diversity in his company's leadership in mid-2008. "The management board are all white males," he said. "Our top 600 managers are predominantly white German males. We are too one-dimensional."[34]

A central organizational question for multinationals in emerging markets is when—and to what extent—they should localize the management of their operations in these markets. Relying on foreign managers to navigate unfamiliar business contexts poses obvious challenges. "Sending expats in is not a sustainable strategy because you make all of the cultural mistakes that it's possible to make," said one Microsoft executive. "In any country if you look at two direct competitors and see who has localized management first, you tend to see success correlations out there."[35]

However, expatriate management can bring certain benefits to multinationals. Reflecting on German wholesaler Metro Cash & Carry's entry into India, one company executive said that with the benefit of hindsight he would choose to open operations with a non-Indian country manager. The interaction between an Indian country manager, for example, and the Indian government or other stakeholders will be bound up in complicated relational norms. "But if you have a leader [who is not constrained by local norms], then you already get out of a lot of problems," the executive said. "It's like Forrest Gump. You don't see these problems. It's a very good approach, but it has to be done with politeness, not with arrogance. With a certain Forrest Gump approach, it goes much easier. But a local person sees more complexity."[36]

There are benefits and costs to either expatriate or local management. Local personnel often have better market information but more complicating entanglements, whereas the contextual unfamiliarity of expatriate management can be an asset or liability. Multinationals need to think carefully about which approach would work best for their business in particular emerging market contexts—and decide how to offset the costs of either approach.

Compete Alone or Collaborate? Microsoft in China

Microsoft faced intellectual property-related institutional voids in emerging markets so pervasive that they threatened to undermine its

business in these markets.[37] When Microsoft began its engagement with China in the early 1990s, for example, piracy prevailed at a rate of 98 percent—the highest in the world—and stifled the company's ability to build a viable business by reaching paying customers. Adaptation was necessary but not sufficient for Microsoft to build a business in China. The company was compelled to collaborate with local firms and other stakeholders and work to be seen as a partner in progress.

When Microsoft first entered China, the company attempted to compete alone by developing its own Chinese-language version of Windows at a software development facility in Taiwan. When the company introduced the product in 1993, the Chinese government promptly blacklisted it for failing to meet mainland software standards. Microsoft sold fewer than twenty thousand copies in its first year.

Chastened by this initial failure, Microsoft found that it could not thrive in China without adapting to engage more effectively with relevant Chinese stakeholders and work around the market's profligate piracy. After extensive negotiations with the Ministry of Electronics Industry, Microsoft adopted a more cooperative approach in 1994 and began to codevelop a localized version of Windows with a major Chinese software vendor. Microsoft also established joint ventures with six other local software vendors to work on future software development projects.

Piracy still prevented Microsoft from producing significant revenue despite the huge scale of opportunities in the market. When Microsoft raised the piracy issue with the Chinese government, the government asked how Microsoft could help China develop its domestic software industry. Recognizing the importance of the China market but also the need to confront its contextual barriers and build relations with government and other stakeholders, in 1998 Microsoft launched a new engagement with China that emphasized changing the market context by aiding the development of China's domestic software and IT sectors through alliances and investments in educational and research initiatives. As *Newsweek* noted, "China is more likely to fight pirates if it has its own software industry."[38] Localizing its operations through partnerships with stakeholders and investing in the development of China's