigate institutional voids through local partnerships or JVs. 	<ul style="list-style-type: none"> • Compete alone. • Acquire capabilities from developed markets through partnerships or JVs with multinational companies to bypass institutional voids.
Accept or attempt to change market context?	<ul style="list-style-type: none"> • Take market context as given. • Fill institutional voids in service of own business. 	<ul style="list-style-type: none"> • Take market context as given. • Fill institutional voids in service of own business.
Enter, wait, or exit?	<ul style="list-style-type: none"> • Enter or stay in market despite institutional voids. • Emphasize opportunities elsewhere. 	<ul style="list-style-type: none"> • Build business in home market in spite of institutional voids. • Exit home market early in corporate history if capabilities unrewarded at home.

JVs, joint ventures.

Source: Khanna and Palepu (2010).

Tarun Khanna and Krishna Palepu propose the following five contexts as a framework in assessing the institutional environment of any country. The five contexts include the markets needed to acquire input (product, labor, and capital) and markets needed to sell output. This is referred to as the products and services market. In addition to these three dimensions, the framework includes a broader sociopolitical context defined by

political and social systems and degrees of openness. When applying the framework, managers need to ask a set of questions in each dimension. An example of these questions is indicated in Table 3.5.

A Couple of Sample Cases

A series of recent case studies of Western companies operating in emerging markets illustrates the diversity and complexity of marketing issues faced in areas such as sociocultural dynamics, market orientation, brand strategies, product development, market entry, communications, and social media (Mutum, Roy, and Kipnis 2014). Even though most cases in Mutum, Roy, and Kipnis's (2014) research have lessons that are relevant to this chapter, we specifically draw on a selected few cases directly related to market entry.

Principles:

- Speed up new product development for firms aiming to increase export involvement.
- Pressure for business responsiveness demands adaptation capabilities to the local environment.
- There should be a diverse range of marketing strategies.

Kraft—Cadbury in India

In 2010, the U.S.-based Kraft Foods, Inc., acquired Cadbury, a U.K.-based confectionary maker. Cadbury was founded in 1824 and as of 2009 it held a 10 percent share of the global market for chocolate, gums, and candy industry. It had a strong presence in emerging markets where it held a dominant position in relation to other major competitors. One particular market where Cadbury had a well-established presence for over 60 years is India. One reason why Kraft Foods acquired Cadbury was precisely to access emerging markets, namely India and China, where Kraft's presence was marginal. Prior to acquiring Cadbury, Kraft did not have any meaningful presence in India, and currently it is entering India's

Table 3.5 Framework to assess institutional voids

Institutional dimension	Questions
Product markets	<ol style="list-style-type: none"> 1. Can companies easily obtain reliable data on customer tastes and purchase behaviors? Are there cultural barriers to market research? Do world-class market research firms operate in the country? 2. Can consumers easily obtain unbiased information on the quality of the goods and services they want to buy? Are there independent consumer organizations and publications that provide such information? 3. Can companies access raw materials and components of good quality? Is there a deep network of suppliers? Are there firms that assess suppliers' quality and reliability? Can companies enforce contracts with suppliers? 4. How strong are the logistics and transportation infrastructures? Have global logistics companies set up local operations? 5. Do large retail chains exist in the country? If so, do they cover the entire country or only the major cities? Do they reach all consumers or only wealthy ones? 6. Are there other types of distribution channels, such as direct-to-consumer channels and discount retail channels that deliver products to customers? 7. Is it difficult for multinationals to collect receivables from local retailers? 8. Do consumers use credit cards, or does cash dominate transactions? Can consumers get credit to make purchases? Are data on customer creditworthiness available? 9. What recourse do consumers have against false claims by companies or defective products and services? 10. How do companies deliver after-sales service to consumers? Is it possible to set up a nationwide service network? Are third-party service providers reliable? 11. Are consumers willing to try new products and services? Do they trust goods from local companies? How about goods from foreign companies? 12. What kind of product-related environmental and safety regulations are in place? How do the authorities enforce those regulations?

Labor markets	<ol style="list-style-type: none"> 1. How strong is the country's education infrastructure, especially for technical and management training? Does it have a good elementary and secondary education system as well? 2. Do people study and do business in English or in another international language, or do they mainly speak a local language? 3. Are data available to help sort out the quality of the country's educational institutions? 4. Can employees move easily from one company to another? Does the local culture support that movement? Do recruitment agencies facilitate executive mobility? 5. What are the major post-recruitment-training needs of the people whom multinationals hire locally? 6. Is pay for performance a standard practice? How much weight do executives give seniority, as opposed to merit, in making promotion decisions? 7. Would a company be able to enforce employment contracts with senior executives? Could it protect itself against executives who leave the firm and then compete against it? Could it stop employees from stealing trade secrets and intellectual property? 8. Does the local culture accept foreign managers? Do the laws allow a firm to transfer locally hired people to another country? Do managers want to stay or leave the nation? 9. How are the rights of workers protected? How strong are the country's trade unions? Do they defend workers' interests or only advance a political agenda? 10. Can companies use stock options and stock-based compensation schemes to motivate employees? 11. Do the laws and regulations limit a firm's ability to restructure, downsize, or shut down? 12. If a company were to adopt its local rivals' or suppliers' business practices, such as the use of child labor, would that tarnish its image overseas?
---------------	--

(Continued)

Table 3.5 Framework to assess institutional voids (Continued)

Institutional dimension	Questions
Capital markets	<ol style="list-style-type: none"> 1. How effective are the country's banks, insurance companies, and mutual funds at collecting savings and channeling them into investments? 2. Are financial institutions managed well? Is their decision making transparent? Do noneconomic considerations, such as family ties, influence their investment decisions? 3. Can companies raise large amounts of equity capital in the stock market? Is there a market for corporate debt? 4. Does a venture capital industry exist? If so, does it allow individuals with good ideas to raise funds? 5. How reliable are sources of information on company performance? Do the accounting standards and disclosure regulations permit investors and creditors to monitor company management? 6. Do independent financial analysts, rating agencies, and the media offer unbiased information on companies? 7. How effective are corporate governance norms and standards at protecting shareholder interests? 8. Are corporate boards independent and empowered, and do they have independent directors? 9. Are regulators effective at monitoring the banking industry and stock markets? 10. How well do the courts deal with fraud? 11. Do the laws permit companies to engage in hostile takeovers? Can shareholders organize themselves to remove entrenched managers through proxy fights? 12. Is there an orderly bankruptcy process that balances the interests of owners, creditors, and other stakeholders?

<p>Political and social system</p>	<ol style="list-style-type: none"> 1. To whom are the country's politicians accountable? Are there strong political groups that oppose the ruling party? Do elections take place regularly? 2. Are the roles of the legislative, executive, and judiciary clearly defined? What is the distribution of power between the central, state, and city governments? 3. Does the government go beyond regulating business to interfering in it or running companies? 4. Do the laws articulate and protect private property rights? 5. What is the quality of the country's bureaucrats? What are bureaucrats' incentives and career trajectories? 6. Is the judiciary independent? Do the courts adjudicate disputes and enforce contracts in a timely and impartial manner? How effective are the quasi-judicial regulatory institutions that set and enforce rules for business activities? 7. Do religious, linguistic, regional, and ethnic groups coexist peacefully, or are there tensions between them? 8. How vibrant and independent is the media? Are newspapers and magazines neutral, or do they represent sectarian interests? 9. Are nongovernmental organizations, civil rights groups, and environmental groups active in the country? 10. Do people tolerate corruption in business and government? 11. What role do family ties play in business? 12. Can strangers be trusted to honor a contract in the country?
<p>Openness</p>	<ol style="list-style-type: none"> 1. Are the country's government, media, and people receptive to foreign investment? Do citizens trust companies and individuals from some parts of the world more than others? 2. What restrictions does the government place on foreign investment? Are those restrictions in place to facilitate the growth of domestic companies, to protect state monopolies, or because people are suspicious of multinationals? 3. Can a company make greenfield investments and acquire local companies, or can it only break into the market by entering into joint ventures? Will that company be free to choose partners based purely on economic considerations?

(Continued)

Table 3.5 Framework to assess institutional voids (Continued)

Institutional dimension	Questions
Openness	<p>4. Does the country allow the presence of foreign intermediaries such as market research and advertising firms, retailers, media companies, banks, insurance companies, venture capital firms, auditing firms, management consulting firms, and educational institutions?</p> <p>5. How long does it take to start a new venture in the country? How cumbersome are the government's procedures for permitting the launch of a wholly foreign-owned business?</p> <p>6. Are there restrictions on portfolio investments by overseas companies or on dividend repatriation by multinationals?</p> <p>7. Does the market drive exchange rates, or does the government control them? If it is the latter, does the government try to maintain a stable exchange rate, or does it try to favor domestic products over imports by propping up the local currency?</p> <p>8. What would be the impact of tariffs on a company's capital goods and raw material imports? How would import duties affect that company's ability to manufacture its products locally versus exporting them from home?</p> <p>9. Can a company set up its business anywhere in the country? If the government restricts the company's location choices, are its motives political, or is it inspired by a logical regional development strategy?</p> <p>10. Has the country signed free-trade agreements with other nations? If so, do those agreements favor investments by companies from some parts of the world over others?</p> <p>11. Does the government allow foreign executives to enter and leave the country freely? How difficult is it to get work permits for managers and engineers?</p> <p>12. Does the country allow its citizens to travel abroad freely? Can ideas flow into the country unrestricted? Are people permitted to debate and accept those ideas?</p>

packaged food market with new innovative products and packages. For example, Kraft's Oreo brand has been repackaged using Cadbury's banner and is being funneled through Cadbury's network of mom-and-pop stores.

Case: McDonalds in India

McDonalds entered India in 1996 and by 2011 it had opened 211 restaurants in tier 1 and tier 2 cities across the country. In a country where people are biased toward their own food habits and cultures, one might expect foreign food retailing companies to face challenges upon entering India. However, while this was hitherto the scenario, it has changed recently with the new lifestyles and food consumption patterns in India, namely due to increased disposable income of middle and upper classes. McDonalds took advantage of these opportunities by adapting the menu to Indian tastes and offering home delivery.

To summarize, entry mode¹⁰ is determined by product, market, and organizational factors. In regard to products, companies need to know whether the nature and range of the product, along with available marketing strategies, will require any adaptation. If so, they should consider a partner in that emerging market. Usually, a higher level of control and resource commitment in the foreign market is required for new or wider product offerings as well as higher levels of adaptation. When taking into account market factors, managers need to consider physical distance and experience, as well as identify appropriate marketing strategies and distribution channels, and priorities in revenues, costs, and profits.

Organizationally, major concerns are communication with foreign operations and control of overseas activities. One particular concern in foreign markets is the control of assets. Firms will prefer to internalize activities where there is a higher chance of opportunism by the partners in the emerging market.

¹⁰ <http://globaleledge.msu.edu/reference-desk/online-course-modules/market-research-and-entry>

CHAPTER 4

Clash of Civilizations or Cultural Synergies?

Overview

After years of robust global economic growth, the implosion in advanced economy financial centers quickly began to negatively affect emerging and frontier markets. Financial markets froze in the aftermath of the Lehman bankruptcy in September 2008 and the emerging markets faced an externally driven collapse in trade, and pronounced financial volatility, magnified by deleveraging by banks worldwide, further aggravated the situation. As a result, growth of the global economy fell 6 percent from its precrisis peak to its trough in 2009, the largest straight fall in global growth in the postwar era.

The global crisis had a pronounced but diverse impact on emerging markets. Overall, real output in these countries fell almost 4 percent between the third quarter of 2008 and the first quarter of 2009, which was the most intense period of the crisis. This average performance, however, masked considerable variation across emerging economies. While real output contracted 11 percent during that period, the worst-affected quarter for emerging markets, this was true mostly in emerging Europe only, as output rose 1 percent during the same period in other less-affected emerging market regions, such as Brazil, Russia, India, China, and South Africa (BRICS).

Emerging and frontier markets are still being confronted with two major factors as a result of the global financial crisis, as depicted in Figure 4.1, which include a sudden halt of capital inflow foreign direct investment (FDI) driven by a massive global deleveraging, mostly from advanced economies, and a huge collapse in export demand associated with the global slump. Although some emerging markets were already

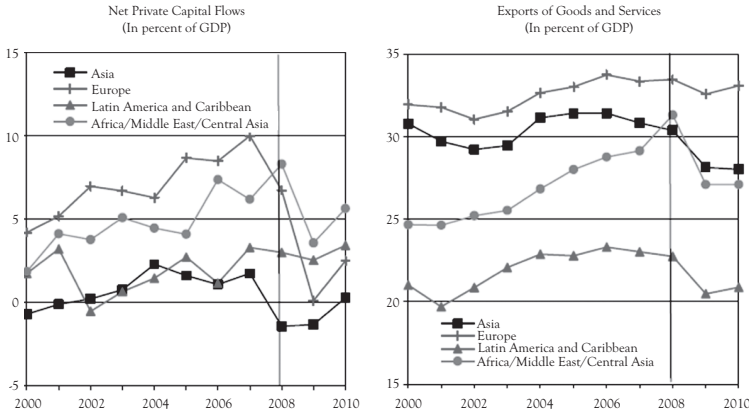


Figure 4.1 Impact of world economic crisis on emerging markets

Source: IMF¹

predisposed for a homegrown crisis following unsustainable credit booms or fiscal policies, and face large debt overhangs, the majority was not expecting the downturn and has been absorbing the hit from the unwellcome vantage point of surprise.

Advanced Economies and Emerging Markets Clash for Global Influence

To make matters worse for emerging and frontier markets, advanced economies (G7) are in a much worse economic situation. The G7 economies and industrialized economies are struggling with debt and slow growth, which continue to impair their ability to trade and invest with emerging markets. Although these countries represent about 50 percent of world gross domestic product (GDP), which totals around US\$30 trillion, these countries also have a total debt of US\$140 trillion, a remarkable 440 percent of their GDP. In 1998, the total debt of the G7 was US\$70 trillion, and their GDP was US\$30 trillion. Since then, the total debt in these advanced economies has doubled between 1998 and

¹ Ghosh, A.R., M. Chamon, C. Crowe, J.I. Kim, and J.D. Ostry. 2009. "Coping with the Crisis: Policy Options for Emerging Market Countries." *International Monetary Fund*. <http://www.imf.org/external/pubs/ft/spn/2009/spn0908.pdf> (accessed December 12, 2013).

2012, from US\$70 trillion to US\$140 trillion, and GDP has only risen by US\$10 trillion.

In the eurozone, recent economic indicators support the idea that the common-currency area will return to moderate growth by 2014. The road to recovery, however, remains fraught with uncertainties, as the strictly economic issues are far more severe and it has been impossible to summon the necessary political will to take the needed steps until and only when the euro economy teeters on the brink of collapse. At each stage, when the markets crack the whip loudly enough, governments respond. However, at each stage, the price of the necessary fix rises. Steps that could have resolved the crisis at one point are inadequate months later. At the time of writing, the euro crisis continues to drag on without any concrete exit strategy. Greece is still a member of the European Union (EU), along with Spain, Portugal, Italy, and France with varying degrees of threat. Germany continues to insist that the euro will survive while resisting bold steps to make it so.

Meanwhile, the relative international inactivity, especially during 2012, was partly due to an unusually large number of leadership changes, especially in East Asia. Most major countries, such as Russia, China, North Korea, South Korea, and Japan have witnessed changes of governments and heads of state. While political changes can be breathtakingly swift in the current global landscape, resolving or finding answers to complex economic challenges takes time. During this slow economic recovery process, advanced economies have incurred US\$70 trillion additional debt to produce US\$10 trillion of additional GDP.

In other words, the world's richest economies are coping with a market crisis where they need US\$7 of debt to produce US\$1 of GDP. Furthermore, for every 1 percent increase in the borrowing interest rate in its debt, the G7 adds a staggering US\$1.4 trillion in debt, undeniably a massive amount of debt. Consider the fact that US\$1.4 trillion is only slightly less than the entire GDP of Canada. Should interest rates increase by 10 percent, these countries will be looking at an increase in interest expense that equals the entire GDP of the United States.

Some economic sources, policy makers, and particularly the media have been suggesting that the G7 economies, predominantly the eurozone, are slowly recovering, mainly in the United Kingdom. What that country

is experiencing, however, in our view, is an expansion of nominal GDP, which is not equivalent to real economic growth, as GDP reflects money and credit being injected into the economy, which people incorrectly assume to be the same. Instead of economic recovery, GDP is reflecting money leaving financial markets, particularly bonds, for less interest rate sensitive havens, which may benefit emerging markets, but has the effect of a double-edge sword. Globally, bonds represent invested capital of over US\$150 trillion, or more than twice the global GDP. Therefore, even marginal amounts released by rising bond yields can be financially destabilizing, and the effect on GDP growth could be significant.

It is our belief that, the mistake of confusing economic progress—a better description of what global markets desire—with GDP is about to show its ugly side, pressuring interest rates to rise early, dragged up by rising bond yields. Take the United States for example, where personal credit in the form of car and student loans has been growing exponentially. The U.S. debt crisis is going up by at least US\$1 trillion every year. In addition, the U.S. Federal Reserve continues to expand its balance sheet by another US\$1 trillion each year, which means that the U.S. government is currently printing US\$2 trillion per year. At this pace, unless policy makers change course, we believe that the country, and the world economy, will enter a more significant deterioration beginning in 2014. Under such a scenario, which we hope will not happen, the United States could be forced to borrow even more, and the Federal Reserve's balance sheet would need to expand by several trillions of dollars.

Eventually, it might be much more impactful than that, as in addition to the trillions of dollars of debt, the dollar will likely continue to fall, interest rates will rise, and a hyperinflationary economy starts. Meanwhile, prolonged negotiations in the United States, the largest economy and buyer in the world, regarding the country's debt ceiling have increased uncertainty over its economic growth and that in turn is contributing further to dampening of the global economic growth.

The implosion of the U.S. debt will be extremely unpleasant for the world, particularly for those emerging markets that are still dependent on U.S. imports, as well as those trading with other advanced economies that have invested in the United States. We, with sober judgment and concern, anticipate a very difficult time for advanced economies and

emerging markets that may extend from 2014 through 2018 and beyond. We believe that it will take a very long time for this debt accumulated by the G7 countries to unwind and for the growth to recover.

It is critical, therefore, that emerging economies develop a credible exit strategy. An International Monetary Fund (IMF)-like fund may be a good start for BRICS and other similar blocks such as Association of South East Asian Nations (ASEAN); Middle East and North Africa (MENA); and Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa (CIVETS) trading with it, but monetary policy in these emerging countries should not be loosened too quickly, as a rapid reversal would just exacerbate the global *currency wars*² already at play and damage credibility for these countries.

The same holds true for fiscal policy interventions, where the stimulus should not be withdrawn too soon and not without a credible exit strategy that places government finances on a long-term sustainable footing and helps contain the costs of financing the short-term stimulus. Such an exit strategy would bestow additionally the benefit of strengthening investor confidence and facilitating the resumption of FDI inflows during the recovery phase.

The problem facing G7 central planners is that a predominantly financial community that has the money to invest in capital assets, such as housing, automobiles, and other luxury items, drives the GDP whimsy. The vast majority of economic stakeholders comprising pensioners, low-wage workers living from payday to payday, and the unemployed are simply disadvantaged as prices, already often beyond their reach, become even more unaffordable. It is a misfortune encapsulated in the concept of the Pareto principle, otherwise known as the 80–20 rule. The substantial majority will be badly squeezed by rising prices generated by the spending of the few. Global markets are blithely assuming that advanced economies' central banks are in control of events!

Unfortunately, we believe that they are not even in control of their own governments' profligacy, and they are losing their control over markets as well, as the tapering episode shows. In our view, the destructive

² Paraphrasing James Richards in his book *Currency Wars: The Making of the Next Global Crisis*, Portfolio Trade, 2012.

error of rescuing both the banking system and government finances by heedless currency inflation is in the process of becoming more apparent. Unless this policy is reversed, the world risks a rerun of the collapse of the German mark witnessed in 1923. The printing of money will not positively contribute to long-term economic revival.

The central banks' policies have caused debt to expand exponentially. This has greatly enhanced the economic power of the wealthy, and given the masses the illusion that they are better off, when all they have is a massive debt that can never be repaid. If we just look at the richest 1 percent in the United States, they have an average of 20 percent debt compared to 80 percent assets. But the masses, 80 percent of the people, have in comparison 90 percent vis-à-vis assets. This, of course, does not include government debt, which is also the people's debt.

For decades, the United States and Europe have been the two centers of global governance. They have, on one hand, the ability and experience in international problem solving and, on the other, both the energy and the will to act. All these are assets only when centers of global governance deploy them successfully. Once their model fails, the world will look elsewhere for leadership. At least in the foreseeable future, it will not find any substitutes. Hence, we argue that in the coming years, the United States and China will have to separate rhetoric and fear of the other from actual changes in global policy.

For instance, Stephen Ambrose³ had already pointed out such foreign policy issues in his book *Rise to Globalism*. The author, while seeming to have a serious distaste for the U.S. presidents Reagan and Johnson, believes that Carter was an ideological senseless president who ended up doing the exact opposite of everything he stood for. While holding President Kennedy as naive and being led or misled by the people around him, the author seems to have the most admiration for Nixon, not as a person, but as a president, whose administration was probably most up to the task of running a superpower.

³ Ambrose, S., and D. Brinkley. 2011. *Rise to Globalism*. New York: Penguin Group.

For instance, a simmering conflict in the East China Sea will have to be managed through and beyond Japan's elections. The United States will have to undo the damage wrought by its announced "Pivot to Asia." The underlying message is that the United States is planning to increase its military presence in the region for the purpose of containing China and forcing Asian countries to choose between allying themselves with one or the other great power. It will take much time to convince China that the United States' actual intent was and is to rebalance its attention from the Middle East toward East Asia, given that the United States has always attempted to exercise its power in Asia with diverse economic, political, and security interests there.

Emerging and Frontier Market Challenges and Opportunities

As discussed throughout this book, emerging markets have been on an inexorable rise over the past decade. During that period, the BRICS powered the high growth rate in emerging market economies, volatility notwithstanding. The rally, however, has started to trickle down in recent years, and came to a screeching halt in 2013, mainly due to fears of U.S. Federal Reserve tapering the stimulus and the slowdown of the Chinese economy.

It is important to note, however, that emerging markets entered the global crisis with varying economic maturity levels and conditions, and thus they are being impacted by the global financial crisis to diverse degrees. Some were already dealing with the beginnings of their own internal economic crisis associated with the end of unsustainable credit booms or fiscal policies, which left in their wake high levels of debt caused mainly by unhedged foreign currency exchange, which will probably require restructuring and perhaps write-offs. Other emerging countries were just caught up in the crash.

A number of emerging economies had to turn to the IMF for financial support. Increases in lending resources as well as reforms to the lending framework enabled the IMF to quickly react to global developments and put in place 24 arrangements, many with exceptional access,

including the recently introduced Flexible Credit Line.⁴ Other countries, many of them highlighted by Jim O’Neil in 2005, dubbed the Next 11, are poised to embark on rapid growth. Many of these countries have matured, improved their economic and trading policies, strengthened their institutions, achieved greater global credibility, and, in many cases, hoarded substantial war chests of foreign exchange reserves.

Progress, however, has not been across the board, with monetary and fiscal policies, FDI flow imbalances, and stock vulnerabilities, varying widely across these emerging economies. Emerging markets are not in “crisis”; in fact, their growth outpaces that of the United States, Europe, and Japan. But there are many other emerging markets—such as the “frontier” states—that are performing very well economically and deserve attention.

Despite the slowdown of leading emerging markets, another breed of countries, often referred to as “frontier” markets due to their small, unpopular, and illiquid economies, are prone to fast growth as well. Although these countries have not yet joined the global investment community, they have already joined the global economic community.

Seeking the Economic Center: Cultural Synergies

Can the Left actually be right? When we think about the latest headlines, the global phone-hacking scandals, the eurozone crisis, the U.S. economic anguishes, and the Occupy movements in the United States and Hong Kong to name a few, it does seem that the greedy few have left many disheartened with our debased democracy. It does seem that civilizations are clashing.

As we grimly read the papers and watch the news, it begs the question: Can the Left actually be right? One of the Left’s greatest arguments is that

⁴ The Flexible Credit Line (FCL) was designed to meet the increased demand for crisis-prevention and crisis-mitigation lending for countries with very strong policy frameworks and track records in economic performance. To date, three countries, Poland, Mexico, and Colombia, have accessed the FCL: due in part to the favorable market reaction, none of the three countries have so far drawn on FCL resources. <http://www.imf.org/external/np/ext/facts/fcl.htm>.

these events are a setup whereby big corporations orchestrate a system of global magnitude enabling them to get richer and pay the lowest labor costs possible. The global economic imbalance is obvious, generating a spread of Dante-like visions of hell in many sweatshop countries, such as Cambodia's Phnom Penh and Bangladesh's Dhaka, where mountains of festering garbage releasing clouds of smoke from subterranean fires is commonplace for children ambling barefoot, who search for plastic that recyclers will buy for five cents a pound. It is not unusual to find many families living in shacks on smoking trash. Can there be cultural synergies anywhere?

Although we believe that very few have access or know about it, such realities cause people to question the current system, and the subsequent clash of societies and peoples around the world. Perhaps, greedy capitalist bankers are as bad as the Left believes, pointing to examples such as Bank of America's attempt to charge its customers for the use of debit cards in stores. The U.S. credit crunch has exposed the process of how easily freedom can be seized. The liberty to borrow, which began in the 1980s to the delight of most, is now in jeopardy. Without access to loans, how many small businesses can open or first homes be purchased?

Meanwhile, as governments around the globe inject unimaginable amounts of money into banks, these institutions, in turn, appear to be having a lot of fun, as if in their personal playground, fully loaded with derivative swings and certificate of deposits (CDS) seesaws. The role of taxpayers is simply to pay for it and watch. Some are jealous, crafting elaborate Ponzi schemes. Others are aghast, realizing the optimistic free-market message of the Reagan era has now become shrill. We may proudly wave banners of the American dream, life, and liberty, but these messages carry a costly mark in small print: "Made in China."

In Europe, the Left-wing financial scene would be comical if it were not so tragic: They created a single currency, and assigned a single bank to control it without any authority monitoring it. Under this scenario, anytime, the eurozone's borrowing ability could run into misfortune; elected governments must acquiesce to virtually any indignity rather than let sacred bankers get hurt. Again, the people watch and pay—might as well grab some popcorn!

Yearning for a perceived past does not create a workable environment for the present. This is where so many conservatives essentially end up espousing fairly clashing and authoritarian views. Having adopted the recipes of fashionable perspectives, they have no deeper understanding. Michele Bachmann, a former member of the U.S. House of Representatives, is said to carry around a copy of a book by Ludwig von Mises, but we wonder if she has ever read it.

So, how right can the Left be? Do advanced economies' large multinational corporations in the West really have anything to do with the hardships in those economies? Judging by the numbers, it appears to be very little: In the United States since last year, final sales of domestic product rose by 3.8 percent and nominal GDP by 3.7 percent. Looking at U.S. S&P 500 corporations, sales rose by 10 percent, employment rose by 10.6 percent (2009 to 2010), and profits rose by 19 percent. But with all this sanguine news, why are Americans suffering so much financially and unemployment remains so high? At the time writing, early fall 2015, there are 9.4 million more Americans below the poverty line than it existed pre-crisis! Could it be because 47 percent of S&P 500 sales are overseas? Or is it due to the fact that, as several economists suggest, the United States has two economies: personal consumption, which is recovering, and the other, capital investment, that is not? The former is doing reasonably well in the world market and the latter, at least domestically, must still be scraped from the ceiling.

Can the Left be right? Should we assess advanced economies as we do with emerging markets—except that at the moment advanced economies are a submerging one? The Chinese often argue that they have two economies: an advanced one on the seacoast and a *Fourth World* one in the country's interior. India's economy follows a similar paradigm, a small modern one and a vast backward one—Who cares about the impoverished rural people when they have Tata, Reliance, Infosys, and few others? By this same token, the United States has become a dual economy because a portion of its people has tumbled into destitution, while the larger American corporations are enjoying a strong recovery.

There is an urgent need for the destitute side of the world's economy to have access to the thriving and profitable side. Education and retooling of the workforce is of great importance, and can help balance the

injustice. Moreover, the right combination of economic policies is necessary to revive the small business engine. Lower taxes on corporations and capital income and less oppressive regulation would also ameliorate matters. Finally, a rational immigration policy favoring entrepreneurs and highly skilled professionals will help advanced economies retain talent and promote cultural synergies, as is the case with Canada, New Zealand, and Australia.

The Perils of Global Business yet Local Markets

It would appear that all along we have been given mixed messages about how global markets are constructed. Scholars and gurus alike have been telling international students and virtually anyone who will listen that the world is flat, while others insist it is grumpy at best. While some politicians and commentators claim that the world is becoming a global village, cultures and values are converging, and naysayers are quick to point out huge gaps in cultural divergences that they believe are the cause of most of the world's conflicts.

As globalization is praised and encouraged by some, its dangers are portrayed in the news by financial analysts and by international organizations aplenty such as the United Nations, the IMF, and the World Trade Organization. Amid this haze of misinformation, competing trends are pulling multinational firms and brave small business owners in every direction.

Within the context of this global geopolitical backdrop, it often begs the question: "Do the ideas and trends espoused in the mainstream media really dominate, and if so, which ones matter most to global corporations and global marketers?" Should global entrepreneurs be focusing on international markets instead of local ones? Could the right answer be that there is no single right answer? We must be poised to engage with a world in which all positions and opinions may be right, depending on the cultural, political, and economic context of each region at any given time.

We must consider as well the marketing purpose and business models. Certainly, the marketplace does matter; doing business in Central Europe is still as significant as expanding business to the Middle East. Moreover, it means that the American company Caterpillar can be successful

abroad, hiring more than 7,500 employees overseas, because it provides *earthmoving solutions for today's global challenges*, while the Spanish bank Santander in the United States attracts both customers and American professionals by providing *value from ideas*. Unquestionably, it is a two-way venue that, as international business learners and professionals, we must be aware of.

The main idea to grasp is that we now live in an interdependent global economy, where local and global markets, as well as culture, like it or not, must coexist. Starbucks, for example, cannot be a great American icon and global brand without being a dominant local brand. It would not be possible for Starbucks to expand abroad and penetrate markets without expanding beyond its global core products and cultivating authentic local appeal. Steve Jobs tried that with Next Computer, to no avail.

Google is another example of a global interdependent company that is both local yet global. Google is fundamentally a *virtual* firm, delivering all of its services and products to consumers around the world via a *cloud*. Thus, it does not matter where Google's management and Internet infrastructure are housed since all users care about is that products and services are ever available, without borders.

Nonetheless, clouds are forever hovering over some local place, some country around the world, and thus, subject to its laws and idiosyncrasies. Let us not forget that where a cloud exists, there must be others. In Google's case, it was the Chinese government's preferred red cloud, Baidu, Google's Chinese major competitor. Despite being a *placeless* company, some Chinese hackers found a way to hack into Google's vaporous services, primarily, e-mail accounts of Chinese political dissidents. Google quickly surmised that despite being borderless, and placing its products in a cloud, international clouds can be much murkier than their local counterparts.

Ultimately, Google had to comply with Chinese government censorship of search requests on its Chinese-language website. In this scenario, Google's cloud in China turned dark quickly. Moreover, in Germany, Google's cloud underwent heavy winds and was stormed by an invasion of privacy lawsuits after it photographed streetscapes featuring private homes for its Street View mapping product. While German users caused Google's cloud to darken into a rain of protests and thundering lawsuits,

this same cloud in the United States is free to float over sunny skies, permitting users to glide over most streets and view commercial and private buildings at ease; all this from the privacy of their homes and smartphones, with sunglasses on.

Not even the ubiquitous Internet and the global e-commerce that relies on it are exempt from conventional geographical boundaries, be it brick-and-mortar or virtual. Although the whole notion of e-commerce presupposes no borders and global digital market places, in practice, geography and culture still matter and their effects are felt locally.

E-commerce rarely traverses political boundaries and its associated grounded local laws, regulations, taxes, and trade agreements, which still govern buyers and sellers, as well as the digital or physical products being commercialized. It is a myth to think that e-commerce is a global and multicultural phenomenon. In fact, relatively few online transactions cross international borders.

This is one explanation as to why international management and marketing have increasingly become a much sought after discipline, also one of the main reasons for this book, particularly the second part of it, focusing on leveraging this cultural diversity. Despite the expansion of global markets, the geographical location features embedded in communication technologies, from iPads to smartphones, are further increasing the importance of *place* in the marketing mix. Geolocation technologies are enabling international marketers to identify the location of a prospective mobile device and report it not only to the consumer, but also to service providers and third parties, enabling companies to offer international and local consumer ads based on physical location, cultural biases, and idiosyncrasies. These services are able to inform vendors about the dos and don'ts of doing business in those places. A good example of such a service is Yelp, which enables consumers to submit geotagged reviews and photos that increasingly influence the chances of success or failure of a product.

Still, the challenge of doing business internationally, especially over the Internet; the ability to predict what is profitable, culturally acceptable, legal, and ethical; and to know where to draw the line is no easy feat. By now, most of us have incorporated the Internet into our quotidian lives, and even those of us who have not, are aware of Megaupload's Kim

Dotcom's arrest, who was in the business of facilitating Internet downloads. According to the U.S. Justice Department and the Federal Bureau of Investigation (FBI), Megaupload allowed users to traffic in *stolen*—copyrighted—entertainment on which no royalties had been paid.

Was it legal? Not so fast. The trouble—and this is an ever-increasing problem—is that history shows us that copyright and even patent laws are clumsy instruments with which to combat truth telling of a particular information facility, or cloud. Generally, people tend to use a technology to its fullest extent. This fact, in itself, makes doing business internationally, especially over a cloud, a dangerous enigma, where notions of legal and illegal, ethical and unethical are at best, elusive, and at worst, ominous and foreboding. The U.S. Foreign Corrupt Practices Act (FCPA) among the Organization for Economic Cooperation and Development countries' interpretations offers a good example of it.

CHAPTER 5

Global Individualism

Prospects and Challenges

Overview

For the past several years, there has been a rapid rise of global consciousness, collective and individual. However, the evidence for this rising consciousness is too varied and extensive for a single book chapter on the issue. However, as we consider ways of leveraging cultural diversity around the world, here are some areas to be considered.

- The global rise of individualism, as depicted in Figure 5.1
- Increasing role of women in public life, and the inclusion movement
- Increasing attention to physical well-being and socio-emotional and spiritual growth throughout life.

Each of these deserves a separate chapter, but that is not the scope of this book. Hence, here let us focus on the rise of individualism and its impact in international trade, especially for emerging and frontier economies.

The Rise of Global Individualism

We are sure that many people do not consider the rise of global individualism as a positive change. But what we intend to show is that individualism is, like it or not, the developmental direction of the individual (and humanity), and it actually has been providing the engine for most of the world's development along any measurable line from science and technology to

INDIVIDUALISM

- A system of beliefs that place importance on the rights of the individual, and self-reliance, above the group
- Example: Police need a warrant to search property without just cause, because people have a right to privacy.



Figure 5.1 The meaning of individualism

Source: www.innoventum.com

philosophy, art, and spirituality. The human race has a developmental trajectory that has both group and individual components, the latter contributing to the health of the group, but producing great changes in group dynamics.

As the primary symbolic marker of this rise, consider the United Nations' Universal Declaration of Human Rights, signed on December 10, 1948. Hernán Santa Cruz of Chile, member of the drafting subcommittee, called the signing

a truly significant historic event in which a consensus had been reached as to the supreme value of the human person, a value that did not originate in the decision of a worldly power, but rather in the fact of existing—which gave rise to the inalienable right to live free from want and oppression and to fully develop one's personality.

In Article 1 of its 30 articles, the declaration states: "All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act toward one another in a spirit of brotherhood." While we may consider this document mostly of symbolic importance and more honored in the breach than with respect, it is

from the symbol, the thought, that reality unfolds, and it is toward that goal that much of the world still struggles today, seeing it exemplified by the developed nations. That document defines the trajectory of human development.

Nonetheless, when a global poll asked individuals to pick from groups of people they would not want as neighbors, Figure 5.2 depicts the share of people from around the world who indicated “people from another race.”

While few of us would challenge the moral rightness of this declaration, the very basis for individualism, we may have misgivings about the offspring. Valuation depends on the stance of the speaker, and surely there are aspects of this development that are not universally admired, particularly when observing a diminishing sense of community, social obligation, or security as one proceeds along the trajectory.

The Spirit of Individualism

The spirit of individualism applauds the freedom of the individual and encourages personal development and self-direction, with few social limitations. Independence, self-responsibility, and individuality are key values in this context. In turn, these values affect consumer perceptions of all sorts of products and foster changes in purchasing priorities and behavior, with important consumer trends emerging, namely three types of consumers: the me-first, the only-me, and the just-for-me.

The *Me-First* Consumers

The *me-first* consumer can be broken up into two subcategories.

- **Self-Asserted Consumers:** those who are increasingly likely to do their own research when it comes to purchasing a product or service. They are more skeptical and not afraid to disagree with recommendations and guidelines, especially when they are overly detailed and confusing.

World's most and least racially tolerant countries

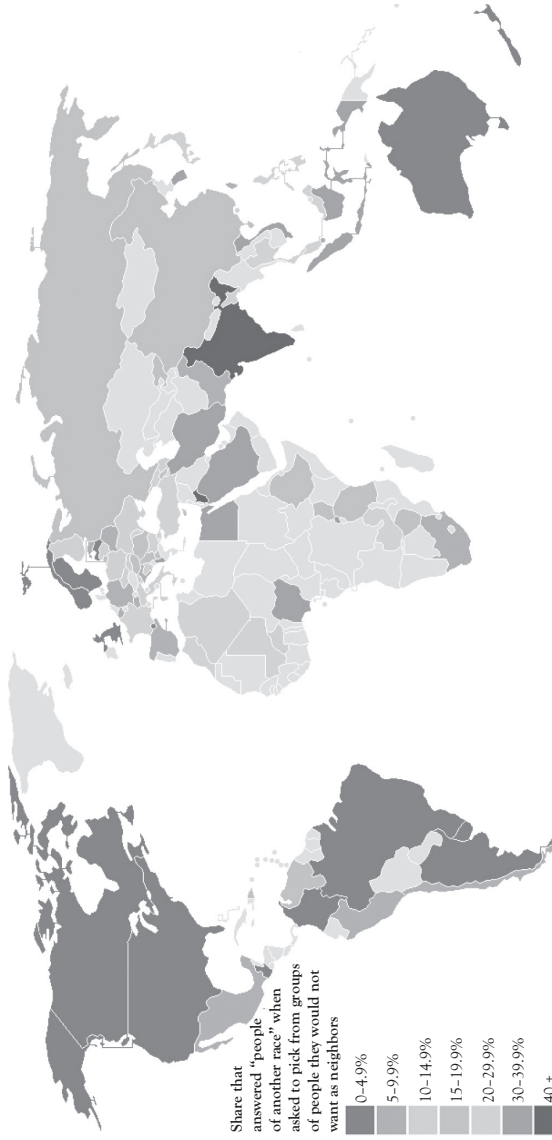


Figure 5.2 Race tolerance chart

Source: The Washington Post <https://www.washingtonpost.com/news/worldviews/wp/2013/05/15/a-fascinating-map-of-the-worlds-most-and-least-racially-tolerant-countries/> (accessed July 10, 2015).

- Self-Care and Self-Improvement: those who are watching their finances more than ever, in an effort to take more control of their lives and rely less on social programs. This means that consumers are actively seeking alternatives to their favorite products or services.

The *Only-Me* Consumers

The *only-me* consumers are typically single people, confident in their ability to be independent. These are part of those individuals delaying marriage and choosing to live alone. This type of consumer is looking for convenience.

In fact, in this new age of consumer information and relationships, a big brand can be a negative for the only-me consumer. A brand conveys consistency and safety; it says a can of Coke will taste the same whether you are in Syracuse or Saskatoon. As we get better information about small-scale competing products, we feel safe seeking out the unique, the undiscovered, the unbrands. Hilton becomes vulnerable to Airbnb's one-of-a-kind dwellings. Tiffany becomes vulnerable to jewelry makers on Etsy. The only-me consumers are more concerned about the fact that the product is only for them, as their emphasis is not on global consistency of quality and the suggestion the product or service is available to everyone, all over the world.

The *Just-for-Me* Consumers

Then we have the just-for-me group of consumers, which can also be broken up into two subcategories.

- Niche Markets and Consumer Segmentation represents consumers who differentiate themselves from others. They are looking for products that cater to their exclusive needs and desires. As a result, they are creating a whole host of new niche markets.
- Mass Customization and Open Innovation represents consumers who crave distinction from the crowd, are

attracted to custom-made products, and enjoy active participation in the design of truly unique products. These are those who purchased solid gold iWatches in China and exhausted Apple’s inventory in less than one hour.

Collectivism Versus Individualism

Figure 5.3 suggests that the more advanced an economy is, the more individualism it has as well, while emerging and, in particular, frontier markets are much more collectivist.

Although individualism has become a world phenomenon, it is still much more prevalent, as shown in Figure 5.3, in advanced economies with mature consumer markets, such as the United States, Canada, and Western Europe. Conversely, emerging markets and, in particular, frontier markets are still traditionally more collectivist cultures.

The differences between the United States and other nations have long been a subject of fascination and study for social scientists, dating back to Alexis de Tocqueville, the early 19th-century French political thinker who described the United States as “exceptional.” Nearly 200 years later, Americans’ emphasis on individualism and work ethic stands out in surveys of people around the world.

When Pew Research Center surveyed people in 44 countries last spring, 57 percent of Americans disagreed with the statement “Success

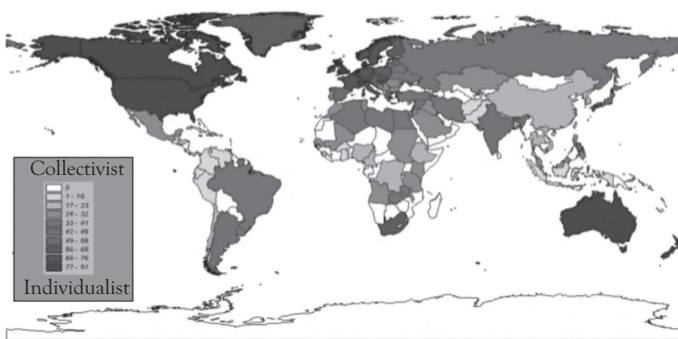


Figure 5.3 Collectivism–individualism world map

Source: Wageningen University - <http://image.slidesharecdn.com/gertjan-penelope-telemachos-and-odysseus-141125033528-conversion-gate02/95/penelope-telemachos-and-odysseus-18-638.jpg?cb=1416886594> (accessed July 10, 2015).

in life is pretty much determined by forces outside our control,” a higher percentage than most other nations and far above the global median of 38 percent. As depicted in Figure 5.4 the United States stands out on individualism.

In Latin America, for example, the family is of central importance in everyday life, fostering long-term commitment and loyalty to social groups, especially the family, which tends to be highly regarded and respected. In most Asian cultures, a similar collectivist emphasis is placed on seniority within and outside the family. Take Malaysia, for example, where children are raised to value cooperation, helpfulness and obedience, and parents are viewed as clear figures of authority (Keshavarz and Baharudin 2009).

Nevertheless, varying degrees of individualism and collectivism often coexist within a single country, with variables such as generational, income, and urban–rural differences all contributing to varying values and priorities. For instance, younger generations are growing up under increasingly secure conditions and, as a result, tend to embrace individualistic values to a greater degree than their older counterparts, often developing pernicious sense of entitlement.

In many traditionally collectivist cultures, such as Korea’s, the older generations are often portrayed as guardians of traditional values in the face of growing influence from Western culture. In several countries,

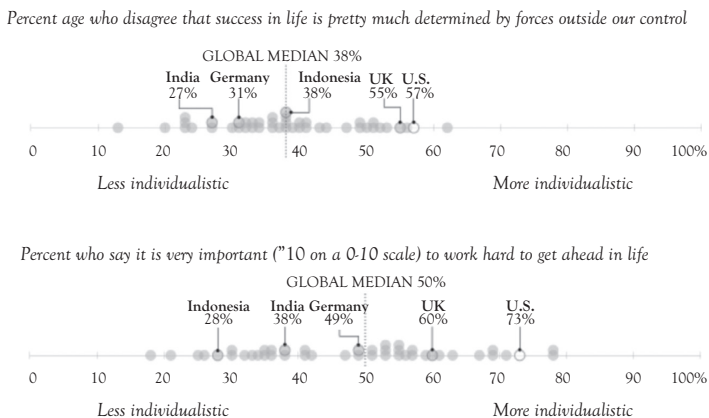


Figure 5.4 *The United States stands out on individualism*

Source: Spring 2014 Global Attitudes Survey. Q13b and Q66b. Pew Research Center, 2014.

a comingling of both collectivist and individualistic character traits is emerging. In South Korea, for example, there is now widespread discussion of the new *we-me* culture (Kim and Yun 2007).

Overall, however, individualism is gaining various degrees of momentum as emerging and frontier markets continue to develop and global markets continue to increasingly integrate. As economic development progresses and political stability is secured, new individualist priorities emerge. The result is a gradual but marked change in the connotations associated with individualism and Western culture within traditionally collectivist cultures—from an association with selfishness and greed to one of creativity, initiative, and entrepreneurship.

A More Egalitarian Reorganization of Community

It seems, as a global society, differences (political included!) aside, we are heading toward a more egalitarian reorganization of community. One way to describe this movement is within Maslow's familiar pyramid, the Hierarchy of Needs, as depicted in Figure 5.5, organized in three rising, but diminishing, sections, respectively: deficiency needs, growth, and transcendence. While Maslow's model described individual development, it can be equally applied to entire cultures.

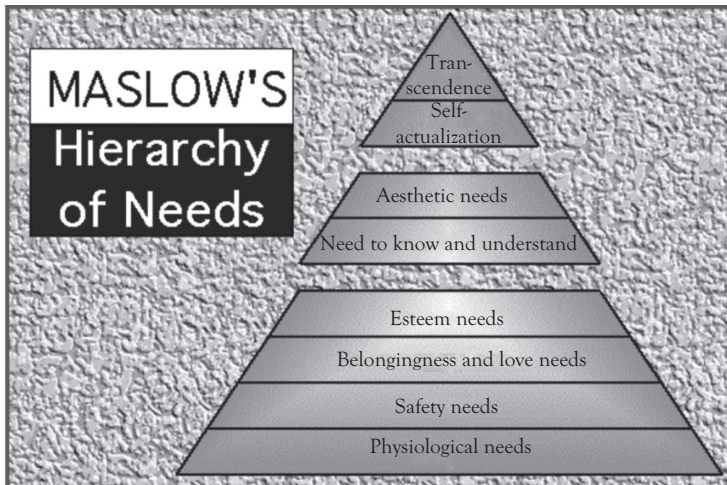


Figure 5.5 Maslow's hierarchy of needs

Referring to the pyramid, consider the lower four (deficiency) stages together as the minimum development for a successful, self-sustaining, culture; most of the world's historical cultures achieved only these. However, when a society, after achieving these requisites, becomes prosperous, then the energies of some percentage of the populace are freed to pursue activities beyond fulfilling basic needs. A civilization then flourishes through the pursuit of knowledge and the arts by a relatively small percentage of the population. And this pursuit is primarily by individuals, who are free to interact without collective hierarchical restraint.

This is the birth of individualism, flowering from wealth and freeing people from the clutches of extended obligation¹ and allowing personal energies to be redirected toward developmental endeavors (innovation) in myriad directions. Risk and reward increase exponentially in the face of unbounded opportunity.

The amount of free energy—symbolized by money—in our great global capitalistic system is enormous, and although not always well directed, it is the application of this energy that creates change and transformation. And by transformation we mean the unpredictable movement of an entire system into greater complexity—greater interconnection, interdependence, and energy. Think nodes and lines. The more the nodes, the more the lines connecting them to each other, and the more the communication and interaction along those lines and nodes, the greater the energy in the system.

This upward trajectory suggested by Maslow's model is well supported by a global research project of the World Values Survey (WVS),² as depicted in Figure 5.6, which for over 30 years has been exploring people's values and beliefs, how they change over time, and what social and political impact they have.

On the WVS map, the movement of cultures is upward and to the right, upward away from traditional values toward rational, secular values,

¹ Consider the period in the United States after World War II when housing construction changed to single family dwellings.

² <http://www.worldvaluessurvey.org/WVSContents.jsp>

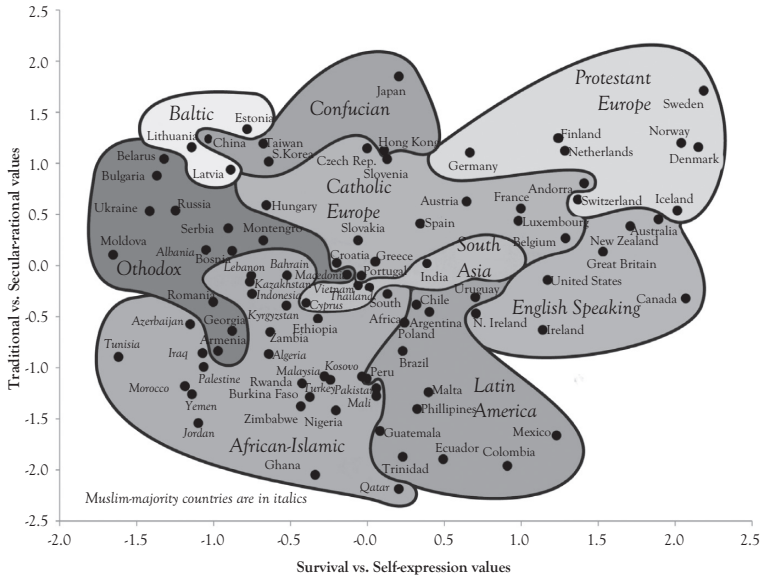


Figure 5.6 World Values Survey (WVS)

Source: Ronald Inglehart and Christian Welzel (2010).

<https://web.archive.org/web/20131019112321/>

http://www.worldvaluessurvey.org/wvs/articles/folder_published/article_base_54

and rightward away from survival values toward freedom of expression. The research affirms two basic factors.

- When survival is not threatened, the desire for free choice and autonomy is a universal human aspiration.
- The fulfillment of basic physiological and safety needs (Maslow's two lowest tiers) allows a growing emphasis on self-expression values. These together define the rise of individualism.

Individualism Is Provocative

Individualism is provocative. An individual's capacity for independent thought and judgment is highly valued in mature individualist societies. As autonomous beings, individuals are free, and even encouraged, to develop their own views, private opinions, and life paths, to accept or disapprove of mainstream ideas and to feel free from any pressure to conform to community affiliations (Datamonitor 2009; Realo et al. 2002).

Because the accomplishments of individuals are admired, touted, and used as a motivator, people feel incessant external and often internal pressure to continue to develop and produce beyond their current capacity, which is a good factor for emerging and frontier economies as it pushes its people to transcend in ways advanced economies can no longer comprehend or imitate, although they too underwent the same process a century ago.

As proudly autonomous beings, individualists define themselves as independent of social groups and institutions. One is never like the others; rather, one is always a distinct individual whose personality reflects unique and distinguishable traits, needs, and desires (Goncalo and Staw 2006; Realo et al. 2002).

The importance of *being true to one's self* is often voiced in individualist cultures and is prioritized over any pressure to conform to social norms. Individualist cultures therefore show a strong interest in whatever is different, undiscovered, or viewed as authentic, as well as a propensity to celebrate creativity and diversity (Datamonitor 2009).

Moreover, because uniqueness is highly prized, individualists are more likely to maintain their personal views, despite potential opposition from social groups or other individuals (Goncalo and Staw 2006). Although most cultures in the emerging and frontier market world are still predominately collectivist, the overbearing presence of the global media whips both collective and individualist, developed and developing, cultures alike into a frenzy of competition with the possibility of exceptional, if unlikely, rewards, while stirring up strong family and community fears and resentment in collectivist cultures.

Nevertheless, individuals remain concerned with their social image and how they are viewed by others, rather than aspiring to fit in with the norm. Individualists wish to be viewed as distinctive. A gap between advanced and emerging economies is particularly apparent in this regard. Consumers in Asia-Pacific, Latin America, and the Middle East still place a great importance on being seen with what is generally viewed to be the *right brand*. Therefore, brand names in developing countries continue to play a symbolic role in displaying an individual's wealth, taste, and success (Datamonitor 2009). In contrast, in more advanced economies, the *right brand* is associated with conformity and group mentality and does not influence consumer purchasing behavior as much (Datamonitor 2009).

As a result, the cultural importance of institutions and traditional authorities, such as the church, the government, and the corporation, has declined significantly. Instead, secularization and democratization emphasize the importance of individual choice and freedom over the ideas championed by such institutions.

For example, institutions are playing a far less important role in determining personal relationships, as more and more people choose to cohabit with their partner or adopt common law relationships, while rates of formal marriage continue to decline. Overall, individuals are generally free to define their own relationships and are under less pressure to conform to previous social norms.

Similarly, the accelerating pace of innovation and the precipitous drop in price of the last decade's tech innovations allows the leapfrogging of whole technological systems, so that the process of national economic development is vastly foreshortened and the ability to participate in the global economy is immediate. You can bank via your mobile phone in rural India. And the phones are cheap.

As independence and self-reliance are promoted, individuals are more and more aware of their own agency and their ability to direct their own lives (Realo et al. 2002). As such, this new individualist type of consumers increasingly accepts personal responsibility for their actions and well-being, which is an important motivator for lifestyle changes (Datamonitor 2009).

For example, one's personal environmental impact has become more important to consumers worldwide (Datamonitor 2009). Accordingly, concepts such as *personal carbon/ecological footprint* have gained a foothold both in environmental campaigns and eco-friendly product marketing. Likewise, keeping out of debt and learning about personal finances are now viewed as up to the individual: with the added stress of recessionary pressures, the vast majority are now managing their finances more closely and are increasingly reluctant to rely on credit to maintain their lifestyles (Datamonitor 2009).

Finally, fostered by rising affluence and increased opportunities, as well as greater professional competition, self-improvement becomes a naturally important derivative of the value placed on self-responsibility and self-care. More than ever, individuals are seeking new skills and

new experiences in order to broaden their horizons and increase their occupational satisfaction.

More than ever before, we have the potent engine of global business, which continually seeks new opportunities in undeveloped venues, offering incredibly rapid local area development in exchange for the license to operate. While the advantages of such deals often benefit only the few at the expense of the many at the outset, this discrepancy generally diminishes over time. The business grows, requiring more employees to be hired and trained locally.

China is a typical example. Seen at first as a source of cheap labor, global businesses essentially developed the Chinese market and its workforce until rising wages eventually forced the low-end market elsewhere, rapidly developing area after area of Southeast and South Asia, a process that continues to sweep across the developing world, particularly now through Sub-Saharan Africa. One might argue that long-term corporate profit from outsourcing is minimal, but the global developmental impact is huge. From an elevated perspective, corporations based in the most developed nations, driven by focus on short-term profits, invest heavily in developing countries, bringing them, often in a single generation, fully into the global market, while forcing radical developmental change in their cultures. That is, toward individualism, as with China's "little emperors," products of China's "one child" policy plus a rapidly growing economy.

Concomitantly, the cultures of global businesses, regardless of their national origin, converge with respect to their shared rising complexity, requiring matrix reporting structures and pushing greater responsibility and decision making to lower and lower levels in the organization. The increasing interconnections, more nodes with more interconnecting lines, interdependence, and the need for more and faster communication in such structures foster the development of egalitarian relationships. This general diminution of hierarchy results in faster responsiveness throughout the system and continuous pressure on the workforce to work more efficiently, and often more hours, particularly because of global time differences.

As may be obvious now, individualism must not be interpreted as egotistic insistence on personal desires. Rather, a population with justified

confidence in personal knowledge and skills gives rise to today's egalitarian, mixed function, and sometimes virtual, teams with minimal hierarchy and flexible leadership, where each member applies his or her expertise in a coordinated effort toward a mutual goal.

Such teams are able to learn and evolve together in response to rapidly changing environments and shifting responsibilities. Beyond the world of business, high-performing Navy-Seal-like teams are crucial in the complex conditions of modern warfare, with similar groups developing to handle all kinds of emergencies and disaster scenarios in the civilian world. Western university graduate schools routinely organize courses, particularly in the business schools, in which students organize in subgroups for problem solving and reporting, so that such skills are part of what the graduates bring to the workforce.

In fact, perhaps the greatest resistance to global evolutionary pressures is not the small villages of native peoples in remote regions, as they have satellite dishes and cell phones now, but the institutions of government at all levels and in all branches—executive, legislative, and judicial. These formal hierarchies are strongly insulated, retaining independence and steep (and fragile) hierarchy because by law they have concentrated power and no competition. The large not-for-profit organizations, such as the United Nations, are similarly protected and similarly inefficient and ineffective. Delayed and inadequate governmental responses to hostilities and disasters of every sort are the great weakness in contemporary global systems and the largest obstacle to a coordinated global response to the challenges of climate change.

The global consumer trend of individualism is without a doubt deeply entrenched in Western consumer culture, and is gaining momentum worldwide, across emerging markets, and begging to show up at frontier markets as well. Consumers in emerging economies are mirroring their Western counterparts in increasingly seeking products tailored to their specific desires. Gaining consumer loyalty in this new market climate involves catering to new needs, including those of the growing number of consumers living alone.

Consumer segmentation, on many levels, may be an effective strategy in this regard, as niche markets act as points of differentiation between the needs and desires that different products fulfill. In addition, manufacturers

and marketers of products and services are subject to increasing scrutiny by their prospective costumers. Generally, consumers are far more confident in making up their own minds as to a product's purported benefits. Succeeding in this individualistic market demands clarity, simplicity, and integrity.

Finally, cutting-edge innovation is driving the release of numerous new products and services, which are successfully tapping the individualist's market: from customizable DNA genotyping and microbiota,³ one-of-a-kind Nike sneakers and watches, to products catering to very narrow markets. Creativity will continue to play a key role in the development of new products and services in a global market that is all about the individual.

The rise of individualism, therefore, as well as the way we as individuals can coalesce across national, ethnic, cultural, social, and gender boundaries to share our gifts in the solution of mutual problems, must be understood as an essential element in the global transformation required to bring Gaia back into equilibrium, at a higher functional level, a level of greater capacity and complexity, and of superior interconnection, interdependence, and energy.

³ A microbiota is "the ecological community of commensal, symbiotic and pathogenic microorganisms that literally share our body space." Joshua Lederberg coined the term, emphasizing the importance of microorganisms inhabiting the human body in health and disease.

CHAPTER 6

Western or Christian and Muslim or Arab Heading Toward Inevitable Conflicts: Really?

One of the most important topics on the global scene today is the presumably increasing conflicts between the Western or Christian world and the Muslim or Arab world.

In this chapter, we will investigate if this so-called conflict is real or if it is just a projection some people might have an interest in promoting and I, Dr. Majlergaard, will introduce you to three researchers who have influenced and shaped the public and political opinion.

As a businessperson looking at the world, the opportunities and threats you are faced with put you in a constant dilemma. For instance, how much should you let the global, regional, and local politics influence your business? Should you move your production to countries where human rights are violated with the argument that you only care about business? Or do you include ethical and moral values in your decision process in which case you would probably choose a different country to move your production to?

In large parts of the Western World, the view on the Arab, predominantly Muslim world, has changed since September 2001, as illustrated in Figure 6.1. When former president George Bush declared: “You are either with us or against us” and it became implicit that it was a war between religions the world started to change forever. The 9/11 tragedy was a great opportunity for George Bush to strengthen his image and position as a president simply by playing on the very fundamental human needs as I will explain later, but first we have to understand what the fundamental



Figure 6.1 In large parts of the Western world, the view on the Arab, predominantly Muslim world, has changed since September 2001

purposes of a culture are whether it is a national culture, a family culture, a corporate culture, or any other culture.

For that purpose, I will use the description developed by Dr. Stella Ting-Toomey, which offers a clear and concise way for us to understand what being a member of a culture really means to us.

Dr. Stella Ting-Toomey is a professor of Human Communication Studies at California State University, Fullerton. In 1999, she published a great book called *Communicating across Cultures*. One of the most interesting subjects in her book is the description of the five functions a culture has—no matter what kind of culture it is. When we are aware of these five functions, we will understand why some parts of the Western World had an interest in making the Arab or Muslim world their enemy.

So What Functions Does a Culture Serve?

Culture Serves the Identity Meaning Function

It answers the most fundamental question of each human being: Who am I? “Cultural basic assumptions, norms and values provide the anchoring points in which we attribute meanings and significance to our identities.”¹

The Flag of a nation is a typical example. It is an artifact we associate strongly with our nationality. If you have strong negative feelings about

¹ Ting-Toomey (1999, 12).

a country, there is nothing more symbolic than to burn off that country's flag in public. American flags have been burnt off at numerous occasions and the Danish flags were burnt off at many places in some Muslim countries after the infamous cartoons were published.

For corporations, it is very important that they are capable of developing a culture that the employees and other stakeholders can relate to and ultimately place a part of their identity into. Apple is a good example of such a company, similar to a number of Japanese companies that have previously been successful in creating very strong ties between the company and its employees.

When I, Dr. Majlergaard, worked for IBM from 1988 to 1993, the company had a very strong identity. It was before the period when globalization and Internet became important factors in most people's lives; so being a part of a global, well-connected IT company, that was at the forefront of technological development was indeed something very special. IBM also had a long, mostly glorious history; so as a newly graduated young man I had no problem placing a great deal of my identity into IBM. We were IBMers before anything else, and we were told that no matter where we were in the world, we could walk into an IBM office, show our blue badge, and get the help we needed.

Culture Serves the Group Inclusion Function

"It satisfies our need for membership affiliation and belonging. Culture creates a comfort zone in which we experience in-group inclusion and in-group/out-group differences. Within our group we experience safety, inclusion and acceptance."²

Within a country, we can share a language, history, or religion, or even bigger entities such as civilizations as Samuel P. Huntington describes in the "Clash of Civilizations."

The national group inclusion function often strengthens when the nation's identity is threatened, that is, during a war or recession. It is under these conditions that political and military leaders take the opportunity to define "them" and "us." Who are the true patriots and who is the

² Ting-Toomey (1999, 13).

enemy? This is exactly what George Bush did after the 9/11 attacks. A leader has previously been defined as a person who can find solutions to problems. I, Dr. Majlergaard, will argue that some leaders in both corporate and political life sometimes have an interest in creating the problems so that they can demonstrate their ability to provide solutions. It is, after all, easier to find a solution to a problem you have created or shaped yourself than waiting for a problem to arise in the horizon. This way they can stand out as leaders and increase their personal powerbase. When the nation is in a kind of unrest, the safety that the group has given us is threatened. That is why it is important to outline the borders between them and us, because the leaders, who succeed in doing this, will become the leaders and earn respect from the people. So this is likely why George Bush, after the 9/11 attacks, said, “you are either with us or against us.” This way he could stand up as the leader, identifying who is outside and who is inside “the group” and this way increase his popularity and enlarge his leadership skills—or at least try. For a person who wants to remain in power there is nothing like a well-defined remote enemy. The Romans knew that and it is also a key part of George Orwell’s book *1984*.

Corporate culture has a similar function, namely, to give the employees a home that will provide safety, in this case, a monthly pay check in return for loyalty, and the employee’s time, experience, and skills. Over time, this trade has developed into human resource management encompassing a lot of theories on motivation and reward systems, which I am not going to deal with here but will cover it in a section later in this chapter.

In some cultures and in some industries, a great deal of our identity is linked to our job. The typical opening question in the Western world when you meet new people at, for instance, a social gathering is typical: “What do you do?”—implying what is your job. The level of status the job has is one reason why so many people are so keen to not only keep their jobs but also to advance and get promoted.

From a management perspective it is important to create and maintain the feeling that the company can only succeed in the competition if people stick together and work hard to achieve the goals. And in most Western cultures and in Japan people are willing to do so because the job means so much to your identity. When a nation is threatened people stick together to defend themselves against the external enemy.

In the Western world, national cultures are becoming less and less important, Especially, the younger generations feel less bonded to their country. They see themselves as global citizens and they adapt easily when moving to a new country. Forty years ago, the primary identity for most people was their national identity. Today it is different. Globalization, the Internet, increased individualism, and so on, make us choose identities more freely than we could in the past. Today, more than half of the world's population is living in cities. In the United States, the percentage of the population living in cities is 81 percent and it is 76 percent in the European Union.

If you as a head of state want to maintain or expand your powerbase, the easiest way to do so is to develop an image of a common enemy. That will make people less adventurous and they will accept things they would usually not accept like increased surveillance, unlimited budgets for national security, and so on.

I, Dr. Majlergaard, believe that efforts toward putting an equal sign between being a Muslim and a terrorist were grounded in a fear of losing control and political influence. Having an image of a common enemy is a perfect group inclusion function.

Culture's Intergroup Boundary Regulation Function

This function shapes our in-group or out-group attitudes in dealing with people from other cultures or groups.

“Culture is like a pair of sunglasses. It shields us from external harshness and offers us some measure of safety and comfort. It also blocks us from seeing clearly through our tinted lenses because of that same protectiveness.”³

If you by your artifacts and actions show that you want to be in a group, you are included and will benefit from the affiliation and protection of the group. This is, of course, only the case in situations where it is not a group you have to be born into, that is, the group of royalties, ethnic groups, males, or females. With the increased migration of people globally we naturally have the discussions what it takes to be called an American,

³ Ting-Toomey (1999, 14).

French, Korean, or of any other nationality. “We tend to hold favorable attitudes towards in-group interactions and hold unfavorable attitudes towards out-group interactions. We tend to experience strong emotional reactions when our cultural norms and values are ignored.”⁴

Therefore, we have a much higher degree of tolerance for members of our group than we have for members outside the group. In Denmark, when a crime is mentioned in the news it is usually mentioned if it was a second-generation immigrant who committed the crime. One could ask—what relevance does it have to the crime case? It has the important function of establishing the boundary and distance between “them” and “us.” It is a natural process but, taken too far, it will lead to racism. If we are members of a family with strong ties, a lot of things are usually tolerated, that would not be tolerated from people outside the family. Blood is thicker than water is the saying, implying exactly that we will tolerate a lot more, just because it is family.

It is no different in other types of cultures, that is, corporate cultures. The Enron scandal revealed in October 2001 is a good example showing that the use of accounting loopholes, special-purpose entities, and poor financial reporting were able to hide billions in debt from failed deals and projects. This was not one man’s work, but an accepted behavior in parts of that company. There are numerous other examples. You close your eyes for what is going on in your company simply because you do not want to lose affiliation, status, and safety. All groups at all levels behave like this from time to time.

When Anders Breivik killed 77 people in Norway in July 2011 there was consensus among the Norwegians and the rest of the world that it was the work of an insane person. If he had not been a blond Norwegian man with blue eyes and a Norwegian name but a Muslim we would have had a completely different approach. We would have blamed the Muslims and it would probably have led to tougher immigration laws in Norway and surrounding countries. So an insane Christian Norwegian and an insane Muslim (who could also be Norwegian) would be treated completely differently in the public opinion. Why?

⁴ Ting-Toomey (1999, 14).

The tragic school shootings in the United States are another example. There seems to be an acceptance that depressed, mentally ill veterans can do things like that. My question is: Would there be the same tolerance if it were a depressed, mentally ill Muslim who did it? Probably not.

Culture Serves the Ecological Adaptation Function

“Culture is not a static system, so it facilitates the adaptation processes among the Self, the cultural community and the larger environment (i.e., the ecological milieu or habitat).”⁵

When changes occur in the larger environment, that is, changes in fashions and global or regional norms and when we adopt new shared realities, it will affect our own norms and values and hence the culture. When I was a child, it was the cultural norm that the men after a good dinner had a cigar; my parents smoked heavily also in the car. Today, you are not allowed to smoke anywhere (fortunately), and even if you are it is no longer the cultural norm to do so. Earlier, it was the norm to punish naughty children physically—this is (in my culture) no longer the norm and directly illegal in many countries. The norms slowly change; so the world still makes sense to us. These changes are signs that the culture is adapting to changes in the environment. If it was still the norm to punish children physically or smoke everywhere in France where I, Dr. Majlergaard, live—I would rapidly find another place to be.

Over the past years, there has been increased focus on how companies are using their resources—how big a footprint they make on the environment through their CO₂ emission. There has also been an increased focus on Corporate Social Responsibility (CSR) showing that it has become the norm that companies are no longer isolated from the rest of the world in having a responsibility. So from having a responsibility to the owners only, it has become much more complex. As a company you have to meet the expectations from the entire major internal as well as external stakeholders.

The main challenge for most companies in this process is to facilitate the new norms to percolate down to the entire organization.

⁵ Ting-Toomey (1999, 15).

On both a corporate and a national scale, we have to adapt to globalization. We have to make room for diversity without giving up our core values. The problem for some companies and some nations is that they have a hard time identifying their core values. When that is the case, we tend to define what we are not. And that is another reason why some people, politicians, or countries have an interest in promoting a conflict between the Muslim or Arab world and the Western or Christian world.

Culture Serves the Cultural Communication Function

It basically means the coordination between culture and communication. “Cultural communication provides us with a set of ideals of how social interaction can be accomplished smoothly among people within our community.”⁶

When we meet new people, do we shake hands or cheek kiss? How do we regard silence? In most Western cultures, we regard silence as embarrassing and we desperately try to get the conversation going. In the Western Apache culture, remaining silent is the most proper way to behave when strangers meet.

In any group or community we develop our own variations of the language. When I started in IBM in 1988 it took me some months to find out what people were talking about despite everyone speaking my mother tongue Danish or English. The reason for my confusion was the number of abbreviations and slang used in almost any internal communication. Later, after having worked in many different industries as a management consultant, I have gotten used to get up to speed with the abbreviations quickly for that simple reason that the people using them are not aware that only their “tribe” understands them. I, Dr. Majlergaard, have recently been working with a large oil company on corporate culture development and I was presented with terms like upstream and downstream. Last time I encountered these terms were when I, as a child, was with my father out fishing salmons in the rivers in northern Sweden. So when we move around from one group to another, we constantly have to learn new “tribal languages” in the form of abbreviations, slang, and new interpretations.

⁶ Ting-Toomey (1999, 15).

Creating Fear Is a Powerful Political Instrument

A common enemy is good to have because it strengthens your own position as a leader. Many political leaders have used that trick throughout history, but it is our responsibility to see through this and make our own judgments. When George Bush used the “them versus us” statement, he was probably inspired by Huntington. His image of civilizations clashing was all the ammunition Bush needed after 9/11.

The Thoughts of Huntington

“It is my hypothesis that the fundamental source of conflict in this new world will not be primarily ideological or primarily economic. The great divisions among humankind and the dominating source of conflict will be cultural” (Huntington 1993, 22). This hypothesis is the foundation for Huntington’s article published the first time in 1993 in the influential *Foreign Affairs* journal. It was published at a time when a lot of primarily U.S. politicians needed a new framework that could explain the post-cold-war conflicts. Not surprisingly, his popularity increased a lot after the September 11 attacks. To many people in the West it was suddenly clear that it was a conflict between the free, democratic world and the fundamentalist Muslim world.

Huntington’s predictions suddenly made clear sense to a lot of politicians after September 11. As Huntington said: “The clash of civilizations will dominate global politics. The fault lines between civilizations will be the battle lines of the future” (Huntington 1993). According to Huntington, a civilization is a cultural entity sharing common elements like language, history, religion, customs, institutions and by the subjective self-identification of people.

Why Will Civilizations Clash?

Huntington defines eight civilizations, which include Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and possibly African civilization. Why will—according to Huntington—the dominant conflicts in the future happen along these fault lines between these eight civilizations? Huntington outlines six reasons why this is the case.

1. “Differences among civilizations are not only real—they are basic,” Huntington claims (Huntington 1993). Differences do not necessarily lead to conflicts and violence, but according to Huntington, the most prolonged conflicts in the world have been between civilizations.
2. The world is becoming a smaller place. The interactions between people of different civilizations are increasing, which increases the consciousness and awareness of the differences.
3. The processes of economic modernization and social change throughout the world are separating people from long-standing local identities (Huntington 1993). Huntington further explains that this process of globalization has led to fundamentalism. “The unsecularization of the world is one of the dominant social facts of life in the late twentieth century” (Huntington 1993). This process unites the civilizations and strengthens the internal ties.
4. Western values become more popular among the masses. “A de-Westernization and indigenization of elites is occurring in many non-western countries at the same time Western, usually American, cultures, styles and habits become more popular among the mass of the people” (Huntington 1993). Because we gain a greater consciousness about what we want in non-Western countries (Western values), Huntington suggests that this desire builds up a source for potential conflict.
5. Cultural characteristics are less mutable than political and economic ones. So, despite globalization, increased open cross-border communication over the Internet, increased travelling, satellite and cable TV, and so on, cultures are not or only very little affected. Huntington uses the following example.

In the former Soviet Union, communists could become democrats, the rich can become poor and the poor rich, but Russians cannot become Estonians and Azeris cannot become Armenians. A person can be half-French and half-Arab and simultaneously even a citizen of two countries. It is more difficult to be half-Catholic or half-Muslim. (Huntington 1993).

6. Huntington states that economic regionalism is increasing because the intra regional trade rose significantly between 1980 and 1989. This leads to a greater regional identity within each civilization and “As people define their identity in ethnic and religious terms, they are likely to see an ‘us’ versus ‘them’ relation existing between themselves and people of different ethnicity or religion” (Huntington 1993).

The clashes between the civilizations occur according to Huntington at two levels.

1. Micro level, where adjacent groups along the fault lines between civilizations struggle, often violently.
2. Macro level, “where states from different civilizations compete for relative military and economic power, struggle over the control of international institutions and third parties, and competitively promote their particular political and religious values” (Huntington 1993).

Summarization

Huntington explains the global conflicts as conflicts arising along the civilization faults. They will intensify because of increased global competition both economically and politically. And because we rapidly move toward a high degree of globalization we are in search of other identities than the national identities. Huntington claims that globalization is the main driver for religious and political fundamentalism because we need to have our identity rooted somewhere. In his view, the religious identity is paramount. It is *the* identity that unites people in a civilization together with history, language, and the institutional setup.

The Problem with Huntington’s View of the World

The main problem with Huntington’s view of the world is that he assumes that religion is the most important identity we carry. He does not even consider that you can be born in a Christian country and do not care about religion, that you could be born in a Muslim country and do not care about religion, and so on.

However, the truth is that each of us has many different identities. Some have a religious identity, other do not, for some it takes up a large part, and for others a small part. This goes for all the other identities we have as well—identities like national identity, profession, family identity, gender identity, sexual identity, educational identity, and so on. When I, Dr. Majlergaard, conduct cultural intelligence workshops for clients around the world, one of the exercises is to identify the different identities each of the participants has. When the participants have made a list of his or her identities, they are asked to make a personal pie chart showing all their identities in relation to each other. The final part of the exercise is to compare the pie charts in the group and look for similarities and major differences.

People are usually surprised about their different identity maps despite the fact that they come from the same country, work in the same company, belong to the same age group, and have similar educations. When they have done this exercise they never stereotype about nationalities, religions, professions, or any other cultural dimension, simply because we are all different.

So when George Bush was talking about “them and us,” it was an almost criminal generalization. One of the most prominent influencers against cultural and religious stereotyping is Amartya Sen.

If you do not know him already, I, Dr. Majlergaard, can highly recommend that you read at least his bestseller *Identity and Violence* because it explains and clarifies why we often end up in cultural and religious conflicts. Amartya Sen is an Indian economist and philosopher of Bengali origin who won the Nobel Prize for his work on welfare economics in 1998. He is currently the Thomas W. Lamont University professor and professor of economics and philosophy at Harvard University.

The Thoughts of Amartya Sen

I have chosen to include his thoughts about the relationship between culture and identity, because he has a more modern and holistic view on how cultures interact compared to Huntington and because he shows that Huntington’s stereotype assumptions and conclusions are wrong.

In his book *Identity and Violence* he argues that we as individuals do not have just one dominating identity, but rather many different identities at

the same time, and we can choose which identity to promote at a specific time. Some identities are mutually exclusive—others are not. A person can at the same time be Muslim, engineer, British, vegetarian, baseball player, father, human rights activist, chief executive officer (CEO), and chairman of the local Rotary. You can easily carry all these identities at the same time and you decide which identity you want to be the dominating one at a given point in time. Some identities are of course exclusive. You cannot be both a Muslim and a Christian, but in many countries it is allowed to have, for example, dual citizenship.

Sen's point is: When we carry so many different identities, why do we only look at people's nationality or religious belief when categorizing them? This rigid segmentation of people into cultural, religious, or both clusters creates cultural conflicts rather than helping reconciling them, as Amartya Sen argues.

Conclusions

We have three very different views presented here, all by an internationally recognized scientist who claims to have the answer to the question of how to group the earth's population and to explain the conflicts we witness between different groups of people.

What shall we believe? To me all three views make sense when introduced to them and it was not until I started comparing them to the underlying definition and function of culture that things became clearer.

Huntington's famous article that was later expanded into a book can initially make a lot of sense. He uses many examples of conflicts along the cultural fault lines separating the eight civilizations. After the 9/11 attacks, his points of view have become common sense to a lot of people and George Bush's axis of Evil is right along one of Huntington's fault lines.

Huntington argues that despite local and regional differences we have a lot in common in each civilization that we can overcome the differences inside the civilization.

Amartya Sen argues against Huntington. Huntington claims that religion is one of the strongest identifier in a civilization. Huntington has, for instance, defined a Muslim and a Hindu civilization. As an answer to that Sen notes that India has the world third largest Muslim population;

so dividing people the way Huntington has done does not make much sense. Personally, I certainly do not agree with Huntington. Stereotyping leads to false generalizations and does not help much in reconciling and mediating differences in order to find a common ground and a basis for collaboration.

When I discuss these points of views with executives the excuse for leaning toward some kind of stereotyping is often that if it is too complex we never get anywhere if we have to take everything into consideration. By that they mean that if they cannot put people into reasonably sized boxes, they cannot manage them. This reflects a mind set that I will challenge later, namely that cultural difference is seen as a problem that needs to be fixed. Many executives see it as a battle between the knife and the fork instead of seeing their job as the facilitator that makes the knife and fork work together effectively and smoothly.

In between the two extreme views we have Geert Hofstede's views, who has been very successful in making people believe that our national characteristics supersede any other identity we might have as individuals.

Geert Hofstede might be more accurate than Huntington, but he still makes a lot of generalizations and false assumptions. He puts all the Arabic countries in one category and treats big countries like United States, Russia, and India as uniform entities. In India, they have 32 different states with 32 different languages and 32 very distinct historical backgrounds—yet he treats them as one uniform culture. As mentioned earlier, his research was originally based only on white-collar IBM employees in 30 countries and only “white” people as he explicitly notes in his books.

Yet companies, business schools, and consultants around the world have used and are still using Geert Hofstede's models as the main reference in cross-cultural management. The argument in the academic world has often been that there has been no better alternative developed, and companies and consultants have happily used his models because they offered a quick solution to the problem with several cultures working together in a more and more complex world. I, Dr. Majlergaard, have become more and more skeptical toward Hofstede's models as I have been working more and more in depth with this subject over the past 20 years from both an academic and management consulting angle. Where Huntington's view is

pretty easy to argue against, Hofstede's models have more or less become the de facto standard of comparing people from different cultures.

We See What We Want to See

Some years ago I, Dr. Majlergaard, participated in a lecture about horoscopes. Prior to the lecture, all participants were asked to fill in a form with the exact time and place of their birth, so that the speaker could make a personalized horoscope for each of us. The day for the lecture came and we were about 200 participants in the auditorium. Each of us was given an envelope with our name printed on it and asked not to open it until we were asked to do so. The speaker gave a two-hour very convincing speech about how to make horoscopes and at the end of the lesson he asked us to open our envelopes and read our horoscope. We were not allowed to communicate with anyone else after having read them. When we all read it, he asked the question: "Those of you who find that the horoscope fit well or very well—please raise your hands." About 80 percent of the audience raised their hands. People were very excited. Then he asked us to hand our horoscope to the person sitting next to us. It turned out that we have all got the same horoscope. The point of the lesson was not to teach about horoscopes, but to tell us about how our mind works. If we want to believe something—we automatically look for artifacts that fit into a specific pattern or reality of our preference.

Many times when I have heard presentations on Hofstede's models I have had the feeling that we are looking for artifacts that underpin our pre-established ideas and perceptions about how a specific group of people are. For that cause, Hofstede's models are excellent, because his stereotypes on nationalities are easy recognizable. We all know money-focused, individualistic Americans, the absurd hierarchies with huge power distances in France, or flat democratic organizations in Scandinavia.

Not all French companies are bureaucratic, not all American companies live by survival of the fittest, and not all Scandinavian companies have a low power distance with a high degree of democracy in the organization.

So the conclusion has to be that rough generalizations might be seen as easy solutions for managers or organizations, who regard cultural

diversity as a problem that needs to be fixed as quickly as possible. I do agree, however, with Amartya Sen on his point that these clusters of people create more tension and cultural friction than they contribute to mediation and reconciliation.

There Is More to It than Religion and Geography

Huntington looked at only geography and religion, but there is a lot more to it than that. Let us look at how wealth is distributed. Christians account for the overwhelming majority of wealth held worldwide, followed by Muslims and Hindus, says a report from New World Wealth. A significant percentage of the wealth (US\$67,832 billion, accounting for 34.8 percent) is held by individuals with no religion or those who believe in other religions.

In terms of the number of high net worth individuals (HNWIs; those with net assets of US\$1 million or more) by religion, Christians dominate, followed by Muslims and then Hindus, according to the report by New World Wealth.

The report shows that the total wealth held by Christians stood at US\$107,280 billion, which accounts for over 55 percent of worldwide wealth, followed by Muslims at the second place with a wealth of US\$11,335 billion (5.8 percent), and Hindus (US\$6,505 billion, 3.3 percent). Meanwhile, the total wealth held by Jewish people stood at US\$2,079 billion (1.1 percent). There are 7,384,680 Christian HNWIs constituting 56.2 percent of total HNWIs, followed by Muslims—8,854,100 (6.5 percent), Hindus—(512,460; 3.9 percent) and Jews—(223,380; 1.7 percent). As many as 4,165,380 HNWIs have either no religion or belong to “other” religions. “The bulk of the HNWIs classified under ‘other’ live in China and Japan. Notable numbers also live in the US, Europe, South Korea, Taiwan, Singapore and Hong Kong,” the report said.

The report further noted that 7 out of the top 10 wealthiest countries in the world (ranked by number of HNWIs) are Christian dominated. They include the United States, the United Kingdom, Germany, Switzerland, Canada, France, and Australia. Exceptions to this are China, Japan, and India.

The total wealth held by individuals worldwide amounts to US\$195 trillion and around US\$66 trillion of this is held by HNWI's.

Therefore, among the people who have a religious belief, the Christians have approximately 10 times more wealthy individuals than the Muslims. Why is that? Does it have anything to do with religion? Probably not and the ratio is likely to change in the future as the emerging markets mature and the frontier markets develop.

Is There an Inevitable Conflict Between Christian or Western and Muslim or Arab Dominated Cultures?

Yes and no—and I, Dr. Majlergaard, will explain.

Yes, Because

There will always be people in power who will benefit from creating a conflict. And as I have pointed out earlier, if you create the conflict, it is much more manageable and suited for the purpose. There will always be influencers and politicians who will argue for more money for weapons because of the Muslim (imaginary) threat. There will always be priests who will ask people to sacrifice their lives in the war against the unbelievers in the West. There are always governments, companies, and institutions that can benefit from a conflict and have an interest in constantly having conflicts lined up, and they will succeed if we let them. As I, Dr. Majlergaard, am writing this, the nuclear deal between the United States and Iran has just been signed. My friends in Iran are happy because it will ease the pressure on their businesses. My friends in United States are divided. Some think it is a great step forward toward a relationship based on trust rather than fear, while other friends of mine believe that it is the worst thing the United States has ever done, because they fear the next world war around the corner.

No, Because

At the end of the day, we all want the same thing despite differences in culture, nationality, financial wealth, and religion. We all want to live

safely, we all want to give our children better opportunities than we had ourselves, and an increasing number of people want to make this planet a more sustainable place than it is right now.

This conflict, like any other conflict, will only live if we let it. It is entirely up to us and you can do your part very easily.

As a starting point you can choose to focus on the similarities between the parties in a potential or real conflict. If you start by focusing on the similarities it will be much easier to overcome the differences. But when politicians keep emphasizing the differences, it can become very difficult to see the similarities.

Your Choice

At the end of the day, it is your choice. Do you want to follow the agendas of the politicians or do you want to focus on your business and leverage from bringing diverse groups of people together?

CHAPTER 7

Benefiting from Cultural Synergies

As mentioned in the previous chapter, possessing a high level of cultural intelligence is crucial when you want to do business outside your cultural comfort zone and, with emerging markets developing rapidly, it becomes even more important because many of these new markets are virgin to many Western companies.

In this chapter, you will develop your own cultural intelligence, step by step, similar to that when you climb a ladder, as depicted in Figure 7.1. You might have a lot or no experience working with different cultures but in either case the step-by-step adoption of the concept is essential in order to become capable of understanding cultural differences and eventually leverage from the diversity.

Let Us Start by Imagining

Try to imagine that you are standing at the bottom of a huge, deep bucket. You are looking up and can see the sky. When you are standing at the bottom you can only see a small piece of the sky, which gives you a very incomplete image of how the surrounding might actually look like. Fortunately, there is also a ladder in the bucket and as you start climbing the ladder toward the top of the bucket you can see more and more of the sky. The more you can see the more you understand about what is around you and how the different elements interact with each other.

Climbing the cultural intelligence ladder helps you understand why people around you behave the way they do, individually as well as in groups.

Let us start climbing!

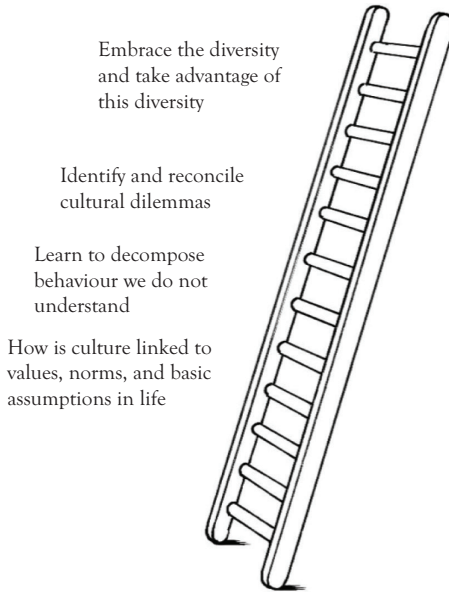


Figure 7.1 The cultural intelligence ladder

Understanding What Culture Means to Us

There are almost as many definitions of culture as there are researchers in this field and it is not worth the time discussing the variety of definitions. Instead, I will summarize the definitions in the following concise definitions:

1. The term culture refers to a diverse pool of knowledge, shared realities, and clustered norms that constitute learned systems of meanings in a particular society.
2. These learned systems of meanings are shared and transmitted through everyday interactions among members of the cultural group and from one generation to the next.
3. Culture facilitates members' capacity to survive and adapt to their external environment.

When we are members of a culture we see things the same way—for instance, we agree on what is right and wrong and these deep-rooted beliefs determine a large part of our behavior. We pass on these values to

the next generations. Because of this vast collective knowledge we manage to survive while we continuously adapt our culture to the surrounding environment, little by little. This generic definition of culture applies to all the cultures we are members of.

We Are Members of Many Cultures at the Same Time

I used to say that whenever two people are sharing a coffee machine they create a culture. By that I mean that cultures develop whenever a group of people have a reason for being together. Often when we talk about cross-cultural management we tend to focus on national cultures and national cultures only. A Dutch researcher called Geert Hofstede conducted a survey over 40 years ago on 100 IBM employees and developed a five-dimensional cultural web, which unluckily has become the most used framework for comparing cultures today. I am saying unluckily because Hofstede based his research on male, white IBM employees only, which is not a very diversified group of people and it certainly does not represent the entire population. Another reason why I think we should refrain from using his framework is that the importance of national cultures has declined dramatically because of globalization, Internet, global deregulation, and so on.

Think about how many cultures you are a member of? You have a national culture, your family has a culture, your workplace has a culture, your sports team has a culture, and your profession has a culture. The list is almost endless and who says the national culture is the most dominant one?

With globalization, movement from rural to urban areas, and the Internet, the national cultures have become even less significant. People living in big cities have more in common with other people living in big cities than they have with farmers from their own country.

In my company Gugin, we have worked with more than 600 companies over the years with cultural issues ranging from crisis management, post-merger integration, corporate culture development to global leadership development. Of all the clients we have had we never experienced differences in national cultures as the most significant issue. Most often, it is clashes between professions or corporate subcultures that are the causes for problems—not nationalities.

Cultures and Identity

In relation to cultures it is important to look at identities. For each culture that you are members of you have a role or identity. Your identity at work is very different from your identity at home, among friends, and so on.

On the first step of the cultural intelligence ladder it is important that we realize that we have all these different identities and we play a different role in each and every one of them. The roles will change over time, but we are still actors in many different plays at the same time.

How to Become a Member of a Culture?

If you want to support a football team all you have to do is to wear your team's jersey, show up at the games, and hang around all the other people with a jersey like yours. You will all be best friends during the match. You are instantly accepted and included in the group.

As a new employee you want to fit in, so you try to dress like your colleagues, learn the corporate slang, laugh at the same jokes as your colleagues, and at least assimilate that you share their values.

Being accepted in a culture can take a short or a long time, being very simple or very complicated but the formula is the same. You as an individual has to prove that you really want this group. You prove that by giving up a little of your freedom in order to obey the norms and values of the group you want to join. On a personal level, you might think that your football team's jerseys are ugly, but you wear it anyway because you want to be a part of the community the fans belong to.

Membership of cultures forms our identity. We are members of cultures where we are appreciated and there is a bonding at a deeper level—at the value level.

Not All Behavior Derives from Culture

As important as culture might seem it is equally important to acknowledge that not all our behavior is rooted in our culture. This distinction is important when we are going to assess how we judge other people. More about that will be discussed later.

Our personality is made up of three main components.

1. Culture
2. Psychology
3. Biology

In this book, we are going to focus on the cultural part, but it is important to acknowledge the other factors as well. Your childhood, previous experiences in life, and your fears and aspirations have a huge influence on your personality and behavior as well.

The biological factors play a very important role as well. Gender, ethnic origin, height, and body type all shape parts of your personality and they certainly influence how others perceive you.

We Are Biased!

We might be intellectually conscious about the fact that culture is not everything, but when we make our own judgments they are far from logical.

If members of our own culture behave in a bad way, we are usually good at finding excuses in their childhood, past events in their life, and so on. These excuses help us to forgive them so that they can stay in the group despite having violated the norms of that group.

If a member of another group (department, company, family, football team, etc.) is doing the same thing our judgment is much harder. There is no tolerance or comprehension.

Example

Your company might have a policy that it is forbidden to have a personal relationship with clients and suppliers. One day you learn that one of your colleagues is dating a key person of one of your clients. You also learn that this relationship might have given you some privileges over your competitors in some recent tenders. What do you do?

Do you take a friendly educational conversation with your colleague, or do you go to senior management requesting that your colleague be

fired? Or do you simply ignore it? You know it is wrong, but you are colleagues. The likelihood of you choosing to ignore it or have a friendly conversation is big, whereas the likelihood of you following the procedures and reporting it to the senior management is quite small.

However, what if you discover that one of the competitor's key sales person is having a personal relationship with the decision maker of a client to whom both of you are submitting a proposal? Will you let it pass by? Probably not.

In many situations like this, our behavior and judgment are determined by where the incident is happening, inside or outside our own group (culture). And there is not much we can do about it except accepting it the way it is and trying not to let it get out of hand.

Let us climb to the next step of the ladder and discuss what norms and values really are.

How Is Culture Linked to Values, Norms, and Basic Assumptions in Life

The next step in developing cultural intelligence is to understand how our behavior is linked to the underlying values, norms, and basic assumptions.

We only do things that make sense—to ourselves. When the Norwegian terrorist Anders Breivik killed 77 people on July 22, 2011, the world was paralyzed but it made perfect sense in Breivik's head. According to the values he had developed it was the right thing to do. I, Dr. Majlergaard, admit that the example is extreme, but when we are observing other people we must try to understand the underlying norms and values in order to understand their behavior.

Levels of Culture

The visible artifacts, norms, values, and basic assumptions are linked together in three levels. The model was originally defined by Edgar Schein in his book *Organizational Culture and Leadership* from 1992 and has been widely adopted by other researchers sometimes under new names like the “cultural iceberg” or the “cultural onion.” In this book, I will refer to Schein's original definitions. Schein's identification and definition of layers are universal and

generic. The model can be used irrespectively of the kind of culture we are dealing with and not limited to, that is, national or corporate cultures.

Artifacts

At the surface level, we have the artifacts, which are all the phenomena we can see, hear, feel, and otherwise observe without interacting. Depending on the culture we come from we might do the same thing but for very different reasons. Both the Egyptians and the Mayans built pyramids, but the meaning of pyramids in each culture was very different.

Throughout Asia, you can often see people in the streets wearing masks. I show a photo of it to my students in Europe and the United States and ask them why they think people are wearing masks when they are in public places. Europeans and North Americans usually answer that they are wearing masks because they do not want to get airborne infections. When I ask my Asian students, I get a very different answer, namely that they do not want to infect other people. Same artifact but two different interpretations depending on whether you are in a predominantly individualizing or communitarian culture.

Norms and Values

Below the artifacts we have the norms and values. The distinction between norms and values is very important and I will get back to that distinction in a moment.

Together the norms and values define what we protect, what we consider important for our survival, and what we are willing to sacrifice something for. Freedom of speech is an established value in some regions while people are sacrificing their lives to get it in others.

We respect norms and values; so our behavior reflects these underlying norms and values. You might not feel comfortable wearing a suit at work, but if it is the norm you will do it in order not to stick out.

When we want to identify the norms and values, try to look for what is protected. Also look for common characteristics in the group like dress code, slang, abbreviations, opinions, and so on. They are usually reflections of the norms and values in that particular group.

Basic Assumptions

The basic assumptions are our deep-rooted beliefs: the things we take for granted and things we carry out without thinking about it. In a culture (any culture), the basic assumptions are shared among most of the members of that culture. When a group of people shares a set of basic assumptions it gives the human mind cognitive stability, which we all need. We know how the people around us will react in a particular situation and that predictability makes us relax.

When you are driving your car in your home environment you feel relaxed because you know how people usually behave in the traffic. If you then drive a car in a different part of the world you are so much more alert because people are behaving in a completely different way.

In business, we have similar experiences when we change jobs and have to figure out how the new corporate culture is. The first few weeks in a new job are exhausting because you are constantly aware of what is going on around you while you try to adapt to the new culture.

Basic assumptions are very important because they dictate a lot of our behavior. Unfortunately, our own basic assumptions are very difficult to describe. If someone asked you what you take for granted, would you be able to answer that question? Possibly not. With some training it is easier to observe what other people take for granted, and when you travel you are constantly reminded what you yourself take for granted.

The Difference Between Norms and Values

We have mentioned norms and values frequently in this chapter and although they are related there is a clear distinction between the two, which is very important to understand. The differences are discussed as follows.

Values

You choose your values either on a personal level or as a group. You can choose to become a vegetarian and make it a value to you. You can make it a value to yourself to have a big car, a big house, living in the city, and so

on. You decide your own values and you will find togetherness with other people who share your values. Values change over time and you exchange old values with new ones. When you are single you might value going out and meeting people every weekend, but when you find yourself in a relationship and become a parent your values change and when your values change you most likely change the group of people you choose to surround yourself with.

Norms

Unlike values, norms are not your free choice. Norms are group values you choose to obey in order to become a member of and being accepted in a group. In the previous example with your football team's jerseys, you choose to wear the jersey, despite you finding it ugly in order to be accepted as a fan and enjoy the pleasure of being a part of the fan community.

Whenever we join a group we give up a little of our freedom. That is because we choose to obey the norms of that group. When you choose to join a new company you also choose to obey the norms in that company. That can be dress code, working style, communication style, and so on. These norms might be different from your personal preferences but you choose to obey them, because you get more in return in the form of salary, position, status, companionship, and so on.

There is a built-in conflict when we join a group or a relationship; we give up freedom with the hope to get more in return. This means that we are constantly assessing whether it is a good or a bad deal to stay in a particular group or relationship. If we, over time, realize that we are giving up too much of our freedom compared to what we get in return we will leave the group or break the relationship. That is why developing a strong corporate culture is so important—the more you offer the more likely it is that your best employees will stay with you even if they could get a higher salary elsewhere.

The Implicit Values Tie Us Together

To conclude we can say that almost all members of a particular culture share the basic assumptions. They also share most of the norms and values

and maybe some of the artifacts. This means that in order to understand a culture, and understand why people are behaving their way, we have to investigate the underlying norms, values, and basic assumptions.

How to Decompose Behavior We Do Not Understand

When we have been traveling abroad we have been to different cultures, but when someone asks us to outline the differences between those cultures and our home culture the explanations become vague and fluffy and we tend to exemplify the differences with isolated incidents, for example, how they serve food, how they queue up, and so on.

This is not a useful approach when we want to understand an alien culture and eventually find out how we can leverage from the diversity between our own culture and the other culture.

We therefore have to break down the diffuse culture into some tangible, measurable, and comparable dimensions.

Geert Hofstede, about whom I have mentioned earlier, developed this four-, later five-dimensional framework where he categorized each country. As I have stated before, I do not believe that national clusters have any relevance anymore if they ever had. We should therefore look for a more contemporary approach.

Fons Trompenaars and Charles Hamden-Turner developed a nine-dimensional framework, which they described in the book *Riding the Waves of Culture*.

Although Trompenaars and Hamden-Turner also cluster their findings by country, the purpose of their framework is very different. Their framework can be used on any culture, not just the national cultures, which is what we are looking for because only few cultural conflicts arise between national cultures. In Trompenaars and Hamden-Turner's book *Riding the Waves of Culture* they not only provide a usable, contemporary framework for comparing cultures, but also show a method for leveraging from the cultural diversity. Instead of stereotyping around cultural dimensions, Trompenaars and Hamden-Turner focus on what is going on in between. What happens when two cultures meet and why do we end up in a conflict?

We will look at cultural dilemmas, which occur when we have conflicting values, and we will learn how to reconcile these conflicting values.

But first, a very short introduction to Trompenaars and Hampden-Turner's cultural dimensions.

The Seven Cultural Dimensions

In contrast to Hofstede's strict categorization of IBM employees in 30 countries, Fons Trompenaars and Charles Hampden-Turner developed a completely new way of looking at national and corporate cultures. Their starting point was their definition of culture namely "Culture is the way we solve problems" (Hampden-Turner and Trompenaars 1997, 6).

By combining that definition with Schein's layers of culture they concluded that the key to understanding cultural diversity and developing tools for reconciling opposing views lay in reconciling dilemmas. That is because it is only when we are facing a dilemma that we use our basic assumptions to judge which way to go. In all other cases, we can easily make decisions, which to some extent compromise our own norms and values.

For example, a judge in a court can pass a sentence upon a person according to the law despite the judge personally finding the verdict too tough or too mild. Obeying the law is more important than the judge's personal views on the case. As long as the verdicts do not compromise the judge's basic assumptions, they will work.

When people exercise civil disobedience it is usually because their basic assumptions are compromised. During the German occupation of Denmark the movement of resistance was significant. The Danish government had decided to collaborate with the Germans because it believed that this strategy would minimize the civilian casualties among the Danes. On request from the German Schutzstaffel, S S, the Danish government located and captured a large number (300) of communists who had done nothing wrong except having an opposing political view. The reason for capturing the communists was that the Danish Communist Party had a close relationship with the Soviet Union.

Consequently, 300 people were captured and imprisoned without being guilty of any crime. That event compromised the basic assumptions of most Danes; you do not put innocent people in jail, and the incident gave birth to a strong resistance movement not only against the Nazis

but also against the Danish Government. At that time, my father was a teenager and he and his friends participated actively in the resistance movement by carrying illegal magazines and sometimes hand grenades in their schoolbags through the German–Danish roadblocks. After the war, my father received recognition from the king together with many others—a way for the Danish monarchy to show its disagreement with the Danish domestic policy.

There are plenty of other examples where law-abiding citizens break the laws, when their basic assumptions are compromised. The same goes for employees and managers in companies. When we are faced with a dilemma, we come into serious doubts about what to do and it is in such situations that our true identity and culture shine through. In the following I will reveal Trompenaars and Hampden-Turner's theories spiced up with examples.

Relationships and Rules

The first dimension that can cause dilemmas is the relation between relationships and rules. In this dilemma, the extreme poles are about what is most important—to obey the rules or preserve the relationship? Trompenaars and Hampden-Turner have defined two extremes on an axis. On one end we find the “Universalists,” who prefer a rule-based, often-abstract behavior.

“The Universalists encounter an obligation to adhere to standards, which are universally agreed to by the culture in which we live” (Trompenaars and Hampden-Turner 2004, 31).

On the other end of the axis, we have the particularists whose judgments focus on the exceptional nature of present circumstances. “This person is not just a ‘citizen’ but my friend, brother, husband, child or person of unique importance to me, with special claims on my love or my hatred” (Trompenaars and Hampden-Turner, 2004, 31). This implies that special circumstances and rules apply to the people close to you either in a positive or a negative way.

It is easy to recognize the conflicts—but much harder to reconcile the dilemmas. Business people from both ends of the axis will tend to think of each other as corrupt. “A universalist” will say of particularists,

“they cannot be trusted, because they will always help their friends”; a particularist, conversely, will say of Universalists, “you cannot trust them; they would not even help a friend.” (Trompenaars and Hampden-Turner 2004, 32).

In their book, *Riding the Waves of Culture*, Trompenaars and Hampden-Turner use a story about a car driving too fast hitting a pedestrian to exemplify the dilemma. The passenger in the car can choose to tell the police that the driver was driving too fast or choose to protect his friend by telling the police that they were not exceeding the speed limit. The responses to that dilemma tell you whether you have a preference for universalism or particularism. The interesting observation is that one view does not exclude the other. If you have a preference for universalism the starting point for your observation might be universalistic, but you still care about your friend.

In the early 1990s, when I was working for IBM, I was in charge of a pan-European project for defining a common banking platform. The first step was to determine if it was possible to define a common credit-scoring methodology that could be used in IBM’s banking solutions throughout the continent. It was one of my very first experiences of how deep our cultural differences are rooted in us.

The IBM system we were going to customize for Europe was originally North American and the default credit scoring was entirely based on facts collected about the customer’s financial situation, industry statistics, the customer’s previous track record, and the family situation of the customer (if it was a private customer).

The default systems appealed mostly to the Northern Europeans but I, Dr. Finn, met significant resistance from my colleagues in France, Spain, Greece, and Italy, who had concurrent views that credit scoring had to be done individually because all customers are unique. The personal relationship with each customer generated the trust to grant a loan, not the result of an objective scoring in a computer system.

We had to give up the idea that we could customize the system’s credit-scoring function to please and satisfy all the European banks.

If we have had a bit more cultural intelligence at that time, we might have been able to reconcile the opposing values and views. Today that is, maybe, the key role of the European Union—not to create a one-size-fits-all

society, but to reconcile the opposing values into something bigger and even more valuable.

The main differences between extreme universalists and extreme particularists, according to Trompenaars and Hampden-Turner, are described in short in Table 7.1.

The Group and the Individual

Most of the researchers in the field of cross-cultural management deal with the relationship between the group and the individual and I have included some different views here in this book. Hofstede (Hofstede, *Cultures and Organizations*, 1991) has a dimension that measures with individualistic societies at one end and collectivist societies at the other. Sine just deals with the Habermas–Taylor dilemma and Ting-Toomey (Ting-Toomey 1999) mentions the relationship between the group and the individual when describing the functions of culture.

Parsons and Shills (1951) describe individualism as “Prime orientation of the self” opposed to communitarianism, which they describe as “a prime orientation to common goals and objectives.” In history we have often connected individualism with freedom, democracy, wealth, and a more modern way of living, while we, at the same time, have a tendency to associate communitarianism with the failure of the communist experiment. The interesting thing however is that successful

Table 7.1 *Main differences between extreme universalists and extreme particularists*

Universalist	Particularist
Focus on rules more than relationships	Focus more on relationships than rules
Legal contracts are readily drawn up	Legal contracts are readily modified
A trustworthy person is the one who honors his or her word of contract	A trustworthy person is the one who honors changing mutualities
There is only one truth or reality	There are several perspectives on reality relative to each participant
A deal is a deal	A deal can always be altered as the relationship develops

Source: Trompenaars and Hampden-Turner (2004, 48).

countries like Singapore, Brazil, India, China, and South Korea are all in the communitarian part of the scale, while troubled countries like the United Kingdom, the United States, Nigeria, and Russia are in the individualistic end of the scale.

As an exception from the rule it is worth noting that Greece is also at the communitarian end of the scale and Greece is probably the financially most troubled country in the Western world right now (2015).

According to Trompenaars and Hampden-Turner, there is considerable evidence that individualism and communitarianism follow the protestant–catholic religious divide.

Research has found, that Catholics score higher on group choices and Protestants significantly lower. Geert Hofstede's research (Hofstede, *Cultures and Organizations*, 1991) confirms this; as so do our own findings that Latin Catholic cultures, along with Asian cultures on the Pacific Rim score lower on individualism than the Protestant West, for instance the United Kingdom. Scandinavia (as a rule), the Netherlands, Germany, United States and Canada.¹

Tönnies (1957) suggests that in modernizing a society we emerge from *Gemeinschaft*, a family-based intimate social context in which the person is not sharply differentiated into *Gesellschaft*, a workplace of individual tasks and separated responsibilities. That was in the late 1950s.

Maybe, the pendulum is swinging back again. Communitarian countries have been generally more successful than the individualistic countries over the past 20 years. There can be many reasons for that, but my personal belief is that group-oriented cultures are much better equipped to deal with a complex world than individualistic cultures. In that respect, it is also worth noting that the majority of the Nobel prizes in science awarded to single individuals has become the exception.

So are we really self-made or did our parents, teachers, families, and friends shape the largest part of our identity?

¹ Trompenaars and Hampden-Turner (2004, 53).

Reconciliation of Individualism and Communitarianism

While the individualist culture sees the individual as “the end” and improvements to communal arrangements as the means to achieve it, the communitarian cultures see the group as its end and improvements to the individual capacities as a means to that end (Trompenaars and Hampden-Turner 2004, 58).

The two extremes are not exclusive—rather complementary. The individual can only shine, grow, and achieve because the group lets him to, and the coherency and stability of the group only exist because the individuals in the group prioritize the concerns for the group over individual desires and personal agendas.

Thailand is in the middle between extreme individualism and extreme communitarianism. Recently, there were severe riots in the streets of Bangkok with many people injured and killed. To most people who have visited Thailand and Bangkok many times, myself included, it came as a surprise that such a situation could occur. In October 2008, Thailand’s supreme court found Thaksin Shinawatra, the former prime minister, guilty of violating conflict-of-interest laws while in office, and sentenced him to two years in prison. Those opposed to him accused him of corruption, but a lot of people in especially the rural areas of Thailand felt that Thaksin had done a lot of good things for them, so they have continued their support to him—now organized in the red-shirt movement. So, on the one hand, we have the communitarian Thaksin supporters who can live with having a corrupt leader as long as he does something good for the country, and, on the other, we have the military and the opposition who opt for transparency and democracy (individualism). It looks like a conflict between two political groups but it is also a conflict between people living in the countryside (Thaksin supporters) and people living in the city, who are better educated and motivated for change. The road to reconciliation will probably be fairly long but I feel convinced that the interdependence between the group and the individual will force both parties to negotiate a solution.

Decision Making

According to Trompenaars and Hampden-turner, the decision-making process in individualistic cultures is usually very short where,

the lonely individualist making deathless decisions in a few fateful seconds. While this may make for quicker deliberations, “one minute managers” and so on, it will often be discovered months later that the organization has conspired to defeat decisions managers never liked or agreed to. Saving time in decision making is often followed by significant delays due to implementation problems. (Trompenaars and Hampden-Turner 2004, 61)

This view corresponds exactly to our (Gugin’s) observations when interviewing managers from Microsoft-Navision in Denmark after Microsoft had taken over Navision. The “old” Navision managers came from a typical Danish culture where decisions were delegated to a group that made a recommendation to the management. It improved involvement and commitment and had fewer setbacks, they said. After Microsoft took over Navision, the decision model changed completely. Often, it was U.S. managers who were on assignments in Denmark—who had to prove that they were top-performing managers—who caused the problems. To show that you are a top-performing manager when you are coming from an individualistic culture (corporate Microsoft) you have to make decisions—fast! As a result of the different perceptions of good leadership the Danish organization defeated most of the Microsoft-initiated decisions making the Microsoft managers look even worse. It was the beginning of a vicious circle that led to frustrations, stress, increased sick leave, micro inequities, people leaving the company, and so on. We, in Gugin, managed to reconcile the opposing values and views. The main differences between individualistic and communitarian cultures, according to Trompenaars and Hampden-Turner, are depicted in Table 7.2.

How Affectionate Are We?

Norms, values, and basic assumptions help us to interpret other people’s behavior. If we only use our own norms, values, and basic assumptions as a reference for what is right and wrong we will inevitably end up in situations of misunderstandings. For instance, what is the norm for showing feelings? According to Trompenaars and Hampden-Turner, it varies a lot across cultures. They have asked people in many countries around the world to which extent they would show emotions if they

Table 7.2 *Main differences between individualistic and communitarian cultures*

Individualism	Communitarianism
More frequent use of “I”	More frequent use of “We”
Decisions made on the spot by representatives	Decisions referred back by delegates to the organization
People ideally achieve alone assuming personal responsibility	People ideally achieve in groups, which assume joint responsibility
Vacations are taken pairs—even alone truth or reality	Vacations organized in groups or with extended family

Source: Trompenaars and Hampden-Turner (2004, 67).

got upset at work. They have divided the responses by country and they found that Ethiopians, Japanese, and Polish should be the most neutral or reserved while Kuwaitis, Egyptians, and Omanis should be the most affective. The United Kingdom and the United States are in the middle section. The Japanese have a saying, which goes “Only a dead fish has an open mouth.” In comparison, we have the saying “Empty Vessels (or barrels) make the most noise” in the United Kingdom and Scandinavia.

Personally, I am not fond of putting people into national stereotypes, because the national culture is only one part of our identity. When it comes to showing feelings in public or at work, there can be many different factors influencing whether you are showing emotions or not. The Japanese might be most reluctant to show emotions at work, but they certainly do show emotions when they go out drinking Sake and sing Karaoke after work.

So the important issue is not which countries are more or less affectionate than others but how we shall interpret other people’s level of affectionateness.

Former Microsoft chief executive officer (CEO) Steve Balmer did an internal presentation for a large group of employees when he suddenly spotted one of the employees taking a picture of him with an Apple iPhone. He (Balmer) got so furious that he crunched the employee’s iPhone under his foot. The natural reason for his expressiveness is that a large percentage of the Microsoft employees seem to prefer an Apple iPhone to a phone using Microsoft’s operating system for mobile units.

Nevertheless, how will the different stakeholders interpret this aggressive act of Steve Balmer? Some Microsoft employees might say, “He is really committed to Microsoft’s success—he is a great leader, I am proud to follow him,” while others might conclude, “This man is out of his mind to intrude his employees personal freedom and integrity.” And how will financial analysts interpret his behavior? Is Microsoft really that desperate? The options are many, but in order to deal with it, it is important that we try digging a little deeper to understand the reasoning behind the act.

Trompenaars and Hampden-Turner have identified significant differences in people’s preference for showing or not showing emotions.

Francesco and Gold argue that emotional expression is one area where there seems to be universal agreement. “Studies in cultures as diverse as Brazil, Sweden, Greece, Japan, The United States and New Guinea show a high degree of agreement in recognizing the basic emotions of joy, sadness, and surprise” (Francesco and Gold 2005). However, why and when people in different cultures show these emotions differ.

Therefore, it not only matters if we show emotions or not, but also in which context we do it. Like there are differences between nationalities there are also huge differences between different corporate cultures. How do you react when you close a deal? How do you resolve conflicts and so on?

The main differences between neutral and affective cultures, according to Trompenaars and Hampden-Turner, are depicted in brief in Table 7.3.

Specific and Diffuse Cultures

How large a part of their culture do other people from other cultures disclose to us when we meet as friends or colleagues? Trompenaars and Hampden-Turner’s dimension on this matter has the two extreme poles, namely specific cultures and diffuse cultures.

Specific Culture

The specific culture is characterized by being very open, transparent, and direct to the point in any form of communication. “In this culture

Table 7.3 *Main differences between neutral and affective cultures*

Neutral	Affective
Do not reveal what they are thinking or feeling	Reveal thoughts and feelings verbally as well as nonverbally
May (accidentally) reveal tension in face or posture	Transparency and expressiveness release tensions
Emotions often dammed up will occasionally explode	Emotions flow easily, effusively, vehemently, and without inhibition
Cool and self-possessed conduct is admired	Heated, vital, and animated expressions are admired
Physical contact, gesturing, or strong facial expression are often taboo	Touching, gesturing, and strong facial expressions are common
Statements are often read out in monotone	Statements are declaimed fluently and dramatically

Source: Trompenaars and Hampden-Turner (2004, 79).

the manager segregates out the task-relationship he or she has with a subordinate and insulates this from other dealings” (Trompenaars and Hampden-Turner 2004, 81). This means that the authority you might have as a manager is restricted to that specific area. A subordinate at work can be your best friend outside or superior to you in other parts of social life.

In flexible organizations like the Matrix organization you might be the manager of a project at the same time as you are a participant on another. And your roles in the organizations shift easily depending on the organizational needs, your skills, and preferences.

In a specific culture your boss might invite you home for barbeque together with some colleagues, but you will only get access to a fraction of his or her private sphere, namely the private sphere that is directly related to his or her work.

Many years ago when I, Dr. Finn, worked for IBM in California, our boss regularly invited us (the team) home for barbeque. One Sunday we were all there, 20+ or so for another nice gathering. Monday morning he fired 12 of us because IBM was cutting down the development of the software we were working on. No one felt any change in his attitude the day before, but as he said: “it is a part of my job—it is nothing personal.” My American colleagues were sad, but respected the senior management’s

decision, while my good colleague from Venezuela started to cry because she took it very personally.

People from specific cultures separate their many identities sharply with no or only little overlap.

Diffuse Culture

In diffuse cultures everything is integrated. The status you have at work automatically transfers to other parts of life. “Monsieur Le Directeur is a formidable authority wherever you encounter him. If he runs the company it is generally expected that his opinions on haute cuisine are better than those of his subordinates” (Trompenaars and Hampden-Turner 2004, 81). He is a general role model.

People from diffuse cultures integrate their identities, so that if you know one part of the person many other aspects of that person’s identity are revealed to you openly.

Let us go back to the aforementioned example. In a diffuse culture, the manager would never be able to invite his entire team home for barbecue and then fire half of them the day after. If he has invited them home it is because they are an integral part of his and his family’s life and are considered friends of the family. So if he had to fire them, he would probably try everything to avoid meeting them until the last minute, because a job is not just a job.

In a diffuse culture, “stealing” is not easily separable from domestic circumstances and the Western habit of separating an “office crime” from a “problem at home” is not accepted.

Having different norms about how much of your private life you disclose can easily cause problems or dilemmas. I, Dr. Finn, have experienced that particular cultural clash several times when I have been counseling Scandinavian companies that have outsourced services to typical Indian or Pakistani companies. The direct-to-the-point, blunt, and sometimes naive Danish way of communicating has often scared their partners because their private sphere was compromised to an extent where they did not know how to deal with it. The consequence was of course vicious circles in communication and collaboration, decline in productivity, and frustrated managers and employees on both sides.

Again it happens because of low cultural intelligence. People living in specific cultures do not know or acknowledge the importance of not losing face, “which is what happens when something is made public which people perceive as being private” (Trompenaars and Hampden-Turner 2004, 86).

It is not only in diffuse cultures that you can lose face. One of my friends—or ex-friends I should say who lives in Los Angeles once invited me to visit her. She was a real-estate agent, and I visited her at the time when the property market was on its way down. Her business did not go well. She could barely afford to keep her Toyota Lexus, but she would rather live from trash than giving up the expensive car because as she said, “I have to show my clients that my business is good. This is the only way I can attract customers and generate confidence and trust.”

I, Dr. Finn, found that argument a bit peculiar compared to my basic assumptions and values, but did not pay much further attention to it. At thanksgiving, we were invited to some of her friends on Beverly Hills and at some point I mentioned that her business was going badly. I did not consider it a taboo as everybody could see the decline in the property market. But she got so furious at me that I had to move out of her house and into a hotel for the rest of my stay in Los Angeles. I clearly entered her private sphere. She was a Chinese immigrant by the way and according to Trompenaars and Hampden-Turner, China is a very diffuse culture with only a little public space. She is now back in Singapore trying to establish a new business after her house in Los Angeles went on foreclosure sale.

How to Reconcile the Opposing Values

Awareness on both sides is of course required. People from specific cultures have to be a little more cautious about what they say and when they say it, while people from diffuse cultures have to reconsider before they feel offended or upset.

Both approaches claim to save time compared to the other.

In the diffuse approach you do not get trapped in an eight-year relationship with a dishonest partner because you detect any

unsavory aspects early on. In the specific approach you do not waste time wining and dining a person who is not fully committed to the specifics of the deal.²

The airline industry is struggling a lot these years with how to serve the global customer. Some find the “cold” and neutral, “by the book” service that Scandinavian Airlines Systems (SAS) is offering appealing, while others prefer the more personalized service on, for example, Singapore Airlines. Today all major airlines have passengers from many different cultures with many different levels of private and public spaces.

The strategies from the airlines on how to handle these differences are different. Some choose to stay in the middle, providing a compromise, while others brand themselves on their geographic and cultural origin. Ideally, they should be able to accommodate every single passenger according to his or her cultural preferences. This is however not possible, not even if the crew knew the nationality of every single passenger. It is because we are all individuals and our preference is not only dictated by our nationality but influenced by all our other identities as well. It can also be very situational. You can be very specific in some parts of your life and very diffuse in others.

Therefore, in order to reconcile the dilemmas in this dimension successfully, we have to start by being cautious, respectful, and moving slowly forward into the other person’s public space, and at the same time try to help the latter where our own public space ends and our private space starts. That can be successfully achieved by narrating anecdotes that outline the issue.

Dealing with a delicate issue though a fictitious story is often a very good and feasible way forward. This is also one of the roles fairy tales play—to preach morale without being too pushy.

The main differences between specific communication and diffuse communication, according to Trompenaars and Hampden-Turner, are, in short, depicted in Table 7.4.

² Trompenaars and Hampden-Turner (2004, 89).

Table 7.4 *Main differences between specific communication and diffuse communication*

Specific	Diffuse
Direct, to the point, and purposeful in relating.	Indirect, circuitous, and seemingly <i>aimless</i> form of relating
Precise, blunt, definitive, and transparent	Evasive, tactful, ambiguous, even opaque
Principles and consistent moral stands independent of the person being addressed	Highly situational morality depending on the person and the context encountered.

When Are We Somebody Special in a Culture?

All societies and groups assign certain of their members higher status than others. While some societies or groups accord status to people on the basis of their achievements, others ascribe it to them by virtue of age, class, gender, education, and so on. All these attributes relate to the physical world, but in the virtual world or cyberspace also it is possible to achieve some status. In computer games like *World of Warcraft* and *Counter Strike* you can develop and achieve status over time. The possibility of advancing in the hierarchy is possibly one of the main reasons why so many people spend so much time on games like these. On Facebook and other social media you can achieve status by having many contacts. On LinkedIn—the largest professional online network globally—I, Dr. Finn, am in the top 100 globally with more than 21,000 direct contacts and due to that a great deal of status is scribed to me. Due to that I get a lot of requests especially from headhunters who are keen to tap into my network because of the direct access to a lot of decision makers around the world.

A decade ago, second life became a hype. It was a virtual universe where you could create exactly the identity or avatar you wanted. It even had its own currency—the Linden dollar—and companies paid large amounts of money to open virtual stores in second life. It still exists, but whether it has become a good investment for the companies shall remain unanswered.

The interesting point is that our desire to advance in the hierarchy has expanded from the real world into cyberspace.

The Status Continuum

Trompenaars and Hampden-Turner have identified two extremes on their status continuum. The first kind of status is called achieved status (referring to doing) and the second ascribed status (referring to being).

Achieved Status. You achieve a status by working hard for it and basically everyone has equal opportunities to achieve a particular status. As an example—the presidency of the United States is not limited to Caucasian native Americans—the American dream is achievable for everyone regardless of sex, race, education, family background, and religion.

McClelland, a Harvard Professor in 1950s, said that “only nations setting out upon an empirical investigation of ‘what works best,’ and conferring status on those who apply it in business, can expect to conduct their economies successfully” (McClelland 1950). So if it is good for the economy it should be rewarded. McClelland also formed a theory that goes: “Once you start rewarding business achievements, the process is self-perpetuating. People work hard to assure themselves of the esteem of their culture and the get The Achieving Society.” That theory was clearly formed long before terms like environmentally friendly, corporate governance, and corporate social responsibility became fashionable.

Nevertheless, most motivation and reward systems are still based on achievement—often-personal achievement.

Ascribed Status. While you in a group with achievement culture have to work hard to get advancement in the hierarchy it is quite different in cultures where status is ascribed to you. In these cultures, you get status ascribed to you dependent on your age, seniority, family background, education, title, and so on.

“Ascription has been seen as a feature of countries either late to develop, or still underdeveloped. In fact ascription has been considered dangerous

for your economic health” (Trompenaars and Hampden-Turner 2004, 104).

It is however interesting to note that the economically most successful countries right now all opt for an ascribed status model.

While there are ascriptions that are not logically connected with business effectiveness, such as masculine gender, white skin or noble birth, there are some ascriptions, which make good sense in predicting business performance. Age is somehow connected to experience, education and professional qualifications, moreover, are related to an individual’s earlier schooling and training and are therefore not unconnected with achievement. (Trompenaars and Hampden-Turner 2004, 102)

Denmark has a preference for an achiever culture, however, not to an extreme level like Norway and the United States. I have often witnessed Danish companies sending young, well-educated employees on a management education fast track to subsidiaries in the Far East as a reward for being high achievers in the headquarters in Denmark. With almost zero cultural intelligence they usually fail to perform partly because they do not understand the intercultural dynamics and partly because they possess none of the attributes that generate status in a culture where status is predominantly ascribed to you. They do not have age, and therefore not experience, and when a 50-year-old Japanese meets a 25-year-old Dane, he can simply not take him seriously despite the fact that the young Dane might have at least as much factual knowledge about the subject as the 50-year-old Japanese.

In Denmark, old people are often regarded as a cost to the society rather than a resourceful asset to the community; so my father got a very pleasant surprise when he in his mid-70s was traveling around India on his own. He was treated with a respect and an admiration he had never experienced before and a beautiful woman in her 40s even fell in love with him but he was too shy to pursue it further despite our encouragements. He had a lot of status naturally ascribed to him because of his age and maturity.

How to Reconcile the Opposing Values

Both achievement- and ascription-oriented organizations have hierarchies but for two different reasons.

Achievement-oriented organizations justify their hierarchies by claiming that senior persons have “achieved more” for the organization; their authority, justified by skill and knowledge, benefits the organization. Ascription-oriented organizations justify their hierarchies by “power to get things done.” This may consist of power over people and be coercive, or power through people and be participative. (Trompenaars and Hampden-Turner 2004, 112)

In order to successfully reconcile the two extremes it is important to see how different the logics of achievement and ascription are and not consider either as worthless.

The two approaches are more interlinked than one should immediately believe. If we start by ascribing some authority to a person, we usually ascribe not only status but also future success. It is basically what the representative democracy is all about. We ascribe some status to people and the politicians and expect that they deliver the results—achieve. So it is expected that people with ascribed status use the status to achieve and deliver results to those who delegated the authority. If, however, we start with achievement, it usually starts with ascribing status to those persons or projects that have been successful. It is a chicken and an egg situation and all societies ascribe status and all achieve either to maintain ascribed status or to try to achieve a new one.

The main differences between the extremes on how status is perceived, according to Trompenaars and Hampden-Turner, are depicted in brief in Table 7.5.

Our Concept of Time in Different Cultures

Time has a different importance in different cultures, especially if we look at the roles of the past, the present, and the future. Some people base their arguments on previous experiences, others on the current circumstances,

Table 7.5 *Main differences between the extremes on how status is perceived*

Achievement-oriented	Ascription-oriented
Use of titles only when relevant to the competence you bring to the task	Extensive use of titles, especially when these clarify your status in the organization
Respect for the superior in the hierarchy is based on how effectively his or her job is performed and how adequate their knowledge is	Respect for the superior in the hierarchy is seen as a measure of your commitment to the organization or mission
Most senior managers are of varying age and gender and have shown province in specific jobs	Most senior managers are male, middle-aged, and qualified by their seniority and age

Source: Trompenaars and Hampden-Turner (2004, 118).

while the last group bases its argument predominantly on aspirations for the future.

The main differences between how we regard the past, the present, and the future, according to Trompenaars and Hampden-Turner, are described in brief in Table 7.6.

When investigating our relationship with time, the past, the present, and the future are of interest to us. It is equally important to understand people's different relationships with time. For that purpose, Trompenaars and Hampden-Turner developed the seventh continuum where we, on one extreme, have sequential time orientation and, on the other, synchronous time orientation. Let me explain the two extremes in more detail.

Sequential Time Orientation

When you have a preference for sequential time orientation you organize everything in time boxes so that you know exactly when to do what. You do only one thing at a time and everything is planned beforehand. The advantages of having a preference for sequential time orientation is that you rarely get stressed out because you have planned your tasks carefully so that you do not end up with a huge workload just before the deadline. There are, however, some disadvantages too. You might end up being a slave of your plan and there is very little room for flexibility if the circumstances require it.

Table 7.6 *Main differences between how we regard the past, the present, and the future*

Past	Present	Future
Talk about history, origin of family, business, and nation	Activities and enjoyments of the moment are most important	Much talk of prospects, potentials, aspirations, and future achievements
Motivated to recreate a Golden Age	Plans objected to, but rarely executed	Planning and strategizing done enthusiastically
Show respect for ancestors, predecessors, and older people	Show intense interest in the present relationships "here and now"	Show great interest in youthful and in future potentials
Everything is viewed in the context of tradition or history	Everything is viewed in terms of its contemporary impact and style	Present and past used and even exploited for future advantage

Source: Trompenaars and Hampden-Turner (2004, 155).

Synchronous Time Orientation

When you have a preference for synchronous time orientation you do not like to plan too much and you often end up doing many things at the same time.

The advantages of having a synchronous time orientation is that you can do many things at the same time and you are always ready to reschedule and reprioritize when needed. There are, however, some obvious disadvantages. You might end up working around the clock when the deadline approaches, which might compromise the quality of your work. You also let people down who rely on you because you constantly reschedule and reprioritize.

Conflicts arising between sequential-time-and synchronous-time-oriented people are among the most common. Table 7.7 describes, in brief, what characterizes the two extremes.

Do You Believe in Destiny?

How do we see ourselves in life? Are we in control and can influence our path through life or is it up to destiny to determine where we end up?

This dimension is very interesting from a management perspective, because it is closely related to how you can motivate you people. Later when dealing with the Carlsberg case I will go in detail with this dimension.

Table 7.7 Conflicts arising between sequential-time- and synchronous-time-oriented people

Sequential	Synchronous
Only do one activity at a time	Do more than one activity at a time
Keep appointments strictly: Schedule in advance and do not run late	Appointments are approximate and subject to “giving time” to significant others
Relationships are generally subordinate to schedule	Schedules are generally subordinate to relationships
Strong preference for following initial plans	Strong preference for following where relationships lead
Time is tangible and measurable	Time is like a wide ribbon and very intangible

Source: Trompenaars and Hampden-Turner (2004, 139).

Table 7.8 Main differences between those who are focused on internal versus external control

Internal control	External control
Often dominating attitude bordering on aggressiveness toward the environment	Often flexible attitude, willing to compromise and keep peace
Conflict and resistance mean that you have convictions	Harmony and responsiveness, that is, sensibility
Focus on self, function, own group, and own organization	Focus on “other,” that is, customer, partner, and colleague
Discomfort when environments seem “out of control” or changeable	Comfort with waves, shifts, and cycles if these are “natural”

Source: Trompenaars and Hampden-Turner (2004, 155).

In Trompenaars and Hampden-Turner’s research, the main differences between those who are focused on internal versus external control are described in brief in Table 7.8.

Summarization

The seven dimensions in Trompenaars and Hampden-Turner’s framework cover seven different dimensions of culture. What is the right number of dimensions? Is it seven—or is it too many or too few? Researchers discuss a lot what to measure when comparing cultures.

Personally, I find this framework particularly useful when working with real-life challenges as consultant in companies. That is because it offers a framework that is nonstereotyping and focuses on reconciliation instead of just outlining the differences. Like Hofstede, Trompenaars and Hampden-Turner have made classifications based on countries and these classifications are in my view as right or wrong as Hofstede's classification. The real value lies in the focus on reconciliation of dilemmas. Later in this book, I, Dr. Finn, will use Trompenaars and Hampden-Turner's framework on cross-cultural issues in Carlsberg. We will see that some of the scores do not match the reality in this case, but it does not prevent the reconciliation process from being extremely useful.

Identify and Reconcile Cultural Dilemmas

The *Oxford American Dictionary* defines dilemma as: Dilemma [di'lemə] A situation in which a difficult choice has to be made between two or more alternatives, esp. equally undesirable ones: the people often face the dilemma of feeding themselves or their cattle.

Cultural dilemmas are consequently a situation in which a choice has to be made between two or more alternatives representing the norms, values, and basic assumptions of two or more cultures. Regarded from outside both sides of the dilemma make sense, but for the people involved in the situation it can be difficult to accept and acknowledge the opposing views because we tend to believe that our own norms and values are universally true or at least superior to those of others.

An Example of a Cultural Dilemma

Your dear neighbor who has been your close friend for many years is getting his old house refurbished with new windows and so on. He tells you that he has hired cheap illegal craftsmen from Poland to do the job. They work for a fraction of the money a local, union organized craftsman requires. But he has no choice and he tells you. His wife is expecting a baby very soon and they do not have a lot of money, so the only option they have if they want to refurbish the house is to hire cheap illegal eastern

European workers. Some other people in the neighborhood do not like that your neighbor has hired illegal workers, so they report him to the police. One day, the police knocks on your door asking about the work your neighbor has had done. Apart from your neighbor you are the only one who knows the truth. If you tell the truth and confirm the police's suspicion that your neighbor has had illegal workers he will get a huge fine. But if you say you know nothing about it, then they do not have a case and your neighbor is off the hook.

What do you do?

Do you value your relationship with your neighbor over the law and tell the police a lie, or do you value the law above your relationship with your neighbor and tell the police the truth. That is a typical cultural dilemma. Depending on your point of view and cultural standpoint you can argue for both options.

Cultural dilemmas occur everywhere not only between national cultures but also between different corporate cultures and between different subcultures within a company. With globalization the impact of cultural clashes has become more and more significant because we more regularly work together with people from other cultures and the success of many business ventures is dependent on a successful collaboration across borders. A vast number of western European and North American companies have outsourced IT services to India because Indian IT companies can deliver much cheaper IT skills. But the companies usually only look at the cost of the IT skills and forget to take the cultural differences into consideration. In my consulting firm Gugin we have had a number of these companies as clients. Different perceptions of what is important and what you can expect from a partner have caused numerous frustrations and lot of tension. And it has inevitably resulted in a much lower organizational effectiveness than expected. It happens because we assume that we all share the same basic assumptions, values, and norms, and when we realize we do not, we start fighting instead of researching.

Improving competitive advantage and wealth creation are two terms closely linked with the ability to reconcile cultural dilemmas. We will get back to that later.

Are There Universal Dilemmas?

Do we have universal dilemmas or is a dilemma unique to a given culture or group. Obviously, a lot of dilemmas are tied to a specific culture but some dilemmas seem to be universal. I cannot think of a nation, a tribe, or an association that does not make rules, and I cannot think of a group anywhere that is not at times in conflict with one of its members. And I have not met any teenage parents anywhere who have not been in conflict with their teenage daughters or sons.

CHAPTER 8

Commonalities in Cultures: Fruitful Reconciliations

Recently, a French retail chain invited Gugin to have a look at its expansion strategy from a cultural point of view, to see where there would be the biggest cultural benefits. Prior to the meeting we did some research on behavioral, occupational, and social patterns in a number of different countries and found out that this retail chain and its brand would have a cultural fit in the Scandinavian countries, some parts of North America, Canada, and in Germany. When we presented our findings and suggestions to the client they were silent for a very long time until the marketing director said that they were not comfortable about expanding into non-French-speaking countries.

We have been in similar situations before with clients and the reluctance is usually caused by bad previous experiences. In this case, they had tried to establish themselves in the United Kingdom six years ago and it turned out to be a disaster. The British employees did not like to work for a company where most people only spoke French and the two outlets they opened in London had nowhere near the appeal to the clients as the outlets had in France and Belgium. After less than two years they closed down in the United Kingdom.

They were skeptical before setting up the two outlets in the United Kingdom six years ago. They knew France and Belgium well—they knew what worked and did not work and there was no language barrier. But a consulting firm had advised them to expand and the business case the consulting firm presented looked promising, but they just forgot to take the cultural aspects into consideration. The design of the outlets, which the French characterized as cozy and relaxed, was characterized by the British as cheap and messy. The leadership style of the company was very informal and democratic with core values like sustainability and healthy

work–life balance. The British employees found that leadership style weak.

Together with the client we analyzed what happened and concluded that the cultural factors were the sole reason why they did not succeed.

Lessons Learned

The differences in culture were obviously a barrier to the French company in this situation. They ended up in this situation because their first advisers did not consider differences in cultures important at all—in fact, the issue was never on their radar screen as they only looked at financial measures.

When you experience a cultural clash like this it is tempting to conclude that cultural diversity is a problem or barrier. As we will learn it is, however, only a problem because we deal with it in the wrong way and cultural diversity is in fact a great enabler for business innovation once you have gained sufficient cultural intelligence.

The French company had burned its fingers once when going into a different culture and therefore assumed that it would never succeed again. We agreed to develop a higher level of cultural intelligence for the organization, so that it would become better at assessing opportunities and threats outside its cultural comfort zone in the future.

Reconciling different value sets should be the key to cross-cultural success whether it is across national cultures, gender cultures, age-group cultures, profession cultures, religious cultures, or any other cultural group.

And the success all depends on our starting point when looking at a potential cultural conflict. Do we start by looking at the commonalities or do we only see the differences? The impact of that decision is what we are going to deal with in this chapter. But let us first look at some key areas where we will see cultural dilemmas in emerging markets.

Cultural Synergies in Emerging Markets— A New Approach

While the Western world is stagnating, emerging and frontier markets are booming ahead economically as well as culturally. Most of the global

value creation is now coming from emerging markets and Europe's and the United States' global influence is declining. We can no longer assume that emerging countries will adopt so-called Western values once they have developed a middle class and we in the Western world can no longer take it for granted that Western values will remain dominant on a global scale in the decades to come.

One can only guess about the consequences but one thing is certain that leaders in the Western world have to develop skills that enable them to leverage from the cultural diversity. As seen in the aforementioned example, when we do not know why people are behaving the way they do we often tend to see it as a problem that has to be solved rather than an opportunity to learn something new.

Upcoming Challenges

Previously when Western cultures had economic dominance cultural intelligence was perceived less important because the developing countries simply had to obey the Western norms and values if they wanted to trade and do business. That has changed dramatically over the past 10 years and we have even more drastic changes in the pipeline.

The changes can lead to conflicts unless we understand to reconcile the underlying value sets. We might experience increased friction and more conflicts in areas like:

- **Global foreign policy:** Previously the United States and Europe pretty much decided who were the good and the bad guys on the global scene. That is going to change. China, Russia, India, and Brazil will have their say and will no longer tolerate Western dominance. Why should they? That means that we will see international policies backed by the Brazil, Russia, India, and China (BRIC) countries and condemned by the Western countries.
- **Environment:** The global initiatives against global warming, pollution, and poverty might take a completely different turn, which might not please the Western world. When new value sets gain power globally, they influence the policies, the prioritization, and the culture.

- **Human rights:** In Western democracies, we might see basic human rights as a core foundation and basic assumption. That is, however, not the case in many of the countries that are about to take over the lead on the global scene. China executes thousands of people every year and, according to Amnesty International, it is a state secret how many are actually executed. We have Iran, Iraq, Saudi Arabia, and the United States in the subsequent places, but in combined numbers of execution they are nowhere near China. We might value human rights but when the choice is between defending basic human rights and making a good trade agreement, money always wins.
- **Gender equality:** Like human rights issues, gender equality issues can cause conflicts when the power base is shifting. Will we do business with regimes where women have no democratic rights or where women are prohibited from getting an education and a job? Of course, we will not unless of course there is a good deal in sight.

These areas are all areas where we will end up in dilemmas that we will have to find a solution to. They are dilemmas based on differences in values, norms, and basic assumptions and since we no longer have the power to reinforce so-called Western values we need to pursue a different path, if we still believe that values like human rights, equality, and sustainability have any meaning. In my, Dr. Majlergaard's, opinion, the only way forward is seeking reconciliation, where all the parties involved get an opportunity to learn and improve.

Before we can reconcile a potential conflict or a cultural dilemma, we need to have the cultural intelligence that enables us to understand the underlying value systems of a conflict or a dilemma. This is called cultural intelligence, which you were introduced to in Chapter 7.

Why Do We End Up in Cultural Conflicts?

When I, Dr. Majlergaard, am coaching companies that are in the middle of a cultural crisis, that is, after a merger or acquisition or a major

restructuring of the company, I often get the question: “Why can’t we solve this ourselves—we are mature, well-educated and professional people?” To find the answer to that question we have to understand what culture is, how it is developed, and how important it is to us.

In the academic literature, there is an almost endless list of definitions of culture, so for this book we will use a very simple definition. We will define culture as “how we do things here.”

In a country or in a company there are rules we have to follow. But most of our behavior is not regulated by these rules. Instead, most of our behavior is regulated by the unwritten rules in the culture we are in. Just have a look at your own family. Do you have a set of rules written down that regulates how you should interact, eat together, celebrate birthdays, organize daily tasks, and so on? Probably not. Everything is implicit and when you have had the same habit for a long time it becomes a tradition. And we love traditions because they resemble continuity, safety, and predictability—all the basic needs we seek to cover as human beings.

Within a cultural group, people share the same values and norms; therefore, they have very similar behavior in many ways. Within the borders of the culture, that is, the company or family, it feels safe because the people around you behave in a predictable way.

Culture is very intangible; so when we want to work with, for instance, a company culture, we have to break it into some tangible parts we can describe, measure, compare, and change. In Gugin, Dr. Majlergaard’s company, we call it the cultural DNA.

Like any other DNA the cultural DNA consists of a number of elements that together form an almost unique DNA and in this case a unique culture. In Gugin our cultural DNA consists of 16 different elements and one of these elements deals with how we solve problems in an organization. Your colleagues at work have the same understanding of your company’s values as you do; so your behavior is very much aligned.

Let me, Dr. Majlergaard, give you an example. How you solve problems in an organization can vary a lot from one organization to another. If you as an employee have a professional problem, what do you do?

1. Do you send the issue to your boss so that he or she can fix it?
2. Do you ask your colleagues so that you can solve it collectively?

3. Do you ignore it?
4. Do you solve it as well as you can?

You probably make the same choice as your colleagues and collectively you form the company culture on this matter.

If an inbound call-center service company truly values customer service it will do everything to solve issues as quickly as possible. This means that when an employee faces a challenge in resolving a customer request he or she will seek help from colleagues instantly in order to resolve the issue as quickly as possible. The colleagues help gladly because there is a common value that they put the customer first at all times. The employees are paid a base salary + a bonus based on a balanced scorecard including customer satisfaction, individual performance, and team performance. This way the reward system supports the culture and the core objectives.

Now imagine, as depicted in Figure 8.1, that this company merges with another similar company. When you visit their website they will claim that they are customer focused, but in reality they have a completely different culture. When an employee is faced with a problem he or she cannot resolve himself or herself, he or she just puts it aside hoping that the customer will not come back. There is no real corporate spirit and people are primarily there for the money as the employees are paid based on how many cases they close. If they have a difficult case that takes

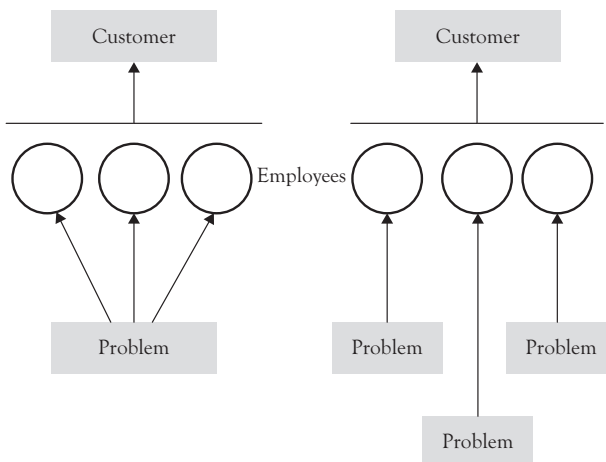


Figure 8.1 Problem-solving models

longer time and might require assistance from other colleagues they make less money and therefore they just park it on the side and hope that the problem goes away. The leadership does not seem to care about customer service either.

When the two companies merge there will be a lot of cultural friction and potential cultural conflicts when the two sets of values collide. The employees in the first company put the client first while the employees in the second company put themselves first.

It is not difficult to imagine the conflicts they will end up with when they suddenly have to work together in one department. There will be a lot of arguments and maybe even fights about how much time one should spend on the clients and how he or she should solve difficult cases.

Both groups of employees have their core values, which are very important to them, and they will wholeheartedly try to convince the other group to change. The first company's employees will argue that only by treating the customers well the company can remain in business in the future while the employees in the second company will argue that only by lowering the costs their company will remain in business.

None of the parties involved will be able to resolve that conflict for the simple reason that they are all emotionally involved; so conflict can only be resolved with an external facilitator. We end up in that type of conflict because our position in the conflict is very emotional and involves values that are very important to us and the group we belong to. We have two very different cultural DNAs colliding and they do not blend at all. If the conflict had involved something less important like dress code, working hours, leadership style, and so on, we can resolve it intellectually and reach an agreement all the parties involved can live with.

But as soon as the conflict involves values or the even more fundamental basic assumptions then we are lost. We have all been in situations like this either professionally or privately and it is painful to be in that situation because we feel hurt when other people are compromising our values. If we do not realize that we need an external facilitator to take us out of that state we usually end up losing everything.

This is also the reason why so many international ventures go wrong. If you are a big company and you want to establish yourself in a new market, that is, in an emerging or frontier market, you will very often

insist sticking to the business model that has made you successful so far. But that is a very dangerous point of view to have. Two thirds of all mergers and acquisitions fail to meet the original objectives due to cultural clashes. When Disney opened Disneyland in Paris, it assumed that it would be a walk in the park as it was successful in the United States and had opened in Japan with reasonable success. The reality turned out to be very different. The French did not like the bad food it was serving and they demanded having the opportunity to have wine with their meals. The French also sit down when they eat, while most of the Americans do not. There were also problems with the unions, the urban planners, and the hotel management. It took a very long time for Disney to change and it has not yet become profitable. Are the French stupid? No! Was Disney stupid? No, but it was blinded by its size and had only little cultural intelligence since it assumed that it could replicate its business from one part of the world to another. It was only pure luck that it did not go worse in Japan.

Another important reason why we end up in cultural conflict is that we make the wrong conclusions based on what we observe. Just because people speak the same language does not mean that they are culturally assimilated. British and American companies have big challenges when they outsource parts of their business processes to Indian companies. Their Indian partners speak English perfectly and therefore the English and American companies assume that there are no cultural barriers that should be dealt with in order to make the collaboration successful. Nothing could be further from the reality. I, Dr. Majlergaard, have worked with dozens of clients who have had challenges with their outsourcing partners and in most cases these challenges could have been avoided if they had made other assumptions. The main differences are usually related to time and authority. Most Western companies value delivering on time, while most of their Indian outsourcing partners value delivering the right product even if it takes a little longer time. Differences in values create a cultural conflict around the importance of timing versus quality.

So never make false assumptions just because people in the two groups speak the same language, dress the same way, come from the same country, or have the same education.

How to Resolve These Cultural Conflicts?

To resolve situations like the ones described previously you, as a facilitator, have to look beneath the surface and understand the underlying cultural dilemmas. This is the only way you can develop a sustainable and intelligent solution. Often we tend to look for a compromise. Later I, Dr. Majlergaard, will explain why a compromise is perhaps the worst of all solutions to a cultural conflict.

As we learned in Chapter 7 there are three levels: Culture Artifacts at the top, Norms and Values in the middle, and Basic Assumption at the bottom.

When we have clashed between different values or between differences in basic assumptions we need to trick our brain to think in a new way—that is, the primary role for the facilitator.

Identifying the Dilemmas

We do not like to be in a dilemma. It makes us uncomfortable because there is no easy way out. We are in a dilemma when we have to make a choice between two equally good or equally bad options.

When we are presented with a problem we first check if we can solve it easily. We check if it is a problem that can be solved at the artifact level like a problem concerning whether you should wear the green or the blue jacket. If the problem cannot be solved at the artifact level you try to solve it at the next level. Is it of value being a vegetarian?—do I want to obey the norms of this group? These are questions you can answer by researching your own norms and values. If the problem is even more fundamental and complex you end up trying to find a solution using your basic assumptions (the things you take for granted). When you have reached your basic assumption level it is usually because you are in a dilemma.

Usually, the basic assumptions are very hard to identify because they are so basic that we do not question them. That is why we should learn to appreciate being in a dilemma instead of trying to get out of the dilemma as quickly as possible. When you are in a dilemma you have a unique opportunity to learn something about your own basic assumptions. Next time you find yourself in a dilemma try to write down the conversation going on in your head. Write down the pros and cons you measure against

each other. This mental dialogue will tell you a lot about what you yourself take for granted. And you will be surprised to find out that there are a lot of things you take for granted and assume you were not conscious about.

The reason why you have to write down the mental dialogue as it takes place is that we tend to forget it as soon as we have found a way out of the dilemma. It is like a dream. When you wake up in the morning you might remember a dream you had, but when you try to recall it later in the day you might have forgotten it.

When you facilitate a conflict resolution for others you have to look out for the dilemmas and write down or record the dialogue the participants have when they are in a dilemma and try to find a way out. This gives you a great opportunity to identify which difference in basic assumptions causes the conflict.

Let us go back to the merger between the two call-center service companies earlier in this chapter. The reason why they ended up in a conflict was that the employees in the two companies had two very distinct reasons for why they had their jobs.

The people in the first company believed that only by providing first-class service you can retain the clients who are paying your salary. The people in the second company did not have a special relationship with their company. It was just a job and they were in it to make as much money as possible. The people in the first company would like to make a lot of money too and the people in the second company also knew that only by providing good service they could retain their jobs. The two groups just chose different sides of that dilemma.

When you look for dilemmas try to use the seven cultural dimensions described earlier in this book because later when we are going to reconcile the dilemmas we will use these dimensions to describe the conflict in values.

There Is More than One Truth

To find a way forward from having identified a dilemma to reaching a fruitful reconciliation we need to move forward one step at a time. The first thing we have to do is to realize that there is more than one truth

and more than one reality. And these realities and truths are all equally valuable and important.

Everything we do corresponds to our underlying values, norms, and basic assumptions; so when we meet people who are doing things in a different way than we would do, we have a responsibility to identify their underlying norms, values, and basic assumptions.

Look for the Commonalities First

When we are involved in a conflict we tend to focus on how we are different. After all it is differences that caused the conflict in one or the other way. But if we have a genuine desire to reconcile this conflict we need to make another important move. We have to start focusing on and emphasizing the commonalities. Let us assume that you are asked to facilitate the reconciliation between the groups of call-center employees. You can start out in two ways. You can start by asking “what is the problem”—which will become a never-ending discussion, or you can ask them to look for what they have in common.

By starting with identifying and agreeing on the commonalities the differences become less important and less influential. If, however, you start by identifying the differences it is almost impossible to look for the commonalities afterward.

The Reconciliation Process

When we have two groups of people in a situation of conflict where we have made them agree on what they have in common they are usually motivated to see how they can overcome the differences in a fruitful way. That fruitful solution is called reconciliation. It is a solution where the parties involved actually get more than they originally aimed at. You may well ask: How is that possible? We will come to that in a short while.

Many years ago when I, Dr. Majlergaard, was walking on the beach I saw a very old couple holding hands and looked like they were very much in love. I got curious and asked them for how long they have been together. They had just celebrated their 60th-year anniversary and they had known each other since their early childhood. I told them that I was

impressed to see that they still had so much passion for each other after so many years and that most elderly couples I know had a very different relationship. I was about to ask for the secret when the man got ahead of me. He said: “The secret is that I everyday feel that I get a lot more from her than I deserve.” To which the wife replied: “You do, but so do I.”

That couple just nailed what it is all about. I bet they have had their challenges like all other couples who have been together for a long time, but by constantly focusing on what they have in common they have been able to overcome these obstacles.

And because both of them were more focused on what they could do for their partner instead of being focused on getting as much as possible out of the relationship they had managed to maintain a long-lasting fruitful relationship.

The learning from that experience should be—apart from starting with identifying the commonalities—to start by giving. Show the good intentions and take the first step toward a fruitful reconciliation when you are in a conflict.

Taking the heat out of a conflict by showing good intentions and reaching out for a solution is what makes you stand out as a leader, so do not be afraid to take the first step.

Non-desirable Solutions

The next step for you and the parties involved is to agree on the nondesirable solutions. Ask questions like: “What will happen if this conflict continues?” “What happens if we do nothing?” Sometimes when we engage in a conflict we do it because we think we are safe. We think nothing really bad can happen even if we have a conflict.

A lot of French couples often have their arguments in public space. When you ask them why they do not keep up appearances until they get home they will answer that it is a way to show that their relationship is so strong that it does not hurt them having an argument in public space. My, Dr. Majlergaard’s, advice is that you should not count too much on that. Sometimes it hurts and sometimes there is no way back.

It is therefore very important that the parties involved in a conflict agree on where they do not want to go. When you have facilitated a

number of conflicts it becomes interesting to observe how easy it is for people to agree on the nondesirable solutions despite them being in the middle of a conflict.

Now that we have the dilemmas, commonalities, and nondesirable solutions in place we are ready to move forward. The scene is set.

Never Compromise

Often when we have a conflict we tend to seek a compromise because it will make everybody happy. This is in fact not true—it makes everybody unhappy because none of the parties involved gets what it originally aimed at. Some will argue that it was the best possible solution. In most cases that is not true either. It is only the best possible solution with the tools available with us. That is why you are introduced to a new tool here, which will enable you to aim higher and develop new solutions.

To move forward we will need Fons Trompenaars and Charles Hampden-Turner's cultural dimensions and the consensus we have created in the group about where we do not want to end up. And then we have to have the courage to take the first step forward.

Leveraging from the Diversity

To show how a reconciliation becomes a much more powerful solution than a compromise I, Dr. Majlergaard, will use a case we had in 2014 when we facilitated the integration of two smaller companies in the telecom sector. We had made a thorough assessment of the potential friction points and we had outlined the cultural DNA of the two organizations; so we were prepared for dealing with a handful of issues.

Our attention was drawn to the sales and marketing divisions in the two companies because it was that department where there were the biggest differences when we compared the cultural DNA.

Company A was about 40 years old and had been around since the early days and it started out by making VHF (Very High Frequency) radios. When we assessed the marketing department in Company A it became clear that it had a lot of faith in the company's products. The

employees in this department knew everything about all the products and most of the conversations they had with the clients were technical.

Company B was a six-year-old startup that had become relatively big very quickly. When we assessed their marketing department we discovered that the employees knew relatively little about the products but they knew everything about communication and distribution channels. They were master on social media and they monitored online campaigns effectively in all the countries where they operated.

When we brought them together the expected cultural clash happened. The people from Company A could not take the people from Company B seriously—as they knew nothing about the products. The people from Company B regarded the people from Company A as dinosaurs, who were light-years away from modern marketing.

Before we continue it is worth noting that both companies were relatively successful, so no one could really blame the other.

We took them through the process of focusing on the commonalities and the nondesirable solutions and we also asked them how they believed we could resolve this. Of course, they came up with a compromise solution, which in this case was that one marketing department should focus on one product line and the other marketing department on the other main product line.

We then talked to group A and we asked them to describe the best and worst things about their preference of focusing on the product. The best thing was that they could bond with the clients who focused on the technology and that way create long-term loyalty. They were also aware that they had a hard time selling to potential new clients who were less focused on the technology but more focused on how the technology could be utilized.

We asked group B the same question and the answers were reciprocal to the ones from group A. How fortunate!

We also asked them what they believed they had to become better at doing if the long-term success of the new company should be secured. Group A members said that they had to better understand the “new” world, where parameters other than product specifications often were more important. Group B members answered that they needed to know the products better in order to raise client satisfaction, which was not satisfactory.

We needed to bring everyone up to the same level of cultural intelligence, so that we all understood why other people behave like they do and to make sure we all had the same vocabulary when discussing, reconciling, and planning. So we started by giving each of the teams a half-day workshop on cultural intelligence and then we asked them to outline what they saw as the biggest challenges for the integration to become successful.

We then created small teams, and members from both groups A and B were given questions like “What can we do to increase the customer satisfaction level?”; “How can we get better feedback from our clients?”; and “How can we sell to both technical and nontechnical customers?”.

Now that they have got to know each other a little better and knew each other’s strengths and weaknesses combined with a higher level of cultural intelligence they could suddenly start to see how they could synergize from the diversity and develop solutions that exceeded their expectations.

Both groups realized that synergizing with the strengths of the other group could strengthen their points of view.

Example: The question about how the customer satisfaction level could be increased was resolved by ensuring that the sales teams consisted of both technical and commercial competences and that no proposal was sent to a customer until it was approved by both the technical and commercial sales representative. It soon turned out to be a good strategy because the number of customers complaining about a bad fit between the technology and their commercial needs dropped dramatically.

The duality in the sales process also led to new leads among the clients where group A used to have the dominance because new solutions were proposed that tied the technology closer to the client’s business processes and therefore created more value. So the sales engineers in group A soon learned that you can bond with customers in other ways than providing technical assistance and knowledge.

After a few months, the skepticism was turned into optimism and renewed energy, and employees from both companies were often joking about how they perceived the employees from the other company in the beginning.

CHAPTER 9

Emerging Markets Do Not Want to Be Like the West

Look at the phrase “Emerging Markets.” It is obviously markets, which are emerging, but toward what and when are they done? It seems to be a question that is rarely asked either because we do not care or we assume that emerging markets are emerging toward Western market structures and cultures.

However, we should ask that question and we should try to outline the possible scenarios for the emerging and frontier markets.

I, Dr. Majlergaard, do not believe that there is just one answer to that question about the end goal. I believe that each country and each market has different end goals depending on a variety of factors I will outline a little later. The factors I will focus on are the nonfinancial factors. I find it sad that almost all discussions about emerging markets and frontier markets are about economy and that there appears to be a narrow focus on the financial parameters as if they were the only ones. In my humble opinion, they are not even the most important ones.

Each profession sees only the problems, challenges, and solutions within its own profession, while only very few have the capability to assess a situation from a more holistic perspective. Economists see only the financial factors and disregard all other factors. Most economists are talking about growth but are totally disregarding the environmental disasters we are approaching if we continue to live the way we have lived in the Western world in the past 40 years. If the emerging and frontier markets end up consuming and polluting as much as we do in the Western world, there will be no future for any of us. So we need to put that fact into the equation as well.

We already see changes that take most of the economists by surprise. As I, am writing this (August 2015) I can read that the magazine *Business*

Insider declares that McDonald's is losing America—and the rest of the world as the world has started to question what is actually in the food you get at McDonald's? Chicken nuggets contain dimethylpolysiloxane, which you also find in silicone breasts, and chemicals like propylene glycol and azodicarbonamide are also very common in fast-food meals.

Previously, companies like McDonald's could make profits in countries (predominantly emerging and frontier markets) that were less concerned about artificial food ingredients and health issues. But that too has changed.

Nations around the world are already rejecting the ensemble of artificial ingredients included in many staple McDonald's meal options. Back in 2013, their attempts to expand operations in Bolivia were completely shut down by the reality that the Bolivian citizens were not willing to purchase their fast-food creations.

The Genetically Modified Organism (GMO) juggernaut Monsanto is another company that is facing a financial loss amid increased awareness and international import issues. As the Associated Press article "Monsanto Loses \$156 Million in Fiscal Fourth Quarter" explains, the multinational corporation has entered a very unique loss period that spells out a lot about the future of its GMO technology. The news comes as Monsanto continues to spend millions in attempts to stop GMO labeling campaigns around the United States, funding opposition groups and ensuring that you do not know what is in your food. After all, there is a reason that 96 percent of Monsanto shareholders absolutely do not want GMO labeling legislation to pass within the United States—it could hurt business. As there seems to be an acceptance of GMO in the United States as long as the shareholders can make money, there is a different pattern developing in the rest of the world. GMO is banned in most countries in Europe and if we look at the emerging and frontier markets they care about food quality too. Thailand, Philippines, Saudi Arabia, Brazil, Algeria, Egypt, Paraguay, Sri Lanka, Argentina, Peru, Russia, and China have all implemented part or total ban of GMO modified crops and food. So many of the emerging markets are ahead of the game so to speak when it comes to sustainability, health, and welfare for the masses.

Nestlé is in trouble too but not because of bad financial performance (yet). The Indian government has announced that it is suing

megacorporation Nestlé over claims that it deceptively allowed unsafe and illegal levels of lead in Maggi instant noodles, one of the company's most popular products in the country. The lawsuit, which seeks nearly US\$100 million in damages, alleges that Nestlé engaged in "unfair trade practices" and that the noodles are unfit for human consumption. The Indian government officially declared that it filed a suit in the country's top consumer court, the National Consumer Disputes Redressal Commission, which has semi-judicial powers. It seeks 6,400 million rupees, or US\$98.6 million in damages from Nestlé India.

The aforementioned examples show that there is a much deeper environmental consciousness in the emerging markets than many Western companies assume. The habit of moving environmentally challenging production to Third World countries has hopefully come to an end.

But there is a long list of other factors we should take into consideration when we are looking at what each of the emerging countries really wants and I will deal with the most significant ones here.

Corruption

Corruption is widespread in many emerging and frontier markets and sometimes the corruption is so integrated into the structure of the society that it hinders a development toward more democracy and transparency. The organization Transparency International monitors the level of corruption in almost all countries every year and produces a number of reports on findings and trends that can help us determine in which direction a country is moving. If you take a look at Figure 9.1, compiled by *The Economist*, you can see that there is an almost clear correlation between the human development index and the level of corruption.

If you are coming from a country where corruption is rare, you have to ask yourself how you are going to deal with it if you are going to do business in a country where corruption is considered the norm. Will you stick to your values about not engaging in corruption or is the potential profit too tempting? If you find yourself in that dilemma I, Dr. Majlergaard, can assure you that you are not the first one, but you have to make up your mind.

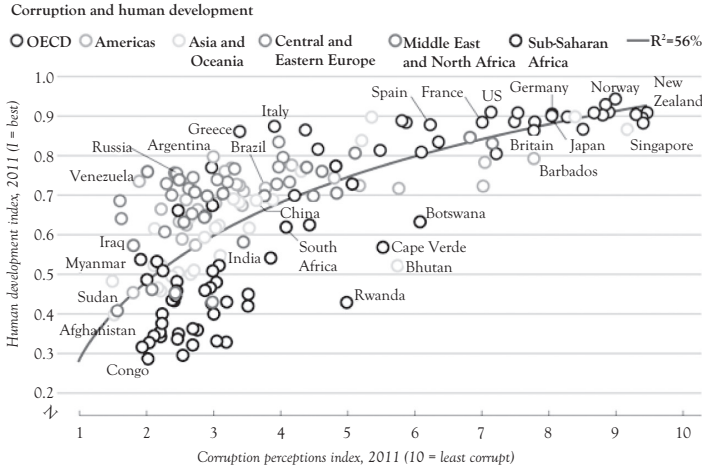


Figure 9.1 Correlation between the human development index and the level of corruption

Source: Transparency International; UN Human Development Report.

You cannot have an official policy that you do not engage in corruption and then do it with the hope that no one will find out and disclose it.

Human Rights and Equality

The next dilemma we have to consider when looking at which direction emerging or frontier markets are moving are the human rights and equality issues.

Many investors invest in emerging and frontier markets with the hope that these markets, over time, will develop into more stable societies with democracy, transparency, and a reliably legal system—not that they necessarily have a lot of empathy with the people living there, but your investment is much better protected if the society is stable. So, investing in a country that is unstable might be a good business because you get the assets cheaper in return for taking a higher risk. If, over time, the country becomes more stable, the return on investments will be lower, but since you acquired the assets at a low price, you will be able to make a huge profit. This seems to be the business model for many frontier market investors.

However, do you as an investor have a social responsibility too or can you get away with just looking at your own investment? For some that is a dilemma while for others it is not. When the United States and European Union (EU) were co-investing with private companies in sub-Saharan Africa in the 1970s and 1980s, there was always a community development factor involved in the projects. You could get the money if you, in some way, helped the local communities either by having local companies as partners or delivering something of value to the broader community.

As the Chinese economy grew and China had a need for getting access to valuable raw materials they started investing heavily in sub-Saharan Africa and they more or less squeezed the EU and the United States out. While the United States and the EU demand reforms and improved human rights in return for investments, the Chinese do not ask questions or have any requirements of that kind. They do not seem to care if it is children working in the mines. They do not seem to mind doing business in an environment where bribery is the key business development tool and they do not seem to care about the future development of the host country once the mines are emptied or the Chinese economy has collapsed.

At the Brazil, Russia, India, China, and South Africa summit in South Africa in 2013, Xi Jinping explained that African leaders need not worry that China is the same kind of benefactor as the United States: “China will continue to offer, as always, necessary assistance to Africa with no political strings attached,” he said. Of course, there may not be political strings attached, but there are plenty of economic strings, and China is keen to pull them.

It is true that China does not care what kind of government its investment partners have, or whether there is systemic corruption, or if the balance of power between corporations and citizens is, well, balanced. But China cares very much what these countries can offer China and its emerging economy. For African countries, many of which are governed by authoritarian regimes, China might as well be an Automated Teller Machine (ATM), as depicted in Figure 9.2.

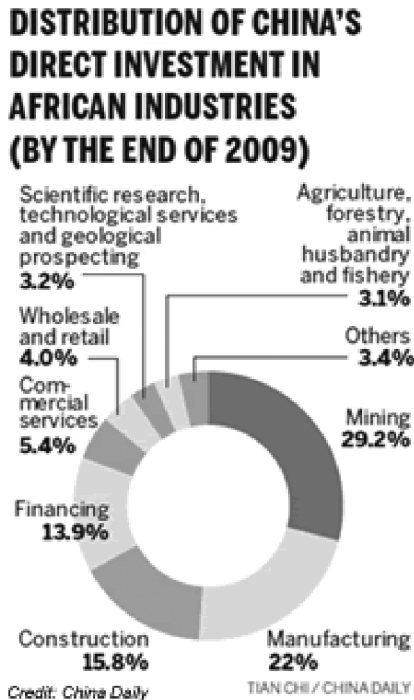


Figure 9.2 Distribution of China's FDI 1

Or, as governor of Nigeria's central bank, Lamido Sanusi put it in *Financial Times*:

China takes our primary goods and sells us manufactured ones. This was also the essence of colonialism. The British went to Africa and India to secure raw materials and markets. Africa is now willingly opening itself up to a new form of imperialism.

How will you as a Western company compete with that? Will you join the Chinese business development model or will you remain true to the fundamental values most of the developed countries share?

Improving basic human rights and equality among races, religions, and genders might very well be a wishful dream as long as China is in the driver's seat. Even if Europe and the United States had the money and the will, China is still offering a better deal because there are no strings attached to the money.

An unpleasant, but in my, Dr. Majlergaard's, view a possible scenario is that we will see an increased instability in sub-Saharan Africa because of the collaboration with China. This instability will be fueled by:

- The large number of Africans who have higher education and who are capable of seeing the bigger picture. That group of people is also very well connected internationally and can therefore produce a significant economic and political pressure.
- When the Chinese economy loses momentum and there is less money to support the corrupt regimes in sub-Saharan Africa the house of cards might very well collapse.
- We might also see an uprising against the inequality and lack of human rights in some countries. The most dangerous people are the ones who have nothing to lose and for many people that is the case.

The Emerging Markets Want Influence

Many companies and governments in the Western world are still having the perception that they can dictate the agenda for global issues such as how to fight global warming. It therefore came as a surprise to many when China and Brazil formed an alliance to influence the Conference of the Parties, (COP) meetings. When the next COP meeting, COP21, takes place in Paris in November 2015 the picture will be even more complex.

Traditionally, countries have been divided into two categories: Developing countries were grouped together under "Annex 1" and developed countries, judged responsible for climate change to a greater extent, were grouped under "Annex 2." But it became clear at the COP20 in Lima in December 2014 that the line between the two groups has become blurry or almost invisible.

Due to the Western world's inability to act fast enough countries like China and Brazil wanted to take the lead on setting the climate change agenda. It is actually an old alliance that goes back to 1964. It is called G77 and contains an enormous variety, including the powerful emerging economies of Brazil and China, less advanced countries like Mali and Nepal, and even members of the Organization for Economic Cooperation and

Development, like Chili, Mexico, and South Korea. Until recent years, the alliance has played a dormant role.

When COP21 takes place in Paris in November 2015, I will not be surprised to see if the G77 alliance dominates the summit. It will be another tough setback for Europe and the United States, which are used to sitting in the driver's seat forever when it comes to international negotiations.

As we are seeing the emerging markets taking the lead on setting the climate change agenda, we might also see a change in who is setting the military agenda. Both India and China are investing a lot of money in developing their military and in my, Dr. Majlergaard's, view it is only a matter of time before the Asian region will set its own political, economic, social, environmental, and military agenda.

When emerging markets like China, India, and Malaysia mature, they become less dependent on the United States. The countries the United States declares as its enemies might, in the future, be allied with the big Asian countries. Culturally and historically, the United States is quite isolated from where the economies are booming right now. I, Dr. Majlergaard, will therefore not be surprised if we in the future see old ties between countries being brought back to life because there are some cultural and historical ties that have never been forgotten.

As much as the emerging markets want influence economically, culturally, environmentally, and militarily, they also face some serious challenges, which only the future can tell how they will tackle. Sometimes it appears that the only thing, for instance, the G77 countries have in common is that they do not like the United States and Europe. As I, Dr. Majlergaard, have outlined earlier in this book, having a common enemy is good for a group identity, but it is not sufficient for a group to survive and develop.

The diverse groups of countries in the emerging market cluster and in the frontier market cluster have very diversified local agendas. It will therefore take unprecedented diplomatic skills to make it work.

Cultural Diversity

My, Dr. Majlergaard's, first teaching assignment was undertaken in 2000 when a Malaysian business school invited me to give a lecture on

business development from an Asian perspective. At that time, I lived in Denmark and had never been to Malaysia, but I had met a lot of Asian businessmen who were frustrated about how useless the American MBA books were because they had a foundation and an approach that was so far away from what these Asian businessmen needed. So I interviewed several Asian businessmen and wrote an article about how international business development should be from an Asian perspective.

Somehow this article reached Malaysia and they invited me to give a lecture on how you can conduct international business development when you have limited financial resources, a different cultural background, and a well-developed mistrust in Westerners. Apart from being a fantastic trip, it was a tremendous learning experience for me because it was the first time I was on that side of the table with the only purpose to learn and understand what they needed and then facilitate the learning process.

That experience was the main reason why I, Dr. Majlergaard, started Gugin in 2001 and now, 14 years later, have worked with more than 600 companies around the world leveraging from cultural diversity. And I am sad to have to conclude that we, in general, have not learned a lot in the past 14 years despite having traveled more than ever, despite knowing more about cultural diversity than ever before, and despite being exposed to foreign cultures more than ever.

We still assume that the cultural barriers are insignificant and we in the West still assume that other cultures want to adopt Western values just because they can. It was one of Samuel P. Huntington's key points in the famous or infamous article "The Clash of Civilizations." He meant that the Western values were superior to all other regions' values and that these great Western values would spread as soon as it was possible for non-Western cultures to adopt them.

Some people still believe that is true. As one of my, Dr. Majlergaard's, clients once said when we were discussing this issue, "All countries have adopted American values. You can get burgers, blue jeans and American music everywhere."

I do not feel like commenting on that statement further except remarking that this is not an uncommon approach in the United States and Europe.

And sometimes it is even worse. Sometimes we think that just because we have financial and economic superiority we also have cultural superiority. We, Gugin, once worked with a large company in the fast-moving consumer goods industry that had bought a company in Russia. The Russian company was actually much more profitable than its new owners in Western Europe.

Gugin got on board because there were a lot of cultural challenges. The buying company did not have a lot of experience with acquisitions of that kind; so they assumed that the Russian company would do as they were told. It turned out differently. The Russians argued that their owners should back out as they (the Russians) made a lot more money than their new owners and they felt that the new owners behaved like the old Soviet Union.

That was in fact not far from the reality. In the months after the acquisition a number of Russian managers were fired because they disobeyed orders and at some point a representative from the owner said to the Russians. "You have to do what you are told because we own you." Then they went on strike.

The cultural disaster was that the mother company tried to reinforce its management style on a company in a totally different culture with different values, norms, and basic assumptions. They had no cultural intelligence that provided them with the knowledge they needed. They believed that just because they were a big company (however, not profitable) they could reinforce their culture on a company they acquired with a foreign culture.

The situation was very tense for a very long time; so it was not until an exchange of middle managers took place that things started to loosen up and they started to get to know each other better on a personal level. They also had to agree on the point that the Russians should run their business as they have always done and that all closer collaboration should function entirely on a voluntary basis.

The Purpose of Business

One of the fundamental mistakes we commit when conducting business across borders is assuming that we are in business for the same reasons. In

the example earlier with Monsanto, 96 percent of Monsanto's shareholders (mostly Americans) were against a ban on GMO products because it would hurt their investments. So for that group of people, making money obviously comes before anything else. However, being in business only for the sake of profit is far from a universal truth but if that is the only reason why you are in business then it will be very hard to comprehend that you can be in business for other purposes. At the end of the day, it all comes down to what value you give to money.

Let us look at an example. I want to compare people's behavior after the hurricane Katrina in New Orleans in August 2005 with the people's behavior in Thailand after the tsunami in December 2004.

The two disasters are comparable because they left thousands without homes and both disasters got a lot of attention and international help.

It is however interesting to observe that the populations in the two countries behaved in very different ways.

Thailand received a lot of help in the days and weeks after the tsunami had hit and everybody helped to look for survivors, clean up, and re-establish the infrastructure. At some point, the Thai government told the international aid organizations to focus on other countries, as "There are countries who need the help more than we do—we can manage it from here."

The Thais felt a shared responsibility not only with themselves but also with the other countries that had been hit by the tsunami.

The year after in New Orleans after the hurricane Katrina hit, the behavior was quite different. Widespread looting—even right in front of the police. A lot of the domestic and foreign aid packages never reached the designated areas in New Orleans because they were stolen by middlemen in the United States, who saw an opportunity to make some extra money.

The Indian Tata group, one of the biggest conglomerates in the world (the 39th most valuable company in the world) has the following mission:

Tata's principal purpose is to improve the quality of life of the communities it serves. The values and ideals that define the way the group functions help it do that.

Their purpose is not profit maximization—actually they donate a large portion of their profit to domestic and international institutions and organizations, among them being a B50 U.S. dollar donation to Harvard University in Boston. Their reason for being is not unique in that region and if we underestimate the importance of these differences we are not invited to join. Samuel P. Huntington could not be more wrong.

In this chapter, I have tried to outline some of the major nonfinancial factors that influence the path the different emerging and frontier markets are going to take. I, Dr. Majlergaard, believe that they will develop in many different directions because of fundamental differences in their preferences, culture, capabilities, and history.

Other factors of importance are as follows.

- The emerging and frontier markets have seen the downsides of the Western cultures, sides they might not wish to replicate.
- Many emerging and frontier markets have a relatively well-educated population, which will give them a different starting point and outlook and may or may not point toward so-called Western values.
- Human rights and equality among races, religions, and genders might get a higher priority as the emerging and frontier markets will aim at creating more stable and sustainable societies. The formation of the middle class is crucial for developing democracies and if that is the purpose, improved equality is paramount.

CHAPTER 10

The Lesser Importance of National Cultural Identities

When you listen to people talking about cultural differences they most often divide people into groups of nationalities. You can get a lot of books about doing business in almost any country you can imagine and most consultants who are helping companies and managers getting their heads around the subject are also focusing on national cultures.

When you have read one of these books or participated in a cross-cultural seminar or training session you are left with the impression that all people in a particular country share the same norms and values and behave the same way.

In this chapter, I, Dr. Majlergaard, will explain why this approach is wrong and potentially dangerous to pursue. And it is my humble aspiration that you, dear reader, in the future will refrain from making these generalizations or stereotypes.

Why Do We Group People According to Their Nationality?

When I ask my students and clients this question, I usually get the reply: “What else should we do?” That answer is based on the assumption that it is the only and right thing to do, and it reveals the inability to see the alternatives and to realize that the reality is far more complex than groups of national identities.

But why do we need to group people at all? It is simply because grouping of people is one of the core attributes of any culture. One person cannot have a culture but two people can. When a number of people are together, they will, over time, align their behavior and later they will align their norms and values. To make the group stronger, they will also define

who they are not. They will find ways to describe how they are superior to other cultures or groups, and when they win an in-fight (broadly speaking) they will celebrate the victory. When a sales team wins an order, its members will celebrate and confirm themselves how much better they were than their competitors.

Most wars we have seen in recent history have been between nations and most international sport competitions are between nations, for example, the Olympics and World Cup. The sports world is however closer to reality in a globalized world than most politicians and businesses. In Tour de France, there are no national teams, but teams with bicycle riders from all over the world. The national identity does not exist within each team. If however you have ever watched Tour de France, you would have noticed that the spectators along the stages wave national flags. They do that because they support their fellow nationals irrespective of which team they are on. In football (U.S.: soccer) it is different. The supporters support the team irrespective of the nationalities of the team members.

This illustrates that our affiliation with cultures is far more diverse than just assuming that national cultures are the only ones that are important.

So why do we still cling to national clusters? One of the main reasons for that is that we are manipulated to believe that national clusters are still the most important ones.

As mentioned earlier, one of the core functions of a group—and by that a culture—is to protect each other from an external enemy. If you want to control the members of a group there is nothing better than developing the image of an external enemy who is threatening you. George Orwell illustrated that brilliantly in his famous book *1984*, where the two imaginary countries Eastasia and Eurasia were the enemies. The ongoing wars with these imaginary countries justified the cuts in food rations for the population and it was accepted because you have to make sacrifices to protect yourself against an external enemy.

We listen and obey when we are threatened. When you are sitting in a plane listening to the flight attendants going through the safety procedures you are probably not listening at all because you find it completely irrelevant. But if for one or another reason the plane is declaring an emergency and has to make an emergency landing you will suddenly pay a lot of attention to what is being said and most likely follow the instructions.

Having an external threat is crucial for people who want to control a group. That is why politicians are using that trick in their election campaigns where some of the politicians are claiming that they can protect you from the external enemy whether it is Islamic State, Cheap foreign labor, illegal immigrants, Capitalism, globalization, global warming, and so on. It does not matter whether the external threat is real or imaginary as long as you can create a doubt in people's minds saying, "it might be true."

Another reason why we tend to cluster people according to their nationality is that we have a need for explaining everything ideally in a simple easy-to-understand way. Let us go back 200 years. At that time our knowledge about the rest of the world was very limited and we had to rely on stories brought back by the very few people who were actually traveling. The people who were traveling were mostly sailors and soldiers. Only very few scientists and artists were traveling far away to gain new knowledge and inspiration.

When the sailors and soldiers returned home they rarely told their stories to the general population. They debriefed their employers, usually the king or the government. The kings then twisted the stories so that they, at all times, supported the domestic political agenda. It could turn out to become a love story for a country they would like to create commercial or political ties with or the opposite for a country they would like to expose as an enemy. And since only very few people could verify the information that was given, most people believed in it.

I will argue that it has not changed much despite us having access to so much more information than that available 200 years ago. It is because our need for finding simple, easy-to-understand explanations has not changed. Many of the cross-cultural guidebooks that have been published are short guides that explain how to conduct business in another country with chapters like how to greet, how to eat, how to conduct meetings, and so on.

False Impressions Last

When we are going to a new country far away from our own on a business trip we can see all the dangers piling up in front of us. We want the

trip to become successful, which means that we want to avoid bungling everything. We instinctively know that there are cultural differences and we also know that misinterpreting these differences can be fatal for our success. So unless we are so arrogant to believe we can behave in any way we like we will try to seek information that can help us overcome the cultural barriers.

And we want the quick and easy solutions because our time is precious and we just cannot set aside a lot of time to figure out what to do; so we welcome the quick guides we can read on a plane between the meal and the coffee.

These guides are, without many exceptions, full of stereotypes about how the people are in that particular country. And you read everything carefully because you want to do things right from the very beginning.

When you arrive at your destination you feel well prepared. You have studied the guide carefully. But your brain tricks you from now on. Because you are so keen on making this business trip in a completely new culture successful you cling to everything you know—your dos and don'ts list from your guidebook.

You think that you are observing what is going on around you, but in reality you are looking for everything that confirms what you have been reading and disregarding everything that does not. This way you reassure yourself that you are well prepared and ready for your business meetings.

Hopefully, you can see the dangers in this approach, but let me explain it a bit further.

As explained earlier in this book, culture is a multilayered construct we can look at as an iceberg with the visual artifacts above the sea level and the norms and values underneath and with the basic assumptions at the very bottom of the iceberg.

Almost all the guidebooks only deal with the artifact level and only rarely do they deal with the underlying values and norms. As outlined earlier in this book, all our behavior reflects our underlying values, norms, and basic assumptions. This means that in a foreign culture where you do not understand the underlying norms and values, you might meet people who are doing exactly the same thing as you but for a completely different reason.

Let me give you an example. An executive from a large company in the pharmaceutical industry once told me how his transition from a small

early-stage company to a very big organization has led to some misunderstandings because of differences in corporate culture.

As the chief executive officer (CEO) in the old company with only 35 employees he always had his door to his office open when he was not in a meeting or had confidential phone calls. This way everyone in the organization could approach him directly without thinking whether they disturbed him in something important. He valued that direct interaction with his employees and wanted to continue that in his new job as a division manager with one of the large global players. They were both Swiss companies, but they had very different corporate cultures.

The employees in his former company saw the open door as an invitation to contact their CEO if they had a matter they wanted to discuss with him. It turned out to be very different in his new job.

The division manager was single and devoted most of his time to his work and after he got this new dream position in one of the global players in the marketplace, he was even more keen on making a good impression and deliver the results he was expected to deliver. He was nevertheless committed to an open dialogue, as he believed this was crucial to the team to succeed.

He was therefore surprised to experience that no one came to his office in his new company. He was the only one to have his own office, while his team of 50+ people was sitting in an open office space right outside his office. He did not dare to ask them why they never came to his office. He also noticed that most of them worked very late. Even when he left late in the evening there were still a lot of people around.

His company had already engaged with my, Dr. Majlergaard's, company Gugin to assess the company culture and when we interviewed some of the employees in his department we became aware of this, very interesting cultural incident.

When we interviewed the employees, the division manager had already briefed us about the change in the employee behavior compared to his former employees, so we were curious to find the reason.

It turned out that the employees saw the open door completely differently from the division manager's former employees. They thought that he had an open door so that he could monitor and survey them, which made some of them afraid of leaving before he did in order not to make a

bad impression. They were also frightened by his commitment to work all the time. It is needless to say we had a really great time clarifying everything. This example shows how easily we can misinterpret artifacts—in this case an open door.

When we are reading these guidebooks and we are looking for everything that confirms what we have read it is as if the only tool you had was a hammer, in which case everything you saw was considered a nail. So reading guidebooks to foreign cultures mostly does a lot more harm than being helpful. The false impressions you get last. At least they last long enough for you to miss the opportunity of having a successful business trip.

Surviving in a Complex World

The national stereotyping that Geert Hofstede and others promote might have had some kind of relevance 200 years ago when we were not influenced by other cultures to the same extent as we are today.

Today the national culture has become much less important than before and for more and more people it has become completely insignificant. The reasons for that change are as follows:

- We travel more than ever before in history, both for business and for leisure. It is affordable for more people than ever before in history to travel to destinations anywhere in the world. This is because of increased wealth, more spare time, and lower travel costs. In the mid-1960s, a Scandinavian schoolteacher had to work nine months to buy a return ticket from Europe to the United States by plane. Today he or she has to work 10 only days. When we travel more we bring something home—not only physical things, but also ideas, perceptions, knowledge, values, and new connections. Gradually, these external impressions help us change the culture. Today you can get almost any kind of food everywhere. You don't have to go to Japan to get sushi or to Italy to get a pizza.
- We relocate temporarily or permanently to other countries because of new opportunities arising or because the

conditions at home are unsatisfactory. When we move to a new country we (hopefully) try to adapt to that new culture by learning the language and in general try to fit into the local culture. But we also influence it. When relocating, we will learn a lot of new things but we will also influence our new hosts with some of our habits or artifacts that they like. There are carnivals all over the world, not only in Brazil. The end of the Ramadan is celebrated all over the world, not only in the Arab countries; we celebrate Valentine's Day all over the world, not only in Rome, and so on.

- Today more than half of the world population lives in big cities and some researchers estimate that, by 2050, three-fourth of the world's population will live in big cities.
- As Figure 10.1, adapted from the United Nations, shows, the movement from rural to urban areas has been steady since the beginning of the 1950s, in the beginning predominantly due to industrialization and later because of globalization and deregulation.

This change in the way of living has a huge cultural impact. When you live close together with other people you have to become more culturally

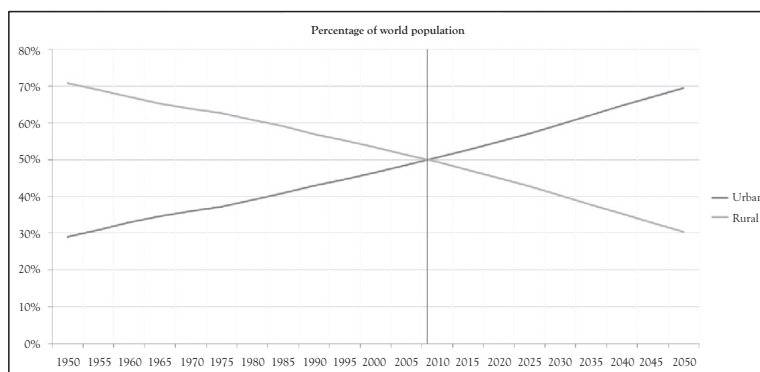


Figure 10.1 Movement from rural to urban areas has been steady since the beginning of the 1950s

Source: United Nations.

open and tolerant. You meet people who live in a completely different way every single day. You are exposed to food from all over the world and you meet people from different cultures who speak different languages every single day.

When you move from the countryside to the city you become gradually more multifaceted culturally and socially. You will hang out with people you have never dreamt of hanging out with and this way you will change your view of the world. People living in cities travel far more than people living in the countryside. There can be many reasons for that. If you live in a city you probably live closer to an international airport than if you are living in the countryside. If you live in the city you are more likely to work in an international environment and you are more likely to have more money to spend on traveling than people living in the countryside.

One of the cultural attributes to people living in the city is that their national identity and cultural belongingness to a country are much less significant than for people living in the countryside.

- We engage, marry, and create families across cultures more than ever before in history. When you form a relationship with a man or a woman from another country you have to find a pragmatic way of dealing with the national traditions from the two countries if you want the relationship to become a long lasting one. You push the national traditions, habits, and norms into the background for the benefit of your relationship with your partner and your new family. Your children will be used to different cultures and they too will find the national cultures less important.
- Technology in general and the Internet in particular have made it possible for us to connect and communicate with people from all over the world and when we ourselves move we can remain connected irrespective of the physical distance.

These key factors have changed the cultural landscape dramatically. This is also the reason why you will see in many countries that the people living in the countryside are far more nationalistic than the people living

in the big cities. If you live in the countryside and do not have a daily exposure to foreign cultures and maybe do not travel so much, most of your input about how the rest of the world looks like comes from the media. And as the media tend to focus on disasters, riots, social instabilities, and threats, you are very likely to see the world around you as a threat. And when you have a fear of that kind you are more likely to argue for more nationalism and protectionism. The people living in the cities are, in general, having the opposite approach. They see the world as their playground and see opportunities everywhere and they are not afraid of connecting, traveling, and eventually moving abroad if the right opportunity arises. They know they can stay connected with family and friends and they have most likely enough money to either visit them or pay their airfare to visit them.

Another important factor I did not include in the aforementioned list is the importance of corporate culture. Not only do we have a movement from rural to urban areas we also see a big change in family patterns globally. In the old days, people went to school, the men got an education, then had a wife, and then kids. He worked and his wife managed the household. For the good and the bad the family was the core of people's lives. There was a strong interdependency between the man and the wife, which meant that they were not necessarily together because they loved each other but certainly because they needed each other in order to survive.

As women became more active on the labor market and began to pursue education as well they became more and more independent of the men. The lifestyles of the men and the women began to look alike.

As women began to pursue careers in business they decided to find a life partner and to have babies later in life than before. The low fertility rates we see in many countries today is because of that change. But there is a challenge. At the time when the well-educated women are ready to find a partner and create a family, most of the well-educated men are already married and settled. The dating site Educated Singles once did a large survey among its members about levels of education. While men had no problem marrying a woman less educated than himself it seemed to be a deal breaker for most well-educated women if the man was less educated and earned less money than her.

That together with economic independency might be the major reasons why we have so many singles. But what does that have to do with corporate cultures?

No matter whether you are single or in a relationship you need an affiliation with a group and culture. Some companies have been very good at developing company cultures that assimilate families and therefore attract people who are ready and willing to devote most of their time to the workplace in return for this affiliation that a thought-through company culture can provide.

When we at Gugin (Dr. Majlergaard's company) conducted identity surveys in companies, we found that singles tend to have their work identity the most dominant one by far.

A Self-Assessment

Identities and cultures are closely associated. For each identity you have you are associated with at least one culture. In order for you to find out how important your national culture is, please try this self-assessment.

Step 1

Write down all the identities that you have. Taken out of the context of our cross-cultural courses it might seem like a tricky question; so here are some examples: job identity (manager, school teacher, bus driver, accountant, etc.); education identity (engineer, nurse, doctor, etc.); family identity (mother, father, son, daughter, etc.); sports identity (the team you support or the sport you do); geographical identity (country, continent, city, world, etc.); and religious identity. Take your time to make your own list of identities that you feel that you have and that are important to you. When that is done we can move on to the next step.

Step 2

For each of the identities you have recognized think about how much each identity makes up your total identity. If, for instance, you feel that your work is the most important thing in your life you might say it is

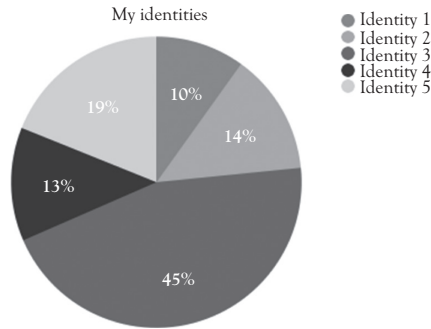


Figure 10.2 *Identity assessment graph*

40 percent of your total identity. Attach a percentage to each of the identities so that the sum of the percentages equals 100.

This part of the exercise can easily take some time, so do not rush through it. Finally, you can make a pie chart like the one depicted in Figure 10.2.

This will give you a good view of who you are and what is important to you in life. Not many people have the national identity as the most dominant one and, even within the same country or the same company, there is a huge variation in the identity pie charts.

If you are really courageous you can ask your husband, wife, boyfriend, girlfriend, or partner to do the same exercise and then you can compare the results. But be careful—you might not like what you will see. In any case, you should try it with your colleagues and see how diversified you are despite the fact that you might have the same nationality, education, and age group, and work for the same company. Hopefully, you are at this point convinced that clustering people according to national cultures makes absolutely no sense.

Instead of putting people in boxes you should look for dilemmas as described earlier in this book. Look for the cultural dilemmas and reconcile those dilemmas instead of assuming that all members of a particular country are alike, share the same values, and behave the same way.

About the Authors

Marcus Goncalves, EdD is an international management consultant with more than 28 years of experience in the United States, Latin America, Europe, Middle East, and Asia. Mr. Goncalves is the former chief technology officer of Virtual Access Networks, which under his leadership was awarded the *Best Enterprise Product* at Comdex Fall 2001, leading to the acquisition of the company by Symantec. He holds a master's degree in Computer Information Systems and a doctorate in Educational Leadership from Boston University. He is a PhD in International Business candidate at the University of Saint Joseph, in Macao, China, researching on Sino-Lusophone African trade. He has more than 45 books published in the United States, many translated into Portuguese, German, Chinese, Korean, Japanese, and Spanish. He is often invited to speak on international business, global trade, international management, and organizational development subjects worldwide. Marcus has been lecturing at Boston University and Brandeis University for the past 11 years. He has also been a visiting professor and graduate research adviser/examiner at Saint Joseph University, in Macao, China, for the past four years. He is an associate professor of Management, and the International Business Program chair at Nichols College, in Dudley, MA, USA. Dr. Goncalves can be contacted via e-mail at marcus.goncalves@nichols.edu or at marcusg@mgcgusa.com.

Finn Majlergaard, DBA is the founder and chief executive officer of Gugin, a global operating consulting firm specialized in helping companies and organizations leverage from the cultural diversity. Since he founded the company in 2001 he and his colleagues have worked with more than 600 companies across the globe with post-merger integration, development of corporate cultures, crisis management, global leadership development, and change management. He also renders a lot of speeches for companies and organizations, which need inspiration on how to get the most out of being global in a globalized world. Dr. Majlergaard also teaches at several

business schools and universities around the world where he brings his vast real-life experience and academic knowledge to the students. Before founding Gugin, Dr. Majlergaard had international management positions with companies like IBM, CSC, and Arthur Andersen Business Consulting. He holds an MBA from Henley Management College, UK, and a doctoral degree from International School of Management in Paris, New York, Tokyo, and Shanghai. Dr. Majlergaard can be reached at fm@gugin.com or [Dr_Culture](#) on twitter. Feel free to connect with him on LinkedIn as well.

Advance Quotes for Leveraging Cultural Diversity in Emerging Markets

“For anyone interested in taking the real-time “pulse” of the situation facing corporations who must deal with emerging and frontier markets, this book is a must-read. The authors have produced a cutting-edge book, full of facts and excellent figures that are so cogently laid out, unlike many books of this nature, it is a joy to read.”

—*Jasmine L. Eleftherakis, Sr. Patent Administrator, Pfizer*

“The authors are very sharp and competent in offering this book with a wide range of nationalities and culture diversities. As a recruitment company in Brazil, we realize the biggest challenge in matching companies and candidates of different nationalities is not the language, but the culture translation! As a PhD student, I see diversity is a driver to innovation! I highly recommend this book to everyone who needs to survive in the current geographic boundless and dynamic world, with many threats and opportunities!”

—*Celso Malachias – DNA Hunter founder and CEO, and Innovation PhD Student at Fundacao Getulio Vargas. Sao Paulo, Brazil*

The authors manage successfully to explain the role of emerging markets in a global context. The brilliant combination of the authors’ personal experience and excellent research makes the book truly valuable. It is very enriching for everyone interested in emerging markets and serves as a great preparation for entrepreneurs planning on conducting business with these countries.

—*Viktoria Richtsfeld, International Business program, Munich Business School, Munich, Germany*

“If the genius comes only in the singular then it is one Hydra! The work of Professor Marcus Goncalves and Dr Finn Majlergaard offers us a new and transverse approach of, and at the same time, underestimated and misjudged phenomenon—even to a real taboo. To measure this so to speak unexplored ground, the virtuosity of a collaborative writing alternating an international academic precision and conciseness of experienced feedback, expresses himself in the congruence to share it with us. This understanding of the human entity, in its necessity of reconciling the complexity of its nature and the paradoxes of its context to be exceeded, opens us on multiple reflections of choice of societies and identities to be created or more simply to learn again to live together.”

—*Laurent Boscherini, Corporate Finance Consultant
at LBC IBC Ltd., Gibraltar*

“Regardless of how much the readers know about emerging countries, this book will be valuable to them, as it provides an insight on economies and political factors of emerging countries. I highly recommend this book to anyone who likes exploring the global status and having an in-depth know-how in emerging markets.”

—*Benjiman Wong, Netcraft, Macau SAR, China*

References

- ADB (Asian Development Bank). 2013. "Asian Development Outlook 2013 Update." Manila. <http://www.adb.org/publications/asian-development-outlook-2013-update-governance-and-public-service-delivery> (accessed December 20, 2013).
- Ambrose, S., and D. Brinkley. 2011. *Rise to Globalism*. New York: Penguin Group.
- Arkalgud, A.P. 2011. "Filling 'Institutional Voids' in Emerging Markets." *Forbes Magazine*, September 9. <http://www.forbes.com/sites/infosys/2011/09/20/filling-institutional-voids-in-emerging-markets/> (accessed December 15, 2013).
- Cheewatrakoolpong, K., C. Sabhasri, and N. Buditwattanawong. February 2013. "Impact of the ASEAN Economic Community on ASEAN Production Networks." ADBI, no. 409. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222459 (accessed March 12, 2013).
- Datamonitor. 2009. "Global Consumer Trends 2009: Individualism." *New Consumer Insight (NCI) Series*. Reference Code: DMCM4692.
- Durand, M., C. Madaschi, and F. Terribile. 1998. "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies." OECD Economics Department Working Paper, No. 195.
- Francesco, A.M., and B.A. Gold. 2005. *International Organizational Behavior: Text, Cases, and Skills*. 2nd ed. Upper Saddle River, NJ: Pearson Prentice Hall.
- Hampden-Turner, C., and F. Trompenaars. 1997. *Riding the Waves of Culture: Understanding Diversity in Global Business*. New York: McGraw-Hill.
- Hofstede, G. 1991. *Cultures and Organizations: Software of the Mind*. Maidenhead, UK: McGraw-Hill.
- Huntington, S.P. Summer, 1993. "The Clash of Civilizations?" *Foreign Affairs* 72, no. 3, pp. 22–49.
- Inglehart, R., and C. Welzel. June 2010. "Changing Mass Priorities: The Link Between Modernization and Democracy." *Perspectives on Politics* 8, no. 2, pp. 554. https://web.archive.org/web/20131019112321/http://www.worldvaluessurvey.org/wvs/articles/folder_published/article_base_54
- IMF Reports. May 2013. "Middle East and North Africa: Defining the Road Ahead." Regional Economic Outlook Update, Middle East and Central Asia Department. <http://www.imf.org/external/pubs/ft/reo/2013/mcd/eng/pdf/mcdreo0513.pdf> (accessed November 2, 2013).
- Keshavarz, S., and R. Baharudin. 2009. "Parenting Style in a Collectivist Cultures of Malaysia." *European Journal of Social Sciences* 10, no. 1, pp. 66–73.

- Khanna, T., and K.G. Palepu. 2010. *Winning in Emerging Markets: A Roadmap for Strategy and Execution*. Boston, MA: Harvard Business School Publishing.
- Kim, K.H., and H. Yun. October 2007. "Cying for Me, Cying for Us: Relational Dialectics in a Korean Social Network Site." *Journal of Computer-Mediated Communication* 13, no. 1, pp. 298–318.
- Mitchell, J. July 23, 2013. "When Entering Emerging Markets, Understand the Potential Risks." Deloitte. <http://deloitte.wsj.com/riskandcompliance/2014/03/26/when-entering-emerging-markets-understand-the-potential-risks/> (accessed October 6, 2015).
- Moghadam, R. June 15, 2010. "How Did Emerging Markets Cope in the Crisis?" The Strategy, Policy, and Review Department, in Consultation with other IMF Departments, IMF. <http://www.imf.org/external/np/pp/eng/2010/061510.pdf> (accessed November 15, 2013).
- Mutum, D.S., S.K. Roy, and E. Kipnis, eds. 2014. *Marketing Cases from Emerging Markets*. New York: Springer.
- Orgaz, L., L. Molina, and C. Carrasco. 2011. In *El Creciente Peso de Las Economías Emergentes en La Economía Y Gobernanza Mundiales. Los Países BRIC*. Documentos Ocasionales Numero 1101, Banco de España Eurosistema. <http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeridas/DocumentosOcasionales/11/Fich/do1101.pdf> (accessed December 12, 12).
- Pacek, N., and D. Thorniley. 2007. *Emerging Markets: Lessons for Business and the Outlook for Different Markets*. 2nd ed. London: The Economist and Profile Books.
- Parsons, T., and E. Shils, eds. 1951. *Toward a General Theory of Action*. New York: Harper & Row.
- Rashid, A. 2012. *Pakistan on the Brink: The Future of America, Pakistan, and Afghanistan*. New York: Viking/Penguin Group.
- Realo, A., K. Koido, E. Ceulemans, and J. Allik. 2002. "Three Components of Individualism." *European Journal of Personality online* 16, no. 3, pp. 163–84. Retrieved June 2010 from: <http://www3.interscience.wiley.com/journal/93519544/abstract?CRETRY=1&SRETRY=0>
- Ting-Toomey, S. 1999. *Communicating Across Cultures*. New York, NY: Guilford Press.
- Tonnies, F., and C.P. Loomis. 1957. *Community and Society*. Courier Corporation.
- Trompenaars, F., and C. Hampden-Turner. 2004. *Managing People Across Cultures (Culture for Business)*. London: Capstone Publishing Ltd.
- Wilson, D., and R. Purushothaman. October 1, 2003. "Dreaming with BRICs: The Path to 2050." Global Economics Paper No. 99, Goldman Sachs. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-dream.pdf> (accessed April 5, 2011).

Bibliography

- Abulof, U. March 10, 2011. "What Is the Arab Third Estate?" *Huffington Post*. http://www.huffingtonpost.com/uriel-abulof/what-is-the-arab-third-es_b_832628.html (accessed November 12, 2013).
- Afrol News of Morocco Staff Writers. January 30, 2011. "Morocco King on Holiday as People Consider Revolt." *Afrol News*. <http://www.afrol.com/articles/37175> (accessed November 01, 2013).
- Afrol News Staff Writers. February 27, 2011. "New Clashes in Occupied Western Sahara." *Afrol News*. <http://www.afrol.com/articles/37450> (accessed October 25, 2013).
- Akhtar, S.I., M.J. Bolle, and R.M. Nelson. 2013. "U.S. Trade and Investment in the Middle East and North Africa: Overview and Issues for Congress." Congress Research Service. www.crs.gov
- Al Jazeera Staff Writers. January 30, 2011. "Sudan Police Clash with Protesters." *Al Jazeera*. <http://www.aljazeera.com/news/africa/2011/01/2011130131451294670.html> (accessed September 12, 2013).
- Al Jazeera Staff Writers. January 15, 2011. "Tunisia's Ben Ali Flees Amid Unrest." *Al Jazeera*. <http://www.aljazeera.com/news/africa/2011/01/20111153616298850.html> (accessed November 15, 2013).
- Al-Ansary, K. March 16, 2011. "Iraq's Sadr Followers March Against Bahrain Crackdown." *Reuters*. <http://www.reuters.com/article/2011/03/16/us-bahrain-iraq-idUSTRE72F4U220110316> (accessed November 12, 2013).
- Aljazeera Staff Writers. January 28, 2011. "Thousands Protest in Jordan." *Al Jazeera*. <http://www.aljazeera.com/news/middleeast/2011/01/2011128125157509196.html> (accessed October 25, 2013).
- Amadeo, K. November 7, 2013. "What Is a Currency War?" <http://useconomy.about.com/od/tradepolicy/g/Currency-Wars.htm>
- American Chamber of Commerce, International Affairs. 2013. "ASEAN Business Outlook Survey." Singapore Business Federation. <http://www.amcham.org.sg/wp-content/uploads/2013/08/2014ABOS.pdf> (accessed November 24, 2013).
- Arabia Monitor. 2012. "Shifting Sands, Shifting Trade: Building a New Silk Route." *Middle East and North Africa Outlook Q4 2012*. <http://www.arabiaholding.com/arabiamonitor/index.php/en/component/k2/item/170-arabia-monitor-autumn-conference-shifting-sands-shifting-trade-building-a-new-silk-route> (accessed December 19, 2013).
- Associate Press Staff Writers. February 12, 2011. "Algeria Protest Draws Thousands." *CBC News World/Associate Press*. <http://www.cbc.ca/news/world/algeria-protest-draws-thousands-1.1065078> (accessed November 02, 2013).

- Axworthy, T. 2010. "Who Gets to Rule the World?" *Macleans* (Canada), July 1.
- Bain & Company's Staff Analysts. November 14, 2012. "A World Awash in Money." Bain & Company. <http://www.bain.com/publications/articles/a-world-awash-in-money.aspx> (accessed December 07, 2013).
- Bakri, N., and D. Goodman. 2011. "Thousands in Yemen Protest Against the Government." *The New York Times*. http://www.nytimes.com/2011/01/28/world/middleeast/28yemen.html?_r=0 (accessed November 11, 2013).
- Barrera, C., and T. Dobbyn. March 14, 2012 "U.S. Says BizJet Settles Foreign Bribery Charges." Reuters. <http://www.reuters.com/article/2012/03/14/us-mexico-lufthansa-idUSBRE82D1H220120314> (accessed October 28, 2013).
- Barstow, D. 2012. "Vast Mexican Bribery Case Hushed Up by Wal-Mart After High-Level Struggle." *The New York Times*, April 21. http://www.nytimes.com/2012/04/22/business/at-wal-mart-in-mexico-a-bribe-inquiry-silenced.html?_r=0 (accessed May 13, 2012).
- BBC News Middle East Staff Writers. January 23, 2011. "Man Dies After Setting Himself on Fire in Saudi Arabia." BBC News. <http://www.bbc.co.uk/news/world-middle-east-12260465> (accessed November 04, 2013).
- BBC News Staff Writers. July 18, 2011. "News Corp Shares Hit Two-Year Low on Hacking Arrest." BBC World News. <http://www.bbc.co.uk/news/business-14181119> (accessed February 04, 2012).
- Blanchart, O. October 8, 2013. "Advanced Economies Strengthening, Emerging Market Economies Weakening." *IMFDirect*. <http://blog-imfdirect.imf.org/2013/10/08/advanced-economies-strengthening-emerging-market-economies-weakening/> (accessed October 15, 2013).
- Blanke, J. 2013. *The Global Competitiveness Report 2013–2014*. World Economic Forum. <http://www.weforum.org/issues/global-competitiveness> (accessed November 24, 2013).
- Bonham, C., B. Gangnes, and A.V. Assche. October 26, 2004. "Fragmentation and East Asia's Information Technology Trade." Working Paper No. 04–09, Department of Economics at the University of Hawaii at Manoa, and University of California at Davis. http://www.economics.hawaii.edu/research/workingpapers/WP_04-9.pdf (accessed December 01, 2013).
- Bremmer, I. 2009. *State Capitalism and the Crisis*. Eurasia Group, New York City, NY: Portfolio/Penguin.
- Bremmer, I. 2013. *Every Nation for Itself: Winners and Losers in a G-Zero World*. New York City, NY: Portfolio/Penguin.
- Bukharin, N. 1972. *Imperialism and World Economy*. London: Merlin.
- Business Standard of India Staff Writers. 2011. "BRICS Is Passé, Time Now for 3G: Citi." *Business Standard*, New Delhi, India, February 23. <http://www.business-standard.com/india/news/brics-is-passe-time-now-for-3g-citi/126725/> (accessed November 01, 2013).

- Cammett, M. 2013. "Development and Underdevelopment in the Middle East and North Africa." In *Handbook of the Politics of Development*, eds. C. Lancaster and N. van de Walle. New York: Oxford University Press. SSRN. <http://ssrn.com/abstract=2349387> (accessed December 20, 2013).
- Cashin, P., M.K. Mohaddes, and M.M. Raissi. 2012. "The Global Impact of the Systemic Economies and MENA Business Cycles." Working Paper No. 12-255. International Monetary Fund.
- Central Intelligence Agency. 2013. "The World Factbook." <https://www.cia.gov/library/publications/the-world-factbook/> (accessed September 23, 2013).
- China The People's Daily. 2011. "Asia to Play Bigger Role on World Stage, G20: ADB Report." *The People's Daily*, April 26. <http://english.people.com.cn/90001/90778/98506/7361425.html> (accessed October 1, 2013).
- Clinton, H. October 11, 2011 "America's Pacific Century." Foreign Policy. http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century (accessed November 12, 2012).
- Colombo, J. 2013. "Why the Worst Is yet to Come for Indonesia's Epic Bubble Economy." *Forbes*, October 3. <http://www.forbes.com/sites/jessecolombo/2013/10/03/why-the-worst-is-yet-to-come-for-indonesias-epic-bubble-economy/2/> (accessed November 05, 2013).
- Condon, S. November 19, 2013. "Obama Appeals to Senators to Hold Off on More Iran Sanctions." CBS News. <http://www.cbsnews.com/news/obama-appeals-to-senators-to-hold-off-on-more-iran-sanctions/> (accessed December 19, 2013).
- Das, S. 2013. "The New Economic Nationalism." ABC Australia, updated October 1. <http://www.abc.net.au/news/2013-09-30/das-the-new-economic-nationalism/4988690> (accessed December 12, 2013).
- Deen, E.S. June 4, 2013. "BRICS & Egypt: An Opportunity to Begin Creating an Alternative Economic System." Al Jazeera Center for Studies. <http://studies.aljazeera.net/en/reports/2013/06/20136474134190632.htm> (accessed December 19, 2013).
- Donnison, J. 2011. "Palestinians Emboldened by Arab Spring." Ramallah: BBC News. May 16. <http://www.bbc.co.uk/news/world-middle-east-13417788> (accessed November 16, 2013).
- Dresen, F.J. 2011. "BRICS: Shaping the New Global Architecture." Woodrow Wilson International Center for Scholars. <http://www.wilsoncenter.org/publication/brics-shaping-the-new-global-architecture> (accessed April 5, 2012).
- Economist's Staff Writers. 2009. "BRICS and BICIS." *The Economist*, November 26, 2009. http://www.economist.com/blogs/theworldin2010/2009/11/acronyms_4 (accessed November 9, 2012).
- Economist's Staff Writers. 2012a. "And the Winner Is ..." *The Economist*, January 19. <http://www.economist.com/node/21542926> (accessed December 13, 2013).

- Economist's Staff Writers. 2012b. "Gushers and Guns." *The Economist*, March 17. <http://www.economist.com/node/21550304> (accessed December 11, 2013).
- Economist's Staff Writers. 2012c. "Pros and Cons: Mixed Bags." *The Economist*, January 19. <http://www.economist.com/node/21542929> (accessed December 13, 2013).
- Economist's Staff Writers. 2013a. "Taking Europe's Pulse." *The Economist*, November 5. <http://www.economist.com/blogs/graphicdetail/2013/11/european-economy-guide> (accessed December 13, 2013).
- Economist's Staff Writers. 2013b. "When Giants Slow Down." *The Economist*, July 27. <http://www.economist.com/news/briefing/21582257-most-dramatic-and-disruptive-period-emerging-market-growth-world-has-ever-seen> (accessed December 13, 2013).
- Economist's Writers. 2012. "The Rise of State Capitalism." *The Economist*, January 21. <http://www.economist.com/node/21543160>
- Economist's Writers. 2013a. "It's the Politics, Stupid." *The Economist*, March 28. <http://www.economist.com/news/leaders/21574495-economy-faces-collapse-broader-based-government-needed-take-tough-decisions-its> (accessed December 12, 2013).
- Economist's Writers. 2013b. "The Gated Globe." *The Economist*, October 12. <http://www.economist.com/news/special-report/21587384-forward-march-globalisation-has-paused-financial-crisis-giving-way> (accessed November 12, 2013).
- Economist's Writers. 2013c. "The Perils of Falling Inflation." *The Economist*, November 9. <http://www.economist.com/news/leaders/21589424-both-america-and-europe-central-bankers-should-be-pushing-prices-upwards-perils-falling>
- Embassy of Colombia in Washington D.C. 2013. "About Colombia." <http://www.colombiaemb.org/overview> (accessed October 30, 2013).
- Ernst & Young, and Oxford Economics. 2011. *Trading Places: The Emergence of New Patterns of International Trade*. Growing Beyond Series. Ernst Young & Oxford Economics.
- Evans-Pritchard, A. 2013. "IMF Sours on BRICs and Doubts Eurozone Recovery Claims." *The Telegraph* (UK), November 8. <http://www.telegraph.co.uk/finance/financialcrisis/10365206/IMF-sours-on-BRICs-and-doubts-eurozone-recovery-claims.html> (accessed November 08, 2013).
- Fox News Staff Writers. October 1, 2013. "IMF Issues Warning on South African Economy." Fox News. <http://www.foxnews.com/world/2013/10/01/imf-issues-warning-on-south-african-economy/> (accessed October 24, 2013).
- Freeland, C. 2012. *Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else*. New York: Penguin Press.
- Garcia-Herrero, A. 2012. BBVA EAGLES Emerging and Growth-Leading Economies. BBVA Research, Annual Report 2012. <http://www.bbvaesearch>.

- com/KETD/fbin/mult/120215_BBVAEAGLES_Annual_Report_tcm348-288784.pdf?ts=1642012 (accessed November 01, 2013).
- Garcia-Palafox, G. April 22, 2012. "Walmart Bribery Allegations: Watchdog Group Says Mexican Government Should Investigate Claims of Vast Bribery Campaign." *Huffington Post*. http://www.huffingtonpost.com/2012/04/22/walmart-bribery-allegations-watchdog-urges-probe_n_1444488.html (accessed April 23, 2012).
- Geromel, R. 2013. "Forbes Top 10 Billionaire Cities—Moscow Beats New York Again." *Forbes*, March 14. <http://www.forbes.com/sites/ricardogeromel/2013/03/14/forbes-top-10-billionaire-cities-moscow-beats-new-york-again/> (accessed October 30, 2013).
- Ghanem, H., and S. Shaikh. November 2013. "On the Brink: Preventing Economic Collapse and Promoting Inclusive Growth in Egypt and Tunisia." Brookings. <http://www.brookings.edu/research/papers/2013/11/economic-recovery-tunisia-egypt-shaikh-ghanem> (accessed December 12, 2013).
- GlobalEdge. April 5, 2013. "Market Potential Index (MPI) – 2014." Michigan State University, International Business Center. <http://globoledge.msu.edu/mpi>
- Golf, E., R. Boccia, and J. Fleming. 2012. "Federal Spending per Household Is Skyrocketing." Federal Budget in Pictures, The Heritage Foundation. <http://www.heritage.org/federalbudget/federal-spending-per-household> (accessed January 23, 2013).
- Golf, E., R. Boccia, and J. Fleming. 2013. "2013 Index of Economic Freedom." The Heritage Foundation. <http://www.heritage.org/index/ranking> (accessed January 23, 2013).
- Grewal, K. August 24, 2010. "CIVETS: The Next Gateway to Growth." Daily Markets. <http://www.dailymarkets.com/stock/2010/08/24/civets-the-next-gateway-to-growth/> (accessed February 13, 2011).
- Gronholt-Pedersen, J. 2012. "Cambodia Aims for Offshore Production Next Year." *The Wall Street Journal*, September 26, 2012. <http://online.wsj.com/news/articles/SB10000872396390443507204578020023711640726> (accessed on February 11, 2013).
- Guerrera, F. 2013. "Currency War Has Started." *The Wall Street Journal*, February 04. <http://online.wsj.com/news/articles/SB10001424127887324761004578283684195892250> (accessed December 13, 2013).
- Hai Ibrahim, J.C., and N.F. Nawi. 2007. *Principles of Public Administration: An Introduction*. Kuala Lumpur: Karisma Publications.
- Halpin, T. 2009. "Brazil, Russia, India and China Form Bloc to Challenge U.S. Dominance." http://www.timesonline.co.uk/tol/news/world/us_and_americas/article6514737.ece (accessed March 23, 2011).
- Hamburger, T., B. Dennis, and J.L. Yang. 2012. "Wal-Mart Took Part in Lobbying Campaign to Amend Anti-Bribery Law." *The Washington Post*,

- April 24. http://www.washingtonpost.com/business/economy/wal-mart-took-part-in-lobbying-campaign-to-amend-anti-bribery-law/2012/04/24/gIQAYZcdfT_story_1.html (accessed November 19, 2012).
- Haub, C. April 2012. "The BRIC Countries." Population Reference Bureau. <http://www.prb.org/Publications/Articles/2012/brazil-russia-india-china.aspx> (accessed December 05, 2012).
- Hauser, C. 2013. "Iraq: Maliki Demands That Protesters Stand Down." *The New York Times*, January 2. http://www.nytimes.com/2013/01/03/world/middleeast/iraq-maliki-demands-that-protesters-stand-down.html?_r=1& (accessed February 16, 2013).
- Hawksworth, J., and D. Chan. January 2013. "World in 2050: The BRICS and Beyond: Prospects, Challenges, and Opportunities." PWC Economics. http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf (accessed March 12, 2013).
- Heng, D. July 15, 2011. "Managing Cambodia's Economic Fragility." *CamproPost*. <http://campropost.org/2011/07/15/managing-cambodia-s-economic-fragility.html> (accessed October 10, 2013).
- Hood, M. November 15, 2013. "The Stubborn Inflation in Emerging Markets." Institutional Investors. <http://www.institutionalinvestor.com/gmtl/3279243/The-Stubborn-Inflation-in-Emerging-Markets.html> (accessed November 15, 2013).
- HSBC Bank. October 2013. HSBC Global Connections Report. India. <https://globalconnections.hsbc.com/global/en/tools-data/trade-forecasts/in> (accessed December 19, 2013).
- Human Rights Watch Staff Writers. February 07, 2012. "Iran: Arrest Sweeps Target Arab Minority." Human Rights Watch. <http://www.refworld.org/docid/4f34de412.html> (accessed November 03, 2013).
- Hutchinson, M. 2010. "The CIVETS: Windfall Wealth from the 'New' BRIC Economies." *The European Business Review magazine*, July 14. <http://www.europeanbusinessreview.eu/page.asp?pid=829> (accessed November 02, 2013).
- IMF Staff Writers. May 21, 2013. "Economic Growth Moderates Across Middle East." <http://www.imf.org/external/pubs/ft/survey/so/2013/car052113a.htm> (accessed January 03, 2014).
- IMF. April 2010. Global Financial Stability Report. <https://www.imf.org/external/pubs/ft/gfsr/index.htm>.
- IMF. 2013. "Economic Health Check, South Africa Searches for Faster Growth, More Jobs." *IMF Survey Magazine*, October 01. <http://www.imf.org/external/pubs/ft/survey/so/2013/car080713a.htm> (accessed November 05, 2013).
- IMF. April 2013. "World Economic Outlook." <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx> (accessed April 12, 2013).
- IMF. October 2013. "World Economic Outlook 2013: Transitions and Tensions." <http://www.imf.org/external/pubs/ft/weo/2013/02/index.htm> (accessed November 02, 2013).

- IMF. Report. 2006. "Globalization and Inflation." World Economic Outlook April 2006. Washington D.C. <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/weo0406.pdf> (accessed November 08, 2013).
- IMF. World Economic Outlook. April 2013. Data. <https://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf> (accessed November 02, 2013).
- International News of Pakistan Staff Writers. March 20, 2012. "Asia Nations to Double Currency Swap Deal." Pakistan. <http://www.thenews.com.pk/Todays-News-3-98519-Briefs> (accessed November 05, 2013).
- Jahan, S. 2012. *Inflation Targeting: Holding the Line*. Washington DC: IMF.
- Khaithu. October 15, 2012. "Traditional Market in Vietnam: A Social and Economic Angle." <http://khaithu.wordpress.com/2012/10/15/traditional-market-in-vn-a-social-and-economic-angle/> (accessed November 01, 2013).
- Koelbl, S. 2011. "It Will Not Stop: Syrian Uprising Continues Despite Crackdown." *Der Spiegel*, March 28. <http://www.spiegel.de/international/world/it-will-not-stop-syrian-uprising-continues-despite-crackdown-a-753517.html> (accessed November 10, 2013).
- Kose, M.A., P. Loungani, and M.E. Terrones. 2012. "Tracking the Global Recovery." *IMF Finance and Development Magazine*, June 12, Vol. 49, no. 2.
- Kowalczyk-Hoyer, B., and S. Côté-Freeman. October 16, 2013. "Transparency in Corporate Reporting: Assessing Emerging Market Multinationals." Transparency International. http://transparency.org/whatwedo/pub/transparency_in_corporate_reporting_assessing_emerging_market_multinational (accessed November 02, 2013).
- Lewis, P., A. Sen, and Z. Tabary. July 2011. New Routes to the Middle East: Perspectives on Inward Investment and Trade. Economist Intelligence Unit Report. https://www.business.hsbc.co.uk/1/PA_esf-ca-app-content/content/pdfs/en/new_routes_to_middle_east.pdf (accessed January 03, 2014).
- Lobe, J. November 19, 2013. "Scowcroft, Brzezinski Urge Iran Accord." Lobe Log: Foreign Policy. <http://www.lobelog.com/scowcroft-brzezinski-urge-iran-accord/> (accessed December 16, 2013).
- Manson, K. 2011. Pro-Democracy Protests Reach Djibouti. *Financial Times*, February 20. <http://www.ft.com/intl/cms/s/0/001f94f6-3d18-11e0-bbff-00144feabd0.html?siteedition=intl> (accessed October 25, 2013).
- Manyika, J., J. Sinclair, R. Dobbs, G. Strube, L. Rassey, I. Mischke, J. Remes, C. Roxburgh, K. George, D. O'Halloran, and S. Ramaswamy. November 2012. "Manufacturing the Future: The Next Era of Global Growth and Innovation." McKinsey Global Institute. http://www.mckinsey.com/insights/manufacturing/the_future_of_manufacturing (accessed December 01, 2013).
- Marquand, R. 2011. "Amid BRICS' Rise and 'Arab Spring', a New Global Order Forms." *Christian Science Monitor*, October 18. <http://www.csmonitor.com/World/Global-Issues/2011/1018/Amid-BRICS-rise-and-Arab-Spring-a-new-global-order-forms> (accessed January 02, 2013).

- Matsui, K. 2012. "A View from Japan, Goldman Sachs." <http://www.distressedvolatility.com/2012/07/a-view-from-japan-by-goldman-sachs.html> (accessed November 10, 2013).
- Maxwell, J. June 12, 2012. "Beyond the BRICS: How to Succeed in Emerging Markets (by Really Trying)." PWC. <http://www.pwc.com/us/en/view/issue-15/succeed-emerging-markets.jhtml> (accessed November 27, 2013).
- McCrummen, S. 2011. "13 Killed in Iraq's 'Day of Rage' Protests." *The Washington Post*, February 24. <http://www.washingtonpost.com/wp-dyn/content/article/2011/02/24/AR2011022403117.html> (accessed June 12, 2011).
- Middle East Online Staff Writers. February 20, 2011. "Kuwaiti Stateless Protest for Third Day." Middle East Online. <http://www.middle-east-online.com/english/?id=44476>, (accessed October 25, 2013).
- Ministry of Economy and Finance of Cambodia. 2013. "Economic Trends." Council for the Development of Cambodia (CDC). <http://www.cambodiainvestment.gov.kh/investment-environment/economic-trend.html> (accessed November 04, 2013).
- Montibeler, E.E., and E.S. Gallego. 2012. *Relaciones Bilaterales Entre Brasil y Liga Árabe: Un Análisis a Partir de la Teoría de la Internacionalización de la Producción y de la Diversificación Comercial*. Observatorio de la Economía Latinoamericana, (163).
- Mookerji, N. 2013. "Walmart Continues to Bide Its Time over Bharti Investment." *Business Standard*, August 17. http://www.business-standard.com/article/companies/walmart-continues-to-bide-its-time-over-bharti-investment-113081600670_1.html (accessed December 15, 2013).
- Moore, M. 2005. "Signposts to More Effective States: Responding to Governance Challenges in Developing Countries." Institute of Developing Studies, The Centre for the Future State, UK. <http://www2.ids.ac.uk/gdr/cfs/pdfs/SignpoststoMoreEffectiveStates.pdf> (accessed December 10, 2013).
- Nath, R. 2011. "Qaboos Fires 10 Ministers." *Khaleej Times*, Muscat, UAE, March 8. http://www.khaleejtimes.com/displayarticle.asp?xfile=data/middleeast/2011/March/middleeast_March140.xml§ion=middleeast&col= (accessed October 12, 2013).
- Nilekani, N. 2008. *Imagining India: The Idea of a Renewed Nation*. New York: Penguin Group.
- O'Neill, J. 2001. "Building Better Global Economic BRICS." Global Economics Paper No. 66, Goldman Sachs. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf> (accessed December 17, 2011).
- O'Neill, J. 2011. *The Growth Map: Economic Opportunity in the BRICs and Beyond*. New York: Penguin Group.
- O'Sullivan, A., M.E. Rey, and M.J. Galvez. 2011. Opportunities and Challenges in the MENA Region. The Arab World Competitiveness Report, 2011–2012.

- World Economic Forum. <http://www.weforum.org/reports/arab-world-competitiveness-report-2011-2012> (accessed January 02, 2014.)
- OECD Economic Surveys and Country Surveillance: Economic Survey of Japan 2013. <http://www.oecd.org/eco/surveys/Overview%20Japan%202013%20English.pdf> (accessed November 05, 2013).
- Organization for Economic Co-operation and Development. May 2013. "Economic Outlook: Analysis and Forecast: Turkey Economic Forecast Summary." OECD. <http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf> (accessed November 04, 2013).
- Organization for Economic Co-operation and Development. 2013. "Economic Surveys and Country Surveillance: Economic Survey of South Africa 2013." OECD. <http://www.oecd.org/eco/surveys/economic-survey-south-africa.htm> (accessed November 05, 2103).
- Oxford Business Group's Staff Writers. October 07, 2013. "Brunei Darussalam Looks to Its Labs for Growth." Brunei Darussalam. http://www.oxfordbusinessgroup.com/economic_updates/brunei-darussalam-looks-its-labs-growth (accessed November 02, 2013).
- Pain, N., I. Koske, and M. Sollie. November 2006. "Globalization and Inflation in the OECD Economies." Economics Department Working Paper No. 524, OECD, Paris. <http://www.oecd.org/eco/42503918.pdf> (accessed November 12, 2013).
- Peterson, S. 2011. "Egypt's Revolution Redefines What's Possible in the Arab World." *The Christian Science Monitor*, February 11. <http://www.csmonitor.com/layout/set/r14/World/Middle-East/2011/0211/Egypt-s-revolution-redefines-what-s-possible-in-the-Arab-world> (accessed November 10, 2013).
- Pettis, M. January 2, 2013. *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy*. Princeton, NJ: Princeton University Press.
- Qatar National Bank (QNB Group). December 15, 2013. "The Risk of Deflation in the US and the Eurozone May Require More Expansionary Monetary Policy." http://www.qnb.com.qa/cs/Satellite?c=QNBNews_C&cid=1355402782038&locale=1344242931312&p=1344242934398&pagename=QNBSingapore%2FQNBLayout
- Qiang, H. December 11, 2013. "ASEAN Businesses See Integration as Opportunity, Not Threat: Survey." *The English News*, Xinhua, China. http://news.xinhuanet.com/english/business/2013-12/11/c_132960344.htm (accessed December 11, 2013).
- Reinhart, C.M., and M.B. Sbrancia. 2011. "The Liquidation of Government Debt." NBER Working Paper 16893. <http://www.nber.org/papers/w16893> (accessed March 2, 2012).
- Reinhart, C.M., and J.F. Kirkegaard. 2012. "Financial Repression: Then and Now." Vox. <http://www.voxeu.org/article/financial-repression-then-and-now> (accessed April 23, 12).

- Rich, B.R., and L. Janos. 1994. *Skunk Works: A Personal Memoir of My Years at Lockheed*, 10. New York: Little Brown & Co. ISBN 0-7515-1503-5.
- Richter, F. February 14, 2011. "Protester Killed in Bahrain "Day of Rage"-Witnesses." Reuters. <http://uk.reuters.com/article/2011/02/14/uk-bahrain-protests-idUKTRE71D1G520110214> (accessed November 2, 2013).
- Rickards, J. 2011. *Currency Wars: The Making of the Next Global Crisis*. New York: Portfolio.
- Rodrik, D. 2009. "Growth After the Crisis." CEPR Discussion Paper No. DP7480, Harvard Kennedy School, Cambridge, MA.
- RT Staff Writers. September 5, 2013. "BRICS Agree to Capitalize Development Bank at \$100bn." RT. <http://rt.com/business/russia-brics-bank-g20-468/> (accessed November 6, 2013).
- Sallum, M.N. September 17, 2013. "Potencial a xplorar é enorme." Agência de Notícias Brasil-Árabe (<http://www.anba.com.br/>) (accessed January 3, 2014).
- Schwab, K. 2013. The Global Competitiveness Report 2012–2013. World Economic Forum. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf (accessed August 12, 2013).
- Schwartz, N. 2013. "Growth Gain Blurs Signs of Weakness in Economy." *New York Times*, November 7. http://www.nytimes.com/2013/11/08/business/economy/us-economy-grows-at-2-8-rate-in-third-quarter.html?_r=0 (accessed November 10, 2013).
- Senkovich, V. March 18, 2013. "The Arab World's Potential Importance to Russia's Economy." Russian International Affairs Council. http://russiancouncil.ru/en/inner/?id_4=1548#top (accessed January 3, 2014).
- Seyid, S.O. March 9, 2011. "Mauritania Police Crush Protest – Doctors Announce Strike." Radio Netherlands Worldwide Africa Desk, Mauritania. http://www.afriMAP.org/english/images/paper/AfriMAP_NAfrica_Ero_EN.pdf (accessed December 12, 2012).
- Shahminan, F. August 10, 2013. "Brunei Economy to Grow 2.4pc in Next Four Years." Dawn. <http://www.dawn.com/news/1048280/brunei-economy-to-grow-24pc-in-next-four-years> (accessed October 10, 2013).
- Smith & Nephew. February 6, 2012. "Smith & Nephew Reaches Settlement with US Government." <http://www.smith-nephew.com/news-and-media/media-releases/news/smith-and-nephew-reaches-settlement-with-us-gover/> (accessed December 12, 2013).
- Snyder, M. May 23, 2012. "45 Signs That China Is Colonizing America." The American Dream. <http://endoftheamericandream.com/archives/45-signs-that-china-is-colonizing-america> (accessed September 08, 2013).
- Spencer, R. 2011. "Libya: Civil War Breaks Out as Gaddafi Mounts Rearguard Fight." *The Telegraph*, February 23. <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/libya/8344034/Libya-civil-war-breaks-out-as-Gaddafi-mounts-rearguard-fight.html> (accessed November 12, 2013).

- Stern, M. 2012. "International Trade: CIVETS Economies." *Financial Director Newspaper*, London, UK, April 26. <http://www.financialdirector.co.uk/financial-director/feature/2169190/international-trade-civets-economies> (accessed November 3, 2013).
- Taborda, J. December 4, 2013. "Death of the Dollar 2014: Euro Area GDP Growth Rate." *Trading Economics*. <http://www.tradingeconomics.com/euro-area/gdp-growth> (accessed December 15, 2013).
- Telegraph Staff Writers. 2013. "Next Chief Lord Wolfson Launches £250,000 Prize to Solve Housing Crisis." *The Telegraph*, February 27. <http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/10448303/Next-chief-Lord-Wolfson-launches-250000-prize-to-solve-housing-crisis.html> (accessed December 11, 2013).
- The FCPA*. March 26, 2012. "Biomet Pays \$22.8 Million to Settle Bribe Charges." *The FCPA*. <http://www.fcpablog.com/blog/2012/3/26/biomet-pays-228-million-to-settle-bribe-charges.html#> (accessed September 9, 2012).
- Transparency International Secretariat. October 2, 2013. "Media Advisory: Major Exporters Still Lag in Enforcing Rules Against Foreign Bribery." *Transparency International*. http://www.transparency.org/news/pressrelease/bribe_paying_still_very_high_worldwide_but_people_ready_to_fight_back (accessed December 14, 2013).
- U.S. Department of Justice. January 17, 2012. "Marubeni Corporation Resolves Foreign Corrupt Practices Act Investigation and Agrees to Pay a \$54.6 Million Criminal Penalty." <http://www.justice.gov/opa/pr/2012/january/12-crm-060.html> (accessed July 02, 2013).
- Vaidya, S. 2011. "One Dead, Dozens Injured as Oman Protest Turns Ugly." *Gulf News*, Oman. February 27. <http://gulfnews.com/news/gulf/oman/one-dead-dozen-injured-as-oman-protest-turns-ugly-1.768789> (accessed November 1, 2013).
- Vale Columbia Center on Sustainable International Investment. October 10, 2009. First Ranking Survey of Mexican Multinationals Finds Grey Diversity of Industries. Columbia Law School. <http://www.vcc.columbia.edu/files/vale/documents/EMGP-Mexico-Report-Final-09Dec09.pdf> (accessed November 30, 2013).
- Wagstyl, S. 2013. "Eurasia: Emerging Markets Are World's 'Top Risk' for 2013." *Financial Times*, January 7. <http://blogs.ft.com/beyond-brics/2013/01/07/eurasia-emerging-markets-are-worlds-top-risk-for-2013/#axzz2nkpeGUB7> (accessed December 17, 2013).
- Welch, D., and T. Weidlich. April 23, 2012. "Wal-Mart Bribery Probe May Exposes Retailer to U.S. Fines." *Bloomberg*. <http://www.bloomberg.com/news/2012-04-23/wal-mart-bribery-probe-may-exposes-retailer-to-u-s-fines.html> (accessed April 23, 2012).

- Werr, P. October 1, 2013. "Egypt's Economy to Miss Government Growth Forecasts: Reuters Poll." Reuters Cairo, Egypt. <http://www.reuters.com/article/2013/10/01/us-economy-egypt-poll-idUSBRE99012O20131001> (accessed October 30, 2013).
- Wheatley, A. 2013. "Emerging Markets Thrive as Eurozone Suffers." *The International News*, March 26. <http://www.thenews.com.pk/Todays-News-3-167386-Emerging-markets-thrive-as-Eurozone-suffers> (accessed November 10, 2013).
- World Bank. 2012. World Development Indicators Database. Gross Domestic Product 2011. PPP. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed September 22, 2012).
- World Bank. 2013. "Economy Rankings." Doing Business: Measuring Business Regulations. <http://www.doingbusiness.org/rankings> (accessed September 22, 2012).
- World Bank Staff Writers. July 12, 2013. "An Update on Vietnam's Recent Economic Development July 2013: Key Findings." The World Bank. <http://www.worldbank.org/en/news/feature/2013/07/12/taking-stock-july-2013-an-update-on-vietnams-recent-economic-development-key-findings> (accessed November 5, 2013).
- World Bank Staff Writers. 2013. "Ease of Doing Business in Colombia." Doing Business. <http://www.doingbusiness.org/data/exploreeconomies/colombia/> (accessed June 12, 2013).
- World Bank Staff Writers. February 11, 2013. "Tourism in the Arab World Can Mean More than Sun, Sand and Beaches." <http://www.worldbank.org/en/news/feature/2013/02/11/tourism-in-the-arab-world-can-mean-more-than-sun-sand-and-beaches> (accessed January 3, 2014).
- Zoffer, J. July 07, 2012. "Future of Dollar Hegemony." *The Harvard International Review*. <http://hir.harvard.edu/crafting-the-cityfuture-of-dollar-hegemony/> (accessed October 12, 2012).

Index

- Achieved status in culture, 151.
See also Culture
- Advanced economies, 8, 11–12, 14, 21, 23, 27. *See also* G7 group
central banks, role in, 83–84
economic recovery process, 81
gross domestic product (GDP), 80–82
share of global GDP, 28
- Affective culture, 143–146
- Age of consumer information and relationships, 97
- Agricultural Bank of China, 40
- Airline industry, 149
- Algeria, 20
- Al Qaeda, 51
- Alsaud, Prince Alwaleed Bin Talal, 32
- Ambani, Anil, 32
- Ambani, Mukesh, 32
- Ambrose, Stephen
Rise to Globalism, 84
- Arab Spring, 21, 47
- Argentina, 29
- Arkalgud, Anand P., 69
- Ascribed status in culture, 151–153.
See also Culture
- ASEAN (Association of South East Asian Nations), 2, 5–13, 57, 83
countries' GDP, 8
GDP growth, by 2020, 9
member countries as of 2012, 7
- Asian Development Bank (ADB), 51
- Asian financial crisis, 1997 to 1998, 7
- Australia, 89
- Bachmann, Michele, 88
- Bahrain, 20
- Balmer, Steve, 144–145
- Bangladesh, 19
Dhaka, 87
export-led economic growth, 45
garment industry, 45, 47
- GDP average growth, 47
opportunities for investment, 47
wage rates, 47
- Bank of China, 40
- Brand names in developing countries, 103
- Brazil, 14, 16, 29, 141
economy, 42
education, 43
income inequality, 42
infrastructure modernization, 58
life satisfaction and well-being, 43
middle class, 42
millionaires and financial investments, 43
multinational retail chains, 67
unemployment rate, 41
- BRIC Lab, 17
- BRICS countries, 2–3, 9, 12, 19, 37, 57, 83, 85, 163, 181
composite indexes, 67
economic strength of, 28
geographical locations, 15
influences on global economy, 14
members, 13–14
participation and contribution to UN budgets, 17
participation at the UN, 16
performance indicators, 15
population, 16
voting rights in World Bank and the IME, 16
- Brunei, 7, 11
- Building Better Global Economic BRICs*, 13
- Bush, George W. (President), 51, 109, 112
- Business, purpose of, 186–188
- Call centers, 64
- Cambodia, 7
Phnom Penh, 87
- Canada, 89

- Caterpillar, 89
- Central banks' policies, role in economy, 83–84
- Certificate of deposits (CDS), 87
- Chile, 68
- China, 8, 11–12, 14, 16, 27–28, 34, 45, 63, 85, 141, 184
- challenges, 37–40
 - Communist Party, 36
 - devaluation of yuan, 38
 - economy of, 6, 36
 - exports, 40
 - GDP, 36
 - general macroeconomics, 36
 - Google in, 90
 - high net worth individuals (HNWIs), 124
 - human rights and equality issues, 181–183
 - infrastructure modernization, 57
 - major banks of, 40
 - manufacturing PMI, 39–40
 - monetary policy, 39
 - “one child” policy, 105
 - small and medium businesses (SMBs), 40
 - as a source of cheap labor, global businesses, 105
 - Special Administrative Regions, 35
 - sustainable economic growth, 38
- China Construction Bank, 40
- CIVETS, 2, 12, 83. *See also* ASEAN (Association of South East Asian Nations); BRICS countries
- member countries, 18
- Collectivism, 98–102. *See also* Individualism
- in Asian cultures, 99
 - Korean, 99
 - in Latin America, 99
 - urban-rural differences, 99
- Colombia, 18, 83
- Communication function of culture, 116. *See also* Culture
- Communitarianism, 140–141
- differences with individualism, 144
 - reconciliation of, 142
- Composite indexes, 67
- Conference of the Parties (COP) meetings, 183–184
- Conflicts
- between Christian or Western and Muslim or Arab dominated cultures, 125–126
 - at macro and micro level, 119
 - reasons for clash of civilizations, 117–119
- Consumer (s), 95–98
- just-for-me group, 97–98
 - loyalty, 106
 - mass customization, 97–98
 - niche markets, 97
 - only-me, 97
 - open innovation, 97–98
 - segmentation, 97, 106
 - self-asserted, 95
- Corporate culture, 110, 112, 114, 116, 129, 133–135, 137, 145, 158, 193, 197–198. *See also* Culture
- Corruption, 179–180
- Cruz, Hernán Santa, 94
- Cultural conflicts, 163–169
- case of Disneyland in Paris, 168
 - challenges with British and American companies, 168
 - environment and, 163
 - gender equality and, 164
 - global foreign policy and, 163
 - human rights and, 164
 - reconciliation process, 171–173
 - resolving, 164–169
- Cultural dilemmas, 157–159, 169–171
- Cultural diversity, 184–186
- Cultural DNA, 165
- Cultural intelligence, 127–128
- ladder, 127–128
- Culture
- affective, 143–146
 - artifacts and, 133
 - becoming a member of, 130
 - behavior and, 130–131
 - bias nature or judgments, 131–132
 - communication function of, 116
 - concept of time in, 153–156
 - cross-cultural management, 129

- cultural conflicts, 163–169
- cultural dilemmas, 157–159
- cultural synergies in emerging markets, 162–163
- decision-making process in
 - individualistic, 142–143
- differences in, lessons learned, 162
- diffuse, 147–148
- ecological adaptation function of, 115–116
- globalization and, 129
- group and individual, relation
 - between, 140–143
- group inclusion functions of, 111–113
- identity meaning function of, 110–111, 130
- intergroup boundary regulation function of, 113–115
- levels of, 132–134
- linked to values, norms, and basic assumptions in life, 132–134
- national, 129
- neutral, 144–146
- people living in countryside *vs* in city, 196
- reconciliation of opposing values, 148–149, 153
- relationships and rules, relation
 - between, 138–140
- self-assessment of identity and, 198–199
- specific, 145–147
- status and, 150–154
- tangible, measurable, and comparable dimensions, 136–137
- understanding, 128–132
- Western World view on the Arab, 109
- Cultures of global businesses, 105
- Da Silva, Luiz Inácio Lula, 15
- De Kirchner, Cristina Fernández (President)
 - Doing Business*, 56
- Déséglise, Christian, 17
- De Tocqueville, Alexis, 98
- Diffuse communication, 150
- Diffuse culture, 147–148
- Djibouti, 20
- Dotcom, Kim, 91–92
- East Asian production networks, 9
- Ecological adaptation function of culture, 115–116. *See also* Culture
- E-commerce, 91
- Economic globalization, 1
- Egypt, 18–20, 45, 83
 - economy, 45, 47–48
 - financial reform program, 48
 - private-sector investment in, 48
- 80-20 rule, 83–84
- Emerging economies, 2
 - influence on global growth, 9, 12
 - purchasing power parity (PPP) of Asian economies, 10
- Emerging Market Potential Index (EMPI)
 - based on the Cavugil, Kiyak, and Yenyurt indicator, 65–66
- Emerging markets, 46. *See also* ASEAN (Association of South East Asian Nations); BRICS countries; frontier markets
 - alliance to influence and, 183–188
 - case studies of Western companies operating in, 70–77
 - change in real GDP per capita in, 29, 31
 - as a commodity paradise, 3–4
 - corruption and, 179–180
 - defined, 2–3
 - economic and cultural influences across the globe, 27–33
 - economic dynamics, 3–5
 - exchange rates in Asian, 6
 - failure of companies, 58–62
 - global GDP, 28, 30
 - human rights and equality issues, 180–183
 - impact on global economy, 33–44
 - institutional and cultural viewpoint, 67–68
 - Khanna and Palepu's institutional approach to, 67–69

- level of market efficiency and standards, 3
- listed New York Stock Exchange, 3
- market challenges and opportunities, 85–86
- OECD (Organization for Economic Cooperation and Development) report, 5–6
- ranking, 63–71
- risks and challenges in ASEAN region, 8
- significance of distance between, 57
- sourcing destinations in, 64
- strategies for, 68
- Emerging multinational companies (MNCs), 32–33
- Eurozone
 - borrowing ability, 87
 - economic indicators of, 81
- Exchange rates
 - in Asian emerging markets, 6
 - depreciations, 11
- Extreme particularists, 140
- Extreme universalists, 140
- Facebook, 150
- Failure of companies in emerging markets. *See also* Emerging markets
 - common mistake for, 67
 - external factors, 61–62
 - internal factors, 63
- Flag of a nation, 110–111
- Flexible Credit Line, 86
- Ford Motor Company, 29
- France, 81
- Free trade agreements, 8
- Frontier markets, 2, 44–54. *See also* Emerging markets
 - failure of companies, 58–62
 - imbalances in foreign direct investment (FDI), 46
 - market challenges and opportunities, 85–86
 - ranking, 63–71
- G77 alliance, 184
- Gaza, 20
- GDP per capita, change in real
 - in global, emerging markets, 28, 30
- Geoghegan, Michael, 18
- Geolocation technologies, 91
- German engineering, 55
- German occupation of Denmark, 137–138
- G7 group, 6, 8, 14, 37, 80. *See also* Advanced economies
 - economic recovery process, 81
 - gross domestic product (GDP), 80–82
- G8 group, 4–5
- G20 group, 4–5
- Global business, perils of, 89–92
- Global economic crises, 4
- Global economic growth, 3
 - source of, 3
- Global economic imbalance, 87
- GlobalEdge, 63–64
- Global financial crisis, 4, 79–80, 85
- Global individualism. *See also* Individualism
 - egalitarian reorganization of community, 98–102
 - rise of, 93–98
- Google, 90
- Greece, 29, 141
- Gross domestic product (GDP). *See also* Emerging markets; Frontier markets
 - advanced economies, global share, 28, 80–82
 - of ASEAN (Association of South East Asian Nations), 8–9
 - Bangladesh, 47
 - change in real GDP per capita in emerging markets, 29, 31
 - China, 36
 - MENA countries, 24
 - Nigeria, 49
 - Pakistan, 50, 52
 - Philippines, 53
 - Vietnam, 54
- Group inclusion functions of culture, 111–113. *See also* Culture
- Group-oriented cultures, 140–143. *See also* Culture

- Gugin, 55, 129, 143, 158, 161, 165, 185–186, 193, 198
- Gulf Cooperation Council (GCC), 23
- Hamden-Turner, Charles, 136, 138–141
 - conflicts arising between sequential-time- and synchronous -time-oriented people, 156
 - decision-making process in individualistic cultures, 142–143
 - differences in people's preference for emotions, 145
 - internal *vs* external control, 156
 - Riding the Waves of Culture*, 136, 139
- Happy Planet Index (HPI), 44
- Helu, Carlos Slim, 31
- High net worth individuals (HNWIs), 124–125
- Hofstede, Geert, 122–123, 129, 136, 194
- Hong Kong, 35, 56
 - high net worth individuals (HNWIs), 124
 - unemployment rates in, 35
- Human rights and equality issues of emerging markets, 180–183
- Huntington, Samuel P., 111, 117, 185, 188
 - civilizations defined, 117
 - clashes between civilizations, levels of, 119
 - differences among civilizations, 118
 - geography and religion, 124
 - global conflicts, 119
 - interactions between people of different civilizations, 118
 - processes of economic modernization and social change, 118
 - reasons for clash of civilizations, 117–119
 - 'us' *versus* 'them,' 119
 - view of the world, problem with, 119–120
 - Western values, 118
- IBM, 111, 139
- Identity meaning function of culture, 110–111, 130. *See also* Culture
- IKEA, 56
- India, 12, 14, 16, 27, 34, 45, 141, 184
 - economic growth, 56
- Individualism
 - Americans' emphasis on, 98–99
 - collectivism *vs*, 98–102
 - consumers, 95–98
 - cutting-edge innovation and, 107
 - differences with communitarian cultures, 144
 - global consumer trend of, 106
 - importance of being true to one's self, 103
 - meaning of, 94 (*see also* global individualism)
 - as prime orientation of self, 140
 - as provocative, 102–107
 - reconciliation of, 142
 - spirit of, 95–98
- Individualist type of consumers. *See* Individualism
- Indonesia, 6–9, 18–19, 48–49, 83
 - bulk of output in, 48
 - fiscal stimulus, 48
- Industrial and Commercial Bank of China, 40
- Intergroup boundary regulation
 - function of culture, 113–115. *See also* Culture
- International Finance Corporation, 1
- International Monetary Fund (IMF), 28, 34, 85, 89
- International production networks in East Asia, 7
- Iran, 19–20
 - controversial nuclear program, 49
 - oil exports, 49
 - sanctions against, 49
- Iraq, 20, 25
- Ireland, 29
- Israel, 20, 25
- Italy, 81

- Japan, 8
 high net worth individuals (HNWIs), 124
 Japanese nature of showing feelings in public or at work, 144
 multinational enterprises (MNEs), 63
- Jordan, 20, 25
- Just-for-me group of consumers, 97–98. *See also* Only-me consumers; Self-asserted consumers
- Korea, 68
- Kraft-Cadbury in India, 70–77
- Krugman, P., 12
- Kuwait, 20, 25
- Lamont, Thomas W., 120
- Laos People Democratic Republic (PDR), 7
- Lebanon, 20, 25
- Lee Shau Kee, 32
- Left-wing financial scene, 86–87
- Libya, 20
- Li Ka-shing, 31
- LinkedIn, 150
- Macau
 per capita income, 35
 unemployment rates in, 35
- Maierbrugger, Arno, 9
- Majlergaard, Dr. Finn, 55, 111–112, 125, 132, 146–148, 150, 164–165, 168–169, 171–173, 177, 179, 183–185, 188–189, 193, 198
- Malaysia, 7, 9, 63, 184–185
- Malta, 20
- Manufacturing bases, 63
- Masdar City, 23
- Maslow's hierarchy of needs, 100
- Mass customization, 97–98
- McDonalds, 177–178
 in India, 77
- Me-first consumer, 95–97
- Megaupload, 91–92
- MENA countries, 20–25
 economic performance indicators, 21
 FDI in, 23
 members, 20
 oil exporters, 25
 oil importers, 21, 24
 price factors and economic wealth, 21
 projected economic performance, 24
 real GDP growth rates, 24
 size and growth: 1950, 2007, and 2050, 22
 terrorist attacks, effect of, 23
- MENA (Middle East and North Africa) groups, 2, 12
- Mexico, 19, 57
- Microsoft, 143–145
- Middle East Strategy at Harvard (MESH) project, 21
- Monsanto, 178, 187
- Morocco, 20
- Mugabe, Robert, 46
- Multinational retail chains, 67
- Myanmar, 7, 9
- National cultural identity, 189–199.
See also Culture
 changing perception of, 194–198
 misinterpretation of differences and, 191–194
- National group inclusion function of culture, 111
- Navision, 143
- NAWA (North Africa-West Asia), 20–21
- Nestlé India, 178–179
- New Zealand, 56, 89
- Next-Eleven (N-11) countries, 19
- Niche markets, 97
- Nigeria, 19, 49–50, 141
 FDI initiatives, 49
 GDP growth rate, 49
- 9/11 tragedy, 109
- Norms. *See also* Culture
 difference between values and, 135
 linked to culture, 133
- North and South Sudan, 20

- Occupy movements, 86
- Oman, 20
- O'Neill, Jim (O'Neil, Jim check if both are same person), 2, 36–37, 41, 86
- The Growth Map: Economic Opportunity in the BRICs and Beyond*, 14
- Next Eleven* (N-11) countries, 19
- Only-me consumers, 97. *See also* Just-for-me group of consumers; Self-asserted consumers
- Open innovation, 97–98
- Pakistan, 19
- anti-India security paradigm, 52
 - budget deficit, 50
 - current account deficit, 52
 - economic reform program, 52
 - GDP growth rate, 50, 52
 - hard currency reserves, 50
 - monetary program, 52
 - political framework, 52
 - U.S. economic assistance to, 51
- Pakistan Peoples Party (PPP), 52
- Pareto principle, 83
- Parsons, T., 140
- People's Bank of China, 37
- Personal carbon/ecological footprint, 104
- Philippines, 7, 9, 11, 19
- contributions to growth performance, 53
 - economy, 45
 - FDI inflows, 53
 - GDP growth rates, 53
- Poland, 29
- Ponzi schemes, 87
- Portugal, 81
- Premji, Azim, 32
- Problem-solving models, 166
- Purchasing Manager Index (PMI), 39–40
- Purchasing power parity (PPP)
- of Asian economies, 10
 - of global middle classes, 28
- Putin, Vladimir, 15
- Qatar, 20
- Race tolerance chart, 96
- Ranking of emerging and frontier markets, 63–71
- Rashid, Ahmed, 51
- Pakistan on the Brink*, 51
- Rational immigration policy, 89
- Reconciliation process, 171–173
- compromise, 173
 - identifying and agreeing on the commonalities, 171
 - leveraging from diversity, 173–175
 - non-desirable solutions, 172–173
- Regional Comprehensive Economic Partnership (RCEP), 11
- Retail chain industry, 67
- Rich industrial countries, 1
- Russia, 14, 16, 29, 63, 141
- Saudi Arabia, 20
- Scandinavian Airlines Systems (SAS), 149
- Schein, Edgar
- Organizational Culture and Leadership*, 132
- Schutzstaffel, S. S., 137
- Self-asserted consumers, 95. *See also* Just-for-me group of consumers; Only-me consumers
- Self-care, 97, 104
- Self-improvement, 97, 104
- Self-responsibility, 104
- Sen, Amartya
- Identity and Violence*, 120
 - individuals and identity, 120–121
- Sequential time orientation of culture, 154. *See also* Culture
- Shils, E., 140
- Shinawatra, Thaksin, 142
- Singapore, 7, 56, 141
- high net worth individuals (HNWIs), 124
- South Africa, 14, 16, 18, 83
- South Korea, 6, 11, 19, 43, 58, 68, 81, 100, 124, 141, 184

- high net worth individuals (HNWIs), 124
- Spain, 81
- Specific communication, 150
- Specific culture, 145–147
- Starbucks, 90
- Status and culture, 150–154
- Strategies for emerging markets, 68–71
 - case examples, 69
 - framework to assess institutional voids, 72–76
 - products and services market, 70
 - responding to institutional voids, 70
- Synchronous time orientation of culture, 155. *See also* Culture
- Syria, 20, 25
- Syrian crisis, 25

- Taiwan, 63
 - high net worth individuals (HNWIs), 124
- Target markets, 63
- Thailand, 6–8, 63, 187
 - extreme individualism and extreme communitariaism, 142
- Time, in terms of culture, 153–157. *See also* Culture
 - destiny, 155–156
 - sequential time orientation, 154
 - synchronous time orientation, 155
- Ting-Toomey, Stella
 - Communicating across Cultures*, 110
- Tönnies, F., 141
- Trans-Pacific Partnership (TPP), 11
- Trompenaars, Fons, 136, 138–141
 - conflicts arising between sequential-time- and synchronous-time-oriented people, 156
 - decision-making process in individualistic cultures, 142–143
 - differences in people's preference for emotions, 145
 - internal *versus* external control, 156
- Troyjo, Marcos, 17

- Tunisia, 20
- Turkey, 18–19, 25, 29, 45, 83
 - economy, 54

- United Arab Emirates (UAE), 20
- United Kingdom, 36, 81, 124, 141, 144, 161
- United Nations' Universal Declaration of Human Rights, 94
 - Article 1 of, 94
 - moral rightness of, 95
- United Nations (UN) Security Council, 16
- United States, 36–37, 85, 141, 181
 - as center of global governance, 84
 - credit crunch, 87
 - dual economy of, 88
 - economy of, 6
 - emphasis on individualism, 98–99
 - high net worth individuals (HNWIs), 124
 - per capita income, 35
 - S&P 500 corporations, 88
- Unit labor costs in manufacturing, 13
- Universal dilemmas, 159
- U.S. debt crisis, 82
- U.S. Foreign Corrupt Practices Act (FCPA), 92

- Values. *See also* Culture
 - difference between norms and, 134–135
 - implicit, 135–136
 - linked to culture, 133
- Vietnam, 7, 9, 11, 18–19, 45, 83
 - agriculture, 54
 - GDP, 54
- Von Mises, Ludwig, 88

- WANA (West Asia and North Africa), 20–21
- Ward, Robert, 18
- Wen Jiabao, 15
- West Bank, 20
- World Bank, 1–2
- World economic crisis, impact on emerging markets, 79–80

- World largest cities, 27
- World population, 2050, 12, 27
- World Trade Organization, 89
- World Values Survey (WVS),
101–102
- Xi Jinping, 181
- Yemen, 20–21
- Zimbabwe, 46

OTHER TITLES FROM THE ECONOMICS COLLECTION

Philip Romero, The University of Oregon and
Jeffrey Edwards, North Carolina A&T State University, Editors

- *Building Better Econometric Models Using Cross Section and Panel Data* by Jeffrey A. Edwards
- *Basel III Liquidity Regulation and Its Implications* by Mark Petersen and Janine Mukuddem-Petersen
- *Saving American Manufacturing: The Fight for Jobs, Opportunity, and National Security* by William R. Killingsworth
- *What Hedge Funds Really Do: An Introduction to Portfolio Management* by Philip J. Romero and Tucker Balch
- *Advanced Economies and Emerging Markets: Prospects for Globalization* by Marcus Goncalves, Jose Alves, Carlos M. Frota, Rajabahadur V. Arcot and Harry Xia
- *Comparing Emerging and Advanced Markets: Current Trends and Challenges* by Marcus Goncalves and Harry Xia
- *Learning Basic Macroeconomics: A Policy Perspective from Different Schools of Thought* by Hal W. Snarr
- *The Basics of Foreign Exchange Markets: A Monetary Systems Approach* by William D. Gerdes
- *Learning Macroeconomic Principles Using MAPLE* by Hal W. Snarr
- *Macroeconomics: Integrating Theory, Policy and Practice for a New Era* by David G. Tuerck
- *Emerging and Frontier Markets: The New Frontline for Global Trade* by Marcus Goncalves and Jose Alves
- *Doing Business in Emerging Markets: Roadmap for Success* by Marcus Goncalves, Jose Alves, and Rajabahadur V. Arcot
- *Seeing the Future: How to Build Basic Forecasting Models* by Tam Bang Vu
- *U.S. Politics and the American Macroeconomy* by Gerald T. Fox
- *Global Public Health Policies: Case Studies from India on Planning and Implementation* by KV Ramani
- *Innovative Pricing Strategies to Increase Profits, Second Edition* by Daniel Marburger
- *How Strong Is Your Firm's Competitive Advantage?, Second Edition* by Daniel Marburger

Announcing the Business Expert Press Digital Library

Concise e-books business students need for classroom and research

This book can also be purchased in an e-book collection by your library as

- a one-time purchase,
- that is owned forever,
- allows for simultaneous readers,
- has no restrictions on printing, and
- can be downloaded as PDFs from within the library community.

Our digital library collections are a great solution to beat the rising cost of textbooks. E-books can be loaded into their course management systems or onto students' e-book readers. The **Business Expert Press** digital libraries are very affordable, with no obligation to buy in future years. For more information, please visit www.businessexpertpress.com/librarians. To set up a trial in the United States, please email sales@businessexpertpress.com.

THE BUSINESS EXPERT PRESS DIGITAL LIBRARIES

EBOOKS FOR BUSINESS STUDENTS

Curriculum-oriented, born-digital books for advanced business students, written by academic thought leaders who translate real-world business experience into course readings and reference materials for students expecting to tackle management and leadership challenges during their professional careers.

POLICIES BUILT BY LIBRARIANS

- *Unlimited simultaneous usage*
- *Unrestricted downloading and printing*
- *Perpetual access for a one-time fee*
- *No platform or maintenance fees*
- *Free MARC records*
- *No license to execute*

The Digital Libraries are a comprehensive, cost-effective way to deliver practical treatments of important business issues to every student and faculty member.

For further information, a
free trial, or to order, contact:

sales@businessexpertpress.com

www.businessexpertpress.com/librarians



BUSINESS EXPERT PRESS

Leveraging Cultural Diversity in Emerging Markets

Marcus Goncalves • Finn Majlergaard

For anyone interested in taking the real-time “pulse” of the situation facing corporations who must deal with emerging and frontier markets, this book is a must-read. The authors have produced a cutting-edge book, full of facts and excellent figures that are so cogently laid out, unlike many books of this nature, it is a joy to read.

—Jasmine L. Eleftherakis, Sr. Patent Administrator, Pfizer.

“The authors are very sharp and competent in offering this book with a wide range of nationalities and culture diversities. As a recruitment company in Brazil, we realize the biggest challenge in matching companies and candidates of different nationalities is not the language, but the culture translation! As a PhD student, I see diversity is a driver to innovation! I highly recommend this book to everyone who needs to survive in the current geographic boundless and dynamic world, with many threats and opportunities!”

—Celso Malachias – DNA Hunter founder and CEO, and Innovation PhD Student at Fundacao Getulio Vargas. Sao Paulo, Brazil.

Leveraging cultural diversity is an important element for competing in the global market. Understanding the overall macroeconomic landscape of emerging and frontier markets enables corporations and international business professionals to fully realize the potential for strategic globalization. Most transnational and multinational corporations have made substantial progress in their globalization efforts by establishing operations in several countries and offshoring certain processes to countries with capabilities and growth potential. However, while these recent globalization efforts have their roots in cost arbitrage, successful companies must understand that globalization can be a means for shoring up competitive advantage to diversify intellectual capabilities and growth and improve quality enhancement opportunities.

This book looks at how one can move forward from the current situation. Most people still see cultural differences as a barrier to success. The authors demonstrate how one can, instead, leverage from the cultural diversity and create better, more competitive companies, better leaders, and hopefully a safer and more sustainable world.

Marcus Goncalves is an Associate Professor of Management and Chair of the International Business Program at Nichols College, with 28 years of international management consulting experience in Latin America, Europe, Middle East, Asia, and the U.S.

Finn Majlergaard is a business leader, professor and management consultant who has worked with more than 600 companies around the world leveraging the cultural diversity. He is the founder and CEO of Gugin—a Global disruptive Management Consulting Firm.

ECONOMICS COLLECTION

Philip J. Romero and Jeffrey A. Edwards, Editors

ISBN: 978-1-63157-313-2



9 781631 573132