Globalization: Turning Threats into Opportunities

BY SIR ANDREW LIKIERMAN

For an increasing number of U.S. companies, globalization is moving from a vague notion to an everyday reality. A threat may be the first hint. Finding a Chinese company marketing directly to your key customers—promising faster delivery than you can offer—brings it close to home. But companies are also finding corresponding opportunities from diversifying outside the U.S. market, outsourcing routine tasks to Mexico, or starting a joint venture in Brazil.

Financial managers have an important role to play in helping to take the opportunities and in responding to the threats. Their immediate role is to ensure that they manage the financing of any transactions in multiple currencies and more complex financial instruments. They will also contribute in the analysis of the risks and rewards of buying, selling, or outsourcing in other countries.

But a good financial manager can add real additional value by helping colleagues understand how customers, partners, suppliers, and competitors in other countries think about performance. This determines the way these organizations make decisions, including the timeline of their required returns and their approach to risk. Without understanding what others are thinking in negotiations or doing in the marketplace, the U.S. company's ability to seize opportunities and react to threats will be seriously disadvantaged.

Understanding how others think isn't easy. There's an obvious temptation to believe that, although institutions are different, managers in other countries make the same assumptions that we do. Ironically, the commercial power of the United States and its overwhelming influence in management thinking makes this temptation greater for American managers.

It's a temptation to resist. To illustrate why, let's look at three examples: performance at the level of the individual, a management technique inside the organization, and one for the organization as a whole.

1. The individual. As a guest to this column, it's easy for me to contribute because, even though I come from a different country, we speak a common language. The Americans and the British have a comfortable feeling that they approach issues in the same way. But closer examination reveals important differences.

To take a straightforward example, the management of a British customer or supplier may be motivated far less by financial reward than a similar U.S. company. Studies of corporate culture over the years have illustrated great contrasts be-

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tween countries on matters as basic as personal motivation.

Differences in attitudes and approaches cover many aspects of management. They include how much people believe that what happens is within their own control (high for the U.S., middle for India, low for China). They include the way people work, such as the importance of the individual within the group (low in Japan, high in the U.S.). They also include assumptions about values, such as whether it's usual to know what colleagues are paid (forget it in Switzerland). It's crucial to understand these differences when dealing with or responding to companies or their managers in other countries.

2. Management techniques inside the organization. Now let's move across the English Channel. The balanced scorecard first appeared in the United States in the early 1990s, but it hasn't struck much of a chord in France. Could this be because a very similar concept—the Tableau de Bord—has been in use in France since the 1930s? On the surface there are many similarities, but a 2004 magazine article explains some crucial differences, which aren't what you might expect. ("The American Balanced Scorecard versus the French Tableau de Bord: The Ideological Dimension," by Annick Bourguignon, et al., was published in the June 2004 issue of *Management Accounting Research*.)

The article shows that the balanced scorecard is based on U.S. assumptions about openness, clarity, hierarchy, and the idea of fair contract. None of these is assumed in the Tableau de Bord. There is greater ambiguity in relationships, no dependence on hierarchy, and a key role of a concept without parallel in the U.S.—l'honneur. This isn't quite "honor," since in France it defines key relationships with obligations and privileges. It means being able to operate with fewer formal rules and greater claims to autonomy. These key differences, rather than a snooty attitude toward the United States, probably explain the less frequent use of the balanced scorecard in France. More important, it illustrates how just translating the words isn't enough to understand the behavior of a French partner or competitor.

3. The organization as a whole. In spring 2005, a furious debate broke out in Germany when a politician described a number of international financial institutions, including Goldman Sachs, as "swarms of locusts that fall on companies, stripping them bare before moving on." Underneath the emotive language, this turned out to be a debate about whether shareholder value was a suitable model for a country with a tradition of taking account of all stakeholders and about whether the state should intervene when companies get into trouble. Germany isn't the only country having this debate. Apart from the multinational giants, companies in much of the rest of the world are dominated by a stakeholder approach or by complex personal priorities of a controlling family.

In understanding how to deal with companies as suppliers, customers, or competitors, it's essential to realize that they may have a quite different idea of what success means. They may be willing to wait longer for a return on investment (historically, many Japanese companies) or be unwilling to give primacy to the shareholders at the expense of employees or government interests (many Scandinavian companies).

Here are some recent books on corporate culture that I recommend:

Managing Across Cultures **by Susan C. Schneider and Jean-Louis Barsoux, published by Prentice-Hall in 2003.**

Business Across Cultures **by Fons Trompenaars and Peter Woolliams, published by Capstone in 2003.**

Managing People Across Cultures **by Fons Trompenaars and Charles Hampden-Turner, published by Capstone in 2004.**

Cultures and Organizations **by Geert Hofstede and Gert Jan Hofstede, 2nd edition, published by McGraw-Hill in 2005.**

The implications

The implication for financial managers is that different institutions or a different language aren't the real barriers to doing business internationally or to understanding what foreign competitors are doing. You may need a guide to capital markets or a translator. You will certainly need to be well briefed on what motivates companies and their managers.

Awareness doesn't mean stereotyping. It can't be assumed that everyone in Chile or South Africa thinks and acts the same way any more than it can be assumed that all U.S. managers are the same. And corporate thinking is also constantly developing. Considering outsourcing to India? There are a huge variety of cultures and languages within the subcontinent, and they are currently subject to even greater pressures for change than the Western world. The need to avoid stereotyping applies equally to Europe, which non-Europeans sometimes quite wrongly assume has a common way of doing business.

So why do differences in approach to performance measurement matter more than differences in techniques, such as marketing strategies or production methods? They matter because understanding differences in assumptions about performance measurement help to explain *why* organizations think and act as they do. Differences in techniques show only *what* is different.

The playwright George Bernard Shaw suggested, "Do not do unto others as you would they should do unto you. Their tastes may not be the same." Not bad advice when doing business internationally.

The impact of globalization will only increase because understanding how others measure their performance gives us more opportunities to meet competition and work better with business partners. It helps us learn from the way others work. It even helps us understand people from other cultures who work in our own organizations. In short, it helps us turn what could be a threat into a series of opportunities. ■

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