

MEHDI MAJIDI
Interview

1. **Question.** Dr. Majidi, with the fast pace of changes happening all over the world, would you say that there are still tried and true strategies for doing business?

Mehdi Majidi. Business strategies can be considered as evolving and dynamic organisms that constantly have to adapt to the environment in order to remain viable.

Internationalization of business is more a survival necessity than an expansion strategy. Today's executives have to be good jugglers, keeping many balls in the air. They have to deal with shifting geopolitical power and issues, economies of scale, respect for the environment, social responsibility, energy savings, integrated global supply chain, general strategies such as deciding to merge with or acquire other firms, to outsource, to deal with budget cuts—with often inevitable layoffs, workplace morale, sensitivity and ethics (this includes, gender, faith, and ethnic factors).

2. **Q.** Can we talk about some of these questions? To begin with, what are the geopolitical shift issues?

MM. John Donne, the 16th century English author, famously said that “no man is an island.” I would add that in today's world no country is an island, no country can survive in isolation. Technology, globalization, mutual interests, global issues and threats of all kind—environmental, terrorism-related, depleted resources—have made us all more dependent on each other than ever before. We have to build strong alliances and networks, social support, and in short hold and support each other or we sink. Creating group dynamics and consensus, whether at the individual level, at the corporate one, or at the wider geographic one, is far more realistic than the cutthroat methods that businesses traditionally used for decades and unfortunately sometimes still do. “Win-win” is not an empty slogan, it is a reality with which executives have to live every day or ignore at their own peril.

3. **Q.** Why do you see international trade and internationalization of business as a survival necessity?

MM. The shift toward a free-market economy and the accelerated growth of developing countries has increased the globalization of markets and production, creating higher global interdependency of economies and businesses. This has resulted, among other things, in the emergence of global institutions and regional agreements as well as the modernization of countries joining the free-market economy. Modernizing the business environment allows the government of developing countries to exercise their control over the private sector and foreign investors through other means than trade barriers. It also creates a financial incentive in lowering trade barriers and participating in regional or global trade agreements which has increased the need for global trade regulatory institutions. The move to free-market economy has created—for companies in all industries—market and production opportunities that cannot be ignored. It has also increased and accelerated the competition at both the domestic and the international level. A manifestation of this trend is the increasing number of highly competitive multinational corporations (MNCs) from developing countries. These two phenomena (two sides of the

same aspect) of globalization and economic growth of developing and newly independent countries keep companies on their toes as they have to take advantage of globalization not only to stay competitive but to actually survive. Not complying with this new dynamic of business environment will be suicidal.

4. **Q.** Your particular area of expertise is the importance of cultural factors in international mergers and acquisitions. Why is this important?

MM. Allow me to tackle this question by first commenting on why international mergers and acquisitions has become the preferred form of foreign direct investment (FDI) and then comment separately on the importance of cultural factors in general and in IM&As in particular.

In the last decade, the number of IM&As has been increasing and the flow of transactions is everywhere around the world. From and to developed as well as developing countries, within and across regions, in all sectors, and within a wide range, from small to astronomical amounts that would not have been conceivable a few years ago. Today, large scale IM&As have become normal to the extent that a \$15 or \$20 billion (leveraged buy-out) LBO is met by the market with a yawn, as the head of M&As of Lehman Brothers says. In the first nine months of this year we can account worldwide for some 25,000 IM&As for approximately USD 2.5 trillion. Experts predict that this year will break the USD 3 trillion records. Among factors contributing to this trend, we can identify the speed of globalization and a condensed business lifecycle. Innovation and changes in technology have crushed the business lifecycle. In some industries you can practically go through the entire lifecycle within a few months. I call these businesses or industries 'the overnight industries.' As a result of this speeded-up process, companies no longer have the luxury of taking their time to get to know a market, enter it in phases, and tie up financial resources for long-term returns. These factors make the IM&A more attractive to FDI. In some cases, it may cost more than greenfield operations but on the other hand it reduces uncertainty and allows to develop a timelier expansion strategy. The combined effect of a condensed business lifecycle and globalization, in my view, are the driving forces of the increasing number of IM&As.

Now let us discuss the importance of culture in general. Once again, globalization and technology makes resources almost equally available every where. A U.S. company can hire technical skills in India at the same conditions as an Egyptian company. To some extent, all companies have equal access to financial resources, technical skills, competitive labor, and technologies in the present global and integrated market. The more these resources become equally available to everyone, the more important will be the effect of intangible factors (or what we call culture) on the performance of an organization. Managers everywhere can copy and replicate each others' best practices. For most companies, the competitive differentiating factor is no longer exclusive access to resources or exceptional management and operational methods. The competitive differentiating factor is becoming the environment where work is performed, what in the recent discussion at the Academy of International Business (AIB) was called the "human environment." I prefer to call this "cultural environment" because it is the culture that defines human behavior and performance. Thought leaders at AIB agree that in the past we have paid more attention to physical environment (what I call the tangible aspects of

business) and not enough to the human aspect. Cultural environment is becoming more important and we don't know enough about it yet, both in theory and in practice. Now let us take a look at how IM&As's success or failure is evaluated. In general, we look at the market reaction to an IM&A. We compare a company's market value first before the IM&A (from three days to three months before), then at the time of announcement, and finally during the first three months after the IM&A.

5. **Q.** From what perspective?

MM. Well, from an economic and financial perspective to see whether IM&A has added value to shareholders or not. This is fine if the objective of an IM&A is to stimulate the market and increase its value by creating a positive financial speculation view about its future. But how many IM&As are for financial objectives in short-term? Of course, in the long run, an IM&A is evaluated by its financial results. But an organization's performance is the result of its operational effectiveness and successful integration of IM&A. A historical review of M&As shows a high rate of failure due mostly to factors other than finance. We can learn a lot by listening to managers from both sides of IM&As. We need to talk to them after the third year because that is when, often, problems starts showing. One example is Daimler/Chrysler.

6. **Q.** Can you be more specific?

MM. We can talk about it if we have time. My view is that beyond the many mistakes that often occur in the planning and the strategizing of such an operation (such as an unrealistic expectation of outcome, a lack of deep understanding of the two firms' core competency, bad calculations regarding the two merging workforces, etc.) the main problems arise at the cultural level. I don't like this common analogy of using marriage to explain M&As but it helps people to relate to what they go through in their personal life. If you stop to think about it, when people get married, even with the best possible match regarding background, social stratum, religious belief, common goals as to number of children and place of residence, good will regarding relations with in-laws, etc. there will be a need for great deal of adaptation, for a polishing of two personalities so that they are a good fit and learn to live together. If any of the factors I just enumerated causes friction, if there is too great a dissimilarity, let's say if one element of the couple is a great optimist and the other is always depressed or if one is keen on traveling and the other wants to stay at home, problems will arise. Now take two corporations. Suppose one is a laid-back, open-door, flat organization and the other is a rigid, extremely hierarchical one. What will happen there? You can think of many other mismatches. It gets even worse when they belong to different cultures. Is one located in a country of individualist culture, such as the United States, and the other in a country where group or family or ethnicity are more important, such as a Middle Eastern one? As I mentioned we need to talk to IM&A managers after the third year. During the first years of an IM&A, or any new relationship, managers try to adapt and find common grounds. This is the period when they are acting based on what we call situational behavior. It is a temporary stage that all of us use when we travel or stay with a friend for the weekend. But, in the long-term, we go back to a more comfortable behavioral environment that is in balance with our personal values. The least damaging reaction in a culturally unbalanced environment is lower performance and retreat of executive. Business schools teach the importance of

respecting other people's customs when you want to do business with them. They will teach an American or Western business person not to ask about the family of a Middle Eastern counterpart as this would be construed as intrusive. They are told that hierarchy is important in Japanese corporations. But where do they teach the importance of understanding a difference of world vision and of the purpose of business? A fundamentally different approach to life, to values, to principles and standards. It is not enough to know that in certain cultures you have to remove your shoes before entering a house or that you don't mention personal health problems. I am talking about going far beyond that. To go back to my example of Daimler/Chrysler, an IM&A between two companies both belonging to a Western civilization. We can learn a lot by reading case studies about this IM&A and listening to their managers from both sides. This is a case where you see fundamental differences in values and philosophy of business. Daimler/Chrysler managers say that after several years of running the new organization they realized that their differences reside more in their fundamental view of business than in management style. I often remind managers and my students to keep in mind that the purpose of business is different in different cultures and that in some cultures building a business is taken literally and seriously. In these cultures managers aim to 'build' a business that is solid and lasting. The purpose of a business is more than generating higher cash flow. Let me give you an example of our fundamental difference about business. I often serve as a judge in international MBA case competitions. At the end of their MBA program, group of students from around the world compete on a common case analysis. I can easily tell if a group is from the U.S. or Canada—bear in mind that we are talking about neighboring countries that normally would have many similarities. Almost all the Canadian teams' analysis of the business case is done from a strategic and long-term view while for the American group, the amount and the speed of cash flow and the bottom line are the main focus of the business. This is a reflection of American society where movement and change is part of the culture. It could be a subject for a longer discussion if and when we get a chance.

7. **Q.** Is there a danger that with trying too much to understand the other party, something of the original culture of both sides will get lost?

MM. I personally believe that cultural and ethnic factors that are so important in different countries will never disappear and will even become more important. That is a good thing. We often misunderstand standard ways of business interaction, trading, or economic relationship with cultural convergences. We just talked about the Daimler/Chrysler experience. Let us discuss the two points of view of cultural divergence and convergence. In my view, globalization of business and economies reduces the importance of national boundaries but not the cultural differences. We are not at a stage of humanity when individuals can identify themselves as a member of humankind. That is too vague to grasp for most people. We need smaller and more recognizable boundaries to relate to and draw our identity from. When national boundaries become blurry, people turn to ethnical, regional, and faith boundaries to form an identifiable group with which they can relate based on common values, behavior, and history. We can use an economic region such as European Union (EU) as an example. Do you think that French and Germans or Italians have become more culturally similar as a result of the creation of EU? Will Turks, when they join the EU, become similar to the Irish or the

Dutch? Do you think that Turks and the rest of EU will have a unified fundamental values and common views about existence and life? Yes, they will do business more freely. But, in my view, they will hold on to their own values even more than before because that is the way they can distinguish themselves from others. In the case of Turkey, it is important and appropriate for the economy of the country and of the area to enter the European Union. Certainly, there are standards to respect in order to be able to achieve this. But that does not mean losing Turkish identity.

8. **Q.** You also mentioned social responsibility, workplace morale, and sensitivity and ethics at the national, gender, race, and faith level. How do these issues fit within your discussion of international business strategy?

MM. I think globalization has increased our awareness about these issues and has helped consumers to be more sensitive about the way we do business overseas and specially in developing countries. This has resulted in a less savage imperialistic behavior on the part of foreign investors in developing countries. One of the first examples that comes to mind is the case of Nike when the company was using under age labor in its production facilities in developing countries. If you remember, it was the American consumers' reaction that forced Nike to modify its policy. I am not sure if it was Nike or another company in the same situation that created schools and provided education to children in a village in exchange of an exclusive work contract. This is one example of the consumers in one country affecting the business policy of a foreign investor in another country and not the result of host country's government intervention or social reaction. In addition to consumers' influence, we will see more involvement from non-government organizations (NGOs) in globalization and trade relations and this will greatly affect business policies and both private sector and government actions toward social responsibility, ethical sensitivity, and sustainability. Keep in mind that some of these issues have existed in traditional societies. What is happening now, in most cases, is that we are modernizing and creating a systematic way of dealing with these issues by institutionalizing both the definition of these issues and the way we should be dealing with them. For example, if you talk to older generations in the Bazaar in Istanbul, you will see that the major merchants have always had to be, to some extent, 'socially responsible' to keep their status and to be respected. This would even involve helping young merchants starting out in their own industry, therefore potential competitors. We can learn from these traditional societies and draw lessons for modernization and creating harmony between economic and social transformation. Developing countries should revisit their own culture and combine their tradition with modern education. Using the same example of a Bazaar in Istanbul, you will see the concept of industrial cluster that has existed through centuries. At the MBA programs we teach the same concept using Porter's work on this area. I think Turkish business men and women are better off complementing these two sources of learning (modern and traditional).

9. **Q.** It seems that you consider the concept of corporate social responsibility (CSR) as part of larger fundamental changes in the capitalist system

MM: Yes. I see these changes in the private sector as a fundamental transformation of capitalism. The collapse of communism was sudden and its consequences are still reshaping Europe and market forces. At the same time, the United States, the leading

capitalist country, has been going through an evolution of its own which continues to this day. Increasingly, markets create incentives to influence or modify capitalistic patterns of economy by expanding the private sector's responsibilities. Soon, the purpose of business will no longer be to maximize profit but to maximize stakeholder value while increasing social and economic benefits (some theorists prefer to label these two aspects as one expanded version of stakeholder value.) This evolutionary movement is led by America with its large, influential, and socially responsible consumer base. We can probably pinpoint the beginning of this transformation with the scandal over Nike using under-age Chinese labor. The American consumers' pressure forced the company to change the way it was doing business in another country. It is worth mentioning that although Nike was selling internationally at that time, as it still does, the strongest and most effective reaction to that issue came from American and not from European Union consumers or from the Chinese government or from Chinese workers or their parents. Even now, several years later, most of the pressures for CSR come from the US market.

10. **Q.** You said that the purpose of business, in the future, will no longer be profit maximization. Can you elaborate on this and explain how it will work in practice?

MM. This concept fits under the broader definition of sustainability. A business is sustainable when it can renew itself to survive in the global world as well as when it operates in a socioeconomic and environmentally sustainable world. In the past decade, awareness of environmental, social, and economic sustainability in both global and local contexts has increased the need to move toward a globally sustainable world. Concerns about the viability and sensibility of current management theory and practices are mounting in the face of increasing endemic diseases, natural resources depletion, global warming, genocide and internecine wars, displacement of people and the proliferation of refugee camps, terrorism, and corruption in governments and in business. Global corporations can no longer hold themselves aloof from these concerns and have to run their business while considering them and incorporating solutions in their business strategy. I am developing a course that deals with these issues from the business management perspective. I call it Global Sustainable Business (GSB).

11. **Q.** What is Global Sustainable Business?

MM. I define it as a business that has adapted sustainability management methods and is concerned with sustainability development and environmental issues. A sustainable business has a circular (or closed) value chain, uses renewable resources, aims for zero-waste production, is socially responsible, holds itself accountable for the environmental and human rights impacts of its activities, and participates in sustainability development initiatives. A sustainable business is a for-profit organization with the strategic objective of increasing shareholder value while providing social and environmental benefits. The GSB course is designed to introduce business students to sustainable business management topics and the role of the private sector on global sustainability development and environmental initiatives. It discusses the development and environmental threats that influence the sustainability of corporations. It also discusses the critical role of corporations in creating a sustainable global environment while looking at new opportunities. I am hoping to energize the younger generation that I come in contact with to join in this overall global trend.

12. **Q.** Why focus on a younger generation?

MM. Every generation finds the causes it considers worth fighting for. I believe that the concept of sustainability, while it may come under different names, is the unifying cause around which today's younger generations can rally. It has the potential to bring them together, regardless of nationality, to work on a common cause and satisfy their sense of achievement. We know that our greatest satisfaction in life comes from a sense of achievement. In developed countries, basic needs are easily satisfied without much effort on our part, so they are taken for granted, but achieving higher objectives in our competitive world has become more difficult. As a result, younger generations have a better life but not a sense of fulfillment. They now have a cause and the opportunity to truly achieve something, to make a difference, and to build their own future as they reach out to the world.

13. **Q.** You have some experience working on socioeconomic development projects. What are your practical recommendations?

MM. There has been a shift in how to support developing countries. There is now more focus on the development of free-market economy, private-sector business, and promoting trade and international business relationships. The aim is to link people around the world through business relations. This should affect political relations between nations. India is a good example. The development of the private sector, especially information technology, has integrated Indian companies in the global supply-and-value chain of IT industry. This integration has created interdependency influencing trade agreements as well as India's political relation with both developed and developing countries so that today most developing nations want to replicate India's experience. But that was India and a one-size solution does not fit all. A socioeconomic development strategy needs to be tailored to the local culture. Let me give you an example related to the IT industry development. There are now e-readiness assessment standards that consultants use regarding what the IT industry needs to close its gap with international standards. This is good. But the flip side of that is that economic growth creates social changes, often ignored in the planning. You need to see how the society is going to deal with this change and plan for it. I always insist on a social readiness assessment for any socioeconomic development. I believe that different aspects of a country (economy, social, institutions, and global integration) should move in harmony. Otherwise you create social trauma and resistance. Remember, you are modernizing for people to have a better life and they should buy in on this, have the time to adapt, and be guided and supported during this transformation. Economic growth affects people's behavior, something that is not easily modified by a series of new rules and regulations. A social readiness assessment will help to identify the gap between existing values and the effect of modernization on these values. E-readiness and social readiness are complementary assessments providing a better picture of what is happening in the society. Another recommendation that I can think of is the way we support local businesses to prepare them for international competition. In developing countries, often one or two best companies within an industry are selected by their government or international donor agencies which then offer them financial, technical, and advisory support. This works in

the short-term. But in the long run, the local companies cannot compete with international competition entering their market. Once the trade barriers are lifted, it becomes difficult for them to have an effective and efficient supply chain. These companies have been selected as the best, so the local industry and the local government cannot let them lose to international competition. So they will end up subsidizing these companies which will not help at all. The strategy is all wrong. From the very start, the focus was on a couple of companies. As a consequence, one whole industry was weakened before the market was opened to foreign competition. I always recommend focusing on the whole industry and investing on the supply-and-value chain of the industry. Such initiatives will support the entire industry, increase local competition, and stimulates the industry to strengthen its immune system before trade barriers are lifted. When your objective is economic development, you must always work at the industry level, not at the organizational level.

14. **Q.** Thank you, this was most insightful.

MM. My pleasure. I enjoyed the discussion.

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