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RELEASE THE POWER OF CULTURAL DIVERSITY IN INTERNATIONAL BUSINESS

How come that companies, who have been doing business internationally for decades suddenly fail? And how come that companies who wouldn't have had a chance 25 years ago suddenly become a global success?

This paper deals with the links between cultural awareness, corporate strategy and performance. It is based on my 15 years of experience in international business management, academic research in this field and experiences from our company Gugin, who helps corporations in Europe, US and Asia improving their international businesses

But lets look at why it has become so important to take different cultures into consideration.

Globalisation

Cultural awareness has become important due to increased globalisation. The global political structures have changed. We do have a United Nations that almost all countries respect and honour and the post war division of the world has changed after the collapse of the Soviet Union. New countries have been born and we have a more diverged political picture. We create political/economical relations in new ways e.g. the ASEM (Asia-Europe Meeting) process, which is a direct result of these changes. By 1992 East

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Asia accounted for 24 percent of global production. By comparison, the EU accounted for 35 percent and North America for 28% of global production. According to World Bank figures from 1991 – 1993 growth of real Gross Domestic Product (GDP) in East Asia averaged 8.7 percent. On the basis of growth rates recorded during 1978 – 1991, many economists including those from the World Bank projected that East Asia's GDP would overtake that of North America and EU in 2010.

Economically we are emerging as well. Europe is turning towards larger entities with common currency, one Central Bank and merges and close collaborations between stock exchanges. ASEAN is another good example however different. But since its foundation in 1967 a lot has changed. Evolving relations between the EEC/EU and ASEAN have lead to a lot of initiatives, such as joint ventures in the exploration of AEAN resources, the possibility of EEC participation in ASEAN manufacturing activities and the mobilisation of capital for financing ASEAN projects.

Technologically the Internet has made it possible for companies to market themselves virtually everywhere and enabled the companies to establish inexpensive global infrastructures. And when you need to go abroad it is less expensive than ever before, so we travel much more than 20 years ago.

So from both a political, economical and technological point of view we are encouraged to discover cultures we have only little knowledge about. For the adventurer it is good news but for international corporations it might as well be bad news.

We have been working with two types of companies: Those who want to expand their international business in either Asia or Europe and those who have tried and faced a lot of challenges they didn't predict or could even imagine. We like the first group very much, because we can help them become successful before they make any serious mistakes, however it is

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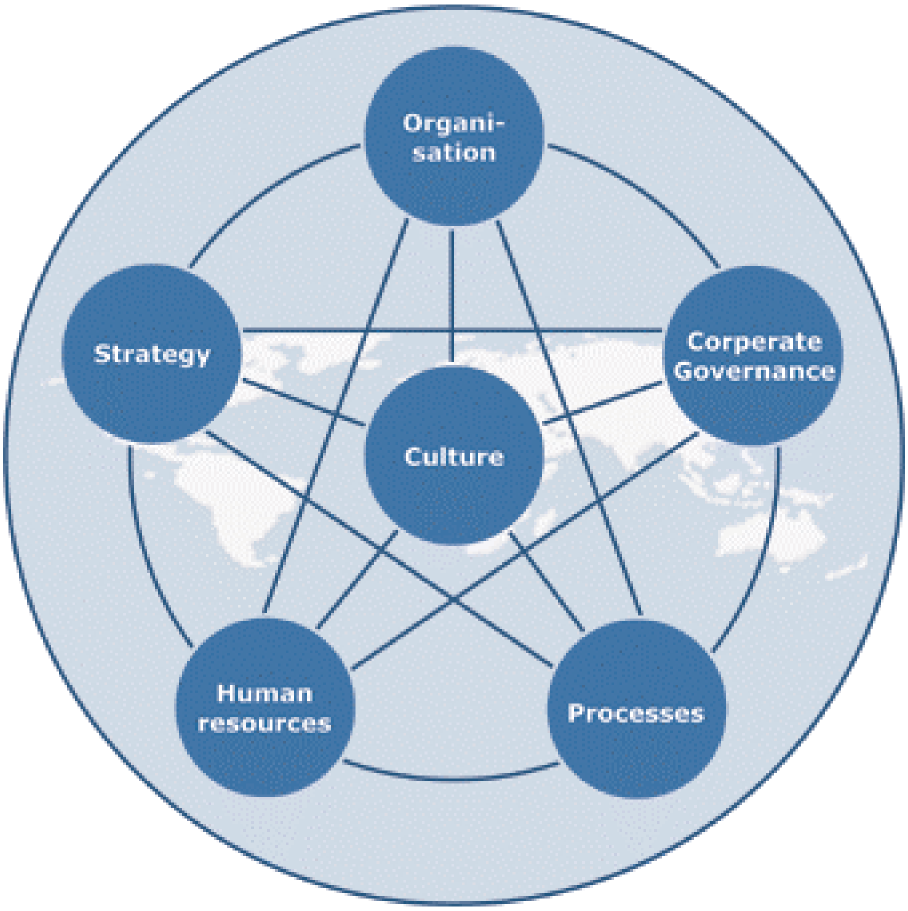
more interesting to look closer at the last group – those who tried and didn't have their expectations met.



It all starts with the assumptions behind the strategy process. A company might have been very successful in a country or region, so some CEO's tend to think that they will become successful in other countries/regions as well without major changes to organisational setup, motivation and reward structures, management style and shared values. But expanding a business into a new country or region requires a lot of considerations concerning the assumptions behind the current strategy.

The business culture might be entirely different. In some cultures relationships are much more important than the actual contract and in others it is the opposite. For example; Americans tend to focus a lot on the

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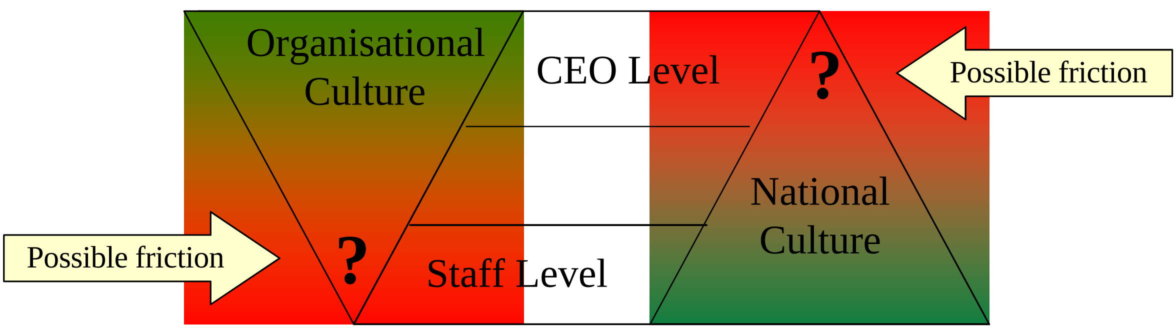
contract and pay only a little attention to the development of the relationship between the people involved. In most Asian countries it is opposite. In that respect most Europeans are much closer to the Asians than to the Americans.

A company might need to establish an overseas organisation, which is much different from what they are used to. An Indian company which might want to establish a branch in Scandinavia will never succeed with a hierarchical organisation because the Scandinavians are very autonomous, egalitarians and demand a high degree of individual freedom. We have seen a lot of examples where northern European companies have failed in India because they didn't change the organisation and management style to apply to the Indian norms and values. A project-based organisation just doesn't work in India.

The cultural friction

In Gugin we work with a concept called the cultural friction. Lets say a British company have become very successful in Britain by rewarding its top performing employees with incentives and promotions. In India they replicate this successful motivation and reward system – and it doesn't work. Sales drop and the employees are leaving the company.
When something works in one culture, but not in another we define it as cultural friction. For international companies to become successful they should locate and minimise the cultural frictions. This is not an easy task,



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because it can be hidden in so many places and it requires a lot of intercultural skills and the right tools to deal with these frictions.

The frictions arise because there is a conflict between the national and the corporate culture of an international company. Very often we experience, that senior management who is responsible for the global operation is focused on financial performance and making sure that everybody (employees) globally apply to the same rules within the same organisational setup. This is only natural and most of the global operating companies are very proud of their corporate culture. The only problem is that it suppresses the national cultures of the employees, which unfortunately leads to cultural friction, which inevitable leads to poorer corporate performance due to de-motivated employees and inefficiency.

An area of great interest is motivation. I spend a fair portion of my time discussing motivation and reward with executives in multinational companies. Motivation and reward is so closely linked to our national cultures and multinational companies ought to review their strategies in these areas very carefully for the following reasons:

- If they don't and they (continue to) motivate and reward their staff globally in the same unified way – they will in the best case waste a lot of money, and in the worst case harm their business seriously.
- A lot of money can be saved at the same time as employee satisfaction and operational performance increases.

Lets take an American IT consulting company as example. They have several locations in US, Europe and Asia. It is company policy that all managers and staff directly related to sales have at 20% of their salary as a bonus dependent on the quarterly sales.
This makes sense in the US, because Americans in general are motivated by money and by individual recognition. However this is not universally true. To

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many Asians and Europeans money is nice, but it is not the most important thing in the world, and where this is the case, the bonus is wasted money.

How to make global strategies?

In my definition strategy is basically about using you strengths to utilise the opportunities in the marketplace in the best possible way, work with your weaknesses and protect yourself against the threats.

Going global adds another dimension to a process that is already complicated, namely the impact of local culture. When we are coaching management teams in international companies and they have discovered the importance of local knowledge, they initially tend to see the different cultures as a barrier and a threat. However – seeing the cultural diversity as an opportunity for achieving goals that were beyond reach in a mono-cultural organisation opens a wide range of solutions, which can create significant competitive advantage.

By using creative problem solving techniques and a multi cultural strategy development framework, an international company can start utilising its resources in a much better way – respecting the local cultures and building its corporate strategy and objectives on the strengths in each culture.

The international companies should initialise a process where they force themselves to rethink the well-known paradigms and ask themselves questions like:

- Why are we in this business?
- Do we have the right strategy?
- Do we manage in the best way?
- Do we really acknowledge and respect the local cultures and the values of its people?
- How do we transform cultural frictions into cultural synergies?

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These questions and others - might be quite difficult to deal with internally without assistance from a coach who can guide the management team through the process towards an improved strategy process, which takes the cultural implications into consideration at all stages.
And the change process will only succeed if senior management is willing to take a risk doing things differently tomorrow from what they did yesterday.
Once you have found out what to change – don't do it all at the same time.
Take the time to plan the changes to e.g. organisation and HR policies carefully. Identify quick-wins and make sure that reviews are being carried out regularly in order to measure the effects of the changes and be willing to adjust the course when needed.

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